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Political Risk and Foreign Direct Investment: A Focus on MSCI Frontier Market Economies

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Abstract

This study examines the impact of political risk on Foreign Direct Investment (FDI) in Frontier Market Economies (FMEs) from 2002 to 2023 for a period of 22 years. It considers three World Governance Indicators (WGI) of World Bank (WB): Political Stability and Absence of Violence/Terrorism (PSAV), Rule of Law (RL) and Voice and Accountability (VA), along with other macroeconomic variables: market size, development level, trade openness and infrastructure. Using fixed effect regression method the results of the study show that trade openness and market size exert positive statistically significant effect on FDI, while development level exerts negative statistically significant effect on FDI in FMEs. Infrastructure variable shows insignificant effect. Contrary to conventional expectations PSAV displays negative and statistically significant effect on FDI inflow in FMEs, suggesting that when economic returns are high, foreign investors may tolerate political risk. Other political risk variables, including RL and VA, were found insignificant in FMEs. Empirical findings of the research shows that macroeconomic variables dominate political risk factors in attracting FDI to FMEs, emphasizing their primary role in driving FDI and providing important policy insights for frontier market economies.

Keywords: Political Risk, FDI, Frontier Market Economies.

JEL Classification Codes: C330, F210

Introduction

Foreign direct investment (FDI) is one of the most important sources of finance for developing economies (Khan & Shah, 2025). Countries are competing around the globe to attract FDI (Shah, 2018b). However, FDI inflows remain disproportionate across them (Shah & Ali, 2016). Some economies succeed in luring multinational companies (MNCs) to invest in their economies, while others lag behind (Anis & Shah, 2025). Since, early 1980s, FDI flows have grown phenomenally and the world market has become more competitive for it (Shah, 2021). FDI is advantageous for both investing and recipient countries by promoting economic growth, management expertise and technology transfer from developed to developing countries (Shah, 2009). FDI is also an important component in the economic growth of Frontier Market Economies (FMEs) (Shah, 2011a). Therefore, policy makers view FDI inflow as a strategic tool for financing their economic expansion, increasing productivity and transferring new technology into their economies (Shah, 2012). Some economies attract more FDI than others, due to various factors (Shah, 2016b). Emerging economies have attracted considerable FDI then FMEs, despite the FMEs having a huge economic growth potential (Shah, 2011c; d). This difference raises an important question: Why do frontier markets economies struggle in attracting FDI inflows on a regular basis?

Multinational Corporations (MNCs), consider several factors when investing in a host country (Shah, 2019). Political Risk (PR) is one of the primary ones (Shah. 2018c). PR refers to the possibility of a change in government policies, regulations, or political conditions (Shah & Zeb, 2017). This will unfavourably effect the firm's operations and its profitability (Shah & Jamil, 2016). This risk can be the outcome of frequent government policy modifications that negatively impact a firm's revenue (Shah & Faiz, 2015). Other factors like corruption, exchange rate volatility, social and environmental issues and geopolitical tensions also negatively influence a nation's FDI potential (Shah, 2011e). Political instability increases economic uncertainty, which in turn reduces foreign investor's willingness to commit capital into the host country, because these factors increase business cost (Mengistu & Adhikary, 2011; Shah & GuleLala, 2017). Investors' expectations about the security of assets, contract enforcement, policy predictability and the overall credibility of institutions depend on PR factors (Shah & Tahir, 2025). However, most empirical work examining FDI and PR's relationship focuses on developed or emerging economies and FMEs in this case are generally ignored.

Frontier markets are structurally poles apart from emerging or developed markets, as they tend to have weaker institutions, higher volatility, limited market depth and greater exposure to governance failures. Considering frontier markets as if they work like emerging markets yields misleading conclusions and complicates the specific factors driving investment patterns in them. The lack of empirical evidence on FMEs is surprising given that they represent some of the fastest growing but institutionally most fragile economies in the world. For these FMEs, even a marginal improvement in political stability, robust RL, enhanced GE, better RQ, strong anti-corruption measures and improved levels of VA can enormously affect investor confidence (Shah, 2011b). Therefore, it is essential for both policymakers and investors to understand which dimension of political risk matters the most in FMEs.

