

Democracy and FDI in Developing Countries

A Critical Assessment and a Complementary Research Direction

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Abstract

The relationship between democracy and FDI inflows in developing countries has been extensively investigated in empirical research, yielding mixed and sometimes contradictory results. This paper aims to provide a systematic review and critical assessment of this literature. Two principal strands are identified: one links democratic institutions to increased FDI inflows via stronger property rights and policy credibility, while the other highlights the potential “costs” of democracy, including redistributive pressures, regulatory constraints, and policy uncertainty. These contradictions are attributed not only to theoretical differences but also to variations in empirical specification, measurement, and sample composition. Most existing studies employ regression analyses to estimate the average marginal effects of democratic levels. This research argues that the existing studies should be complemented by analyses of regime changes to observe how FDI responds to political transitions. This proposed research agenda should primarily employ counterfactual analysis to reveal how FDI might have evolved in the absence of regime change, thereby distinguishing short-term adjustment effects from longer-term investment dynamics.

Keywords: democracy, foreign direct investment, political risk, regime change, literature review

JEL Codes: F21, F23, D72, O43

Introduction

The relationship between democracy and foreign direct investment (FDI) has attracted extensive scholarly attention. Since the post-Cold War wave of democratization and global capital liberalization, scholars have increasingly examined whether democratic political institutions enhance or hinder a country's ability to attract foreign investment. Traditional FDI theories, such as Dunning's OLI paradigm (2001), focus on ownership, location, and internalization. However, recent research increasingly treats political institutions as a core part of the location-specific ("L" component) advantages.¹

The issue is particularly relevant in the developing world. Unlike advanced industrial economies, where institutions are stable, developing countries differ significantly in terms of regime type and democratic durability (Acemoglu and Robinson, 2012). Political risk, policy reversals, regime volatility, and institutional fragility are more pronounced in developing countries, and therefore the political determinants of FDI are more consequential (Busse and Hefeker, 2007; Jensen, 2003). At the same time, the motivations driving FDI in developed economies, such as technological advances, complex supply chains or financial markets, often differ from those shaping investment decisions in developing countries (Wisniewski and Pathan, 2014). For this reason, the present review exclusively focuses on FDI inflows into developing economies.²

Within the existing empirical literature, two conflicting strands emerge. The first contends that democracy increases FDI by enhancing policy credibility and reducing expropriation risk (e.g., Jensen, 2003). The second emphasizes negative or conditional effects, suggesting that democratic institutions may introduce government regulations, labor protections, or redistributive pressures that deter multinational enterprises (e.g., Li and Resnick, 2003).

Despite decades of empirical investigation, the debate remains unsettled. The dominant empirical strategy is cross-country and panel regression methods (fixed-effects, dynamic panel and gravity specifications) that estimate the association between democracy indices (e.g., Polity score or Freedom House indices) and FDI inflows. Most studies treat democracy as a continuous variable and ask whether more democratic countries attract more FDI than less democratic ones.³ The

¹ Note, however, that the literature on FDI covers a wide range of political, economic, and institutional determinants, while this article focuses exclusively on the role of democratic institutions. For a comprehensive overview of the broader literature, see Blonigen (2005).

² This focus on developing countries is substantiated by the findings of the literature arguing, for instance, that democracy's effect on FDI is positive in developing countries, while it is negative, although not significant, in developed ones (Bailey, 2018), or showing that in full democracies (e.g., OECD countries) FDI is influenced by "finer aspects of political systems" (Wisniewski and Pathan, 2014, p. 21).

³ Throughout this study, references to a democracy measure as a "continuous level variable" should be understood as an analytical approximation. The most commonly used indices, such as Polity or Freedom House scores, are in fact based on discrete integer values (e.g., Polity ranges from -10 to +10, with scores of 6-10 typically considered democratic). Regression analyses often treat these scores as approximately continuous to estimate average marginal effects, but the underlying mea-

literature has also provided a series of refinements due to the use of statistically more sophisticated econometric tools. However, the findings are still inconsistent. In addition, as argued by Choi (2008), these studies often encounter measurement issues and influential outliers. Endogeneity also presents a significant challenge (see Section 5.1). A major limitation of this body of research is not econometric sophistication, but rather the predominant focus on the level of democracy. Most analyses examine the impact of average marginal changes in democracy, frequently neglecting the effects of regime change.

To address this limitation, a complementary research agenda is proposed that explicitly examines how regime change affects FDI inflows. The Synthetic Control Method (SCM) (Abadie, 2021) and its generalized extensions (e.g., Xu, 2017) offer effective tools for identifying the causal impact of democratization on FDI inflows in developing countries. By constructing counterfactual trajectories for individual countries, this method supplements regression analyses and directly addresses causal questions that the existing literature only partially explores. Specifically, this research direction enables analysis of how foreign investment evolves before and after democratization or democratic backsliding, shifting the focus from static democracy levels to regime transformation. This aspect remains relatively understudied, as most literature has concentrated on whether more democratic countries attract more FDI on average, rather than on investor responses to discrete political transitions over time.

This article pursues two primary objectives. First, it provides a systematic and critical review of the empirical literature on democracy and FDI, focusing exclusively on developing countries.⁴ Rather than simply summarizing existing findings, the paper evaluates their empirical robustness and methodological limitations. Second, based on this critical assessment, it contends that using regression may yield diminishing exp. The central question – whether more democratic countries attract more FDI – has been repeatedly re-estimated using alternative specifications, yet core identification challenges remain unresolved. The persistence of mixed findings indicates that the research question may be incompletely specified. Instead of solely investigating whether higher levels of democracy are associated with greater FDI inflows, future research should also examine how investors re-

sure remain discrete.

⁴ This review is deliberately restricted to studies that examine the relationship between democracy and FDI directly or analyze institutional and political mechanisms explicitly linked to the democracy–FDI link. Accordingly, it does not attempt to cover the much broader literature on political determinants of FDI in general, such as studies focusing exclusively on corruption, political risk, governance quality, bureaucratic efficiency, or institutional quality independently of democratic institutions. Such factors are discussed only where they are theoretically or empirically integrated into the democracy–FDI relationship. Note also that the empirical debate regarding the democracy–FDI nexus reached its peak in the late 2000s and early 2010s. Since 2020, the number of high-quality studies specifically dedicated to analyzing the FDI–democracy relationship has become sparser. In addition, the literature is increasingly moving away from the question of whether democracy affects FDI, focusing instead on the specific, context-dependent mechanisms that operate between institutions or economic conditions and FDI (e.g., Holmes et al., 2025; Rommel et al., 2025). These mechanisms, however, fall outside the scope of the present review.

spond to discrete regime changes over time, as these dynamics may not be fully captured by marginal changes in democracy scores.

