

The Political Risk Effects On Foreign Direct Investment: Lebanese Case

Youssef AbdulKhalek, Malak Tlais

Lebanese International University

DOI: 10.29322/IJSRP.9.07.2019.p9135
<http://dx.doi.org/10.29322/IJSRP.9.07.2019.p9135>

Abstract- It examined and identified some political risks indicators (Government effectiveness, Political Stability and Absence of Violence, Control of Corruption, Law & Order, Regulatory Quality and Accountability and voice) that exist in Lebanon and may affect the investment decision of foreign investors. Empirical study for the Lebanese political risks and the inflow of FDI to this country was performed where the quantitative secondary data was collected for span between 2002 and 2016. For this job, a systematic approach of variable analysis and panel regression approach combined with factor analysis were used to test which political risk factor significantly affect the FDI inflow in Lebanon. The results were tested through ANOVA test with 0.05 significance. The results showed that corruption and law and order are the main factors that significantly predict the FDI inflow in Lebanon as well as the GDP per capita and the economy openness. At the end, it is recommended for the Lebanese government and Ministry of Economy and Trade in Lebanon to work on controlling corruption and the law and order should be improved through governance and control plans to shift the negative perception of foreign investors and build up good reputations about Lebanon as a host country.

Index Terms- Foreign direct investment, Politics, stability, GDP, Corruption, Government effectiveness, Law and orders.

I. INTRODUCTION

However, Lebanon enjoys an attractive investment environment with diversified industry and liberal economy his economy faced various political instabilities and violence which lead to different stagnations. Since 1990 when Lebanon faced the civil war, the Lebanese government tried to rebuild the country through attracting multinational companies to invest in Lebanon. In 1994, the General Office of Investment Promotion (IDAL) was established to provide some bureaucratic initiatives in order to attract and rise the FDI to the country. In 2001, IDAL Investment Law Number 360 was generated to state investment opportunities and incentives in different sectors for both local and foreign investors. The Lebanese government support law 360 by tax exemptions, and providing fiscal incentives. Between 2005 and 2009 tourism and real estate sectors were significant components of the country's economy. Moreover, the banking and finance sector was the key sector for growth levels in this period. Additionally, the free economic system in Lebanon and the effective banking system attract the global foreign investments to Lebanon. The FDI inflows increases in this period for about

\$2.6Bn in 2005 to double it \$4.8Bn in 2009. The crisis that the MENA countries faced in 2007 do not prevent the Lebanese and Arab investors from moving money to Lebanon to invest in the property market.

The global financial crisis and regional conflicts in 2011 influenced the FDI inflow to Lebanon mainly in the real estate sector where the GCC countries reduce their investments which lead to decline the FDI inflow by about 25.2% between 2010 and 2011 to be \$3.2Bn. The regional political volatility and tension and the internal political paralysis affected directly the Lebanese economy which was based on real estate, services and constructions. According to the ministry of Economy & Trade, 55 multinational companies including three U.S. companies, launched new branches in Lebanon where the foreign companies in Lebanon (year 2013) are distributed as 48.7% share of the new location, 26.5% for the new co-location and 24.8% for the expansion companies. The trade/retail, tourism and services sectors are the most investment sectors for the multinational companies (60% of the total investment projects). These companies choose Lebanon as a market for their products (pharmaceutical & chemical, machinery and equipment...etc.). Otherwise, the foreign companies invest different services branches including the financial consultant, transportation, education and research and healthcare. Also, they invest in hotels, media, information technology and telecommunication. Most of these investors were from Europe (45%) at the time the Arab companies decreases their investments in Lebanon. (IDAL, 2013). Additionally, the FDI inflows continue declining in 2014 by over 25% y-o-y. Meanwhile the Lebanese government was unable to recover the economy through new reforms at the time corruption is pervasive.

The internal political system in Lebanon is still facing paralysis especially due to the Islamic States fighters. This paralysis weakens the foreign direct investors' confidence in investing in Lebanon. Since May 2014, when Lebanon was without president and the parliament failed to make elections from June 2013 till 2017. This period was full with incursions by the Islamic State terrorist group. Lebanon faced bad economic performance due to tensions that threaten new investments in the country.