To address this gap, the current research examines political risk's effect on FDI inflow in frontier market economies by using World Governance Indicators (WGI) from World Bank (WB). This research is expected to add in several ways to the FDI-MNCs literature. First, it shifts the empirical focus from emerging market economies to frontier market states. Second, it examines multiple governance dimensions such as PSAV, RL and VA to determine their distinct effect on foreign investments in frontier market nations. The outcomes of this study will provide insights for policymakers pursuing to attract sustainable FDI in FMEs. This study shall provide a clearer understanding of the governance risks associated with these economies. The list of emerging market economies is sourced from the 2025 classification of Morgan & Stanley Capital International (MSCI) Inc. MSCI examines the market annually and categorises countries as developed, emerging, frontier or standalone market states.

The research is organised in six segments. The first begins with introduction. In second literature is reviewed. The third outlines methodology, while estimations are given in segment four. In the fifth segment, findings and analysis are discussed in detail. Conclusions of the research paper are given in the last segment.

Literature Review

Khan & Akbar (2013) examined political risk's impact on FDI in 94 countries from 1986 to 2009 for a period of 24 years. The results show that most PR indicators and FDI have a negative relationship. High income and upper middle income economies have negative rapport but relatively stronger in upper middle income economies. Shah and Afridi (2015) examined good governance effect on inward foreign direct investment across SAARC states between 2006 and 2014 by utilising Worldwide Governance Indicators. The findings showed that sound regulatory frameworks and political stability make these economies more attractive to foreign investors, while corruption discourages investors in SAARC member countries. However, other variables like market size and development level have significant effect, while human capital and trade openness show no impact on inward FDI in SAARC. The research supports that good governance significantly influenced inward FDI in SAARC. Shah (2017b) examined how political institutions affect

inward FDI in Pakistan, Sri Lanka, Bangladesh, Nepal and India, over the period of 1970-2009, using random effects panel estimation. The study finds that democratic accountability, minimal military/religious interference; efficient bureaucracy and corruption free public office holders are the most important political factors that attract FDI in these five South Asian economies. Results show that broad, aggregate institutional indices have no significant impact on FDI inflows. However, when institutions are measured in terms of specific components, improvements in those components significantly boost FDI. Balan (2019) studied the effect of political and financial risk on FDI in MENAT region by utilising panel data from 1984 to 2014 for 31 years. The study suggests that lower religious tensions, positive investment profile and lower current account risk are associated with high flows of FDI to MENAT region economies.

Ponce et al., (2020) investigated the bond between Latin American states governance indicators and outward FDI from China. Using panel data for the study, the results show a connection between China's outgoing FDI and three governance indicators: CC, RQ and GE. These findings generally support the idea that lower political risk (better governance) attracts foreign investors. Saha et al., (2022) analysed institutional quality effects in 28 lower middle income countries on FDI from 2002 to 2018. Their results show that RQ and CC enhance inward FDI, while RL and V&A mitigate them. On the contrary, PS and GE have no significant effect on FDI. Faruq (2023) studied the determinants of FDI using data analysis in 24 emerging Asian countries from 2002 to 2018. He examined political, economic and institutional factors in influencing FDI in emerging Asian economies. The results show that economic dynamics significantly affect inward FDI. Moreover, political stability positively significantly impact inward FDI but the study found government effectiveness to be insignificant. Overall, the study shows that economic elements dominate political and institutional aspects in influencing FDI. Yen et al., (2023) reviewed the existing research on effect of PR on FDI in developing countries. The study found negative effect of PR on FDI in emerging economies. It confirmed that investors avoid investing in high political risk economies. Results also prove that political risk has negative effect on inward FDI in nations with weak institutions. Additionally, it shows that PR effect on FDI differs across industries. Negative effect is stronger in service sector as compared to manufacturing. The paper concludes that weak governance, corruption and political instability deter FDI in developing countries. Sadriu and Balaj (2024) studied the influence of governance indicators in thirteen South-Eastern European countries on FDI using pooled ordinary least squares approach. The findings of the paper showed that PS and GE significantly positively swayed FDI, while RL negatively significantly influenced FDI. Moreover, CC, RQ and VA are found to be insignificant in the South Eastern European economies. Padmaja et al., (2024) considered institutional quality effect in Southeast Asian and South Asian economies on FDI from 2002 to 2019 for a period of eighteen years employing the Iterated Generalised Least Squares in fixed effect model. They created Institutional Quality Index (IQI) by Principal Component Analysis (PCA) using six governance indicators data. The findings showed that IQI positively and significantly influenced inward FDI in both South Asian and Southeast Asian economies.