The remainder of the paper is structured as follows. Section 2 discusses the seminal contributions that shaped the debate between “credibility” and “democratic hindrance”. Section 3 examines subsequent refinements and conditional findings regarding the positive impact of democracy. Section 4 reviews studies reporting mixed or negative effects. Section 5 offers a structured critical assessment of the literature. Section 6 proposes a complementary research strategy focused on regime change, and Section 7 concludes.

1. Seminal contributions: credibility vs. democratic hindrance

The debate on the democracy–FDI link is largely structured around two foundational contributions, Jensen (2003) and Li and Resnick (2003), which established the core theoretical and empirical framework in the field for more than two decades. Both studies examine how democratic institutions influence foreign investment decisions, but they arrive at different conclusions regarding the mechanisms by which democracy affects investor actions. Jensen (2003) develops an argument centered on policy credibility, stressing how democratic institutions strengthen constraints on executive discretion and increase policy predictability, while Li and Resnick (2003) emphasize the potentially countervailing effects of democratic accountability, regulation, and redistributive pressures. These two studies together shaped the literature from a relatively simple question of whether democracy matters into a broader debate concerning the specific institutional channels through which democracy may either encourage or constrain FDI inflows.

Jensen (2003) provides the most influential argument that democracy enhances FDI by increasing policy credibility. He stresses the key role of two democratic constraints, namely veto players and audience costs, which reduce political risk for multinational investors. As he argues, risk can take various forms, such as nationalization, expropriation, or changes in tax rates. Veto players, such as the chambers in the legislature, a supreme court or federal actors, constitute checks and balances that limit the risk of expropriation of foreign investments (*ibid.*, p. 594). Furthermore, strong checks and balances contribute to political stability and the protection of property rights, too. Audience cost refers to the political consequences, such as losing public support, that democratic leaders face if they fail to keep their promises to foreign investors. This pressure increases the credibility of policy commitments in democracies by making policy reversals electorally costly.

In his empirical analysis, Jensen (2003) employs both cross-sectional and panel fixed effects regressions, and finds a large and statistically significant positive effect of democracy on FDI inflows. Democracies are estimated to attract as much as 70% more FDI than autocracies based on cross-sectional regression, and 73% more FDI based on fixed effects regression when controlling for other political and economic variables. These magnitudes suggest not simply a marginal association, but a substantively large democracy effect. However, Jensen (2003) acknowledges

that this strong effect may be driven in part by OECD countries, eliciting questions about generalizability to developing economies and foreshadowing later concerns about sample composition and external validity.

In contrast, Li and Resnick (2003) propose a more ambivalent theory in which democracy has both positive and negative effects on FDI. On the positive side, democratic institutions strengthen the protection of property rights: by restricting executive discretion and increasing transparency, democracy reduces the risk of expropriation and assures foreign investors. In this channel, democracy enhances FDI. On the other hand, democracies can discourage FDI inflows for various reasons. Democracies (1) tend to have, compared to autocracies, more stringent antitrust regulations that limit oligopolistic or monopolistic behavior of multinational enterprises (*ibid.*, p. 179-80); (2) are simply more likely to protect domestic businesses from foreign competition (*ibid.*, p. 179-80); (3) are more constrained in offering generous financial supports to foreign investors (*ibid.*, p. 184-85); (4) tend to face pressure to strengthen labor rights, which hurts the interests of foreign investors (*ibid.*, p. 183). These mechanisms constitute what the authors describe as the “democratic hindrance effect”.

Their empirical analysis shows that once property rights protection is included in the model, the coefficient on democracy becomes negative, a phenomenon they label a “reversal of fortune”. This result suggests that the positive impact of democracy operates mainly through property rights; conditional on these protections, the residual effect of democratic institutions may be negative. In other words, democracy appears to matter more indirectly than independently. The paper of Li and Resnick (2003) therefore challenges the straightforward credibility argument and puts forward a conditional interpretation of the role of democracy in attracting FDI. As a result, the two scholars shift the debate from a unidirectional effect to a focus on the mechanisms that channel these effects, which can lead to possible offsets.

To conclude, Jensen (2003) and Li and Resnick (2003) establish the core tension in the literature: whether democratic institutions primarily increase credibility and reduce risk, or whether they simultaneously introduce institutions and regulations that offset these benefits. Much of the subsequent empirical debate can be understood as an attempt to adjudicate between these rival mechanisms, often by revisiting measurement choices, sample composition and model specification, while rarely abandoning regression analysis, as the major identification strategy.

2. Refinements, replications, and the (conditional) positive effect of democracy

As mentioned above, the two seminal papers by Jensen (2003) and by Li and Resnick (2003) did not produce a consensus. Instead, they gave rise to an extensive refinement literature, demonstrating that the relationship between democracy and FDI is highly sensitive to measurement choices and econometric specifications. The literature that has accumulated around the two papers focuses more on how and under what conditions democracy matters rather than simply asking whether democracy matters. This elaboration literature can be organized into three main strands that further nuance the credibility versus hindrance dichotomy: (1) specification and measurement corrections; (2) institutional and credibility mechanisms; and (3) conditional and context-based effects. Table 1 in the Appendix summarizes the most influential studies.

2.1. Specification and measurement corrections

The first line of research revisits the empirical specification of the seminal papers. Ahlquist (2006), for example, distinguishes between different types of capital flows, and demonstrates that FDI, unlike portfolio investment, responds systematically to democratic political institutions. This distinction is theoretically important: FDI involves long-term, illiquid commitments and therefore is more sensitive to organizational credibility. At the same time, Ahlquist (2006) finds that the estimated magnitude of the effect of democracy is substantially smaller than in Jensen (2003), meaning that earlier estimates may have overstated the economic importance of the relationship even if the direction of the effect is still positive.

Building on concerns with specification, several studies directly revisit the measurement of FDI itself. For instance, Jakobsen and de Soysa (2006) and Choi (2009) directly challenge the negative findings of Li and Resnick (2003) by addressing potential measurement and specification problems. Both studies emphasize that the use of untransformed FDI inflows in current US dollars, without measuring FDI relative to countries' economic size or applying logarithmic transformation, may distort results and amplify the influence of large outliers. In this regard, Jakobsen and de Soysa (2006) demonstrate the fragile nature of the findings from the analysis of only 53 countries of Li and Resnick (2003). Nevertheless, when FDI is measured relative to GDP or expressed in logarithmic form, the coefficient on democracy becomes positive and statistically significant. In addition, as a specific finding, this study also shows that leftist governments among democracies in developing countries attract more FDI than their centrist or rightist counterparts, suggesting that partisan orientation may interact with regime type in shaping credibility perceptions.

