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Institutions and Investment:

How Foreign Direct Investment Responds to Political Risk Across Regimes



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Political Science Departmental Honors Thesis

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Abstract

This study investigates whether the effects of political risk on foreign direct investment (FDI) vary across regimes. Specifically, it asks: “Does regime type condition the relationship between political risk and FDI inflows?” Using political risk scores from the International Country Risk Guide (ICRG), regime classifications from the Varieties of Democracy (V-Dem) “Regimes of the World” (RoW) dataset, and macroeconomic data from the World Bank’s World Development Indicators (WDI), this study analyzes country-year observations from 1984–2021 across four regime types: closed autocracies, electoral autocracies, electoral democracies, and liberal democracies. It employs country and year fixed effects panel regressions with interaction terms to estimate regime-conditional effects of political risk on FDI. Results show that risks related to institutional quality are more strongly associated with FDI inflows in electoral regimes than in closed autocracies. Conflict-related risks exhibit stronger associations with FDI inflows in liberal and electoral democracies than in both electoral and closed autocracies. These findings challenge the assumption that political risk affects FDI uniformly across regimes.

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Introduction

Considerable research has found that political risk deters FDI. The existing literature typically assumes that political risk affects FDI uniformly across countries. According to this view, countries with high policy instability – an important component of political risk – should receive less FDI than countries with low policy instability. Empirical evidence suggests that this is not the case, however. Although policy uncertainty is more common in democratic regimes than non-democratic regimes, Jensen (2003, 2008) and Jakobsen and de Soysa (2006) find that democracies attract more FDI than autocracies. This suggests that foreign investors are more tolerant of policy instability in democratic regimes, raising an important question: do certain political risk dimensions deter foreign investment more strongly in some regime types than others? This study aims to answer that research question.

Literature Review

Since the 1990s, scholars have tried to unpack the relationship between regime type and FDI. Early research suggests that authoritarian regimes attract more foreign investment than democratic regimes. Oneal's (1994) findings indicate that although U.S. multinational corporations have historically performed best in developed democracies, their rates of return in developing countries have been higher under authoritarian regimes. This suggests that authoritarian governments in developing economies may provide a more profitable environment for foreign investors. Nevertheless, Oneal's research reveals that regime type does not significantly or consistently determine the volume of FDI a country attracts.

Resnick's (2001) research challenges this finding by demonstrating that democratization has a negative effect on FDI inflows. When a country is in the process of democratizing, it typically experiences a decline in FDI. Resnick attributes this to the political instability that often accompanies regime transitions. Foreign investors may become wary of the uncertainties and conflicts that arise during the transition to democracy, in turn reducing or postponing their investments. Beyond the immediate instability caused by regime transitions, Resnick finds that stable democracies may be unattractive to foreign investors. This might be because democracies empower those who are disadvantaged to demand policy changes. In democratic countries with significant disparities in income, this can put pressure on governments to enact policies that redistribute wealth. From the perspective of foreign investors, this potential for redistribution represents a form of political risk. To combat this risk, investors may reduce or withdraw their investments in democratic regimes. Thus, Resnick finds that it is not only democratization, but also consolidated democracy that may deter FDI.

Li and Resnick (2003) provide additional evidence that democratization has a negative effect on FDI. They challenge the view that stable democracies discourage foreign investment, however, arguing that democracies differ in their attractiveness to investors. If a democratic regime contains an independent judiciary, constraints on the executive, and the rule of law, it might be more attractive to foreign investors than non-democratic regimes. Li and Resnick attribute this to the ability of democratic institutions to safeguard private property rights, thereby lowering the risks of expropriation, contract repudiation, ineffective rule of law, and government corruption.

An abundance of literature supports the finding that democratic regimes attract foreign investment. Rodrik (1991) finds that countries with stronger democratic rights receive more

capital from U.S. MNCs. Harms and Upsprung (2002) and Busse (2004) find that civil and political freedom attract FDI, whereas political and civil repression deter it. Jensen (2003, 2008) and Jakobsen and de Soysa (2006) find that democratic regimes tend to attract more FDI than authoritarian regimes. Barry (2016) finds that MNCs use regime type to assess political risk in unfamiliar markets. They tend to view democracy as an indicator of lower risk, thus favoring democracies over non-democracies for new subsidiaries.

Despite the growing consensus that democracies attract more foreign investment than autocracies, scholars remain divided on which regime type is more effective at minimizing political risk. Although a large body of research has examined how foreign investment levels vary across different regime types, few studies have systematically analyzed how political risk levels vary between democratic and authoritarian regimes. Rather than comparing empirical measures of political risk across different regime types, the existing literature tends to use foreign investment levels as a proxy for political risk, assuming that regimes receiving more FDI are inherently less risky than those receiving less FDI. This assumption risks omitted variable bias as it overlooks the possibility that foreign investment may be driven by factors unrelated to political risk. A regime might receive high levels of foreign investment not because it is low-risk, but because it is perceived as stable or investor-friendly for other reasons. Without directly measuring and comparing political risk across different regime types, it is impossible to determine whether political risk explains the observed relationship between regime type and foreign investment.

The few studies that do explore the relationship between regime type and political risk often use composite indices that represent political risk as a single score. Diamonte, Liew, and Stevens (1996) use the International Country Risk Guide (ICRG) to measure political risk.

Published by the Political Risk Services Group, it provides monthly risk ratings for over 130 countries. Risk ratings are based on a compilation of 13 political, 6 economic, and 5 financial risk factors. Using a weighted formula, these risk factors are combined to produce a composite risk index for every country. To isolate the effect of political risk on stock market returns, Diamonte, Liew, and Stevens use only the political component of the ICRG index – an aggregate score derived from 13 political risk indicators.

Rather than using ICRG data, Aguiar et al. (2012) use the Euromoney Country Risk (ECR) Index to measure political risk. Published by Euromoney Magazine, it provides biannual risk ratings for over 170 countries. Risk ratings are based on a combination of 5 political risk factors, 5 economic risk factors, and quantitative data on capital market access, debt levels and sovereign credit ratings. Using a weighted formula, these components are aggregated into a composite risk score for each country. Like Diamonte, Liew, and Stevens (1996), Aguiar et al. use only the political component of the ECR Index.

While composite indices like the ICRG and ECR offer detailed, disaggregated data on the specific risk dimensions present in each country, the existing literature tends to use composite indices in an unproductive manner. Rather than analyzing the disaggregated data to identify which political risk dimensions are the most common under different regime types, scholars often use the indices' composite risk scores as their sole measure of political risk. Although useful for assessing the general risk level of different countries, these composite risk scores reveal nothing about which specific risk dimensions are the most prevalent among different regime types. They are also unhelpful in examining whether foreign investors value specific risk dimensions more in one regime type than another. Thus, the existing literature's over-reliance on

aggregate measures of political risk has obscured scholars' understanding of the complex relationship between regime type, political risk, and foreign investment.

The literature's use of oversimplified regime typologies has further complicated this issue. Just as scholars tend to rely on composite indices that compress political risk into a single score, most research classifies regimes dichotomously as either democracies or autocracies. While this binary typology is useful for identifying broad structural differences in political systems, it ignores important variations within regime types. Autocratic regimes, for example, can be divided into closed and electoral autocracies, which differ in their levels of political competition. By reducing these distinct regimes to the broad label of autocracy, scholars overlook the fact that they may produce different political risks. This is problematic given that different political risks can influence foreign investment in distinct ways. Thus, the existing literature's tendency to treat regime type as a dichotomous category has limited scholars' capacity to analyze the distinct political risks posed by different regimes.

This study addresses these limitations by disaggregating both political risk and regime type. Rather than relying on composite risk scores, it analyzes individual risk dimensions drawn from the ICRG. It also moves beyond the democracy-autocracy dichotomy by distinguishing between closed autocracies, electoral autocracies, electoral democracies, and liberal democracies. This approach allows for a more nuanced analysis of how specific risk dimensions are associated with foreign investment across institutional contexts.

