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POLITICAL RISK FACTORS AS DETERMINANTS OF FDI IN DEVELOPING COUNTRIES: THE CASE OF IRAQ

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ABSTRACT

Foreign direct investment (FDI) has been identified as a key driver of economic growth and poverty alleviation, especially in developing countries. The increase in political risks, on the other hand, is a major reason for the fall in foreign investment in developing countries. Political risks are seen as the most significant risk to foreign direct investment in developing countries. The precise impact of political risk on FDI is not obvious from available literature; Current literature is fragmented and unmapped. Most previous research regards political risk variables as part of country risks; nevertheless, the focusing on specific political risk components is quite limited.
Further, political risks as determinants of FDI explaining performance results at the firm level may differ in the same environment. Thus, more research is needed on political risk variables as drivers of FDI decisions at the firm level, particularly in developing nations. This article proposes eight political risk indicators as predictors of FDI in Iraq to fill this research gap. Investigating such FDI factors can assist in giving light to how some developing countries, such as Iraq, can attract more foreign investments.

1. Introduction

Foreign direct investments (FDI) have been identified as a significant driver of economic growth and poverty reduction, particularly in developing countries (Xia and Song, 2017). Foreign direct investment (FDI) can provide developing economies with a critical supply of money for growth (Anarfo, Agoba, Sare, & Gameti, 2021). FDI can also give substantial benefits to developing economies, such as the transfer of new technology and know-how, access to international markets, and the stimulation of competition (Golubeva, 2020). Foreign investments, however, have persistently fallen significantly short of demand in developing countries since the early 1980s (Kumari and Kumar Sharma, 2017), blaming poor governance, insufficient skill supply, budget constraints, and a lack of long-term plans (Mazher et al., 2018). According to the World Economic Forum (2017), foreign investments in privatization in developing nations accounted for 76 percent of total revenues at the beginning of the twenty-first century, with FDI accounting for 80 percent. However, by the end of 2017, foreign participation had fallen to 7% of FDI in developing countries (World Economic Forum, 2017). In general, worldwide foreign direct investment has declined in recent years. According to the World Bank Indicators (2019), the percentage of FDI inflows has fallen from 5.36 percent in 2007 to 1.57 percent in 2018. Global FDI flows have fallen dramatically for the third year in a row, from 2016 to 2018. (Singh & Cheshta Kapuria, 2021). The rise in political risks is a major reason for the decline in foreign investment in developing countries (Jiang, Martek, Hosseini & Chen, 2021). In developing countries, political risks are seen as the greatest significant risk to foreign direct investment (Jiang et al., 2019). As governments in developing countries aim to attract foreign investment, it is critical to provide practical strategies and regulations for managing political risks (Jiang, Martek, Hosseini & Chen, 2021). According to a literature review, while scholars have extensively researched the drivers of FDIs, a suitable model specification for explaining patterns in FDIs appears to be far from being created (Golubeva, 2020). Indeed, scholars have disputed which factors are most important in attracting FDI.

Furthermore, even though several studies in the literature highlight political risk variables as predictors of FDI, current research into political risk factors of FDI remains fragmented and unmapped (Jiang et al., 2021). Most previous studies have considered political risk components as part of country risks (e.g., Yin, De Propris, and Jabbour, 2021; Golubeva, 2020; Shadmehri, 2019; Balan, 2019) context-focused on political risk variables is very limited. As a result, there is a misunderstanding of the impact of political risk factors on FDI (Jiang, Martek, Hosseini & Chen, 2021). Scholars identified a significant gap in the current literature in describing political risk variables as determinants of FDI and how they affect FDI patterns (e,g., Yin, De Propris and Jabbour, 2021; Balan, 2019). Current studies either focus on a single type or a subset of specific types of political risk, failing to consider the entire collection of political risk factors (Jiang & Martek, 2021). This is significant because FDI does not respond similarly to political risks; hence, analyzing various political risks is necessary to demonstrate their effects on FDI, which is missing from the level of the research reported in current studies (Jiang & Martek, 2021). As a result, the literature is divided on the precise impact of political risk on FDI (Jiang et al., 2019). According to Jiang and Martek (2021), the influence divergence of certain political risk factors

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on FDI has yet to be examined. As a result, the current literature requires more new studies that take a complete look at important political risk variables on FDI because the impact of these factors is unknown (Jiang & Martek, 2021). The other issue in the current research is a paucity of studies on political risk variables in developing-country FDI (Jiang et al., 2021; Singh & Kapuria, 2021). This circumstance has resulted in a misunderstanding of the impact of political risk variables on FDI in developing countries, where political risks are assumed to be higher and vary by country (Jiang & Martek, 2021). In this aspect, focusing on examining political risk variables based on panel data from multiple nations, as is the case in the current literature, should be complemented to fit each country setting.