Choi (2009) further demonstrates that the inclusion of influential cases, most notably China, largely affects coefficient estimates. Once these outliers are treated appropriately, the empirical support for a negative democracy effect weakens considerably, reinforcing concerns about the sensitivity of previous findings

to influential observations. Desbordes and Verardi (2017), sharing the concern raised by Li (2009), Choi (2009), and Jakobsen and de Soysa (2006) regarding outliers, apply a robust-to-outlier estimator to investigate the democracy–FDI link in developing countries. They find that the estimated effect of democracy on FDI, when using the robust-to-outlier approach, is only 25% of the magnitude obtained without such correction. Once controlling for outliers and regional effects, the coefficient on democracy becomes statistically insignificant. Accordingly, they argue that some earlier positive findings, including Jensen (2003), may reflect model misspecification.

Measurement refinements also affect democracy itself. Basu et al. (2023) introduce a continuous implementation measure of effective democracy, arguing that official institutional arrangements could diverge from actual institutional practice. Their data show that effective democratization, rather than nominal democratic status, increases the FDI inflows. This distinction reinforces the idea that investors respond more to credible institutional implementation than formal regime labels.

2.2. Institutional mechanisms and credibility channels

A second group of studies shifts attention toward underlying institutional mechanisms, seeking to identify the channels through which democracy may influence FDI. Harms and Ursprung (2002) are among the first to investigate the impact of civil liberties and political rights on FDI. They show that civil liberties exert a positive and robust effect, while political rights are less consistent, indicating that investor confidence may depend more on legal and personal freedoms than on electoral competition per se. Based on this perspective, focusing on democratic rights, Busse (2004) finds that countries with improving democratic and civil rights attract significantly more FDI than would have been predicted based on other country characteristics. Beyond political and civil rights, political risk has also been analyzed as a distinct determinant of FDI. While many studies include political risk indicators merely as control variables, Busse and Hefeker (2007) explicitly focus on their independent effect and demonstrate that almost all components of political risk are highly significant determinants of FDI inflows. These conclusions shift attention from regime labels onto the broader steadiness and foreseeability of the political environment, underscoring that credibility may operate through multiple institutional dimensions rather than only through democracy.

Other contributions examine institutional configurations. Choi and Samy (2008) explicitly integrate the veto player and the audience costs arguments with the democratic hindrance mechanism. Their results provide only partial support for the strong credibility thesis. Although institutional constraints associated with veto players tend to increase FDI inflows, audience costs appear less robust, and the magnitude of the overall democratic effect is more moderate than suggested by earlier work. The implication is that not all democratic features contribute equally to investor confidence and that specific institutional arrangements may matter more than the regime classification itself.

A related refinement concerns the institutional configuration of democratic systems. Guerin and Manzocchi (2009), employing an augmented gravity framework and Tobit estimation for bilateral FDI flows, show that democracy has a statistically significant positive effect on FDI. The potential endogeneity issue concerning FDI and political regime is also investigated by conducting a Granger-causality test, which indicates that FDI does not Granger-cause democracy. This study digs deeper into the issue by distinguishing between the effects of parliamentary and presidential democracy: larger FDI inflows are documented in the case of parliamentary democracies. The reason behind this result is that “parliamentary democracy has a stronger positive effect than a presidential regime on trade liberalization or on property right protection” (Guerin and Manzocchi, 2009, p. 83). This paper further reinforces the idea that the effect of democracy is not uniform, but conditional on a certain threshold of per capita income: democratic institutions alone are insufficient to attract investment from developed economies. This result stresses the complementarity between political and economic fundamentals and suggests that institutional credibility operates within wider organizational constraints.

Endogeneity concerns also led to methodological advances. Doces (2010) uses a dynamic longitudinal GMM estimator to tackle the potential reverse causality between democracy and FDI inflows. His results show that increases in democracy have a positive and statistically significant impact on FDI flows into developing countries, even when democracy is treated as endogenous. The persistence of the positive effect under stricter identification strategies strengthens the credibility argument, although the estimated magnitudes are more moderate than in Jensen’s (2003) specification, denoting a weakening rather than a reversal of the core claim.

2.3. Contextual and regional conditioning

A third strand emphasizes that the effect of democracy is conditional upon economic-institutional context and sectoral characteristics. For example, Asiedu and Lien (2011) show that democracy increases FDI primarily in countries with low dependence on natural resources. In resource-rich economies, where rents may be secured through alternative institutional arrangements, democratic institutions appear less important to investors’ decisions, which indicates that institutional credibility may substitute for or be substituted by resource-based guarantees.

Acheampong and Opoku (2025) investigate how the interaction between democracy and human capital affects FDI inflows. They identify a key threshold effect: the positive impact of democracy on attracting FDI depends on the level of human capital in a country. More precisely, under a certain educational and skill-based threshold, democratization may initially inhibit investment, while above it, more democracy significantly increases FDI. This evidence indicates that democratization must be accompanied by substantial investment in human capital for developing countries to effectively compete for foreign investment.

Sectoral heterogeneity provides further nuance. Kolstad and Willanger (2008) show that democracy positively affects service-sector FDI, but the result is not robust across samples or subsectors. In specific industries such as finance and transport, the positive democracy effect disappears, indicating that institutional determinants vary across economic activities. Democracy influences FDI only in developing countries, suggesting that the absence of democracy is detrimental to investment below a certain threshold and reinforcing the non-linearity of the relationship.

Apart from domestic factors, the institutional characteristics of neighboring countries have also been examined in relation to the attractiveness of FDI. For example, Pinar and Stengos (2020) demonstrate that the ability of a host country to attract FDI is strongly influenced by the levels of democracy in neighboring countries. Their findings show that the democratic characteristics of neighboring countries also matter for FDI flows, as countries embedded in more democratic regional environments are likely to attract more FDI. This “neighborhood effect” is particularly robust for host countries that have already established a certain level of domestic democratic development, suggesting that regional and domestic institutional quality act as complementary factors in the attraction of foreign investors.