Hypothesis

This study hypothesizes that political risk dimensions do not affect FDI uniformly. Rather, their impacts depend on the regime type in which they arise. This hypothesis rests on two

key premises. The first is that investors are driven by the dual objectives of maximizing financial returns and minimizing potential losses. When making investment decisions, they carefully assess risk to avoid exposure to volatile or unpredictable environments. Risk, in this context, refers to the possibility that an investment will yield suboptimal or negative returns. Investors weigh many types of risk when allocating capital. They are particularly wary of political risk – the “risk of a strategic, financial, or personnel loss for a firm because of nonmarket factors such as macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, labor, and developmental policies), or events related to political instability (terrorism, riots, coups, civil war, and insurrection)” (Kennedy 1988). As risk indices such as the ICRG and the ECR demonstrate, political risk is not a monolithic variable. Rather, it encompasses a range of dimensions such as government stability, corruption, and risk of expropriation. Because investors aim to minimize exposure to these risks, they generally prefer to invest in environments characterized by low levels of political risk. Empirical research supports this conclusion. Busse and Hefeker (2007), Baek and Qian (2011), and Khan and Akbar (2013) find that higher levels of political risk are associated with lower FDI inflows. Kolstad & Villanger (2008) find that political risk discourages foreign investment in service sectors where long-term contracts, legal protection, and trust in public institutions are important. Hayakawa, Kimura, and Lee (2013) find that political risk has the strongest negative effect on foreign investment decisions, particularly when compared to economic or financial risk. Using firm-level data on Japanese MNCs, they show that firms avoid politically risky countries even when factors like wage costs or proximity to markets are favorable.

The second premise is that different regime types produce distinct dimensions of political risk. This is due to institutional differences across regime types. In democracies, for example,

institutional checks on power, judicial independence, and transparent policymaking make the risk of expropriation relatively low. Frequent elections and turnovers in leadership make democracies prone to policy instability, however. Considerable research supports these conclusions. Jensen (2008) finds that democratic regimes reduce the risk of expropriation, thereby making them more attractive to foreign investors. Li (2009) finds that democracies are less likely to expropriate foreign investment compared to autocracies. While the risk of expropriation is low in democratic regimes, the risk of political instability is relatively high. Rodrik (1991), Alesina, Roubini, and Swagel (1996), and Brunetti and Weder (1998) find that political instability – characterized by frequent government changes – is more prevalent in democracies. Feng (2001) finds that democratic regimes can lead to policy uncertainty due to electoral competition.

In authoritarian regimes, the opposite is true. Centralized control and the absence of institutional constraints make the risk of policy instability relatively low. Svobik (2012) finds that autocratic regimes maintain policy stability through centralized decision-making. Gerschewski (2023) finds that autocratic regimes maintain policy stability through mechanisms such as legitimization, repression, and co-optation. While the risk of policy instability is low in authoritarian regimes, the risk of expropriation is relatively high. This is particularly true for personalist regimes. Wilson and Wright (2017) find that in non-personalist autocracies, the presence of legislatures correlates with lower expropriation risk. In personalist regimes, however, the risk of nationalization and expropriation is much higher. Cao and Lagunoff (2023) find that the risk of expropriation is high in authoritarian regimes because they lack independent judiciaries and cannot credibly commit to protecting private property rights.

In short, this study hypothesizes that political risk dimensions do not affect FDI uniformly. Rather, their effects depend on the regime type in which they arise. The causal mechanism underlying this hypothesis can be represented as follows:

Political risk dimension $\times$ Regime type $\rightarrow$ Investor perception of risk $\rightarrow$ Investor assessment of risk manageability/cost $\rightarrow$ Investment decisions $\rightarrow$ Level of foreign investment

The first step of the causal chain represents the interaction between political risk and regime type. This interaction propels the model forward by shaping how investors initially perceive the nature, severity, and implications of political risk. The mechanism at work is institutional: regime type affects both the likelihood that specific risk dimensions will arise, and the way those risks are interpreted by investors. Policy volatility in a competitive democracy may be seen as a normal outcome of elections, for example, while the same volatility in a personalist dictatorship may be viewed as an indicator of political instability. In this regard, regime type acts as a lens through which foreign investors process and assign meaning to the political risks they encounter.

In the second step of the causal chain, investor perceptions of political risk influence investor assessments of risk manageability and cost. This transition is propelled by a cost-benefit calculation mechanism: once a risk is identified and interpreted, foreign investors assess whether the risk can be absorbed or controlled at a reasonable cost. If foreign investors view a host country's corruption as institutionalized but predictable, for example, they may deem it manageable with informal arrangements or risk premiums. If they view it as inconsistent or volatile, they may conclude that risk management is too expensive.

In the third step of the causal chain, these investor assessments of risk manageability and cost shape investment decisions. If foreign investors determine that a host country's risks are manageable, they may proceed with investment. If the country's risks are deemed too severe, too costly to mitigate, or fundamentally unmanageable, foreign investors may delay, scale back, or withdraw entirely from the investment. In the final step of the causal chain, investment decisions produce variations in the levels of foreign investment that different countries receive. When numerous investors reach similar conclusions about a host country's political risk profile, those choices produce measurable changes in foreign investment.

Methodology

This section proceeds in several parts. First, it defines and operationalizes the key variables in this study. Second, it explains how the panel dataset is constructed. The countries and years in the dataset, along with patterns of missingness, are described. Third, it examines the distribution and transformation of the dependent variable. Fourth, it outlines the estimation sample and empirical strategy, including the baseline, interaction, and split-sample models. Finally, it presents the two robustness checks used to evaluate the sensitivity of the results.

Defining and Operationalizing Key Variables

The independent variable is political risk, which is measured using the disaggregated country scores for each of the ICRG's twelve political risk indicators. These indicators include government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability, and bureaucratic quality. Each indicator is scored annually on an

ordinal scale, typically from 0 to 6 or 0 to 12. Higher scores indicate lower exposure to risk, whereas lower scores indicate greater exposure to risk.

The dependent variable is FDI inflows. Rather than assessing how much FDI each country receives in raw dollar terms, this study assesses how much FDI each country receives relative to its GDP. This is important because the same investment amount can have drastically different meanings in large versus small economies. A \$10 billion FDI inflow would be massive for Kenya, for example, as it would account for 9 percent of the country's GDP (World Bank 2023). The same FDI inflow would be trivial for the U.S., however, as it would account for 0.04 percent of the country's GDP (World Bank 2023). Assessing FDI as a share of GDP accounts for these differences in economic size, reducing heteroskedasticity and making cross-country comparisons fairer. 10 percent of GDP in FDI means the same thing in Kenya as it does in the U.S., in relative terms. To assess FDI as a percentage of GDP, this study uses the World Bank's World Development Indicators (WDI) dataset. The WDI is widely used in foreign investment research because it provides standardized, annual FDI and GDP data for over 190 countries from 1960–2022.

The moderator variable is regime type, which refers to the structure of political authority in a given country and the institutional rules that govern how leaders are selected, constrained, and replaced. It is measured using the Varieties of Democracy (V-Dem) "Regimes of the World" (RoW) classification, which provides annual country-year regime classifications from 1900 onward. The dataset uses expert-coded institutional indicators to distinguish between liberal and electoral democracies. It is updated annually in March alongside the main V-Dem dataset.