2. FDI in Iraq

According to the United Nations' World Investment Report, 2020, FDI inflows into Iraq totaled at USD (-3 076) billion in 2019, accounting for approximately 5.3 percent of the country's GDP. Since 2014, FDI has been negative (Table 1.1). Table 1.1 also demonstrates that FDI inflows were positive in most West Asian nations from 2014 to 2019, including Syria, Jordan, Lebanon, Turkey, and Iran. However, FDI inflows into Iraq and Yemen were negative between 2014 and 2019. Compared to Syria, which is similar to Iraq in terms of internal turmoil, FDI inflows into Syria were positive between 2014 and 2019. In contrast, they were harmful in Iraq during the same period. Furthermore, compared to Iran, which is subject to an international economic blockade, FDI inflows into Iran were positive from 2014 to 2019. As a result, Table 1.1 reveals that Iraq has the lowest FDI inflow of any of its neighbors (UNCTAD, 2020). Furthermore, Alyousfi (2021) said that FDI inflows into Iraq were negative, accounting for (-0.05) of global FDI inflows.

Table 1: FDI inflow by region 2014-2019

Region	2014	2015	2016	2017	2018	2019
Iraq	-10 176	-7 574	-6 256	-5 032	-4 885	-3 076
Syria	1 244	3 789	5 365	7 078	9 939	10 743
Jordan	2 178	1 600	1 553	2 030	955	916
Lebanon	2 863	2 159	2 568	2 522	2 654	2 128
Yemen	-233	-15	-561	-270	-282	-371
Turkey	12 969	18 976	13 745	11 020	12 981	8 434
Iran	2 105	2 050	3 372	5 019	2 373	1 508

Source: NCTAD, 2021 FDI/MNE database (www.unctad.org/fdistatistics).

The critical question is what is causing such poor FDI inflow indicators in Iraq. Many factors have been highlighted as explanations for Iraq's low FDI attractiveness to investors, including significant volatility, unpredictable economic, political, and security conditions, and a lack of financial literacy. According to international assessments, the downturn was caused by global economic uncertainties and weak economic growth in Iraq. Unlike other major West Asian economies that are wealthy in natural resources, Iraq's economy is more vulnerable to global political trends in its relationship with Iran, which hindered FDI flows between 2014 and 2019. (UNCTAD, 2020). Furthermore, according to international assessments, Iraq has had difficulty attracting direct investments due to significant political and security issues, weak institutions, and a lack of governance (UNCTAD, 2020, UNCTAD, 2018; The world bank, 2016). In this context, past studies have acknowledged and offered persuasive reasons that political risk concerns are a key reasons for low indicators of FDI inflows into Iraq (King, Loncan & Khan, 2021; Abdelkader, Saliha & Mirani, 2020; Mahbub & Jongwanich, 2019; Jiang et al., 2019).

International reports have supported these arguments. For example, have a look at the Amfori BSCI organization's risk classification report for each country. According to the report, Iraq's overall risk in 2018 was 8.6, indicating that its political risk is high compared to its neighbors. The research states that the most significant risk points indicate the lowest risk, while the lowest number indicates the most heightened. Some political risk indicators in Iraq (e.g., voice and accountability, political stability & absence of violence, government effectiveness, regulatory quality, the rule of law, and corruption control) have been red in this report. It indicated that these indicators reflect very high risks, with 21.2, 1.4, 9.1, 9.1, 3.4, and 7.2, respectively. All of the examined political risk indicators were less than 49.9 points, reflecting a high political risk environment. Except for the hands of regulatory quality and voice and accountability, which were lower (riskier) in Iran, Iraq's five political risk indicators were lower than all of its neighbors, including Iran, Jordan, Lebanon, and Kuwait (Amfori BSCI, 2020). Based on these discussions, this article makes three contributions to the literature. First, it discusses the relationship between political risk factors as FDI. Second, it provides a comprehensive framework and suggests propositions on the relationship between a broader set of different political risk factors as determinants of FDI, which has little attention in the current literature. Third, it discusses the determinants of FDI, considering their impact on firms' levels. This article provides some insights into such relationships.