Le (2025) examined ASEAN 7 nations for impact of institutional features on FDI from 2002 to 2022 using Bayesian regression analysis. The findings of the study show that three institutional factors: CC, RL and VA exert negative statistically significant effect on FDI inflows. PSAV and RQ have a positive statistically significant impact on FDI inflows, while QE show no significant effect on FDI inflows in ASEAN. The study stated that the robust RL, high levels of VA and strong anti-corruption approaches do not influence FDI. However, high PSAV and RQ attract more FDI in ASEAN member states.

Based on the literature review the study proposes the following hypotheses:

Primary Hypotheses

H_{01}: Improvements in political stability doesn't affect FDI in FMEs.
H_{11}: Improvements in political stability affect FDI in FMEs.
H_{02}: Changes in the rule of law doesn't affect FDI in FMEs
H_{12}: Changes in the rule of law affect FDI in FMEs.
H_{03}: Changes in voice and accountability doesn't affect FDI in FMEs
H_{13}: Changes in voice and accountability affect FDI in FMEs.

Secondary Hypotheses

H_{0i}: Macroeconomic variables do not affect FDI in FMEs
H_{1i}: Macroeconomic variables significantly affect FDI in FMEs.
Here, *i* represent each independent variable ranging from 1 to 4.

Methodology

This research uses secondary data in panel form to examine the effect of political risk on inward FDI in frontier market economies. Data on FDI inflows, political risk and macroeconomic indicators are obtained from credible and internationally recognised sources from 2002 to 2023 for a period of 22 years to empirically examine the proposed hypotheses. The current research comprises of a sample of 27 states from MSCI frontier markets economies. These are: Bahrain, Morocco, Oman, Tunisia, Burkina Faso, Ivory

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Coast, Benin, Senegal, Kenya, Mali, Togo, Niger, Pakistan, Bangladesh, Sri Lanka, Kazakhstan, Lithuania, Estonia, Croatia, Iceland, Latvia, Slovenia, Romania, Mauritius, Vietnam, Guinea-Bissau and Jordan. Complete data of various variables for Serbia wasn't available for the research time period; therefore, it has been excluded from the sample. Inward FDI stock is treated as dependent variable. The data for FDI stock is obtained from the database of United Nations Conference on Trade and Development (UNCTAD). Macroeconomic variables data such as: development level, trade openness, market size and infrastructure, has been collected from World Development Indicators, World Bank (WDI, WB). In this study, we selected and obtained data for three out of six World Governance Indicators of Kaufmann and Kraay (2024), used as proxies for political risk, such as PSAV, RL and VA.

The general functional specification of the model can be expressed as follows:

$$FDI_{jt} = f\left(Macroeconomic\ factor_{jt}, Political\ Risk_{jt}\right)$$

In an econometric form, the model can be expressed as:

$$FDI_{jt} = f\begin{bmatrix} Market\ Size_{jt}, Development\ level_{jt}, Trade\ Openness_{jt}, \\ Infrastructure_{jt}, Political\ Stability_{jt}, Rule\ of\ Law_{jt}, \\ Voice\ and\ Accountability_{jt} \end{bmatrix} \quad (1)$$

FDI is the dependent variable and market size, development level, trade openness, infrastructure, political stability, rule of law and voice and accountability are independent variables in equation 1. Putting appropriate proxies and log-linearizing the dependent and independent variables, we get equation 2. Log-linearizing reduce the skewness in data (Shah & Khan, 2019). We linear transformed the WGI indicators used as proxies for political risk, by adding 3 to all values, shifting the numerical range from −2.5 (weak) to +2.5 (strong) into 0.5 (weak) to 5.5 (strong), and ensuring positivity while preserving all econometric properties.

$$lnFDI_{jt} = \begin{matrix} \beta_0 + \beta_1 lnGDP_{jt} + \beta_2 lnGDPPC_{jt} + \beta_3 lnTrade_{jt} + \\ \beta_4 lnTeleDensity + \beta_5 LT\_PSAV_{jt} + +\beta_6 LT\_RL_{jt} + \beta_7 LT\_VA_{jt} + \epsilon_{jt} \end{matrix} \quad (2)$$

Where:

- *ln* denotes natural logarithm
- *LT* denotes linear transformation
- *j* denotes the country, varying from 1 to 27
- *t* denotes the time period (year), from 1 to 22 and
- ϵ_{jt} Represents random error term.
- Total observation = Number of years × Number of countries = 22× 27 = 594.