In addition to the independent, dependent, and moderator variables, this study includes seven control variables: population (log), GDP per capita (log), GDP growth, trade openness as a percentage of GDP, natural resource rents as a percentage of GDP, mobile phone subscriptions, inflation, and secondary school enrollment. Holding these variables constant helps to rule out exogenous explanations for differences in FDI inflows. Secondary school enrollment, for example, measures the quality of human capital. Holding it constant accounts for the fact that countries with more educated workforces are often more attractive to foreign investors, regardless of their political risk levels. Mobile phone subscriptions capture a country's technological capacity, which can independently influence investment decisions. Inflation and GDP growth reflect macroeconomic stability and short-term economic performance, both of which directly affect investor confidence. Natural resource rents control for extractive-sector FDI that may flow into high-risk countries due to resource endowments rather than institutional quality. Trade openness accounts for a country's level of global economic integration, while GDP per capita and population (both log-transformed) control for differences in market size and economic development. Because these variables are exogenous to political risk and regime type, they do not introduce post-treatment bias. They are measured using the WDI dataset.

Dataset Coverage and Missingness

This study uses a cross-national country-year panel dataset spanning 1984–2024. The dataset contains 5,353 observations across 138 countries over the sample period. Country coverage evolves over time, increasing from 99 countries in 1984 to 136 in 1999. While 98 countries are observed for the full period, 39 enter the dataset late and one exits early, resulting in an unbalanced panel. In addition to variation in country coverage, data completeness also varies considerably across variables. As shown in Table 1, both regime type and political risk are

fully observed, with no missing values. Similarly, population, GDP growth, and GDP per capita are largely complete. Trade openness and resource rents exhibit more moderate data gaps, with missing values in approximately 10 percent of country-year observations. Missingness is especially pronounced for inflation and secondary school enrollment, which are unavailable for a large share of country-year observations. For this reason, inflation and secondary school enrollment are excluded from the final estimation sample. The remaining macroeconomic variables – population, GDP growth, GDP per capita, mobile phone subscriptions, trade openness, and natural resource rents – are retained as controls.

Table 1. Missing Data by Variable

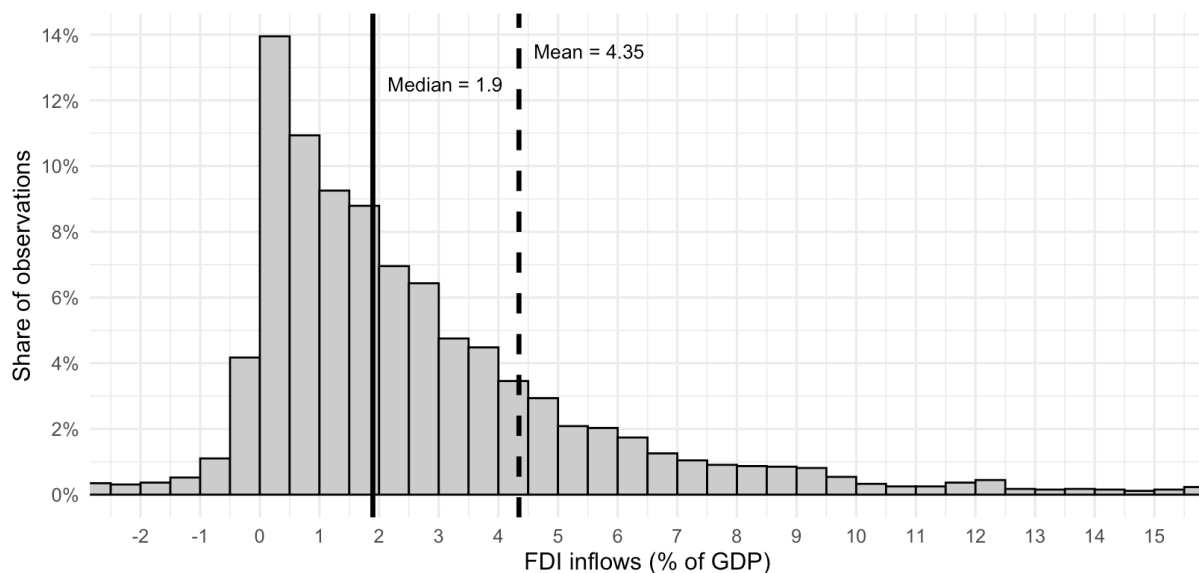
Variable	Missing Variables	
	<i>n</i>	%
Regime type	0	0.00
Political risk	0	0.00
Population	7	0.13
GDP growth	87	1.63
GDP per capita	114	2.13
FDI inflows (% GDP)	177	3.31
Mobile phone subscriptions	206	3.85
Trade openness	537	10.03
Resource rents	560	10.46
Inflation	2,052	38.33
Secondary school enrollment	3,604	67.33

Note: Entries report the number and percentage of missing country-year observations for each variable in the full panel dataset.

Distribution and Transformation of FDI Inflows

While FDI inflows exhibit relatively low levels of missingness, Figure 1 shows that their distribution is highly uneven and skewed to the right. For a substantial share of observations, annual FDI inflows are modest relative to the size of the domestic economy. Nearly 60 percent of observations receive FDI inflows equivalent to 2.5 percent of GDP or less. A further 15 percent receive inflows between 2.5 and 4 percent of GDP. The remaining observations form a long right tail, with a small number of cases exhibiting exceptionally large FDI inflows relative to GDP. This asymmetry is reflected in the gap between the median and the mean. The median FDI inflow is 1.9 percent of GDP, while the mean is substantially higher at 4.35 percent. The mean's position to the right of the median reflects the influence of a small number of high-inflow observations that pull the average upward.

Figure 1. Distribution of FDI Inflows (% of GDP)



These extreme values are concentrated in a small number of country-year observations. Inspection of the upper tail shows that the largest inflows are overwhelmingly driven by a

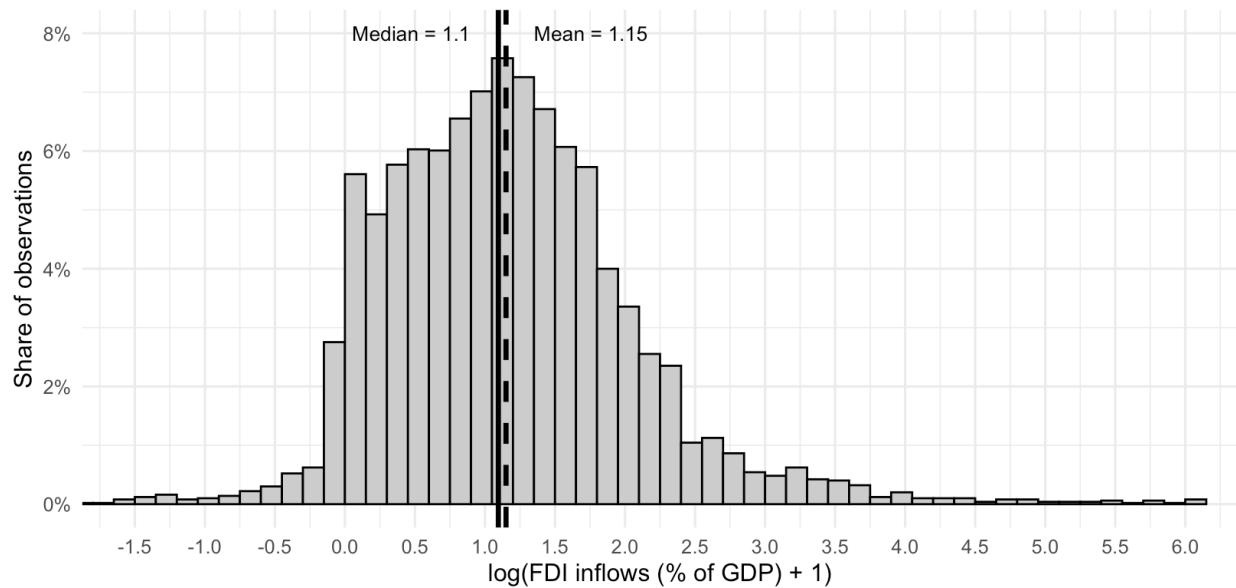
handful of financial centers, including Malta, Cyprus, and Luxembourg, where FDI inflows frequently exceed 100 percent of GDP. This pattern reflects the role of these economies as financial and corporate hubs, where multinational firms channel capital through holding companies and other intermediary entities. In these economies, recorded FDI inflows often reflect pass-through or “phantom” investment rather than new productive activity, leading to values that can exceed the size of the domestic economy.