3. Risk Vulnerability Theory

According to risk vulnerability theory, vulnerability is a physical system characteristic that permits it to be exploited by a threat while independent of any specific risk (Jiang, Martek, Hosseini and Chen, 2021). In other words, vulnerability is a virtually inseparable property of a system (or community) and is determined by the interaction between the system's features and the attributes of the environment stimulus (Smit & Wandel, 2006). As a result, political risk in the international context is defined as the intersection of political threat and vulnerability (Jiang & Martek, 2021). The phrase characteristics refer to more extensive social, economic, cultural, political, and environmental variables, which are

frequently referred to as "drivers," "sources," or "determinants" of vulnerability (Smit & Wandel, 2006). Political risks to FDI can also arise from government weakness, institutional characteristics, social and economic situations, and social threats (Jiang, Martek, Hosseini and Chen, 2021). Vulnerability in foreign investment projects tends to arise inherently from factors related to project and firm characteristics, namely, project vulnerability (high capital cost, long period of operation, and firm ownership) and company vulnerability (size, capital structure, location, and relationship with government) (Jiang, Martek, Hosseini and Chen, 2021). Based on risk vulnerability theory, Jiang and Martek (2021) investigated the effects of specific political risk factors (i.e., government stability, internal conflict, corruption, religious tension, law and order, ethnic tensions, democratic accountability, bureaucracy quality) on foreign direct investment in developing countries' energy sectors.

The findings show that the risk of investment profile, law and order, religious tensions, and corruption contribute to the high political risk for foreign investment in the energy industry. These findings, however, differ among countries based on gross domestic product, economic freedom, and energy demand within host countries. Jiang, Martek, Hosseini, and Chen (2021) conduct a study of the literature to investigate the project system vulnerability to political risks on international projects. They also discovered that risk vulnerability theory could help in the formation of political risk in international investments. It has been argued that research on FDI political risk situates adjustments and adaptations within the framework of social, economic, and political risks (Smit & Wandel, 2006). Thus, political risk variables reflect "drivers," "sources," or "determinants" of the susceptibility of FDI (Jiang, Martek, Hosseini and Chen, 2021; Jiang & Martek, 2021).

4. Past Studies on Political Risk Factors and FDI

This section primarily focuses on reviewing and discussing relevant material to address political risk issues as determinants of FDI. According to the literature, increased political risk factors might prevent FDI inflows, whilst lower political risk variables can majorly attract FDI (Jiang, Martek, Hosseini and Chen; 2021; Yan, 2020). Furthermore, distinguishing between political risk variables as FDI drivers might aid in determining their relative importance in attracting or discouraging FDI. Compared to other economic variables, the study of political risk factors that affect FDI inflows appears novel in the current research. The majority of research in the existing literature has concentrated on economic and financial risk factors; however, the context of political risk factors is quite restricted. Scholars have primarily focused on nation risk at the macroeconomic level, with little emphasis on political risk as a unique setting, particularly at the business level. There has been a significant shift in the focus on the determinants of FDI at the company level. For example, King, Loncan, and Khan (2021) investigated the impact of capital structure as a driver on firms' leverage and FDI capital expenditure decisions in countries with varying degrees of political risk. They discovered that political risk determines the financial commitment of FDI based on a novel dataset that matches 10,000 unique outward foreign direct investment (OFDI) proposals with 1135 individual U.S. enterprises from 2003 to 2014. They highlighted that corporations commit less capital to investments in countries with higher political risk; also, leverage has a stronger negative impact on capital expenditures in countries with higher political risk. Similarly, Mahbub and Jongwanich (2019) investigated the decision-making processes of enterprises executing foreign direct investment (FDI) in Bangladesh's electricity sector. They discovered that economic and financial risks and political risks are the most influential for corporations when it comes to FDI in the electricity sector.