In 2015 many heightened tensions threaten foreign investors activity in Lebanon especially due to the geopolitical division between Iran which give military support for Hezbollah and Saudi Arabia which provide financial support for the Lebanese army cause a political split in Lebanon as well as the Syrian conflict do. Nonetheless, the postponed parliamentary

elections from June 2013 until 2017 creates a political turmoil in the country that lead in a way to slowing down the economy in the country despite the FDI remains the main component of the GDP. Due to the big importance and role that FDI play in the GDP, the Lebanese government made 54 bilateral agreements as a way to protect the foreign investors and provide them with a favorable investment environment and about 32 tax conventions that promote the capital inflow. The government provide these investors with security as well as equality in treatment and non-discriminable dealing.

FDI Key Players:

- 1- The General Office of Investment Promotion (IDAL): that play a critical role in rising the FDI level in Lebanon by attracting and facilitating foreign and local investments to Lebanon by offering incentives (Import Duty exemptions and VAT) and investment opportunities depending on up to date statistics and studies. IDAL provide administrative and legal advice to support these investors.
- 2- The Lebanese economic system which maintain free exchange and favorable tax climate compared with most of the MENA region countries. The government provide tax breaks that contribute to rise the capital inflow to Lebanon. The Investment Development Authority of Lebanon with the government has passed the Investment Law 360 in 1994 that aim to stimulate investment activities to Lebanon which as implemented in 2001 as well as various laws to attract these investments. Despite the political paralysis that occur in the country, the government commit in providing a safe business climate.
- 3- The Package Deal Contract (PDC) scheme: give different fiscal and labor incentives.

Research Hypothesis

HI₀. The investment decision of the multinational companies is significantly influenced by political risk indicators.

HI₁. Political risks negatively affect the FDI.

HI₂. Lebanese market has a major political factors that is affecting the FDI in Lebanon

II. RESEARCH METHODOLOGY

Few studies have been conducted based on the impact of political risk on the FDI inflows in Lebanon as a host country. This study is conducted for many goals in mind. First, to examine and

identify some political risks indicators (internal-external conflict, corruption, government effectiveness, religious and ethnic tensions, investment profile, civil violence, effectiveness of the government in the management of the country, terrorist attacks, quality of institutions, democratic accountability of the government, law and orders, socio-economic conditions) that exist in Lebanon and that may affect the investment decision of foreign investors. This study aims to capture the impact of political risks on the FDI inflow in Lebanon as a host country which is an important monitor of the economic growth in the country. According to the findings the hypotheses are tested to indicate whether the investment decision of the multinational companies is significantly influenced by political risk indicators. The results from this research will stimulate a financial discussion concerning the factors and criteria that affects foreign investors investment decision making process by finding the political components that mostly impact this process.

Description of variables and data:

Source of Data:

The data sources are provided by the World Bank reports and country data published by the Lebanese Ministry of Finance, Lebanese Ministry of Economy and Banque du Liban(BDL). It was supported and verified by comparing the data collected with reports and articles issued by local economic and finance institutions such as: Audi Bank, BLOM Bank and Byblos Bank.

Definitions of variables:

We consider the FDI inflows in the unit millions of dollar as a unique dependent variable. Moreover, different important control independent variables of the FDI in Lebanon were used: political risk, GDP per capita and openness of the economy. After that, other variables have been included in the study as political risk components such as: Government effectiveness, Political Stability and Absence of Violence, Control of Corruption, Law & Order, Regulatory Quality and Accountability and voice.

a. GDP per capita: since, theoretically, the year that holds the largest market size and GDP per capita, the more profits gained in this year by foreign investors and thus the higher FDI.

b. Openness of the economy: is denoted by the amount of exports and imports over GDP per capita.