The presence of these extreme values distorts the distribution of FDI inflows, complicating direct comparison across country-year observations. To address this limitation, FDI inflows (as a share of GDP) are log-transformed as $\log(\text{FDI}_{it} + 1)$. A standard log transformation cannot be applied to FDI_{it} alone because the logarithm is only defined for positive values. By adding one prior to taking the logarithm, the transformation can be applied to a larger share of observations, including those with zero and moderately negative values. This does not extend to FDI inflows less than or equal to -1 percent of GDP. As a result, 200 observations in the panel dataset are excluded from the logged specification. An additional 177 observations have missing FDI data, leaving 4,976 observations for which the log-transformed variable can be defined.

Despite this limitation, the log transformation reduces the influence of outliers without removing them from the data. It is preferable to winsorizing or trimming the variable, as these approaches would obscure substantively important cases of extreme inflows. To illustrate the effects of this transformation, Figure 2 shows the distribution of FDI inflows (as a share of GDP) after logging. The distribution is markedly less skewed, with the right tail compressed and most values concentrated within a narrower range. The median and mean are closely aligned,

indicating that extreme outliers no longer pull the average upward. The log transformation therefore produces a distribution that more accurately reflects the central tendency of the data.

Figure 2. Distribution of Log-Transformed FDI Inflows (% of GDP)



Estimation Sample Construction and Distribution

Given the data coverage gaps discussed earlier, the regression models in this study are conducted on an estimation sample rather than the full panel dataset. After omitting observations without complete data for all explanatory and control variables, the estimation sample contains 4,162 observations across 127 countries over the period 1984–2021. This sample is well distributed across regime types. As shown in Table 2, electoral autocracies, electoral democracies, and liberal democracies account for similar shares of country-year observations. Although closed autocracies account for a smaller share, they are sufficiently represented in the sample. This distribution ensures that there are enough observations within each regime type to estimate relationships both within and across regimes.

Table 2. Distribution of the Estimation Sample Across Regimes

Regime Type	Observations	
	<i>n</i>	%
Closed autocracy	610	14.7
Electoral autocracy	1,289	31.0
Electoral democracy	1,088	21.6
Liberal democracy	1,175	28.2

Note: Entries report the number and percentage of country-year observations in the estimation sample for each regime type.

Empirical Strategy and Model Specification

Using the estimation sample defined above, the study estimates a series of panel regression models to examine the average within-country relationship between political risk and FDI inflows. The baseline specification is estimated separately for each of the twelve ICRG political risk indicators. It takes the following form:

$$\log(\text{FDI}_{it}+1) = \beta_1 \text{Risk}_{it} + X_{it}\beta + \alpha_i + \gamma_t + \epsilon_{it}$$

In this model, *i* denotes countries and *t* denotes years. The dependent variable, $\log(\text{FDI}_{it} + 1)$, is the natural logarithm of FDI inflows as a percentage of GDP. Risk_{it} represents one of the twelve ICRG political risk indicators, while X_{it} represents the macroeconomic control variables discussed earlier. α_i denotes country fixed effects, which control for time-invariant characteristics of countries – such as geographic features, historical legacies, or natural resource endowments – that may influence FDI inflows. γ_t denotes year fixed effects, which control for global shocks and time-specific factors – such as financial crises or pandemics – that affect all countries simultaneously. ϵ_{it} is the error term, capturing variation in FDI inflows that is not

explained by the variables in the model. Standard errors are clustered at the country level to account for serial correlation within countries over time.

To examine whether the relationship between political risk and FDI differs across regimes, the baseline specification is extended to include interaction terms between political risk and regime type. The following model is estimated for each of the twelve ICRG political risk indicators:

$$\log(\text{FDI}_{it} + 1) = \beta_1 \text{Risk}_{it} + \beta_2 \text{Regime}_{it} + \beta_3 (\text{Risk}_{it} \times \text{Regime}_{it}) + X_{it}\beta + \alpha_i + \gamma_t + \epsilon_{it}$$

In this model, Regime_{it} indicates the regime type of each country-year observation. Although it appears in the equation as one variable, the model does not treat it as a single numeric value. Instead, it replaces Regime_{it} with three separate variables: one for electoral autocracy, one for electoral democracy, and one for liberal democracy. Closed autocracy is not given its own variable and serves as the reference category. For each observation in the estimation sample, these variables take the value of 1 if the country-year falls into that category, and 0 otherwise. In practice, only one of these variables can equal 1 for any given observation, while the rest must equal 0. If a country-year is coded as a liberal democracy, the liberal democracy variable equals 1 while the others equal 0. If a country-year is coded as a closed autocracy, all three variables equal 0 and the observation is treated as belonging to the reference category.

The interaction term, $\text{Risk}_{it} \times \text{Regime}_{it}$, multiplies the political risk indicator by each of these three variables. This produces four distinct slopes – one for each regime category – showing how much FDI inflows change when the risk indicator increases by one unit. Because the dependent variable is log-transformed, these slopes can be interpreted as approximate

percentage changes in FDI inflows. Each slope therefore represents the marginal effect of political risk on FDI within a given regime. To assess whether this effect differs across regime types, two approaches are used. First, the coefficients from the interaction model are compared across regimes. A positive coefficient indicates that lower political risk is associated with higher FDI inflows, while a negative coefficient indicates the opposite. The magnitude of the coefficient reflects the strength of the relationship, with larger absolute values indicating stronger effects.

Second, Wald tests are conducted on the interaction terms to formally evaluate whether these differences are statistically distinguishable. The Wald test evaluates the joint null hypothesis that all interaction coefficients are equal to zero, which corresponds to no difference in slopes relative to the reference category. A statistically significant result indicates that the effect of political risk on FDI varies across regimes, while a non-significant result suggests that observed differences in coefficients may reflect sampling variation.

Because regime transitions are relatively infrequent within countries, these interaction effects are identified from a narrow subset of observations. Of the 128 countries in the estimation sample, 55 – or 43 percent – do not experience any change in regime type over the 1984–2021 period. Among those that do, most experience only one or two changes over the sample period. As a result, these tests have limited statistical power. Failure to reject the null does not necessarily imply that substantive differences are absent. Given this limitation, separate regression models are estimated for each regime type. Rather than relying on within-country regime changes over time, these models estimate the relationship between political risk and FDI separately for each regime type. While they do not formally test whether coefficients differ across regimes, they allow for a comparison of patterns across regime types.

Grouping Political Risk Indicators

To evaluate whether investors respond more strongly to broader categories of risk than to individual indicators, the twelve ICRG indicators are grouped into four families: elite stability, institutional quality, conflict instability, and economic risk. Elite stability includes government stability and military in politics, while institutional quality includes investment profile, law and order, democratic accountability, and bureaucratic quality. Conflict instability includes internal conflict, external conflict, religious tensions, and ethnic tensions. Economic risk includes socioeconomic conditions and corruption. These families are constructed on the basis of conceptual similarity, grouping indicators that measure related dimensions of political risk. They are also broadly consistent with observed correlations among indicators. Table 3 shows the average within- and between-family correlations among the twelve ICRG indicators. Values represent correlation coefficients ranging from -1 to $+1$, with higher values indicating stronger positive relationships between indicators.

Table 3. Within- and Between-Family Correlations of ICRG Risk Indicators

Risk Family	Within-Family Correlation	Between-Family Correlation
Elite stability	0.58	0.38
Conflict instability	0.61	0.36
Institutional quality	0.64	0.45
Economic risk	0.79	0.42

Note: Entries are average pairwise correlation coefficients among ICRG indicators within and between risk families.