In a study by Jiang et al. (2019), they examined the effect of political risk on FDI in infrastructure. The results showed that in about half of the countries, FDI in infrastructure is sensitive to political risk; political risk plays a more vital role in deterring FDI. Salehnia, Alavijeh & Shadmehri (2019) examined the impact of economic, financial and political risks on foreign direct investment in 10 selected countries of the MENA region for the 2000-2017 period. They found adverse and significant effects of all three economic, financial and political risk factors on foreign direct investment. Balan (2019) analysed the annual dataset from the period 1984 to 2014 in MENAT countries. They found that a favourable investment profile, profits repatriation and payment delays, lower religious tensions and lower risk points of current account are associated with higher volumes of FDI flows into the MENAT countries. Bildiosta and Darmawan (2018) found that political risk influenced FDI intake flow; while, the influence between other risks (economic and financial risks) had different result variances in different countries. The study also found that each country's risk dimension had different results on FDI intake flow in China, Thailand, Russia and Indonesia. Huyen (2015) found that political and governance factors affect the investment decisions of FDI enterprises in Vietnam.

5. Theoretical Development and Propositions

The disaggregate index of the International Country Risk Guide (ICRG) components includes 12 political risk indicators that can act as potential barriers to inflow investment (Jiang & Martek, 2021). These disaggregated ICRG indexes can be used to monitor the effectiveness of risk on FDI inflow (Bildiosta and Darmawan, 2018). In the current literature, although there is agreement about the importance of political risk factors as determinants to FDI, and there have been many efforts to identify those determinants, there is no agreement about what constitutes these political risk factors. In this study, eight political risk factors have been identified as potential determinants to inflow foreign investment, namely: government stability, Internal conflict, Corruption, Religious tension, Law and order, Ethnic tensions, democratic accountability, bureaucracy quality. These eight determinants were chosen because they were reliable in past studies and considered as drivers of FDI. In the following, this article discusses such political risk factors. Government stability is "an assessment

both of the government's ability to carry out its declared program(s), and its ability to stay in office" (Balan, 2019, p. 127). Government stability can assist the government in creating an attractive political environment for foreign investors, design favourable investment policies to protect private capital, and support effective judicial systems to maintain confidence in the private sector (Jiang, Martek, Hosseini and Chen, 2021). Government stability is also crucial because FDI does not respond uniformly to government stability (Jiang & Martek, 2021). Investments with long payback periods will be more sensitive to currency stability in the host country; similarly, joint venture projects with the government will be more susceptible to political stability; hence, government stability will affect FDI differently than joint venture FDI (Yan, 2020). Singh and Kapuria (2021) discovered that political stability has a positive impact on long-term FDI. According to the findings of Jiang et al. (2019), government stability has a considerable effect on FDI and FDI in infrastructure in developing nations. According to Li, Murshed, and Tann (2017), government stability is a crucial factor influencing FDI flows to build nations. Erkekoglu and Kilicarslan (2016) discovered that political stability increases foreign investment. Huyen (2015) found that government considerations influence the investment decisions of FDI businesses in Vietnam's Thanh Hoa province.

Internal conflicts is "a measure of political violence within the country and its actual or potential impact on governance by focusing on, for instance, civil war, terrorism, political violence or civil disorder" (Al-Khouri, 2015, p. 165). Internal conflicts are defined as "civil war/coup threats, terrorism/political violence, and civil disorder, as well as its actual or potential impact on government" (Jiang et al., 2019). Li, Murshed, and Tann (2017) argued in their study on the impact of civil war on foreign direct investment flows to developing countries that internal conflicts such as civil war can deter inward inflows from abroad. However, such risks are reduced in the case of democratic systems; whereas, in civil war, the risk for foreign investment increases because the investment returns are not met due to the conflict. According to the findings of Jiang et al. (2019), internal conflict has a considerable impact on FDI and FDI in infrastructure in emerging nations. According to Li, Murshed, and Tann (2017), civil conflict significantly affects FDI flows to developing countries, potentially leading to reversals of previous FDI. According to Al-Khouri (2015), internal strife has a significant and negative impact on FDI. Corruption is "an assessment of corruption within the political system, which distorts the economic and financial environment; it reduces the efficiency of government and business by enabling people to assume positions of power through patronage rather than ability; introduces an inherent instability into the political process" (ICRG, 2021, p. 4). Corruption can manifest itself in a variety of ways, including "excessive patronage," "nepotism," "job reservations," "favour-for-favours," "hidden party funding," and "suspiciously strong relationships between politics and business" (ICRG, 2021, p.5). Such sorts of Corruption pose a greater danger to foreign enterprises. They can cause foreign firms to leave the country, resulting in a loss of control over its economic framework and creating a black market (Singh & Kapuria. 2021). In many cases, when Corruption increases, the potential for widespread backlash increases, resulting in the overthrow of the government or, in some cases, a breakdown in law and order, rendering the country ungoverned (Bildiosta and Darmawan, 2018). Such a situation will lead to instability and discourage FDI inflows (Goswami & Haider, 2014). According to the findings of Jiang and Martek (2021), Corruption has a detrimental impact on FDI in energy. Singh and Kapuria (2021) discovered that corruption control has a positive impact on long-term FDI. According to Li, Murshed, and Tann (2017), corruption control is a crucial factor influencing FDI flows to develop nations. Similarly, Kurul and Yalta (2017) discovered that corruption control had a favourable and significant impact on FDI inflows. Besides, Jiang et al. (2019) found that Corruption had a substantial negative effect on FDI and FDI in infrastructure in developing countries.

