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Foreign Direct Investment in Wartime: Factors, Consequences and Recovery

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ABSTRACT:
Geopolitical instability has a substantial impact on foreign direct investment (FDI), increasing investment risks and weakening economic resilience in conflict-affected countries.
This study examines the effects of political instability on FDI inflows, focusing on a comparative analysis of two groups of countries characterized by varying degrees of geopolitical stability: (1) politically stable European Union member states (e.g., Germany, France) and (2) conflict-affected economies (e.g., Ukraine, Libya).
Utilizing World Bank statistics, the research applies statistical and econometric methods, including correlation analysis, regression analysis and analysis of variance (ANOVA), to examine investment trends and identify the key determinants of FDI under wartime conditions.
The results indicate that wartime and conflict-related factors significantly suppress FDI activity, whereas political stability, along with the absence of violence and terrorism, constitutes one of the important factors in restoring investor confidence in conflict-affected settings. In contrast, FDI in politically stable economies appears less sensitive to fluctuations in political stability. The results of this study may assist policymakers and organizations in shaping strategies to support FDI inflows and economic recovery in conflict-affected regions.

Keywords: foreign direct investment, war, political stability, geopolitical instability, political risks, economic recovery

1. Introduction

Foreign direct investment constitutes an important driver of economic growth, creation of jobs, technological development, and the enhancement of national competitiveness. In stable political and economic environments, FDI inflows can substantially contribute to the acceleration of development processes. However, in conditions characterized by armed conflict and political instability, the dynamics of foreign investment are subject to disruption. Wartime circumstances intensify political risks, undermine market functionality, erode institutional capacity, and adversely affect investor confidence. Factors such as political uncertainty, deterioration of legal and institutional systems, security threats, and elevated operational risks collectively reduce the investment appeal of these economies to international actors. Analyzing the behavior of FDI during periods of armed conflict and political instability is essential due to its potential role in post-conflict economic recovery and the strengthening of long-term resilience (Joshi & Quinn, 2018; Moore, 2021; Li et al., 2017, Hedegaard et al, 2025).

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According to the United Nations Conference on Trade and Development (UNCTAD), global FDI flows declined by 2% to 1.3 tn USD in 2023, with developing countries experiencing a 7% drop to $867 bln USD compared to the previous year, 2022. This downturn is attributed to rising geopolitical tensions and economic uncertainties (World Investment Report 2024, UNCTAD). In conflict-affected regions, the challenges are more pronounced. The World Bank Group's Multilateral Investment Guarantee Agency (MIGA) reports that political instability and security concerns have led to a significant reduction in investment activities. Their survey indicates that nearly 80% of Investment Promotion Agencies (IPAs) acknowledge the critical role of political risk insurance (PRI) in mitigating these challenges (Political risk insurance in a shifting landscape for foreign direct investment, 2024).

While earlier studies have examined FDI responses to political violence (Maher, 2015; Bussy & Zheng, 2023) and the role of institutional safeguards (Garriga & Phillips, 2013), few papers have conducted a direct comparison between politically stable EU member states and wartime economies. This research gap motivates the present study, which contrasts FDI inflows in stable versus conflict-affected settings. A comparative analysis – involving the examination of case studies from conflict-affected countries alongside stable economies – is particularly relevant for advancing the understanding of the relationship between political stability and the capacity of states to attract and retain foreign direct investment.

2. Research aim and objectives

The purpose of this study is to assess the relationship between political stability and foreign direct investment inflows in countries characterized by varying degrees of geopolitical stability, with particular attention to conditions prevailing during and after periods of armed conflict. To enable a methodologically robust comparative analysis, the study contrasts conflict-affected economies with politically stable member states of the European Union (EU). This approach seeks to facilitate a more nuanced understanding of the factors influencing FDI dynamics.

In pursuit of this purpose, the study sets the following specific objectives:

- to analyze the trends and dynamics of FDI inflows in a selected group of countries representing different geopolitical contexts;
- to examine and compare political stability indicators across these countries;
- to investigate the extent to which political stability factors affect the capacity to attract FDI, distinguishing between conflict-affected and politically stable economies;
- to identify patterns that shape investment behavior in wartime and conflict settings.

These objectives extend conflict-setting pattern studies (Maher, 2015; Bussy & Zheng, 2023, Adelaiye et al. (2023), Joshi & Quinn (2018), Moore (2021), Pinto & Zhu. (2022)) and reflect the specific gap our study addresses by systematically comparing wartime and stable contexts.

3. Literature review

An analysis of the Scopus database reveals a notable increase in scholarly attention to the intersection of war and FDI. A search using the keywords "foreign direct investment" and "war" indicates a steady growth in the number of relevant publications over the years (Figure 1). The first academic studies on this topic appeared in 1988, but it wasn't until the early 2000s that the volume of research began to grow substantially. A sharp rise occurred in 2020, when 32 publications were recorded – nearly double the count from previous years. By 2024, the number of publications reached an all-time high of 37, reflecting heightened academic interest in how armed conflicts reshape international financial flows. As of the end of 2024, a total of 387 documents addressing this theme were identified in Scopus.