As the table shows, indicators within each risk family are moderately to strongly correlated. Correlations are consistently stronger within families than across families, providing empirical support for the conceptual groupings. Accordingly, the estimated coefficients for the twelve ICRG indicators are grouped by risk family within each regime. The average magnitude of these coefficients is calculated and compared across risk families within each regime. Because these averages are constructed from multiple estimated coefficients, standard errors are not directly available. A country-level clustered bootstrap is therefore used to approximate their variability. Countries are resampled with replacement, and for each bootstrap sample, the regression models described above are re-estimated. The corresponding risk family averages are then recalculated. This procedure is repeated 300 times, producing multiple estimates of each risk family average. The variation across these estimates is used to calculate standard errors and construct 95 percent confidence intervals. This allows for an assessment of whether differences in average magnitudes across risk families are statistically distinguishable within each regime.

Robustness Checks

Two robustness checks are conducted to evaluate the sensitivity of the results. First, the baseline regressions are re-estimated with inflation and secondary school enrollment added as controls. Because these variables exhibit substantial missingness, their inclusion reduces the estimation sample from 4,162 to 1,201 observations. Comparing the re-estimated coefficients to the baseline estimates allows for an assessment of whether the baseline results are sensitive to changes in sample composition. Second, the dependent variable is transformed using the inverse hyperbolic sine (IHS), which can be applied to FDI inflows less than or equal to -1 percent of GDP. Comparing the IHS-transformed estimates to the baseline estimates allows for an assessment of whether the results change when extreme negative values are included in the

regression models. Because these robustness checks reduce the estimation sample, they are not extended to the interaction or split-sample models, where statistical power is already limited.

Results

This section proceeds in several parts. First, it presents the baseline results, which estimate the average relationship between political risk and FDI inflows. Second, it presents the interaction results, which estimate regime-conditional effects. Third, it presents the results from the split-sample models estimated separately by regime. Fourth, it compares the aggregate effects of the risk families noted earlier. Finally, it evaluates the robustness of the findings.

Baseline Results

Table 4 reports the results of the baseline fixed-effects models, estimated separately for each of the twelve ICRG political risk indicators. Each coefficient represents the within-country association between a one-unit increase in a risk indicator and log-transformed FDI inflows. Positive coefficients indicate that lower political risk is associated with higher FDI inflows.

Table 4. Baseline Effects of Political Risk Indicators on FDI Inflows

ICRG Indicator	Coefficient
Law and order	0.108** (0.035)
Ethnic tensions	0.070* (0.031)
Democratic accountability	0.067** (0.024)
Religious tensions	0.062 (0.034)

Bureaucratic quality	0.056 (0.040)
Internal conflict	0.049** (0.015)
Military in politics	0.045 (0.031)
External conflict	0.039* (0.017)
Investment profile	0.031 (0.016)
Government stability	0.017 (0.012)
Socioeconomic conditions	0.012 (0.017)
Corruption	-0.002 (0.023)

Note: Entries are fixed-effects regression coefficients for log(FDI inflows + 1), with standard errors in parentheses. Standard errors are clustered at the country level. All models include country and year fixed effects. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Most political risk indicators are positively associated with FDI inflows, although only a subset of these associations is statistically significant. Law and order exhibits the largest positive association ($\beta = 0.108$, $p < 0.01$), followed by ethnic tensions ($\beta = 0.070$, $p < 0.05$) and democratic accountability ($\beta = 0.067$, $p < 0.01$). Internal conflict ($\beta = 0.049$, $p < 0.01$) and external conflict ($\beta = 0.039$, $p < 0.05$) exhibit more moderate positive associations, although they remain statistically significant. The remaining political risk indicators show less consistent associations with FDI inflows. Corruption exhibits the weakest association ($\beta = -0.002$, $p > 0.05$), with a coefficient that is slightly negative and close to zero. Other indicators – including religious tensions ($\beta = 0.062$, $p > 0.05$), bureaucratic quality ($\beta = 0.056$, $p > 0.05$), and military in

politics ($\beta = 0.045, p > 0.05$) – have much larger coefficients, but are estimated with substantial uncertainty and lack statistical significance. These results provide preliminary support for the hypothesis that political risk does not affect FDI uniformly. Indicators related to institutional quality and conflict exhibit stronger and more consistent associations with FDI inflows than other dimensions of political risk. These patterns are illustrated in Figure 3.

Figure 3. Baseline Effects of Political Risk Indicators on FDI Inflows

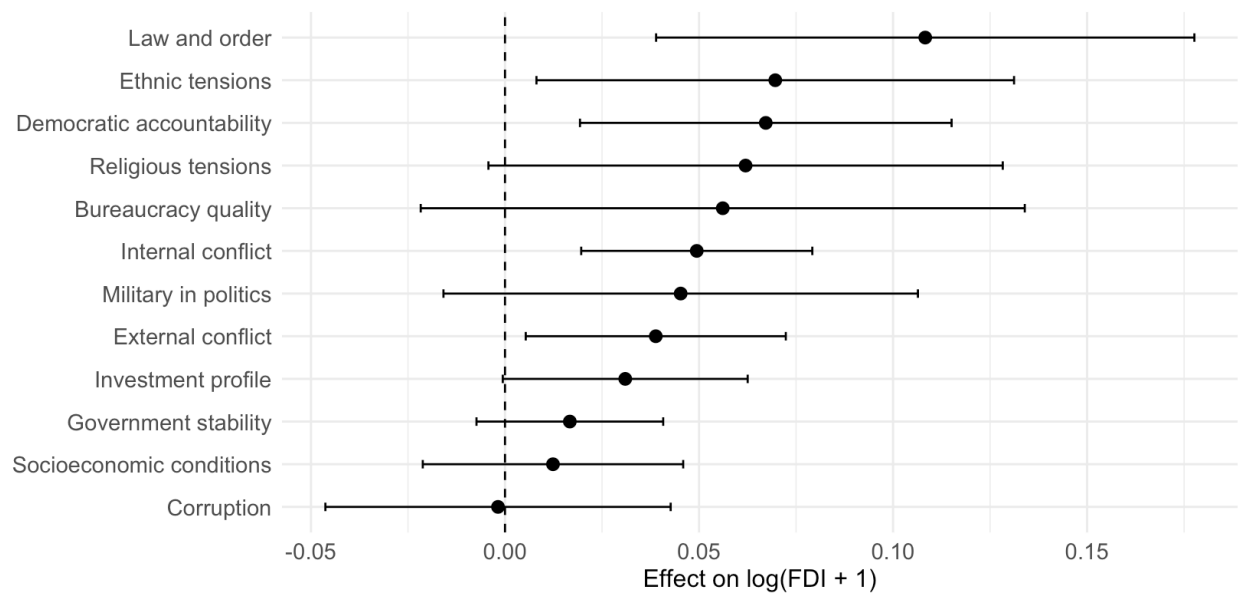


Figure 3 presents the estimated coefficients and corresponding confidence intervals for each political risk indicator. The vertical dashed line represents a coefficient of zero, which corresponds to no association with FDI inflows. Coefficients to the right of this line indicate positive associations, while those closer to zero indicate weaker associations. Confidence intervals that cross this line indicate a lack of statistical significance.

Interaction Results

Table 5 reports regime-specific marginal effects of each political risk indicator on FDI inflows, along with Wald tests assessing whether these effects differ across regime types. The final column reports the p-value for these tests.