Religious tension is "measures religious tensions, stemming from the domination of society and governance by a single religious group seeking, for instance, to replace civil with religious law or to exclude other religions from the political and social process" (Al-Khouri, 2015, p. 165). The risks associated with religious conflicts range from appointing inexperienced persons, resulting in improper policies, which may lead to civil discontent or civil war, deterring foreign investment (Goswami and Haider, 2014). According to Al-Khouri (2015), religious tension has a negative and considerable impact on FDI. His findings imply that countries with lower ethnic tensions are more able to attract FDI. Still, nations with higher religious tensions within the MENA region are less able to attract FDI. Huyen (2015) discovered that social and cultural elements (e.g., religion) have little influence on FDI inflows to Thanh Hoa. Law and order is "an evaluation of the strength and impartiality of the legal system and popular observance of the law" (Jiang et al., 2019, p. 2015). When a host country lacks a stable and strong law and order framework and good relationships with foreign investors to ensure that the government is committed to mitigating the impact of law and order risk on their investments, FDI suffers (Jiang and Martek, 2021). Building a solid law and order with economic freedom can thus be a big motivator for FDI (Bildiosta and Darmawan, 2018) by attracting additional FDI to the country and motivating joint venture ventures amongst foreign investors, and vice versa. FDI will go if there is a lack of law and order (Abdelkader, Saliha & Mirani, 2020). According to the findings of Jiang and Martek (2021), the most significant risk factor for preventing FDI in energy in emerging nations is law and order. Ali et al. (2020) discovered that law and order significantly impact FDI in point. According to Li, Murshed, and Tann (2017), law and order influence FDI flows to developing nations. Bondarev and Weigt (2018) discovered that law and order are essential predictors of FDI in emerging countries. According to Al-Khouri (2015), law and order have a considerable impact on FDI. At the same time, Kurul and Yalta (2017) discovered that the rule of law has no substantial effect on FDI inflows.

Ethnic tensions are "an assessment of the degree of tension within a country attributable to racial, nationality, or language divisions" (Al-Khouri, 2015, p. 165). Countries with significant racial and ethnic tensions are at risk because opposing

factions are intolerant and unable to compromise; however, when ethnic tensions are low in a country, the scenario is favourable for foreign investment inflows (Goswami and Haider, 2014). Ethnic tensions may affect the relationship between the investment firm and the local community, which may have substantial ramifications for FDI and may operate to raise riskiness, causing investment levels to fall (King, Loncan and Khan, 2021). Jiang et al. (2019) observed that ethnic tension significantly contributes to FDI and FDI in infrastructure in developing countries, while Balan (2019) discovered that lower religious tensions are connected with higher amounts of FDI flows into MENAT nations. Al-Khouri (2015) found that ethnic tension has a significant impact on FDI. Democratic accountability is "the democratic accountability of the government, that is, the responsiveness of the government to its citizens but also fundamental civil liberties and political rights (Al-Khouri, 2015, p. 166). Accountability is critical in influencing investor decisions to conduct FDI since it represents the country's overall security conditions (Mahbub and Jongwanich, 2019). According to the findings of Jiang et al. (2019), democratic accountability contributes significantly to FDI and FDI in infrastructure in developing nations. Kurul and Yalta (2017) discovered that accountability has a favourable and significant impact on FDI inflows. Meanwhile, Jiang and Martek's (2021) findings indicate that democratic accountability has no substantial contribution to FDI in energy, showing no meaningful influence. According to Mahbub and Jongwanich (2019), accountability was an essential element influencing investor decisions to conduct FDI.