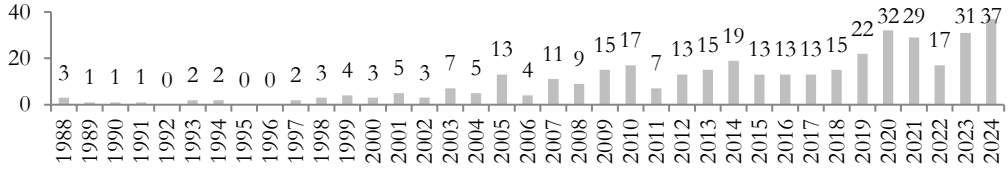

Figure 1: *Dynamics of the appearance of publications for the query "foreign direct investment" and "war" as of 31.12.2024, units (based on the Scopus database)*

The slight decline in 2022 likely reflects a combination of publication-lag effects – studies initiated after early-2022 events, such as full-scale war in Ukraine, only appearing in print in 2023 – and a temporary refocusing of academic attention on pandemic-related trade and supply-chain issues. The rebound in 2023-2024 to record publication levels thus captures both the post-pandemic normalization of research workflows and the renewed scholarly imperative to understand wartime investment dynamics

According to the geographic distribution of publications illustrated in Figure 2, the United States leads by a significant margin, with 85 publications on the topic. The United Kingdom follows with 40 publications – nearly half the U.S. total – while China ranks third with 27. Other countries demonstrating notable academic engagement include Australia, Germany, India, Canada, Japan, the Netherlands, and Ukraine. This data underscores that the issue of FDI in the context of armed conflict resonates with researchers across diverse economic and geopolitical landscapes.

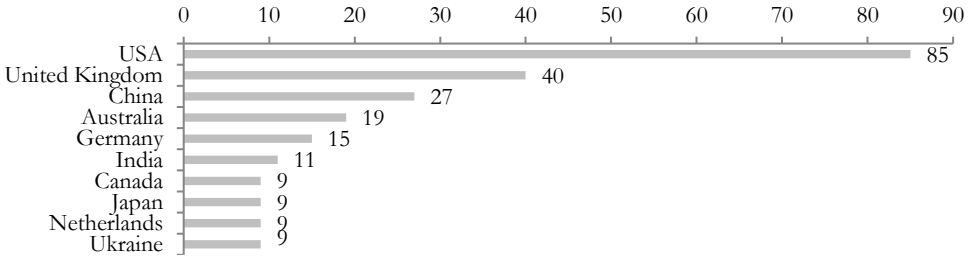

Figure 2: *Top 10 countries by number of publications for the query "foreign direct investment" and "war" as of 31.12.2024 (based on the Scopus database)*

The relationship between geopolitical instability and FDI has emerged as a critical focus in international economic research, as armed conflicts, terrorism, and governance breakdowns increasingly shape investment behavior. An extensive body of research demonstrates that rising geopolitical risks generally coincide with reductions in foreign direct investment. Yu and Wang (2023) demonstrate that increased uncertainty diminishes foreign direct investment, particularly in trade-dependent economies, while improved economic cooperation can partially alleviate this impact. Bussy and Zheng (2023) establish that multinational corporations, equipped with superior information, typically choose to postpone rather than completely abandon projects, and that effective governance plays a significant role in stabilizing foreign direct investment during tumultuous times. Nguyen et al. (2022) assert that institutions characterized by resilience play a critical role in mitigating the repercussions of political instability perturbations. Li et al. (2017) demonstrate that civil strife significantly diminishes foreign direct investment in the secondary and tertiary sectors by margins ranging from 81-119% and 155-220%, respectively, whereas inflows within the primary sector exhibit a notable degree of insensitivity to such conflicts. Wang et al. (2024) further categorize types of conflict, highlighting that government-related confrontations have a considerably more detrimental effect on foreign direct investment compared to territorial disputes. Terrorism exacerbates political risk, thereby discouraging FDI: Shah, Hasnat, and Sarath (2020) demonstrate that increasing terrorism in Pakistan has diminished FDI's beneficial effect on trade by decreasing exports and enlarging imbalances.

Despite these overarching trends, several studies identify circumstances in which conflict can coincide with – or even facilitate – investment in specific sectors. Crippa and Saavedra-Lux (2023) endorse the notion that extractive FDI can exhibit resilience or even gain advantages from conflict, especially in instances where violence is employed to clear land or safeguard infrastructure. Lee (2014) illustrates that elevated oil prices have the potential to mitigate the negative impacts of war on petroleum investments, while Dai and Paik (2024) reveal that the responses of U.S. FDI differ based on the nature of the host country's engagement in conflict.