Table 5. Regime-Specific Effects of Political Risk Indicators on FDI Inflows

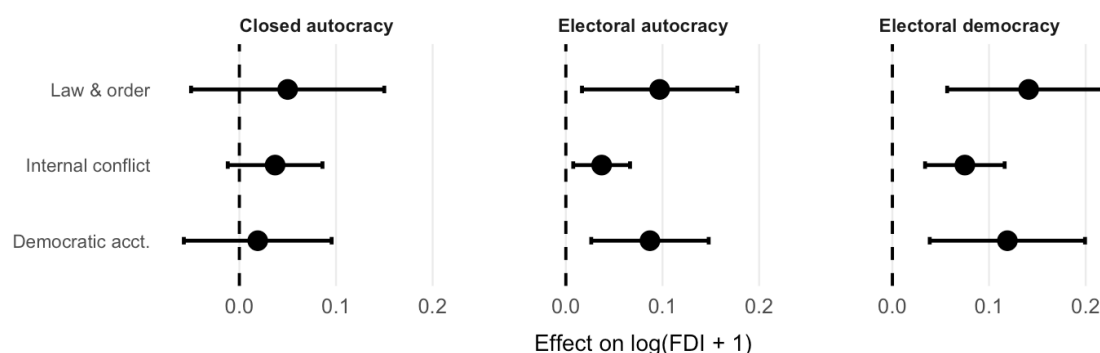
ICRG Indicator	Coefficient				Wald p-value
	Closed Autocracy	Electoral Autocracy	Electoral Democracy	Liberal Democracy	
Law and order	0.050 (0.051)	0.097* (0.041)	0.141*** (0.043)	0.146 (0.086)	0.365
Ethnic tensions	0.078 (0.047)	0.054 (0.036)	0.142 (0.051)	0.026 (0.086)	0.222
Democratic accountability	0.019 (0.039)	0.087** (0.031)	0.119** (0.041)	−0.027 (0.112)	0.220
Religious tensions	0.078 (0.042)	0.090** (0.031)	0.114* (0.057)	−0.150 (0.131)	0.339
Bureaucratic quality	−0.021 (0.053)	0.072 (0.045)	0.001 (0.068)	0.358 (0.250)	0.152
Internal conflict	0.037 (0.025)	0.037* (0.015)	0.075*** (0.021)	0.075 (0.043)	0.357
Military in politics	−0.059 (0.047)	0.049 (0.031)	0.117* (0.055)	0.018 (0.057)	0.334
External conflict	0.039 (0.037)	0.027 (0.017)	0.057 (0.040)	0.054 (0.048)	0.832
Investment profile	0.042 (0.030)	0.044* (0.022)	0.062 (0.032)	−0.021 (0.024)	0.0764
Government stability	0.028 (0.024)	0.014 (0.016)	0.022 (0.020)	0.006 (0.021)	0.882

Socioeconomic conditions	−0.018 (0.034)	0.037 (0.023)	−0.002 (0.035)	0.011 (0.031)	0.334
Corruption	−0.024 (0.049)	0.019 (0.039)	−0.051 (0.051)	0.045 (0.051)	0.563

Note: Entries are regime-specific marginal effects for $\log(\text{FDI inflows} + 1)$, with standard errors in parentheses. Estimates are from interaction models. Standard errors are clustered at the country level. All models include country and year fixed effects. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

While the baseline results suggest that indicators related to institutional quality and conflict exhibit stronger and more consistent associations with FDI inflows, Table 5 shows that these relationships are concentrated in electoral regimes and are largely absent in closed autocracies. Law and order, for example, exhibits a strong positive relationship with FDI inflows in electoral democracies ($\beta = 0.141, p < 0.01$) and electoral autocracies ($\beta = 0.097, p < 0.05$). By contrast, it shows a weaker and statistically insignificant relationship with FDI inflows in closed autocracies ($\beta = 0.050, p > 0.05$). A similar pattern is observed for internal conflict. Although the relationship is strong in electoral democracies ($\beta = 0.075, p < 0.01$) and more moderate in electoral autocracies ($\beta = 0.037, p < 0.05$), it is statistically insignificant in closed autocracies ($\beta = 0.037, p > 0.05$). This pattern, which also appears in democratic accountability, is illustrated in Figure 4.

Figure 4. Regime-Specific Effects of Selected Political Risk Indicators on FDI



While this suggests that the association between political risk indicators and FDI inflows differs across regimes, the Wald tests reveal that these differences are not statistically distinguishable at conventional levels. Of the twelve ICRG indicators, none rejects the null hypothesis of equal effects across regimes. Even the lowest Wald test p-value, for investment profile ($p = 0.076$), remains above the conventional threshold for statistical significance. As noted in the methodology, this may reflect the limited statistical power of the interaction model rather than a genuine absence of cross-regime differences.

Split-Sample Results by Regime

To assess whether this explanation holds true, separate fixed-effects models are estimated for each regime type. The results are presented in Table 6.

Table 6. Within-Regime Fixed-Effects Estimates

ICRG Indicator	Coefficient			
	Closed Autocracy	Electoral Autocracy	Electoral Democracy	Liberal Democracy
Law and order	0.036 (0.053)	0.108 (0.044)	0.156 (0.052)	0.009 (0.065)
Ethnic tensions	0.096 (0.070)	0.030 (0.043)	0.087 (0.063)	0.076 (0.068)
Democratic accountability	0.030 (0.067)	0.079 (0.035)	0.073 (0.042)	-0.090 (0.087)
Religious tensions	0.094 (0.052)	0.050 (0.033)	0.118 (0.084)	-0.135 (0.112)
Bureaucratic quality	-0.096 (0.093)	0.116 (0.054)	0.085 (0.084)	0.038 (0.137)
Internal conflict	0.063 (0.031)	0.034 (0.019)	0.036 (0.021)	0.037 (0.046)

Military in politics	−0.091 (0.073)	0.043 (0.034)	0.084 (0.054)	−0.047 (0.053)
External conflict	0.063 (0.040)	0.030 (0.020)	0.003 (0.034)	0.062 (0.042)
Investment profile	0.069 (0.029)	0.052 (0.022)	0.100 (0.032)	−0.087 (0.029)
Government stability	0.094 (0.036)	0.034 (0.017)	0.011 (0.020)	−0.073 (0.029)
Socioeconomic conditions	−0.018 (0.043)	0.045 (0.028)	0.053 (0.031)	−0.028 (0.038)
Corruption	−0.048 (0.077)	0.044 (0.042)	0.012 (0.049)	−0.035 (0.048)

Note: Entries are fixed-effects regression coefficients for $\log(\text{FDI inflows} + 1)$, with standard errors in parentheses. Standard errors are clustered at the country level. All models include country and year fixed effects. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

These regime-specific estimates are largely consistent with the results from the interaction model. Several ICRG indicators once again exhibit more positive associations with FDI inflows in electoral regimes than in closed autocracies. This includes law and order, democratic accountability, bureaucratic quality, socioeconomic conditions, corruption, and military in politics. Internal conflict, external conflict, and government stability exhibit a different pattern, with larger associations in closed autocracies than in electoral regimes. These results provide suggestive evidence that the insignificant Wald tests may be driven, at least in part, by limited statistical power. Across multiple specifications, the estimated effects of political risk are consistently stronger and more positive in electoral regimes than in closed autocracies. Although these differences are not statistically distinguishable in the interaction models, their persistence across alternative specifications indicates that meaningful cross-regime variation is likely present.

Aggregate Effects of Political Risk Families

Rather than focusing on individual risk indicators, this section examines the importance of broader categories of political risk across regimes. As noted in the methodology, the twelve ICRG indicators are grouped into four families – elite stability, institutional quality, conflict instability, and economic risk – and the average magnitude of their effects is calculated within each regime type. These results are reported in Table 7.

Table 7. Average Effects of Political Risk Families by Regime

Risk Family	Regime Type			
	Closed Autocracy	Electoral Autocracy	Electoral Democracy	Liberal Democracy
Elite stability	0.0579	0.0520	0.0971	0.0763
Conflict instability	0.0332	0.0749	0.0810	0.138
Institutional quality	0.0436	0.0320	0.0693	0.0122
Economic risk	0.0210	0.0277	0.0261	0.0280

Note: Entries are average absolute coefficients of ICRG indicators within each risk family, calculated separately for each regime.