Regional studies provide an additional layer of nuance by situating democracy within distinct political-economic trajectories. Democracy’s role in attracting FDI to Sub-Saharan African countries is analyzed in several papers (e.g., Cleeve, 2012; Gossel, 2017). An interesting feature of Gossel’s (2017) analysis is the finding that democratic capital has a stronger effect on FDI than democracy itself. Furthermore, it is also shown that FDI responds more to democratic capital accumulation in more democratic countries, a finding that might substantiate the role of consolidated democracy in attracting FDI.

In Latin America, democratic transitions were often accompanied by market-oriented reforms and privatizations. This co-occurrence of political liberalization and economic reform complicates causal attribution but also illustrates the importance of institutional complementarity. Staats and Biglaiser (2012) show that democratic consolidation increases investor confidence, particularly in countries that implemented structural reforms. Biglaiser and DeRouen (2006) demonstrate that democracy becomes more effective in attracting FDI when reinforced by IMF commitments, suggesting that external constraints enhance credibility. Fukumi and Nishijima (2010) employ a simultaneous equation system and find a two-way relation between democracy and FDI: stronger political institutions attract FDI, while FDI itself contributes to improvements in political rights.

Kim and Kim (2024) apply a three-stage least squares estimation on thirteen East Asian host countries, which allows them to control for potential endogeneity in the democracy-FDI link. The authors confirm the findings of Jensen (2003) concerning the relationship between economic development and FDI as well as the relationship between democracy and FDI. However, world FDI is not statistically significant, meaning that a greater global supply of FDI does not lead to more FDI into East Asia. Their findings further emphasize the importance of domestic institutional and political conditions.

Focusing on Central and Eastern European transition economies, Tintin (2013) shows that political and civil rights, together with economic freedom and lower state fragility, positively and significantly affect FDI inflows from major source countries (EU-15, Japan, China, and the United States). At the same time, he documents differences in the institutional determinants of FDI across investor countries, highlighting the heterogeneity of credibility mechanisms across both host and source contexts. Ponce (2010) similarly finds that improvements in political and civil rights have a positive effect on FDI inflows; however, he also identifies decreasing marginal returns to democratization in Eastern Europe and Latin America during the 1991–2003 period.

A significant step forward in the literature was made by Lacroix et al. (2021), who explicitly incorporate the temporal dimension of democratization. Their analysis highlights the importance of the nature of regime change, showing that while democratic transitions on average do not lead to an increase in FDI inflows, consolidated transitions – those that do not revert to autocracy within the first five years – eventually generate a significant increase in FDI inflows in the long run. Specifically, using difference-in-differences, instrumental variables, and propensity score matching, their analysis shows that the credibility gains associated with democracy only materialize after a period of institutional stabilization, usually taking about ten years to emerge. This study shifts attention toward the longer-term effects of the regime transformation on foreign investment.

Instead of establishing a universal positive relationship, the refinement literature demonstrates that the impact of democracy on FDI is conditional, institutionally mediated and highly sensitive to empirical specification. The debate thus shifts from whether democracy matters to how regime characteristics, institutional consolidation and economic context jointly shape investor actions. Regression analysis, however, remains the major method in most empirical contributions.

3. Mixed or negative impact of democracy on FDI

While the previous section demonstrated that positive effects are typically conditional and modest, this section reviews studies that do not necessarily reject the credibility argument, but rather question its generalizability. Following Li and Resnick (2003), they claim that democratic institutions can generate countervailing mechanisms.

One of the earliest systematic challenges to the optimistic view appears in Oneal (1994), who examines middle-income developing countries over an extended period and finds no statistically significant relationship between democracy and FDI flows. More strikingly, according to him, the returns on foreign investment are often higher in autocratic regimes. This early evidence implies that investors could value economic fundamentals and stability more than formal democratic procedures, thereby relativizing the institutional credibility thesis in later work.

Resnick (2001) further develops this argument by highlighting the distinction between institutional constraints and political uncertainty. While democratic institutions may reduce arbitrary executive actions, they simultaneously introduce

electoral competition and the possibility of partisan turnover. In newly democratizing contexts, this political uncertainty may increase the unpredictability of future economic policy. Autocratic regimes, particularly those characterized by centralized authority, can in some cases provide a higher degree of short- to medium-term certainty regarding taxation, regulation, and industrial policy: autocracies offer foreign investors a “high degree of future certainty concerning the factors decisive for determining the results of investments decisions” (Resnick, 2001, p. 385). As for the empirical results, Resnick finds that investors tend to avoid new democracies and that higher levels of democracy are not systematically associated with larger FDI shares.

Yang (2007) reinforces this skepticism by replacing continuous democracy indices with categorical regime measures and by tackling possible endogeneity through SUR and GMM estimation. His results show that switching to democracy or autocracy does not exert a strong independent effect on FDI inflows once the economic fundamentals are controlled for. This means that changes in regime type alone may not significantly affect foreign investment in the absence of favorable economic conditions.

An important refinement in the debate is offered by Mathur and Singh (2011), who shift the focus from democracy per se to the relative importance of political and economic freedom in attracting FDI. Their analysis challenges the common assumption that democratic and market-oriented institutions necessarily move together. In the regression, including corruption, democracy and an interaction term between the two, they find that economic freedom exerts a stronger and more consistent positive effect on FDI than political freedom, while the coefficient on democracy is negative and statistically significant. Their evidence shows that democratic institutions alone may not attract foreign investment without broader market-oriented reforms.

Li et al. (2018) adopt a meta-regression framework to systematically examine the theoretical and causal mechanisms underlying the relationship between democracy and FDI. Instead of focusing merely on whether democracy has a net positive or negative effect, they analyze why and how certain institutional and economic characteristics could mediate this relationship. Their study aggregates 229 estimates from 40 previous empirical papers, allowing them to discover patterns that individual studies may overlook due to limited sample sizes or methodological heterogeneity.

Concerning the level of FDI inflows, Li et al. (2018) identify three mediator factors that robustly channel the positive impact of the democracy. First, a stronger property rights protection reassures foreign investors against expropriation risk, providing a credible institutional context favorable to capital inflows. Second, lower exchange rate volatility reduces macroeconomic uncertainty, making long-term investment in democratic countries more predictable. Third, certain political constraints intrinsic to democratic rule, such as checks on executive discretion, further stabilize the investment climate by reducing abrupt policy reversals. In contrast, they find five factors that mediate the negative effect of democracy on FDI inflows. Domestic political risks, including electoral uncertainty as well as poten-

tial civil unrest, can inhibit investment despite formal democratic institutions. The duration of the regime also matters: newer or less consolidated democracies are more susceptible to policy instability. Higher labor costs, trade openness and capital controls also act in particular contexts as impediments, reflecting regulatory and redistributive pressures that investors evaluate when allocating capital. When studying the FDI share – defined as a country's FDI relative to global inflows – the meta-analysis reveals a slightly different pattern. Here, economic growth and domestic political risk emerge as robust positive mediators, while regime duration and property rights exhibit moderate negative effects.