The resurgence of foreign direct investment after a conflict is greatly affected by institutional and policy-related elements. Moore (2021) emphasizes that for encouraging renewed investment, government accountability, transparency, and collaboration with international organizations are crucial. On the other hand, excessive dependence on foreign assistance can result in reliance and obstruct recovery initiatives (Garriga & Phillips, 2013). Additionally, context-dependent factors assume a pivotal function: within the Ukrainian context, intentional strategic investments and regulatory modifications have enhanced resilience (Hedegaard, Hrytsenko, & Derkach, 2025), whereas diplomatic initiatives from external entities may inadvertently promote FDI by cultivating a tranquil environment (Adelaiye, 2022).

In summary, the literature research shows that armed conflict and related geopolitical risks and terrorism overwhelmingly suppress FDI – most sharply in manufacturing and services – while resource-sector investments often prove more resilient and, in some cases, even expand. Yet a small subset of studies uncovers paradoxical outcomes – conflict-driven oil booms or "pseudo-stability" created by external interventions – that challenge this general pattern. Post-conflict recovery, nonetheless,

depends on the quality of institutions – including government accountability, transparency, and international collaboration – and can be enhanced through targeted strategic investments, regulatory reforms, and diplomatic efforts. Notably, only a minority of works report fully statistically significant effect sizes, complicating direct comparisons across studies. Moreover, there remains a gap in understanding how political factors impact FDI in active conflict zones compared to stable environments – an issue this study aims to address in detail.

4. Research methodology

This study analyzes the state of foreign direct investment in countries with varying levels of geopolitical stability. It examines the impact of war and its contributing factors on FDI inflows.

The research focuses on FDI as a key indicator of economic development and the integration of national economies into the global financial system. According to World Bank metadata, FDI refers to cross-border investments involving the acquisition of at least 10% of equity in a foreign enterprise. The primary indicator used in this study is Foreign direct investment, net inflows, which reflects the total value of inward investments, including new capital and reinvested earnings (FDI – Glossary, DataBank).

Two groups of countries were selected for analysis:

1. Countries with military-political instability (conflict-affected): Ukraine (UKR), Libya (LBY), Sudan (SDN), India (IND), Pakistan (PAC), Iraq (IRQ), Iran (IRN), Israel (ISR), Nigeria (NGA), Somalia (SOM), Myanmar (MMR) and Haiti (HTI).
2. EU countries: Czech Republic (CZE), Germany (DEU), Denmark (DNK), France (FRA), Lithuania (LTU), Latvia (LVA), Poland (POL), and Romania (ROU).

The countries in the first group were chosen to reflect a range of active military-political crises across different geographic regions and conflict intensities. The selected countries encompass a variety of geographical regions: Eastern Europe (Ukraine), North Africa (Libya, Sudan), Sub-Saharan Africa (Nigeria, Somalia), South Asia (India, Pakistan), the Middle East (Iraq, Iran, Israel), Southeast Asia (Myanmar), and the Caribbean (Haiti). This geopolitical heterogeneity not only enhances the global significance of the findings but may also constrain the generalizability of particular trends owing to the disparities in institutional frameworks and investor environments across these regions. Selection was guided by the availability of consistent data on FDI inflows and political stability from the World Bank. Information on the challenges faced by countries with military-political instability is detailed in the Armed Conflict Survey (International Institute for Strategic Studies), which offers in-depth analysis of the political, military, and humanitarian dimensions of active conflicts. The EU countries were selected as a benchmark group due to their relatively stable political environments and reliable macroeconomic reporting. This group also allows for a nuanced comparison, as it includes convergence economies (e.g., Romania, Latvia, Lithuania) seeking FDI-driven development, core economies (e.g., Germany, France) prioritizing strategic sectors, and fiscally conservative states (e.g., Czech Republic, Denmark, Poland) that attract FDI through structural stability rather than financial incentives. Together, the groups enable an exploration of how geopolitical risk alters the investment environment across contrasting contexts.

The study is based on the examination of the following hypotheses:

Hypothesis 1: Political stability has an effect on FDI inflows.

Hypothesis 2: Political stability has no effect on FDI inflows.

If Hypothesis 1 is confirmed, further analysis is conducted to determine the nature of this relationship:

Hypothesis 3: Political stability has a stronger effect on FDI inflows in countries with military-political instability compared to EU countries.

Hypothesis 4: Political stability has a weaker effect on FDI inflows in countries with military-political instability compared to EU countries.

Hypothesis 5: Political stability affects FDI inflows equally across all countries.

The study employs the following variables:

- dependent variable – net FDI inflows.
- independent variable – Political stability and absence of violence/terrorism: estimate, which measures the likelihood of political instability and violent incidents (Glossary, DataBank).