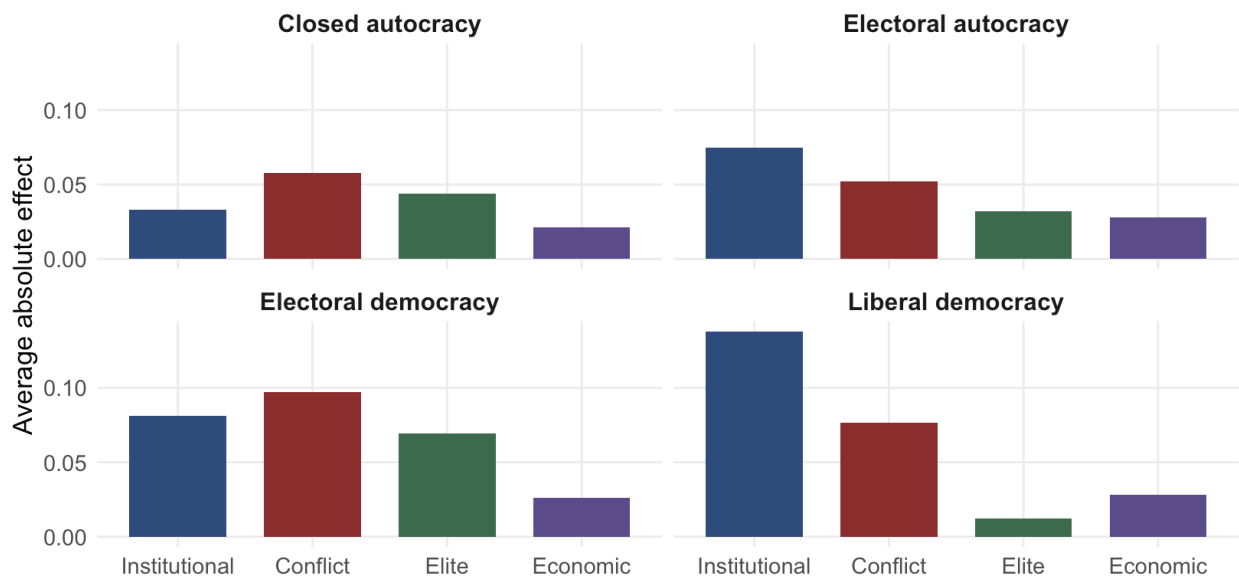
As shown in Table 7, the importance of different political risk families for FDI differs across regimes. In closed autocracies, conflict instability exhibits the largest positive association with FDI inflows (0.0579), followed by elite stability (0.0436). Institutional quality (0.0332) and economic risk (0.021) exhibit smaller, but still positive, associations. This pattern is consistent with the regime-specific results presented earlier, which show that several institutional indicators – including law and order, democratic accountability, and bureaucratic quality – have weaker relationships with FDI in closed autocracies. It also aligns with the finding that several conflict-

related indicators, including internal conflict, external conflict, and ethnic tensions, exhibit larger and more positive associations in closed autocracies.

In electoral autocracies, institutional quality (0.0749) exhibits the largest positive association with FDI inflows. Conflict instability (0.0520) follows, with a magnitude similar to that observed in closed autocracies. Elite stability (0.0320) and economic risk (0.0277) exhibit smaller, but still positive, associations. A similar pattern is observed in electoral democracies, where both institutional quality (0.081) and conflict instability (0.097) exhibit large associations with FDI inflows. Elite stability (0.0693) also exhibits a relatively large association, while economic risk (0.0261) exhibits a comparatively small association. These results are consistent with the regime-specific estimates presented earlier, which show that indicators related to institutional quality tend to exhibit larger and more positive associations with FDI inflows in electoral regimes than in closed autocracies.

This pattern becomes more pronounced in liberal democracies, where institutional quality (0.138) exhibits the largest positive association with FDI inflows. Conflict instability (0.076) also exhibits a relatively large association, while economic risk (0.028) and elite stability (0.012) exhibit smaller associations. These findings are illustrated in Figure 5, which compares the relative magnitude of each risk family across regimes.

Figure 5. Political Risk Family Associations with FDI Across Regimes



To evaluate whether these patterns persist across resampled data, bootstrap estimates are calculated for each risk family within each regime. The results, which are reported in the Appendix, broadly mirror the main findings. Institutional quality exhibits the largest association with FDI inflows in electoral autocracies and liberal democracies, while conflict instability exhibits the largest association in closed autocracies and electoral democracies. Because the confidence intervals for different risk families overlap substantially within each regime, these results are not statistically distinguishable. In closed autocracies, for example, the confidence intervals for all four risk families – conflict instability [0.018, 0.111], economic risk [0.009, 0.097], elite stability [0.018, 0.091], and institutional quality [0.021, 0.089] – overlap significantly. This means that, although each risk family’s point estimate differs, the uncertainty around them is large enough that their true associations with FDI could be similar. As a result, it is impossible to determine which is larger. Similar overlap across risk families is observed in

other regimes. This indicates that, despite differences in average magnitude, the associations of the risk families with FDI are not statistically distinguishable from one another across regimes.

Robustness Results

To assess the sensitivity of the baseline results to alternative model specifications, additional regressions are estimated with inflation and secondary school enrollment added as controls. The results are reported in Table 8.

Table 8. Sensitivity of Baseline Results to Additional Controls

ICRG Indicator	Baseline Effects (Full Sample)	Baseline Effects (Restricted Sample)
Law and order	0.108** (0.035)	0.021 (0.047)
Ethnic tensions	0.070 (0.031)	0.038 (0.073)
Democratic accountability	0.067** (0.024)	−0.081 (0.062)
Religious tensions	0.062 (0.034)	−0.178 (0.117)
Bureaucratic quality	0.056 (0.040)	−0.144 (0.133)
Internal conflict	0.049** (0.015)	0.008 (0.045)
Military in politics	0.045 (0.031)	0.061 (0.071)
External conflict	0.039* (0.017)	0.057 (0.038)
Investment profile	0.031 (0.016)	−0.041 (0.037)

Government stability	0.017 (0.012)	−0.091** (0.027)
Socioeconomic conditions	0.012 (0.017)	−0.043 (0.042)
Corruption	−0.002 (0.023)	−0.069 (0.041)

Note: Entries are fixed-effects regression coefficients for $\log(\text{FDI inflows} + 1)$, with standard errors in parentheses. Standard errors are clustered at the country level. The baseline specification includes GDP per capita, GDP growth, trade openness, mobile phone subscriptions, resource rents, and population as controls. The full controls specification additionally includes inflation and secondary school enrollment, resulting in a reduced estimation sample.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

The inclusion of these additional control variables leads to noticeable changes in the estimated coefficients. Several indicators that are statistically significant in the baseline specification decrease in magnitude and lose significance in the restricted sample. The effect of law and order, for example, declines from 0.108 ($p < 0.01$) in the baseline model to 0.021 ($p > 0.10$) when additional controls are included. Similarly, the effect of internal conflict decreases from 0.049 ($p < 0.01$) to 0.008 ($p > 0.10$). Other indicators change sign when additional controls are included. Religious tensions shift from a positive coefficient of 0.062 ($p > 0.10$) in the baseline model to a negative coefficient of −0.178 ($p > 0.10$) in the restricted sample. Similarly, bureaucratic quality shifts from a positive coefficient of 0.056 ($p > 0.10$) to a negative coefficient of −0.144 ($p > 0.10$). This pattern is also observed for democratic accountability, investment profile, government stability, and socioeconomic conditions.

These changes are driven by missing data for inflation and secondary school enrollment. Because these variables are not observed for 71 percent of country-years in the estimation sample, the regressions are re-estimated on a significantly smaller set of observations. This reduces precision and increases standard errors, making previously significant effects more

difficult to detect. As a result, the reductions in statistical significance likely reflect increased uncertainty in the estimates rather than substantive differences in the underlying relationships.