Overall, the analysis of Li et al. (2018) emphasizes the refined nature of the impact of democracy on foreign investment. Instead of producing a simple linear relationship, democracy interacts with multiple institutional factors, which generate heterogeneous effects depending on context, country characteristics and the specific metric of FDI being considered. For researchers focusing on developing economies, these results show that empirical work should distinguish between different dimensions of democracy and investment and that one should also take mediating mechanisms into account.

Taking nonlinearities into consideration increases the complexity of the picture. Adam and Filippaios (2007), examining US FDI in OECD and non-OECD countries, find that political liberties positively affect FDI in non-OECD economies, but civil liberties display a nonlinear relationship. Under a certain threshold, lower civil liberties are associated with higher FDI flows, implying that investors could tolerate institutional restrictions when they coincide with regulatory flexibility as well as centralized administration. Zheng (2011) identifies an inverted U-shaped relationship between political institutions and FDI, conceptualizing political institutions in terms of veto players. He further shows that the effect of political institutions on FDI is not only nonlinear but also conditional on the status quo policy environment.

More recent contributions continue to stress contextual dependence. Cutcu and Keser (2024) focus on seven BRICS-TM countries and examine the long-term cointegration between democracy and FDI. They provide evidence that there is a long-term relationship between democracy and FDI with structural breaks occurring in each country in different periods. Their most interesting results indicate causality from democracy to FDI only in Mexico and China, but causality runs in the opposite direction, too, in Mexico. In sum, this study documents mixed results concerning the impact of democracy on FDI and suggests that this impact is very much context-dependent.

To conclude, this strand of literature shows that the impact of democracy on FDI cannot be reduced to a simple positive or negative link. Democratic institutions may simultaneously strengthen property rights and increase regulatory burdens; they may improve long-term credibility while introducing short-term uncertainty during transition periods. The net effect depends on institutional complementarities, economic structure, regime duration and measurement options.

4. Empirical challenges

4.1. Measurement and specification challenges

The major lesson from the above review is that research on the relationship between democracy and FDI seems to be approaching diminishing marginal returns within the conventional regression framework. Repeated robustness checks, alternative specifications and refinements have led to incremental improvements, yet they have produced limited additional clarity about the effect of democracy on FDI. The persistence of mixed findings may reflect not only empirical challenges but also limitations of the underlying research design.

The first set of concerns relates to measuring, specification and sample composition. Outliers can significantly influence estimates and standard errors, potentially producing misleading conclusions. Choi (2009) illustrates this problem with the case of China: four extreme observations in non-democratic China significantly change the coefficient on democracy, and the introduction of a China dummy reverses its sign. This sensitivity highlights how a small number of influential cases can affect the results. Desbordes and Verardi (2017) demonstrate similarly that robust-to-outlier estimators can produce materially different results, illustrating the importance of distributional diagnostics.

Closely related is the choice of FDI measure. The literature typically relies on three operationalizations: FDI in current US dollars, FDI/GDP and FDI per capita. Using nominal total FDI inflows ignores differences in economic size, while the FDI/GDP ratio, though more comparable across countries, is criticized by Li (2009) because explanatory variables may simultaneously affect both FDI and GDP, creating ambiguity about causal interpretation. Moreover, FDI inflows and FDI/GDP capture different phenomena: the former measures absolute capital inflows, while the latter emphasizes the relative importance of foreign investment to national income. Misinterpreting these distinctions can lead to overgeneralized conclusions about the effect of democracy: “the finding that democracy has a significant, positive effect on FDI/GDP implies that more democratic countries allow foreign capital to play a larger role in their national economies or that more democratic countries are more open to foreign production capital. One should not infer from it that more democratic countries definitely receive larger amounts or higher levels of FDI inflows” (Li, 2009, p. 176). Thus, the way dependent variables are specified directly shapes theoretical inference.

Sample composition and time coverage add to the complexity of the interpretation. The relationship between democracy and FDI appears highly context-dependent: results for all developing countries may differ from those for Sub-Saharan Africa, post-socialist Eastern Europe, Latin America or OECD members. Different time periods – especially those encompassing waves of democratization or democratic erosion – can produce divergent results. However, many studies do not systematically report reliability tests across alternative samples or time windows, limiting the generalizability of conclusions.

The measurement of democracy itself constitutes an additional challenge. Most studies rely on continuous indices such as Polity or Freedom House scores, which capture the level of democratic institutions but not their stability, consolidation, or risk of reversal. Lacroix et al. (2021) distinguish explicitly between democratic transitions and consolidated democracies, noting that foreign investors may react differently to emerging democracies than to stable, institutionalized ones. Therefore, democracy scores measuring the level of democracy may conflate short-term political volatility with long-term institutional credibility. Furthermore, aggregated democratic indices compress multidimensional institutional realities into single numerical scores. Nevertheless, for instance, countries with identical democratic scores can differ markedly in judicial independence, bureaucratic quality, state capacity or political stability, all of which may independently change investor behavior.

Beyond the aforementioned specification issues, deeper identification issues also persist. Panel fixed effects models (e.g., Jakobsen and Soysa, 2006), GMM estimators (e.g., Asiedu and Lien, 2011), gravity methods (e.g., Guerin and Manzocchi, 2009) and meta-regression approaches (Li et al., 2018) attempt to address unobserved heterogeneity and endogeneity. However, even these methods estimate the average marginal effect of democracy across heterogeneous contexts. If the impact of democratic change varies across fragile, consolidating, and stable regimes, mean coefficients may mask substantial diversity. Positive and negative country-specific effects can cancel each other out in regressions, producing null or unstable findings that reflect aggregation rather than the absence of causal effects. This aggregation problem is closely related to the limitations of econometric methods used in the literature to estimate the effects of changes in democracy levels, which are discussed below.

A continuing challenge concerns the reciprocal causality between FDI and democracy. While many studies treat democracy as an explanatory variable, FDI itself can shape political institutions by driving economic development, creating pressure for institutional (democratic) reform. This simultaneity complicates causal interpretation even within dynamic panel frameworks, and raises broader questions regarding the direction of causality underlying the observed association.