Political stability and absence of violence/terrorism: estimate index is provided by the World Bank (World Bank Open Data) in a standardized format, ranging from -2.5 to 2.5. Since the indicator lacks fixed normative thresholds, its interpretation is based on cross-country and temporal comparisons (Glossary, DataBank). The choice of this indicator is justified by its direct relevance to geopolitical stability, particularly in the context of armed conflict.

The 2009-2023 period was selected because it offers the most recent and complete set of data on FDI inflows and political stability across all selected countries. This 15-year span reflects the standard duration commonly used in cross-country panel analyses to ensure statistical robustness in correlation and regression models. Anchoring the timeframe to a unified period, rather than to each country's specific conflict timeline, enables consistent comparison across both conflict-affected and stable economies.

To assess the relationship between variables and the influence of factors on the indicators, analytical tools such as Microsoft Excel and STATISTICA are employed. The core methods used include correlation matrices, regression analysis, and analysis of variance (ANOVA).

The interpretation of correlation coefficients allows for an assessment of the strength of relationships between variables: a strong correlation is indicated by values close to ± 1, while a weak correlation is suggested by values near zero.

To determine the nature of the impact of independent variables on FDI inflows, regression analysis is used. The regression equation can be expressed in the general form as follows:

$$Y = \beta + \beta x \, X + \varepsilon \,, \tag{1}$$

where Y – dependent variable (FDI inflows);

X – independent variable (political stability index);

β and βx – regression coefficients;

ε – random error term.

Thus, the key indicators, hypotheses, and research methods have been defined, which will enable the identification of trends in FDI inflows and the evaluation of how military-political instability influences the attractiveness of countries to foreign investors.

5. Results

According to Figure 3, Ukraine demonstrated a volatile pattern of FDI inflows during the period 2009-2023. Similar erratic patterns were seen in Libya, where the effects of its civil war caused net foreign direct investment to turn negative in 2020 (-487 mln USD). Due to protracted political unrest, Sudan recorded comparatively low levels of foreign direct investment (FDI), ranging from 500 to 2,300 mln USD. FDI inflows to Pakistan were modest but comparatively consistent (1,000-2,500 mln USD), suggesting ongoing risks to the economy and security. Since 2013, Iraq's foreign direct investment inflows have been largely negative (e.g., -2,335 mln USD), mostly as a result of the country's ongoing armed conflict and political unrest. Israel showed a more steady and expanding trend, reaching 23,031 mln USD, while Iran reported consistently low figures (80-250 mln USD). India, notably, received significantly higher FDI volumes, peaking at 64,362 mln USD in 2020. FDI flows to Nigeria had a downward trend, falling from 8,556 mln USD in 2009 to less than 2,000 mln USD after 2017, reflecting investor prudence in the face of continued instability. Somalia received small but rising FDI (from 108 to 676 mln USD), possibly due to low base effects and weak investor interest. Myanmar experienced a sharp rise in FDI until 2017 (reaching over 4,800 mln USD), followed by a steep decline due to political turmoil and military rule. Haiti had the lowest levels of FDI, with showing a volatile trend over time.

Figure 4 summarizes the trends in net FDI inflows for selected EU countries. The Czech Republic maintained relatively stable FDI levels, peaking in 2021 (12 891 mln USD). Germany received substantial FDI, particularly in 2018 (162,251 mln USD) and 2020 (176,781 mln USD), confirming its status as a leading investment hub in Europe. France also recorded high inflows, with a peak in 2022 (109,575 mln USD), reflecting continued investor confidence. Poland showed a steady upward trend, reaching a high of 41,780 mln USD in 2022, which underscores its growing role in the regional economy. Romania demonstrated a positive trajectory, with increasing FDI in 2021-2022. Lithuania and Latvia attracted comparatively modest FDI inflows, though a gradual increase has been observed, especially after 2020. Denmark's FDI inflows were inconsistent, including negative values in 2010 (-11,768 mln USD) and 2012 (-16,350 mln USD), which indicate capital reinvestments during those years.

The next stage of the analysis focuses on the Political stability and absence of violence/terrorism indicator. Figure 5 offers a comparative overview of the indicator's dynamics across the selected countries, highlighting trends over time. Among the lowest political stability scores during 2009-2023 were recorded in Iraq, Sudan, Pakistan, and Libya, with values consistently ranging from -2.0 to -2.6, reflecting chronic instability, terrorism, and violence. Ukraine showed relatively stable scores up to 2013. However, the outbreak of war in Donbas in 2014 caused a sharp decline to -2.02.