Estimations Issues and Results

Statistical software STATA is used for estimation and hypothesis testing. The diagnostic statistical tests performed in the study are as follows:

Descriptive Statistics

Summary statistics displays the highest, lowest, standard deviation, mean and total observations of dependent variable as well as of all independent variables of the study (Shah & Khan, 2017). Results are presented in table 1.

Table 1: ***Descriptive Statistics***

Variable	No of Observations	Mean	Standard Deviation	Minimum	Maximum
ln FDI stock	594	8.939	1.82	0.00	12.341
ln GDP	594	24.179	1.286	19.961	26.854
ln GDPPC	594	8.158	1.412	5.417	11.316
ln Trade	594	4.298	.492	3.141	5.229
ln TeleDensity	594	12.769	2.472	000	16.674
lt psav	594	2.808	0.92	0.19	4.62
lt rl	594	2.95	0.77	1.388	4.939

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lt va	594	2.839	0.815	1.462	4.628

Multicollinearity

When high correlation is found among independent variables, it is called multicollinearity (Shah, 2016a). The results can become complicated when problematic multicollinearity occurs among independent variables of the study (Shah, 2013). The existence of multicollinearity makes the coefficient estimates statistically unreliable and unstable (Shah & Samdani, 2015). Therefore, before running regressions, it is important to check the data for the existence of multicollinearity.

Correlation Matrix

Correlation matrix shows the strength and direction of linear association among multiple variables or how they correlate among each other (Shah, 2014a). When high correlation of 90% or above exists amongst explanatory variables, it shows the occurrence of multicollinearity (Wooldridge, 2019). The existence of multicollinearity can give biased results (Shah & Sikander, 2025). The correlations for all variables are given in the table 2. Matrix of correlation shows no multicollinearity among independent variables. The linear association among multiple variables are well below 0.90.

Table 2: ***Matrix of Correlations***

Serial No.	Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	ln_FDI_stock	1.000							
2	ln_GDP	0.756	1.000						
3	ln_GDPPC	0.570	0.291	1.000					
4	ln_Trade	0.430	0.047	0.702	1.000				
5	ln_TeleDensity	0.627	0.729	0.231	0.175	1.000			
6	lt_psav	0.091	-0.135	0.652	0.611	0.012	1.000		
7	lt_rl	0.335	0.091	0.841	0.686	0.209	0.729	1.000	
8	lt_va	-0.030	-0.089	0.476	0.294	0.010	0.585	0.695	1.000

Variance Inflation Factor (VIF)

Variance Inflation Factor (VIF) checks multicollinearity among all independent variables (Shah, 2014b). The yardstick for the VIF is set below the value of 10 (Shah & Qayyum, 2015). VIF mean is 3.779, which confirms that no problematic multicollinearity occurred between the independent variables of this study. The results of VIF are given below in table 3.

Table 3: ***Variance Inflation Factor***

Variable	VIF	1/VIF
lt rl	7.151	0.14
ln GDPPC	5.664	0.177
ln GDP	3.234	0.309
lt psav	2.716	0.368
ln TeleDensity	2.594	0.386
ln Trade	2.588	0.386
lt va	2.508	0.399
Mean VIF	3.779	.

Heteroscedasticity

In a regression model when the variances of the errors (residuals) across all observations in a regression model aren't constant, it is called heteroscedasticity (Shah & Khan, 2018). In homoscedasticity error's variance is constant (Shah, 2011f). The presence of heteroscedasticity makes the standard errors unreliable, thus, affecting the validity of hypothesis tests, confidence intervals and p-values (Shah, 2018a). The Breusch-Pagan / Cook Weisberg test is executed to check for heteroscedasticity. The results of heteroscedasticity test are displayed in table 4. P-value for both dependent and independent variables are below 0.05, rejecting the null hypotheses, which confirmed the presences of heteroscedasticity in the dependent and independent variables. Hence, robust standard errors are applied to all regressions to control for heteroscedasticity,

Table 4: ***Breusch-Pagan / Cook-Weisberg Test for Heteroscedasticity***

Variable(s)	Chi^2	Probability > Chi^2	Decision
ln_FDI_stock	81.90	Probability > Chi^2	Heteroscedastic
ln_GDP ln_GDPPC ln_Trade ln_TeleDensity	317.62	Probability > Chi2	Heteroscedastic

lt_psav
lt_rl
lt_va

A series of specification test were conducted to determine the appropriate estimation technique.