Bureaucracy Quality is "an assessment for the institutional strength and quality of the bureaucracy, which absorb and minimize revisions of the policy when governments change" (ICRG, 2021, p. 7; Al-Khouri, 2015, p. 166). The quality of bureaucracy measures the possibility of policy and government changes without harming foreign investments. This setup gives investors the impression that their assets are safe from political pressure, and the government has a change-management mechanism in place (Goswami and Haider, 2014). Internal conflicts and other dangers to FDI in developing nations can be mitigated by improving bureaucratic quality (Li, Murshed & Tann, 2017). According to Li, Murshed, and Tann (2017), bureaucratic quality is a crucial factor influencing FDI flows to develop nations. Jiang et al. (2019) find that bureaucracy quality considerably contributes to FDI and FDI in infrastructure in developing countries.

5.1. Conceptual Framework

Based on the literature review, the conceptual framework of this study is presented in Figure 2.1. This study proposes that political risk factors: (i) government stability; (ii) Internal conflict; (iii) Corruption; (iv) Religious tension; (v) Law and order; (vi) Ethnic tensions; (vii) democratic accountability; and (viii) bureaucracy quality directly affect FDI. This assumption concurs with past studies (e.g., Jiang & Martek, 2021; Abdelkader, Saliha & Mirani, 2020; Mahbub & Jongwanich, 2019; Kurul and Yalta, 2017; Goswami & Haider; 2014).

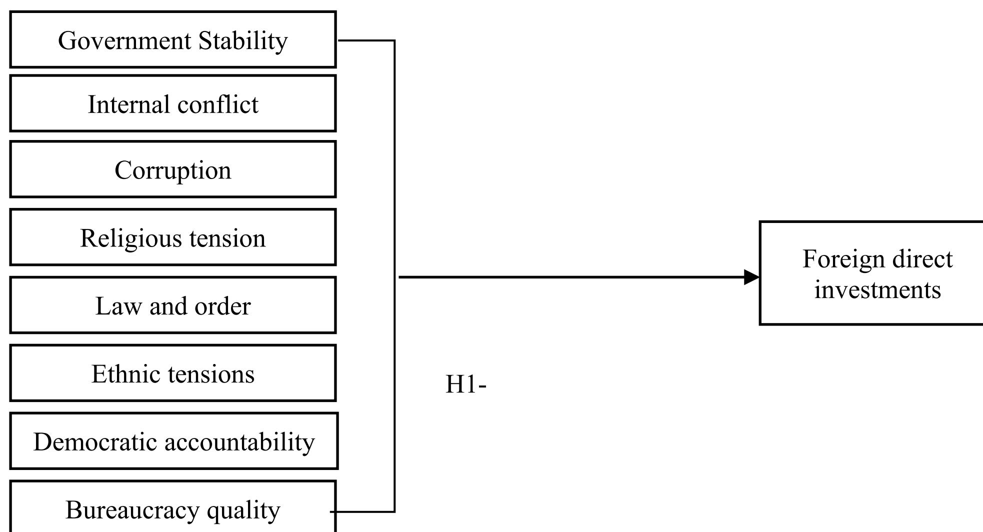

Figure 1. The Conceptual Framework

5.2 Propositions

Based on the arguments in section 5 and the conceptual framework section 5.1, this article proposes that:

Proposition 1: Government stability has positive significant impact on FDI.
Proposition 2: Internal conflict has negative significant impact on FDI.
Proposition 3: Corruption has negative significant impact on FDI.
Proposition 4: Religious tension has negative significant impact on FDI.
Proposition 5: Law and order has positive significant impact on FDI.
Proposition 6: Ethnic tension has negative significant impact on FDI.
Proposition 7: Democratic accountability has positive significant impact on FDI.
Proposition 8: Bureaucracy quality has positive significant impact on FDI.