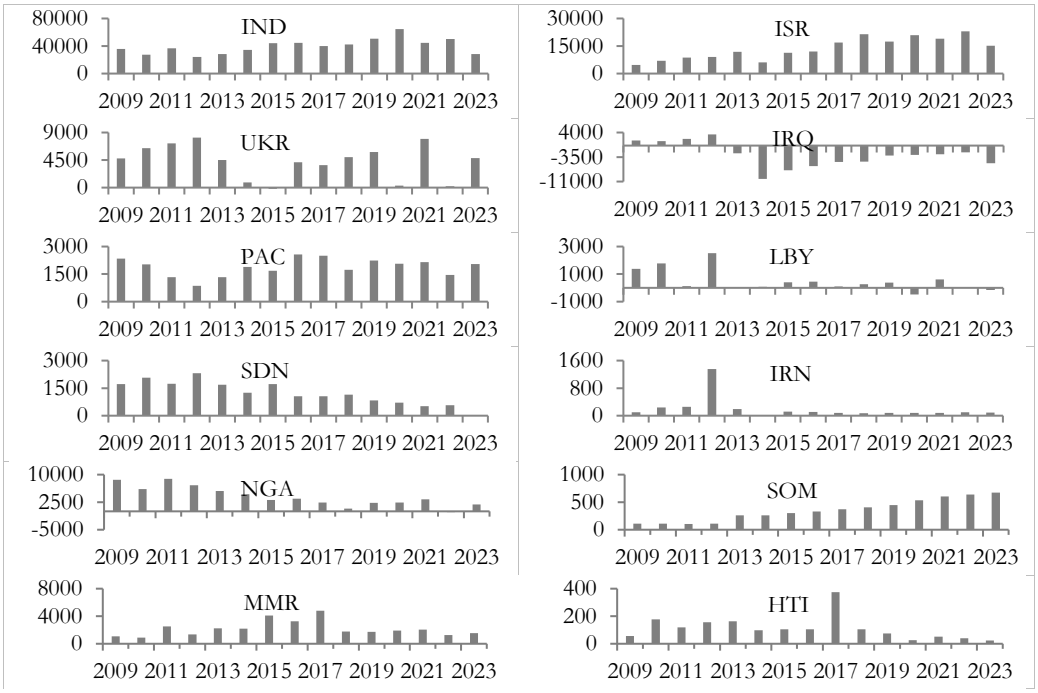

Figure 3: *Trends in FDI net inflows (mln USD, current prices, PPP adjusted) in selected countries with military-political instability, 2009–2023 (based on World Bank Open Data)*

Although there was some partial recovery in subsequent years, the onset of Russia's full-scale invasion in 2022 led to a further deterioration in the index. Israel and India reported stable but still negative values. Despite regional conflicts, Israel maintained better stability scores than many other countries. Most countries consistently exhibit negative and unstable political stability indices.

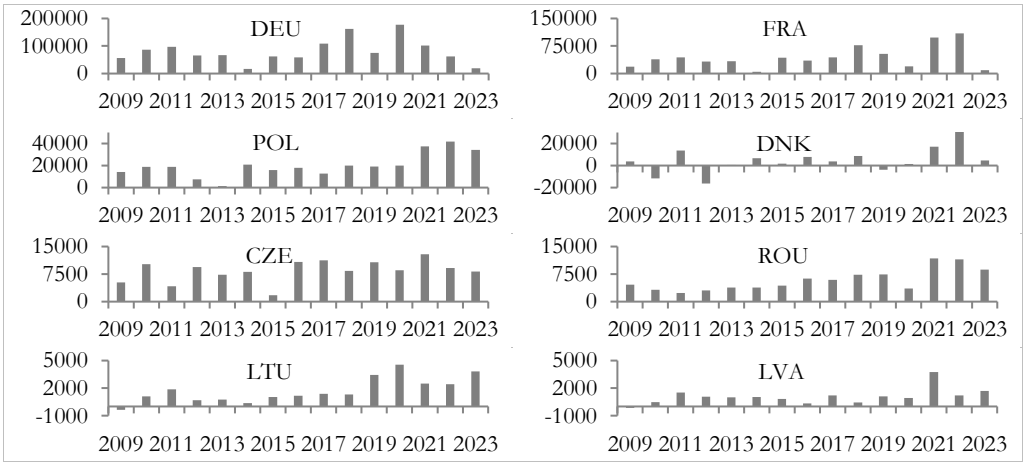

Figure 4: *Trends in FDI net inflows (mln USD, current prices, PPP adjusted) in selected EU countries, 2009–2023 (based on World Bank Open Data)*