Fisher's F Test

The study uses Fisher's F-Test to choose an appropriate model between fixed effects and pooled OLS (Shah, 2017d). The fixed effects regression was examined for the null hypothesis. The statistical values F (26, 560) = 91.29 and probability value of 0.0000, rejects the null hypothesis and favours fixed effects model over the pooled OLS.

Breusch-Pagan Lagrange Multiplier Test

Breusch-Pagan Lagrange Multiplier (BPLM) test for random effects was applied to choose an appropriate model between random effects and pooled OLS (Shah & Azam, 2018). P-value of 0.0000 is statistically significant, rejecting the null hypothesis by preferring random effects model over the pooled OLS for analysis.

Hausman Specification Test

The study uses panel regression framework following the results of Fisher and BPLM tests. Hausman (1978) specification test is executed to select an appropriate panel data estimation method between Fixed Effects Model (FEM) and Random Effects Model (REM) for the analysis (Shah, 2016c). P-value is statistically significant; rejecting the null hypothesis and suggesting that Fixed Effect (FEM) model is appropriate for analysis. Hausman test results are given below in table 5.

Table 5: ***Hausman Specification Test***

	Coefficients.
Chi-square test value	106.437
P-value	0.0000

Findings and Analysis

The findings are presented in table 6 for the impact of political risk on FDI inflows in FMEs, using fixed effect regression estimates across all seven models. The dependent variable is FDI stock. In the first model, market size measured by GDP has positive and statistically significant effect on FDI across all models, with a coefficient value ranging from 1.54 to 2.76 in models 1 to 7. All coefficients are significant at 1% level, indicating that larger economies attract higher FDI. It is confirmed by several studies that the market size has shown positive and statistically significant effect on FDI (Rajan, 2009; Sahoo, 2006; Shah, 2017c). In second model, development level, measured by GDP per capita, has a negative and statistically significant effect on FDI in FMEs, with coefficients value ranging from -1.47 to -1.33. The negative coefficient of GDP per capita suggests that foreign investors prefer to invest their capital, where labour and production costs are low. Higher GDPPC means higher wages and lower cost competitiveness, therefore foreign investors favour low-cost states to invest their capital. These findings are consistent with the theories of vertical FDI, where multinational firms locate production in countries with lower labour costs, rather than higher income levels (Shah, 2015). These findings are consistent with the results found by (Sabir et al. 2019; Krasniqi et al., 2024)

Table 6: ***Regression Analysis by Fixed Effects Panel Estimation Method***

Variable	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Market Size	1.543***	2.701***	2.761***	2.718***	2.509***	2.502***	2.495***
	(9.92)	(5.30)	(6.39)	(6.18)	(6.24)	(6.21)	(6.16)
Development Level		-1.470*	-1.600**	-1.580**	-1.378**	-1.340**	-1.327**
		(-2.68)	(-3.46)	(-3.42)	(-3.25)	(-3.19)	(-3.11)
Trade Openness			1.122***	1.124***	0.889***	0.894***	0.889***
			(5.42)	(5.10)	(4.27)	(4.29)	(4.33)
Infrastructure				-0.0765	-0.0848	-0.0847	-0.0845
				(-1.49)	(-1.75)	(-1.82)	(-1.82)
Political Stability and Absence of Violence/terrorism					-0.300**	-0.277*	-0.281*
					(-3.22)	(-2.69)	(-2.78)
Rule of Law						-0.133	-0.158
						(-0.82)	(-0.79)
Voice and Accountability							0.0461
							(0.27)
Number of observation	594	594	594	594	594	594	594
R square	0.717	0.750	0.791	0.798	0.813	0.813	0.813

t statistics in parentheses
* p<0.05, ** p<0.01, *** p<0.001

In the third model, trade openness show positive significant effect on FDI in all regression models with coefficients ranging from 0.89 to 1.12. All of them are significant at 1% level. It highlights those countries more open to foreign businesses entry and exit, as well as better integrated into global markets receive more FDI. These findings are consistent with results found by Ponce (2006), Shah (2017a) and Bussy and Zheng (2023). In the fourth model, TeleDensity, which is a proxy for infrastructure has a negative statistically insignificant coefficient across all models. It indicates that once macroeconomic variables are controlled for then infrastructure doesn't independently influence the MNCs in FMEs. These findings are consistent and aligned with previous studies by Nguea (2021) and Tsaurai (2025).