The equation used in this study is algebraically expressed as follows:

$$FDI_t = \alpha + \beta_1 GDP_t + \beta_2 Openness_t + \beta_3 PRS_{kt} + e_t$$

Where t is the year and the table below can explain the variables used:

Code	Variable	Description
FDI	Logarithm of Foreign direct investment net inflows (BoP, current US\$)	Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. Data are in current U.S. dollars (The World Bank, 2017)
GDPP	Logarithm of GDP per capita measured in current US\$	This term measures the ratio of the nominal GDP over the population. (The PRS Group)
Openness	Openness of the economy	the amount of exports and imports over GDP per capita.
PRS_k	Logarithm of the Political Risk Component k of Lebanon	k refers to one of six political components: Government Effectiveness, Political Stability and Absence of Violence/Terrorist, Control of Corruption, Regulatory Quality, Law & Order and Voice and Accountability.
e	Estimated errors	
β₁, β₂ and β₃	Coefficients	

Table 1: Variables Description

Thus the equation will be in this form:

$$FDI_t = \alpha + \beta_1 GDPP_t + \beta_2 Openness_t + \beta_3 PRSGE_t + \beta_4 PRSCC_t + \beta_5 PRSLO_t + \beta_6 PRSAV_t + \beta_7 PRSPS_t + \beta_8 PRSRQ_t + e_t$$

Where the table below can explain the variables used:

Code	Variable	Description
PRSGE	Government Effectiveness	The index of Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. (The World Bank, 2018)
PRSCC	Control of Corruption	The index for Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests (The World Bank, 2018)

PRSLO	Law & Order	The index for Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (The World Bank, 2018)
PRSAV	Accountability and Voice	The index for Voice and Accountability captures perceptions of the extent to which the citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. (The World Bank, 2018)
PRSPS	Political Stability and Absence of Violence/Terrorist	The index of Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. The index is an average of several other indexes from the Economist Intelligence Unit, the World Economic Forum, and the Political Risk Services, among others. (The World Bank, 2018)
PRSRQ	Regulatory Quality	The index of Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. (The World Bank, 2018)
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \text{ and } \beta_8$	Coefficients	

Table 2: Political Variables' Description

In this equation we would be measuring the effect of each independent variable as one unit on the changes on the value of FDI.

Since the study examines a Lebanon data over a span of time, panel data is a more appropriate methodology for the study.

Data analysis methods:

The method employed to get answers for the research question was panel regression approach combined with factor analysis as a way to test which component of political risk affect more the deterring FDI inflow in Lebanon.

We choose simple OLS regression method for analyzing the effect of each variable on the FDI variable. This technique for estimation is applied using SPSS software where the results were tested through ANOVA test with 0.05 significance level (confidence level 95%) that aims to show the real and consistent effect of the control variables from one side and the FDI on the other side. This technique allows us to test the binding levels among the variables and to test the power of the suggested model. The results extracted from the regression tables will allow us to reject or fail to reject the null hypothesis at 0.05 level.

III. FINDINGS AND RESULTS

1. DATA ANALYSIS METHOD

1.1. Collected Data:

The following table includes all the needed data for the analysis:

Index	Year														
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Foreign direct investment, net inflows (BoP, current US\$) (unique dependent variable)	1335970000	2860020313	1898780570	2623502612	2674534372	3375980758	4333045470	4803602660	4279880835	3137050288	3111318172	2661096474	2907118548	2353206729	2610181957
GDP per capita (PPP)(IDV)	5436.595223	5425.66907	5424.22356	5339.441291	5372.065899	6014.271115	7109.466413	8480.945504	8858.283977	8734.189185	8922.896752	8721.254215	8536.682494	8452.443641	8257.294391
Openness of the economy index(IDV)	58.9	57.9	58.78571429	56.98571429	57.42857143	59.48571429	57.4	57.18571429	59.48571429	61.1	60.27142857	59.64285714	59.64285714	59.14285714	59.28571429
Government effectiveness(IDV)	-0.29	-0.21	-0.26	-0.19	-0.26	-0.33	-0.42	-0.47	-0.28	-0.27	-0.35	-0.4	-0.38	-0.47	-0.53
Control of corruption(IDV)	-0.48	-0.67	-0.66	-0.53	-0.94	-0.89	-0.82	-0.83	-0.88	-0.9	-0.87	-0.92	-1.04	-0.88	-0.97
Rule and Order(IDV)	29.33	29.5	29.65	29.51	29.15	29.04	29.08	29.27	29.34	24.25	24.13	19.14	18.98	18.88	18.8