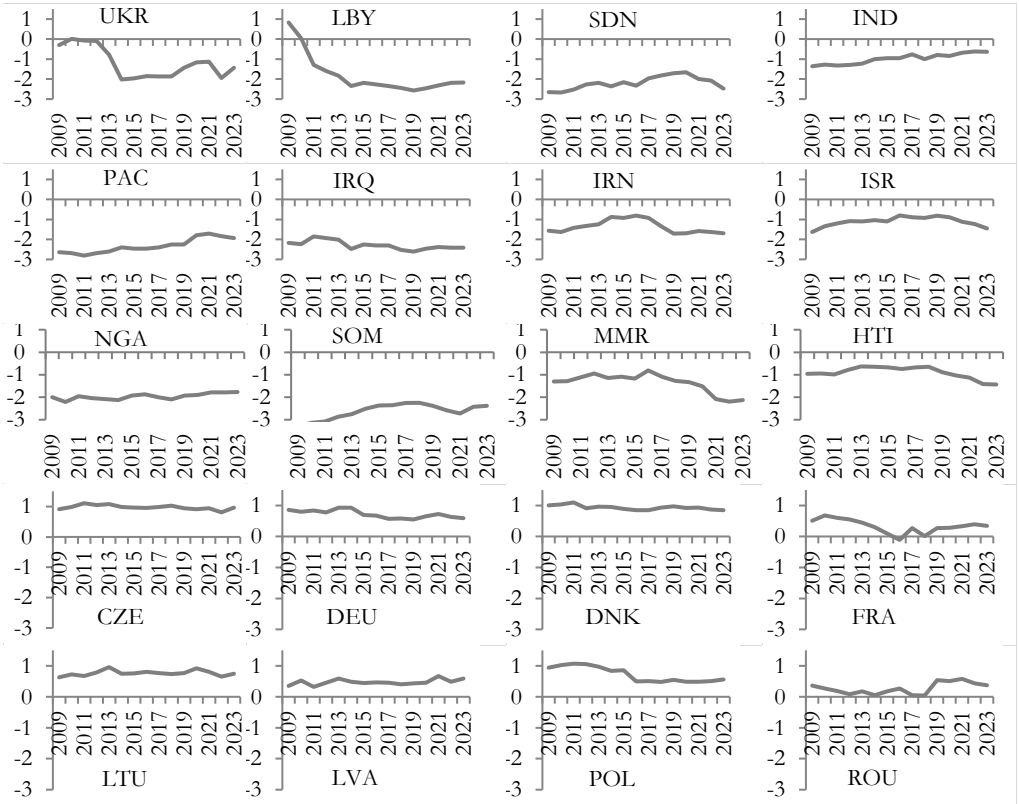

Figure 5: *Trends in political stability and absence of violence/terrorism in selected conflict-affected and EU countries, 2009–2023 (based on World Bank Open Data)*

Denmark, the Czech Republic, and Germany consistently reported high political stability scores (ranging from 0.85 to 1.10), indicating a secure environment for investors. France experienced fluctuations, notably dropping in 2016 (-0.11) due to terrorist attacks and civil unrest. Poland, Lithuania, and Latvia showed a generally positive trend with minor variations, maintaining relative political stability.

Having examined the overall state of military-political stability in the selected countries, we now turn to correlation analysis to evaluate the strength of the relationship between FDI inflows and Political Stability and Absence of Violence/Terrorism. Correlation coefficients were calculated for countries experiencing military conflicts as well as for EU countries over the past 15 years. The summarized results are presented in Table 1. The analysis reveals that, in most cases, countries facing military-political instability exhibit a positive correlation between political stability and FDI inflows. Specifically, Ukraine (0.66), Somalia (0.65), Iraq (0.62), and Libya (0.61) display a moderate to strong positive relationship, indicating that improvements in political stability tend to be associated with higher FDI inflows.Conversely, in the EU countries, the relationship is significantly weaker and predominantly negative. This suggests that in the case of developed and politically stable economies, FDI inflows are influenced more by other macroeconomic and structural factors rather than fluctuations in political stability.

Table 1: Correlation between variables FDI net inflows – Political stability and absence of violence/terrorism: estimate (based on the STATISTICA analysis)

Country	Correlation	Group	Hypothesis Evaluation
Ukraine	0.66	Conflict-affected	H1 confirmed; H3 supported
Libya	0.61	Conflict-affected	H1 confirmed; H3 supported
Sudan	-0.43	Conflict-affected	H1 confirmed; H4 supported
India	0.54	Conflict-affected	H1 confirmed; H3 partially supported
Pakistan	0.25	Conflict-affected	H1 confirmed; H4 supported
Iraq	0.62	Conflict-affected	H1 confirmed; H3 supported
Iran	-0.01	Conflict-affected	H2 confirmed
Israel	0.44	Conflict-affected	H1 confirmed; H4 partially supported
Nigeria	-0.44	Conflict-affected	H1 confirmed; H4 partially supported
Somalia	0.65	Conflict-affected	H1 confirmed; H3 supported
Myanmar	0.39	Conflict-affected	H1 confirmed; H3 supported
Haiti	0.55	Conflict-affected	H1 confirmed; H3 partially supported
Czech Republic	-0.22	EU	H1 confirmed; H3 supported
Germany	-0.35	EU	H1 confirmed; H3 supported
Denmark	-0.17	EU	H1 confirmed; H3 supported
France	-0.13	EU	H1 confirmed; H3 supported
Lithuania	0.27	EU	H1 confirmed; H3 supported
Latvia	0.62	EU	H1 confirmed; H4 supported
Poland	-0.55	EU	H1 confirmed; H4 partially supported
Romania	0.52	EU	H1 confirmed; H4 partially supported

We now proceed to the regression and ANOVA results. For this part of the study, we selected three countries – Ukraine, Iraq, and Libya – where the strongest correlations between variables were observed (Table 2).