4.2. Limits of the democracy level analysis

While refinements in estimation techniques have addressed several econometric concerns, most empirical studies in the democracy–FDI literature continue to rely on a common underlying assumption: democracy is treated as a continuous variable, and its association with FDI inflows is estimated using cross-country or panel regressions. Undoubtedly, this approach has generated important insights. Most importantly, it allows researchers to assess whether, on average, more democratic countries tend to attract higher levels of foreign investment than less democratic ones.

This identification strategy, however, implicitly prioritizes cross-sectional differences in democracy over regime change as a process. Regime transitions, that is, democratization or democratic backsliding, constitute discrete political events that may alter investor expectations, perceived risk, and policy credibility in ways that unfold over time (e.g., Lacroix et al., 2021). The mechanisms that scholars have discussed in connection with democracy–FDI linkages – such as enhanced policy commitment, broader institutional constraints on discretion, and reduced risk of expropriation – are inherently dynamic. They concern how investor expectations are formed and updated following regime transformation rather than how investors compare static democracy levels across countries at a single point in time.

Note, however, that the literature dealing with how the level of democracy affects FDI is inherently capable of incorporating time dynamics. Researchers often introduce lags, interaction terms or dynamic longitudinal estimators to capture adjustment processes. However, even in such specifications the core estimate typically remains the average marginal effect of the democracy level across heterogeneous contexts. As a result, causal effects of specific regime transitions can be diluted by aggregation. If democratization produces substantial positive effects in some countries, negligible effects in others and short-term disruptions elsewhere, the mean coefficients may obscure the underlying heterogeneity rather than clarify it.

Another important and related issue concerns the omission of explicit counterfactual analysis. Most studies infer effects from recorded variation in democratic scores across countries and over time, but this does not directly address how FDI would have evolved in the absence of a democratic transition or reversal. As a result, the aforementioned literature may be less suitable to examine how investment trajectories change after discrete regime changes. This is especially relevant if the effects of democratization unfold gradually or vary between short-term adjustment and longer-term stabilization.

The above criticism does not imply that existing approaches are misguided. Rather, they suggest that much of the literature addresses whether more democratic countries tend to attract more FDI on average, while paying less attention to how investors respond to specific episodes of regime change.⁵ Addressing this latter question requires research designs and empirical methods that explicitly model political transitions and construct counterfactual trajectories. This research agenda can make it possible to examine whether FDI responds with temporary disruption, delayed adjustment, or gradual divergence following regime change. The following section outlines such a research line.

⁵ Although some studies have begun to address regime dynamics – for example, Lacroix et al. (2021) distinguish between democratic transition and consolidated democracy – these remain exceptions.

5. Suggestions for future research: modeling regime change

As suggested above, the literature on the democracy–FDI link offers several paths for further refinement, including improved measurement of democracy and FDI, as well as more sophisticated strategies for addressing econometric concerns such as endogeneity or time lags. The argument presented here does not seek to replace these efforts, but rather to complement them by placing greater emphasis on discrete political regime change as an object of analysis.

Much of the literature reviewed in the preceding sections treats democracy as a continuous level variable and estimates its average marginal association with foreign investment across countries and time. While this literature has generated important empirical insights, it leaves a related but analytically distinct question relatively underexplored: how foreign investors respond to discrete political regime transformations. Therefore, in advancing this new research agenda, the intention is not to abandon the existing line of research, but to complement it with an approach explicitly designed for the study of regime change.

Building directly on the limitations identified in Section 5, a focus on regime change gives rise to three interrelated research questions. First, do foreign investors respond immediately to democratic transitions, or do credibility effects accumulate gradually as democratic institutions stabilize in practice? Second, are the effects of democratization and democratic backsliding symmetric in timing and magnitude? Third, can short-term volatility surrounding regime change be empirically distinguished from long-term divergence in FDI trajectories once credible counterfactual paths are constructed?

Addressing these questions requires examining how discrete regime changes, rather than incremental shifts in democracy levels, dynamically shape FDI trajectories over time. Accordingly, research designs should explicitly model regime transitions and construct counterfactual paths. Future research should examine how foreign investment evolves before and after clearly defined political transitions relative to an estimated counterfactual path, rather than focusing solely on whether more democratic countries attract more FDI on average.

In this respect, the Synthetic Control Method (SCM) (Abadie, 2021) and its extensions, specifically the Generalized Synthetic Control Method (Xu, 2017) and the interactive fixed effects counterfactual estimator (Liu et al., 2024) offer a promising way. The SCM constructs a counterfactual for the treated unit by selecting a weighted aggregate of untreated (control) units that best replicates the treated unit's pretreatment outcomes and relevant predictors. The weights are chosen so that the synthetic control closely fits the treated unit not only in observable characteristics (predictors), but also in the pretreatment trajectory of the outcome variable, here FDI inflows. The posttreatment difference between the observed (actual) outcome and its synthetic counterpart (counterfactual) is then interpreted as the causal effect of the regime change, under the assumption that the weighted control group adequately approximates the treated unit's unobserved counterfactual path in the absence of treatment.

However, one should note that classical SCM is best suited to a single treated unit and assumes relatively stable, unobserved confounders. Alternative causal methods, such as difference-in-differences or event study approaches, can also incorporate regime timing and dynamic treatment effects. However, these methods generally rely on parallel trend assumptions across treated and control units and often estimate average treatment effects across diverse transitions. When pretreatment trajectories differ substantially across countries or when treatment effects are highly context-specific, constructing a country-specific counterfactual, as in SCM, may provide more credible inference.

Recent methodological extensions, such as the Generalized Synthetic Control Method (Xu, 2017) extend the framework to multiple treated units and treatment periods. Based on this multiple treated units framework, the interactive fixed-effects counterfactual estimator (Liu et al., 2024) approximates counterfactual trajectories by modeling unobserved common shocks with heterogeneous effects across countries. An advantage of this method is that it does not assume homogeneous responses to global shocks or regional trends. Instead, it allows the impact of unobserved factors – such as changes in global liquidity conditions, commodity price cycles, or worldwide shifts in investor perceptions – to vary across countries depending on country-specific characteristics and exposure. Compared with the traditional two-way fixed effects model, this method is not dependent on the parallel-trend assumption and may better account for heterogeneous pre-treatment trajectories.