In the fifth model, interestingly, political stability and absence of violence/terrorism shows statistically significant but negative coefficient ranging from -0.277 to -0.300 from model 5 to model 7, indicating that higher political stability is associated with lower FDI. The result suggests that when economic returns are high foreign investor may tolerate political risk. This shows that foreign investors are willing to accept higher political instability in exchange for higher expected returns. It shows that politically unstable countries offer greater investment incentives, such as regulatory concessions, tax holidays etc. to compensate for risk.

In the sixth model, rule of law is found to be negative and insignificant with a coefficient ranging from -0.158 to -0.133 in model 6 and model 7 respectively. Rule of law doesn't appear to independently affect the FDI stock in FMEs once economic fundamentals are controlled for. In the seventh model, Voice and Accountability is positive but insignificant with a coefficient of 0.0461 in model 7, indicating a positive but insignificant effect on FDI in FMEs. Several empirical studies have testified the weak or insignificant governance effects. Shah and John (2025) found that PSAV and RL are statistically insignificant, which shows no effect on FDI. Sabir et al. (2019) report that several governance indicators such as: RL and VA do not significantly affect FDI inflows in developing countries. Similar insignificant or mixed institutional effects have been reported in panel studies by Rashid et al,. (2017) and Shah (2023).

Conclusion

The study focused on the impact of political risk on FDI in frontier market economies from 2002 to 2023 for a period of 22 years, using fixed effect regression estimates. The empirical results showed that macroeconomic variables dominate political risk variables in attracting multinational investment to FMEs.

Market size exhibited a positive influence on FDI, indicating that larger economies offer a bigger market, economies of scale and profit opportunities for MNCs, suggesting that expanding domestic markets remain a key pull factor for foreign investors. Trade openness showed a positive and significant effect on FDI in FMEs, indicating that economies which are integrated into global trade with reduced trade barriers attracted more FDI. In contrast, GDP per capita, proxy of development level showed a negative but statistically significant effect on FDI in FMEs. It indicates that foreign investors in FMEs are primarily motived by cost efficiency rather than purchasing power. Higher income levels are associated with increased wage costs and reduced cost competitiveness, which discourage vertical FDI. Therefore, multinational firms relocate production activities to lower-income countries to minimize labour and production costs. However, infrastructure is statistically insignificant; it doesn't influenced FDI in FMEs. PSVA showed a statistically significant but negative effect on FDI in FMEs, implying risk-tolerant foreign investment behaviour. This suggests that when economic returns are high, then foreign investors may tolerate political risk in FMEs. The RL and VA were found to be insignificant in effecting FDI into FMEs.

Overall, the study concluded that FDI in FMEs is primarily driven by macroeconomic variables rather than political risk factors. Political risk doesn't deter FDI in FMEs, particularly when the host economies offer high expected return. The findings of the study suggest an important policy implication: FMEs should focus on market size, trade openness and maintaining low labour and production cost to attract FDI, while simultaneously improving institutional quality to ensure long term investment sustainability.

Based on the findings of the study, several directions for future research can be suggested. First, future researchers may use alternative econometric techniques, such as Generalized Method of Moments (GMM), to better capture long-run and short-run effects of political risk on FDI in FMEs. Second, future research may study the effect of political risk on different types of FDI, such as Horizontal Foreign Direct Investment (HFDI) and Vertical Foreign Direct Investment (VFDI). This may provide deeper insights to foreign investors on why to invest in frontier market economies despite the negative effect of political risk. Third, future research may study the comparative analysis between frontier markets economies and emerging markets economies or between developed economies and developing economies. Fourth, future research could explore country specific analyses to study the impact of political risk on individual economies within FMEs. This approach may help policymakers to design more targeted investment policies. Finally, future research could use qualitative research approaches, such as surveys or case studies to complement the quantitative research studies by providing evidence on how MNCs observe political risk and investment opportunities in FMEs. Such mixed method research approaches would improve the understanding of FDI decision-making for policymakers in effective policy formulation.

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