Table 2: Summary of ANOVA and regression analysis results (based on the Excel analysis)

Indicator	Ukraine	Libya	Iraq
R Square	0.43	0.37	0.38
Adjusted R^2	0.39	0.32	0.33
F-Statistic	9.89	7.66	8.05
Significance F	0.008	0.02	0.01
Coefficient (X Variable)	2,404.27	492.72	10,725.2
P-value (X)	0.01	0.02	0.01
Intercept	7,110.63	1,390.59	21,626.1
Std. Error	2,190.16	655.02	3,120.1
Interpretation	Moderate strength and statistically significant	Weaker effect than Ukraine or Iraq, but still significant	Moderate investor sensitivity to stability, statistically significant

Based on the regression coefficients, the following linear models can be constructed:

$$Y_{Ukr} = 7{,}110.63 + 2{,}404.27\ X_{Ukr}\ , \quad (2)$$

where X – political stability and absence of violence/terrorism (estimate);
Y – FDI net inflows.

A one-point increase in the political stability index is associated with an increase of 2,404.27 mln USD in FDI inflows in Ukraine.

In Libya, each unit improvement in political stability corresponds to a 492.72 mln USD increase in FDI inflows:

$$Y_{Lby} = 1{,}390.59 + 492.72\ X_{Lby} \quad (3)$$

In Iraq, FDI rises by approximately 10,725.20 mln USD per one-point improvement in political stability, which is the largest increase among all models:

$$Y_{Irq} = 21{,}626.08 + 10{,}725.24\ X_{Irq} \quad (4)$$

Still, the high indicator in Iraq's case (10,725.20 mln USD) doesn't mean the relationship is stronger than in Ukraine – it means the magnitude of FDI response per unit change in political stability is larger. The R^2 (0.38) still shows only a moderate strength of association.

The political stability variable shows positive coefficients in all three models, indicating that higher FDI inflows are linked to political stability.

Political stability accounts for approximately 32% (0.32) to 39% (0.39) of the variance in foreign direct investment inflows, according to the moderate relationship indicated by the R2 values, which range from 0.37 to 0.43. This moderate but significant relationship is confirmed by the slightly more conservative estimate provided by the adjusted R2 values.

The results confirm Hypotheses 1 and 3, indicating that political stability positively influences FDI inflows, and that its impact is stronger in countries with military-political instability. This suggests that, in conflict-affected settings, political stability plays a critical role in attracting foreign investment.

6. Discussion

This study advances the debate on wartime investment by demonstrating that FDI responses to political instability are conditional rather than uniformly negative. In line with Li (2006), political instability tends to repel investment, but our evidence underscores instances – Ukraine, Iraq, Libya, Somalia – where even limited stability improvements induce considerable FDI inflows. These results support risk–opportunity trade-off and signaling effect (e.g., peace-building, foreign intervention) nuanced models (Barry, 2018), and are consistent with Faeth's (2009) dynamic models of investor behavior during conflict.

By including both conflict-affected and stable EU states, this research achieves breadth and analytical depth. However, geopolitical heterogeneity also constrains generalizability: strong positive correlations in post-conflict states (e.g., Ukraine: 0.66; Iraq: 0.62) contrast sharply with weak or negative links in mature EU economies (e.g., Germany: -0.35; Poland: -0.55). This divergence suggests that in low-risk environments, structural determinants – innovation capacity, labor policy, infrastructure – supersede

political factors, which are largely assumed constant. Accordingly, extrapolation of our statistical patterns to other contexts should be made with caution.

Our analysis confirms that military conflict substantially undermines FDI inflows, whereas improvements in political stability drive investor interest in wartime contexts. To operationalize these findings into actionable policy, empirical evidence highlights three intervention pathways:

1. Governance reforms. Enhanced transparency and anti-corruption measures can reduce FDI recovery time by 2–3 % per unit increase in policy strength, partly offsetting the average 37 % decline observed under instability (Moore, 2021; Anjum et al., 2024).
2. Diplomatic and peace-building initiatives. Measures such as comprehensive peace agreements (Joshi & Quinn, 2018) and EU candidacy processes (Riznyk, 2023) coincide with tangible FDI rebounds – for example, Ukraine's inflows rose to 7.95 billion USD in 2021 during its EU accession negotiations.
3. Direct risk-mitigation deployments. Security-based interventions, notably UN police deployments, increase the probability of new investments by 2.9 percentage points per 100 officers on the ground (Hunnicutt, 2023). By contrast, international aid alone – when uncoupled from institutional reforms – may inadvertently signal unresolved risks and slow FDI recovery.