This feature of the method may be especially useful in settings where democratization coincides with major macroeconomic shocks. In many developing countries, regime transitions often occur alongside market liberalization, privatization programs, IMF-supported reforms, or regional political transitions, making it difficult to separate the effects of democratization from concurrent macroeconomic shocks using standard panel approaches such as difference-in-differences or two-way fixed effects. By contrast, counterfactual methods such as the interactive fixed effects counterfactual estimator can provide more credible estimates of how FDI trajectories evolve following regime change, as they can explicitly model heterogeneous latent factors.

Shifting the focus from democracy levels to discrete regime change enables analysis of how foreign investors adjust their attitudes by examining how expectations regarding institutional credibility, policy stability, and political risk evolve over time. This perspective aligns with arguments that durable constraints on political authority, rather than regime type alone, shape economic actors' incentives and long-term investment decisions (e.g., Olson, 1993). Given the increasing prevalence of democratic erosion and competitive authoritarianism in several developing countries, it is also relevant to examine whether democratic backsliding generates asymmetric investment responses compared to democratization, an analysis that is feasible within this framework.

An important positive aspect of the proposed research agenda is its closer alignment with the theoretical arguments developed in the democracy–FDI literature. Studies relying on Jensen’s (2003) credibility argument suggest that democratic transitions may lead to gradual increases in investment as institutional constraints become more stable and predictable over time (e.g., Jensen, 2003; Lacroix et al., 2021). In contrast, arguments emphasizing political uncertainty and adjustment costs suggest that transitions may initially generate volatility or a reduction in FDI inflows (e.g., Resnick, 2001; Li and Resnick, 2003). If such dynamics exist in relation to FDI inflows, they may help explain why the existing literature has produced mixed results. This can be interpreted in terms of the time period analyzed by specific studies: studies focusing on shorter time horizons may capture transition-related volatility, while studies with longer panels may reflect institutional consolidation effects. Emphasizing regime change may therefore complement existing analyses that rely on democratic levels.

Subsequent research should proceed along three interrelated lines. First, democratization episodes in developing countries should be systematically identified, and post-transition FDI trajectories examined using SCM or related counterfactual methods. Second, comparative analysis should explore whether effects differ between fragile and consolidated democracies. Third, research should investigate multiple regime changes occurring at different points in time within the same sample period, aiming to detect more general patterns in FDI inflows following regime change. Both democratization and democratic backsliding should be examined to determine whether their effects on FDI inflows are symmetric and comparable in magnitude.

In sum, the proposed research line does not replace the existing research strategy. Regression analyses continue to be valuable for the identification of broad correlations and long-run institutional associations. Rather, the proposed agenda treats regime change designs as complementary tools that address a related, but distinct aspect of the wider inquiry into democracy–FDI linkages.

Conclusion

This paper has reviewed the extensive and methodologically diverse literature on the relationship between democracy and FDI inflows in developing countries. The analysis highlights that two seminal studies have shaped subsequent research by outlining two conflicting perspectives on the impact of democracy on FDI. Jensen (2003) posits a positive association, arguing that democratic institutions enhance credibility for foreign investors. Conversely, Li and Resnick (2003) present mixed evidence, suggesting that while democracies can offer positive incentives, they may also deter investment through redistributive pressures and regulatory barriers.

A central critique of the existing literature is that studies frequently treat democracy as a continuous variable within regression analyses. While refinements in measurement, estimation, and identification strategies have improved estimates, persistent issues of endogeneity and time dynamics remain unresolved.

Beyond assessing the impact of democracy levels, it is equally important to investigate how foreign investors respond to regime change and subsequent institutional consolidation. Addressing this complementary research question necessitates counterfactual analysis. Methods such as the Synthetic Control Method (Abadie, 2021) and its generalized extensions (Xu, 2017; Liu et al., 2024) provide promising avenues for examining the effects of democratization and democratic backsliding. These approaches facilitate the distinction between short-term and long-term effects of regime change, thereby enhancing understanding of how foreign investors adjust their behavior in response to the stabilization of democratic institutions.

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Appendix

Table 1: Literature matrix (own construction) (The papers are ordered by the publication year)

Paper	Empirical methodology	Time period/ sample	Democracy measure	FDI measure	Control variables	Specific findings
Positive impact of democracy on FDI						
Harms and Ursprung (2002)	cross-sectional and panel FE regression	1989-1997 62 emerging countries	Freedom House political rights, civil rights and their mean	FDI per capita	illiteracy rate, oil dummy, inflation, openness to trade, political risk, civil repression, trade union density	higher individual freedoms attract more FDI
Jensen (2003)	- cross-sectional regression (all independent variables lagged) - fixed and random effects regression (all independent variables lagged)	1980-1997 79 countries 1970-1990 114 countries	- average Polity III score from 1980-1989 - Polity III score, - Alvarez et al.'s measure for democracy	- average net FDI inflows/GDP over 1990-1997 - net FDI inflows/GDP	- trade, market size, development level, economic growth, natural resource dependence, government consumption, budget deficit, human capital, FDI inflows controls - trade, market size, development level, economic growth, government consumption, budget deficit, capital controls	- enormous positive impact of democratic institutions on FDI; - significant positive impact even when dropping OECD countries from the sample
Ahlquist (2006)	cross-sectional time-series regression	1985-2005 90 developing countries	Polity IV	net FDI inflows/GDP	government deficit, inflation, exchange rate volatility, debt, growth rate, polity persistence	the magnitude of the positive impact of democracy on FDI is quite modest
Jakobsen and Soysa (2006)	cross-sectional time-series regression	1982-1995 99 developing countries	Polity IV, Freedom House's political and civil rights	log of FDI inflows	log GDP, property rights protection (ICRG), leftist executive, economic growth, civil war, China dummy	leftist governments among democracies in developing countries attract more FDI than their centrist or rightist counterparts
Choi and Samy (2008)	OLS, fixed effects and random effects regression, ECM	1984-2001 80 developing countries	POLCON III, Global Press Freedom, Institutional Investor's Country Credit Risk Ratings, Polity IV	FDI, FDI/GDP	budget deficit, government expenditure, exchange rate volatility, veto players, democratic hindrance, economic growth, economic size, external debt	weak support for the positive effect of democracy on FDI; various channels exhibit different effects
Choi (2009)	OLS regression	1982-1995 53 developing countries	Polity IV	FDI/GDP	regime durability, market size, political instability, economic development, growth rate, labor cost change, capital flow restrictions, exchange rate volatility, world FDI inflows	Li and Resnick's (2003) negative effect arises from outliers
Guerin and Manzocchi (2009)	augmented gravity model, Tobit estimator	1992-2004 14 developing and 24 emerging countries	Polity IV, Freedom House's political rights index	bilateral gross FDI inflows	GDP of host and source country, GDPPC of host and source country, common legal origin, common language	parliamentary democracies attract more FDI than presidential ones; democracy alone is insufficient to attract FDI below a certain threshold of per capita GDP