While this robustness check indicates that the baseline results are sensitive to changes in the sample composition, it does not address whether they are sensitive to the treatment of extreme values in the dependent variable. To evaluate this, the baseline model is re-estimated using the inverse hyperbolic sine (IHS) transformation of the dependent variable. Unlike the log transformation, which excludes observations with FDI less than or equal to -1 percent of GDP, the IHS transformation retains the full estimation sample. The results are reported in Table 9.

Table 9. Sensitivity of Baseline Results to Dependent Variable Transformation

ICRG Indicator	Baseline Effects (Log-Transformed FDI)	Baseline Effects (IHS-Transformed FDI)
Law and order	0.108** (0.035)	0.128** (0.042)
Ethnic tensions	0.070 (0.031)	0.082* (0.037)
Democratic accountability	0.067** (0.024)	0.086** (0.028)
Religious tensions	0.062 (0.034)	0.063 (0.039)
Bureaucratic quality	0.056 (0.040)	0.094* (0.047)
Internal conflict	0.049** (0.015)	0.056*** (0.017)
Military in politics	0.045 (0.031)	0.054 (0.034)
External conflict	0.039* (0.017)	0.041* (0.018)

Investment profile	0.031 (0.016)	0.043* (0.020)
Government stability	0.017 (0.012)	0.015 (0.014)
Socioeconomic conditions	0.012 (0.017)	0.017 (0.020)
Corruption	−0.002 (0.023)	−0.009 (0.027)

Note: Entries are fixed-effects regression coefficients, with standard errors in parentheses. Standard errors are clustered at the country level. All models include country and year fixed effects. The first specification uses the log transformation, while the second uses the inverse hyperbolic sine (IHS) transformation. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

These results are largely consistent with those of the baseline model. Coefficient signs remain stable across specifications, with indicators that are positive under the log transformation remaining positive under the IHS transformation. In most cases, estimated effects increase in magnitude. In law and order, for example, the coefficient increases from 0.108 ($p < 0.01$) to 0.128 ($p < 0.01$). Similarly, the coefficient on democratic accountability increases from 0.067 ($p > 0.10$) to 0.086 ($p < 0.10$). Some variables that were not statistically significant in the baseline model also become significant under the IHS specification. Bureaucratic quality, ethnic tensions, and investment profile become significant at the five percent level, while internal conflict becomes significant at the one percent level.

When considered alongside the previous robustness check, these findings indicate that the baseline results are robust to the transformation of the dependent variable, but sensitive to changes in the sample composition. As a result, the results should be interpreted with attention to sample coverage, particularly when data limitations restrict the set of observations used for estimation.

Discussion and Conclusion

This study sought to examine whether investor sensitivity to political risk varies across regimes. The expectation was that certain risk indicators would deter FDI more strongly in some regimes than in others. Although the results do not provide strong statistical support for this expectation, they do suggest that political risk indicators affect FDI differently across regimes. As proposed in the hypothesis, this is likely because regime type shapes how foreign investors interpret and evaluate political risk. A risk that is deemed manageable in one regime may be perceived as prohibitively costly in another, leading investors to respond differently to the same risk dimension across regimes.

This likely explains why institutional risks are more strongly associated with FDI in liberal democracies and electoral regimes than in closed autocracies. In institutionalized political systems, economic activity is governed by predictable, transparent, and rule-based – rather than discretionary – processes. Courts enforce contracts, regulatory agencies ensure compliance with rules, and formal legislative procedures prevent sudden changes to economic policy. Because these institutions directly shape economic outcomes, declines in institutional quality can lead to weaker contract enforcement, less consistent policy implementation, and unpredictable government behavior. From the perspective of foreign investors, these changes increase the risk of financial loss and reduce the predictability of returns, making them difficult to hedge and costly to bear. As a result, investors in institutionalized political systems may respond strongly to changes in institutional quality.

This may not occur in less institutionalized political systems, where economic activity is governed more by discretionary decision-making than by transparent, rule-based processes.

Because formal institutions play a more limited role in shaping economic outcomes, declines in institutional quality do not necessarily translate into meaningful changes in the investment environment. As a result, investors in less institutionalized political systems may be less responsive to changes in institutional quality. This interpretation is consistent with the empirical results, which show that ICRG indicators related to institutional risk are more strongly associated with FDI inflows in liberal democracies and electoral regimes than in closed autocracies. Although these results lack statistical significance, they support the hypothesis that regime type shapes how foreign investors interpret and respond to political risk.

The patterns observed for conflict-related risks further support this hypothesis. Across multiple specifications, conflict-related risks exhibit stronger associations with FDI inflows in liberal and electoral democracies than in both electoral and closed autocracies. This is likely because democratic regimes are limited in their ability to suppress or contain conflict. Because legal constraints and audience costs prevent democratic governments from forcefully shutting down protests, strikes, or other lawful forms of collective action, conflict is more likely to persist and spread. From the perspective of foreign investors, this can disrupt supply chains, interrupt business operations, and increase the risk of asset damage, reducing the predictability of the investment environment. As a result, investors in liberal and electoral democracies are often responsive to increases in conflict-related risk indicators.

This dynamic is less pronounced in authoritarian regimes, where governments face fewer constraints in suppressing or containing conflict. Due to their greater repressive capacities, governments can more easily shut down mass mobilizations by deploying security forces and arresting protesters. This makes conflicts shorter-lived, limiting their impact on economic

activity. For this reason, investors in electoral and closed autocracies tend to be less responsive to increases in conflict-related risk indicators.

In conclusion, the results of this study support the hypothesis that regime type shapes how foreign investors interpret and evaluate political risk. Although they do not provide conclusive statistical evidence that regime type moderates the relationship between political risk and foreign investment, they do suggest that political risk indicators affect FDI differently across regimes. This constitutes an important contribution to the literature, as it challenges the conventional wisdom that political risk affects FDI uniformly across regimes.

Future research could build on this study in several ways. First, research could examine whether the patterns observed in this study hold across other forms of international investment, such as foreign portfolio investment (FPI), which may respond differently to political risk across regimes. Second, studies could examine whether investor sensitivity to political risk varies across sectors, as industries may differ in their exposure to different dimensions of political risk. Finally, future research could incorporate qualitative data – such as investor interviews or case studies – to better understand how investor risk perceptions are formed, interpreted, and adapted in real time across regimes.

Appendix

Bootstrap Confidence Intervals for Risk Family Effects by Regime

Regime Type	Risk Family	Mean	SE	95% CI
Closed Autocracy	Conflict Instability	0.058	0.025	[0.018, 0.111]
	Economic Risk	0.042	0.024	[0.009, 0.097]
	Elite Stability	0.050	0.018	[0.018, 0.091]
	Institutional Quality	0.047	0.017	[0.021, 0.089]
Electoral Autocracy	Conflict Instability	0.050	0.018	[0.022, 0.092]
	Economic Risk	0.036	0.018	[0.006, 0.071]
	Elite Stability	0.032	0.015	[0.007, 0.062]
	Institutional Quality	0.074	0.026	[0.026, 0.126]
Electoral Democracy	Conflict Instability	0.089	0.031	[0.029, 0.153]
	Economic Risk	0.044	0.024	[0.008, 0.098]
	Elite Stability	0.066	0.028	[0.017, 0.123]
	Institutional Quality	0.093	0.026	[0.040, 0.149]
Liberal Democracy	Conflict Instability	0.096	0.036	[0.041, 0.185]
	Economic Risk	0.040	0.021	[0.005, 0.081]
	Elite Stability	0.034	0.024	[0.004, 0.093]
	Institutional Quality	0.145	0.078	[0.045, 0.338]

Note: Entries are bootstrap estimates of average absolute coefficients of ICRG indicators within each risk family and regime. Standard errors and 95 percent confidence intervals are computed using a country-clustered bootstrap.

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