These examples illustrate how specific policy interventions can convert improvements in political stability into concrete capital flows, providing a practical agenda for conflict-affected governments to make investment more resilient. Although our results reaffirm the dampening impact of armed conflict on FDI, they also highlight that intentional policy interventions – governance reforms, diplomatic arrangements, and direct security initiatives – can hedge against these risks and stimulate recovery. By progressing from correlation to actionable specificity, this research makes both theoretical and practical contributions to the crafting of investment-friendly strategies during times of war.

While the scope of this study is limited to a selected group of countries, it maintains methodological balance by including both conflict-affected and stable states. That is essentional to note, that the analysis relies solely on the Political Stability and Absence of Violence Index, omitting other institutional dimensions – governance quality, corruption levels, judicial independence – that could further explain FDI patterns. Future work should integrate these variables to enhance explanatory power and consider a larger, more diverse country sample to improve generalizability. Looking ahead, future research could benefit from integrating additional institutional variables to further explore the broader determinants of FDI, as well as from expanding the sample size to include more countries to enhance the generalizability and precision of the conclusions drawn. The inverse or negligible correlations in EU states point to the importance of non-political drivers – technological advancement, labor dynamics, fiscal regimes – in low-risk settings. Subsequent studies could disaggregate sector-specific FDI behavior, employ higher-frequency panel data in active conflict zones, examine how governance, corruption, and legal frameworks mediate investment during wartime.

7. Conclusions

This study set out to examine the intersection between foreign direct investment and geopolitical stability, particularly in the context of armed conflict. The relevance of the research was confirmed by both growing public interest in global conflict-related issues and a measurable increase in academic attention to the topic of FDI under conditions of war (Joshi & Quinn, 2018; Maher, 2015; Moore, 2021; etc). Scientometric analysis of the Scopus database revealed a marked rise in scholarly publications addressing the war – FDI nexus in recent years, with a notable concentration of research activity in economically advanced countries such as the United States, the United Kingdom, and China (Scopus database).

A comprehensive literature review further validated the increasing concern within the academic community regarding the impact of military and political instability on global investment flows. Scholars have increasingly recognized the strategic importance of understanding how geopolitical factors shape investor behavior and, consequently, how post-conflict economies can restore and attract foreign capital. This study contributes to this growing discourse by offering empirical insights into the dynamics of FDI across countries with varying levels of geopolitical stability.

The further study analyzed the status and trends of foreign direct investment inflows in countries with varying levels of geopolitical stability over the period from 2009 to 2023. Special attention was paid to evaluating the influence of military and political factors on FDI levels, comparing two distinct groups of countries: those affected by armed conflict and those with relatively stable political environments, such as EU member states.

The correlation, regression and ANOVA analyses conducted in this study provided statistically significant findings, which allowed for the confirmation or rejection of several key hypotheses. Specifically, results confirmed Hypotheses 1 and 3, while refuting Hypotheses 2, 4, and 5. One key takeaway is that political stability and the absence of violence/terrorism have a stronger influence on FDI inflows in conflict-affected countries than in geopolitically stable ones. Ukraine, Libya and Iraq were selected for deeper econometric analysis due to the strength of correlations observed in these cases.

Regression results revealed a statistically significant relationship between political stability and FDI inflows in all three countries. In particular, Ukraine's model shows that a one-point increase in political stability corresponds to an estimated 2.4 billion USD increase in FDI, highlighting the sensitivity of investment flows to improvements in governance and security. This pattern holds for Libya and Iraq as well, albeit at different magnitudes.

Overall, the findings highlight several key trends regarding the impact of military and political instability on foreign direct investment:

1. Military conflicts significantly reduce a country's investment attractiveness, limiting its ability to attract FDI.
2. Political stability plays an essential role in determining FDI inflows in conflict-affected countries. The regression models and correlation analyses consistently show that improvements in political conditions are associated with increased investor interest and higher levels of foreign capital.

3. Investors are more sensitive to political risks in unstable environments. In these contexts, the perceived danger associated with violence, terrorism, and governance inefficiencies becomes a decisive factor in investment decisions, often outweighing purely economic considerations.
4. In stable countries such as those in the EU, political stability plays a relatively minor or even negative role. This suggests that in politically stable and economically mature environments, investors are more likely to base their decisions on other variables, such as market size, innovation potential, labor productivity or others. Political conditions are assumed to be a given and are therefore less influential in driving investment decisions.

The results of this study may be used by policymakers, international organizations, and development agencies to design investment strategies, improve political stability, and tailor economic assistance and risk assessments in conflict-affected or fragile states.

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