6. Conclusions

Iraq has long term potential for foreign direct investments. Iraq has the fourth-largest proven oil reserves in the world and needs significant reconstruction efforts and infrastructure development. However, political reforms are still required to assuage Iraqi investors' concerns regarding the uncertain political and business climate (The world bank, 2016). International reports indicate that Iraq has had trouble attracting direct investments because of its substantial political and security problems, fragile institutions and lack of governance (UNCTAD, 2020, UNCTAD, 2018; The world bank, 2016). Literature has recognized and provided compelling arguments that political risk factors are fundamental determinants of FDI inflow in Iraq (King, Loncan & Khan, 2021; Abdelkader, Saliha & Mirani, 2020; Mahbub & Jongwanich, 2019; Jiang et al., 2019). In this regard, foreign direct investments (FDI) have been recognized as essential to economic growth and poverty reduction, especially for developing countries. However, a crucial reason for the drop in foreign investment in developing countries is increased political risks.

Political risks are considered the most significant risk for foreign direct investment in developing countries. A review of the literature suggests that, although there are abundant studies that have discussed the political risk factors as determinants of FDI, current research into political risk factors of FDI remains fragmented and unmapped. Scholars noticed a significant gap in the existing literature in explaining political risk factors as determinants of FDI and impacting FDI trends. In this regard, scholars failed to capture the multiple aspects of the full set of political risk and explore their effects on FDI in countries with different political risk levels, especially in developing countries, and more important, at the firm's level. Furthermore, there are still no studies describing how the various conditions help generate patterns of similar and dissimilar risk profiles, especially in developing countries. The literature review provided clear evidence that FDI is influenced by many risk factors such as economic factors, financial factors, and political factors. However, the impact divergence of specific political risk factors on FDI specifically has yet to be investigated. Most past studies consider political risk factors as part of country risks; instead, focusing on political risk factors context is somewhat limited. There is a lack of understanding of the impact of political risk factors on FDI (Jiang, Martek, Hosseini and Chen, 2021). Although, there is a growing literature that looks at the effect of country risk on international investment. However, the exact impact of political risk on FDI is unclear from existing literature (King, Loncan & Khan, 2021). This study aims to fill this research gap through study the direct relationship between an extended set of political factors and FDI in Iraq. In this study, eight political risk factors have been identified as potential determinants to inflow foreign investment, namely: government stability, Internal conflict, Corruption, Religious tension, Law and order, Ethnic tensions, democratic accountability, bureaucracy quality. These eight determinants were chosen because they were reliable in past studies and considered as drivers of FDI. Further, to provide a comprehensive framework of determinants of FDI in Iraq. Studying determinants of FDI will help shed light on why some countries can attract more foreign investment better.

7. Future Works

Although there are abundance studies in the literature that have discussed the determinants of FDI; however, there is a significant gap in the current literature in explaining political risk factors as determinants of FDI and how they impact FDI trends (Yin, De Propris and Jabbour, 2021; Balan; 2019). A growing literature looks at the effect of country risk on international investment. However, the exact impact of political risk on FDI is unclear from existing literature (King, Loncan & Khan, 2021). Current research into political risk factors of FDI remains fragmented and unmapped (Jiang, Martek, Hosseini and Chen, 2021). Most past studies consider political risk factors as part of country risks. Instead, focusing on political risk factors context is somewhat limited. There is a lack of understanding of the impact of political risk factors on FDI (Jiang, Martek, Hosseini and Chen, 2021). Thus, there is a need for future empirical research to validate the relationship between political risk factors and FDI. Future studies may conduct empirical research to validate the proposed framework suggested in this study. The proposed framework in this study provides a broader set of political risk factors that may significantly impact FDI. However, this framework needs empirical validation. In the same context, political risk factors as determinants of FDI explaining performance results at firms level (profit or loss-making) might differ from each other (Golubeva, 2020). Thus, political risk factors as drivers of FDI decisions at the firms-level need more research (King, Loncan & Khan, 2021). This is because the impact of political risk on investment is predicted to vary across firms (King, Loncan & Khan, 2021). Finally, reviewing the literature also reveals a lack of understanding of the impact of political risk factors on FDI, especially in developing countries. There is a lack of studies on political risk management in FDI in developing countries (Jiang, Martek, Hosseini and Chen, 2021; Singh & Kapuria, 2021), which need more research.

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