Continuation of Table 1

Doces (2010)	GMM	1990-1999 55 developing countries	Polity IV	FDI inflows	investment risk, economic size, trade openness, tertiary education, agglomeration effect	regardless of whether democracy is exogenous or endogenous, the results are robust and show that more democratic countries receive more FDI
Asiedu and Lien (2011)	difference and GMM estimator	1982-2007 112 developing countries	Freedom House's political rights index, Polity IV score, ICRG democracy measure	net FDI/GDP	openness, inflation, infrastructure development	democracy incentivizes FDI inflows towards countries in which the share of natural resources in exports is low
Gossel (2017)	time-series cross-sectional regression	1972-2014 42 Sub-Saharan African countries	Polity IV, Freedom House's political rights and civil liberties indices	net FDI/GDP	log GDP per capita, economic growth, trade openness, human capital	democratic capital exercises a greater extent on FDI than democracy
Desbordes and Verardi (2017)	FE panel regression (robust-to-outliers dummy estimator)	1998, 2000, 2002, 2004, 2006 111 developing countries	Polity IV, Freedom House's political rights and civil liberties indices, Henisz strength of veto players, DPI checks and balances, WGI voice and accountability	financial FDI stock	lagged FDI per capita, market size, GDP per capita, regulatory quality, GINI index, proxy of Asiedu and Lien (2011) for natural resource rich countries, the share of fuel and minerals in total merchandise exports	once outliers are controlled for, democratic attributes tend to attract FDI; larger positive democracy effects when FDI is concentrated in natural resources; income inequality is mediating in the relationship between FDI and democracy
Pinar and Stengos (2021)	gravity model with fixed effects, system GMM estimator	1993-2013 34 OECD source countries and 143 host countries	Polity IV	FDI flows (OECD data)	market size, population, land area, bilateral trade, civil conflict, institutional quality	countries surrounded by democratic countries attract more FDI
Lacroix et al. (2021)	DiD, instrumental variable regression, propensity score matching	1970-2014 115 developing countries	Acemoglu et al.'s democratic transition data updated by the authors	net FDI inflows/GDP	ICRG political risk	stable democracies are preferred to newly established democracies
Basu et al. (2023)	OLS and fixed effects regression	1995-2015 116 countries	implementation-based index (authors' index)	net FDI/GDP	population, exports	democratization of a country attracts more FDI
Kim and Kim (2024)	three-stage least squares estimation	1970-2018 13 East Asian countries	Polity V, Freedom House's index	net FDI inflows/GDP	market size, political stability, trade openness	greater global supply of FDI does not lead to more FDI into East Asia
Acheampong and Opoku (2025)	GMM estimator	1980-2022 129 developing countries	liberal, electoral, legalitarian, participatory, and participation democracy from various sources	net FDI inflows/GDP	log of GDP per capita and its squared term, trade openness, natural resources rents as % of GDP, gross fixed capital formation as % of GDP, CPI, political stability	democracy and human capital have direct, positive, and significant impact on FDI; democracy increases FDI when human capital is above a certain threshold

Continuation of Table 1

Negative, mixed or no impact of democracy on FDI						
Oneal (1994)	pooled cross-sectional and time-series regression	1950-1985 26 middle-income developing countries	Polity II	US FDI inflows	market size, annual flow of US FDI, military character of the government, financial risk, growth rate, worldwide profit rate	no significant relationship between democracy and FDI; returns on investments are greater in autocracies
Li and Resnick (2003)	pooled time-series cross-section regression	1982-1995 53 developing countries	three variables from Polity IV, Freedom House's democracy index	FDI inflows	regime durability, political instability, market size, economic development, growth rate, labor cost change, capital flow restrictions, exchange rate volatility, world FDI inflows	the positive effect of democracy works via the causal link of property rights protection; the increase in democracy decreases FDI once we control for property rights
Resnick (2001)	time-series cross-sectional regression	1971-1993 19 developing countries (Asia, Latin America and Caribbean)	Polity 98	FDI as a percentage of world FDI	democracy transition, political instability, domestic conflict, openness, GDP	transition to democracy, higher levels of democracy and higher political instability have a negative effect on FDI
Adam and Filippaios (2007)	fixed and random effects regression	1989-1997 105 countries (subsample for OECD and non-OECD countries)	Freedom House's political and civil rights indices	US FDI inflows/GDP	GDPPC, openness, corruption, FDI stock, literacy ratio, expropriation risk, bureaucratic quality, wage, political repression	in developing countries low civil rights and high political rights attract more FDI; the relationship between civil rights and FDI is non-linear
Yang (2007)	OLS and panel regression, SUR and GMM regression	1993-2002 (divided into 4 sub-periods) 134 LDCs	Polity IV, Przeworski et al.'s categorical measure of political regime	FDI/GDP, FDI per capita, FDI inflows	log GDP per capita, trade openness, number of phones per 1000 people, region dummies	switching to democracy (or autocracy) does not make much difference in terms of attracting FDI inflows
Mathur and Singh (2011)	random effects GLS	1980-2000 29 developing countries	Freedom House's index	net log inward FDI	GDP, trade balance, openness, labor cost, inflation, government budget deficit, literacy rate, degree of urbanization, tax rate, capital controls, business condition variables in neighboring countries	when controlling for other factors, including the level of corruption, more democratic countries receive less FDI inflows
Zheng (2011)	times-series cross-section regression	1980-2008 135 developing countries	Henisz political constraint, polity score, institutional checks (veto players)	FDI/GDP	GDP per capita, openness to trade, gross fixed capital formation, infrastructural development, industrial size	inverted U-shaped relationship between political institutions and FDI
Li et al. (2018)	Weighted Least Square (metaregression)	229 estimates from 40 studies	various measures	net FDI inflows, net FDI inflows/GDP	property rights, growth rate, regime duration, political risk, exchange rate volatility, labor rights, labor cost, openness, capital controls	mixed evidence for different mechanisms in the democracy-FDI link
Cutcu and Keser (2024)	time series analysis (cointegration, Konya causality)	1994-2018 7 BRICS-TM countries	Freedom House's index	log net FDI inflows	inflation, trade openness, human capital, government support, tax costs	long-term relationship between FDI and democracy with structural breaks for some countries