e= error term

b1, b2, and b3 ... bi are the regression parameters

In standardized form:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8$$

Noting that X3, X4, X5, X6, X7, X8 are the elements of the Political risk as shown in the following table:

Political Risk Elements

political risk	PRSk
Government Effectiveness	PRSGE (X3)
Control of Corruption	PRSCC (X4)
Law & Order	PRSLO (X5)
Accountability and Voice	PRSAV (X6)
Political Stability and Absence of Violence/Terrorist	PRSPS (X7)
Regulatory Quality	PRSRQ (X8)

Table 4: Political Risk Elements

Before Testing

Before we start our test, we are going to test simple regression for each separate independent variable and its effect on the FDI. If the selected variable is important, then we consider it in the global model, else, we are going to omit it from the system.

Significance level

We test the hypothesis at a significance level $\alpha = 0.05$ (5%)

Rejection region

Reject the null hypothesis if $p\text{-value} \leq 0.05$ and conclude significance with alternative hypothesis

FACT FINDING RESULTS

Model Analysis

Statistical summary

Table 1: Descriptive statistics of the variables

Model Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FDI inflows	15	1335970000	4803602660	3.00E9	9.174E8
GDP per capita	15	5339.4413	8922.8968	7272.381515	1559.5345289
openness of the economy	15	56.98571429	61.10000000	58.8428571440	1.21598920025
Government Effectiveness	15	-.53	-.19	-.3407	.10173
Control of Corruption	15	-1.04	-.48	-.8187	.16128
Law & Order	15	18.80	29.65	25.8700	4.66492
Accountability and Voice	15	-.66	-.28	-.4260	.08887
Political Stability and Absence of Violence/Terrorist	15	-2.12	-.36	-1.4267	.53244
Regulatory Quality	15	-.36	.05	-.1720	.11876
Valid N (list-wise)	15				

The above table summarizes all variables on focus with number of observation, the minimum, maximum, mean and standard deviation of each variable.

Correlation matrix of independent variables

The sig value in the table below represents the significance of the relation. At $\alpha = 0.05$ (5%), if $\text{sig} < 0.05$, Then the relation is important.

The table below shows correlation between variables and their importance:

Correlations

		GDP per capita	openness of the economy	Government Effectiveness	Control of Corruption	Law & Order	Accountability and Voice	Political Stability and Absence of Violence/Terrorist	Regulatory Quality
GDP per capita	Pearson Correlation	1	.568*	-.619*	-.679**	-.659**	.247	-.556*	.282
	Sig. (2-tailed)		.027	.014	.005	.008	.376	.031	.309
	N	15	15	15	15	15	15	15	15
openness of the economy	Pearson Correlation	.568*	1	-.115	-.422	-.543*	-.168	-.226	.090
	Sig. (2-tailed)	.027		.683	.117	.037	.550	.418	.749
	N	15	15	15	15	15	15	15	15
Government Effectiveness	Pearson Correlation	-.619*	-.115	1	.549*	.622*	.197	.507	.349
	Sig. (2-tailed)	.014	.683		.034	.013	.481	.054	.203
	N	15	15	15	15	15	15	15	15
Control of Corruption	Pearson Correlation	-.679**	-.422	.549*	1	.608*	-.221	.831**	-.049
	Sig. (2-tailed)	.005	.117	.034		.016	.428	.000	.862
	N	15	15	15	15	15	15	15	15
Law & Order	Pearson Correlation	-.659**	-.543*	.622*	.608*	1	.115	.360	.273
	Sig. (2-tailed)	.008	.037	.013	.016		.682	.187	.325
	N	15	15	15	15	15	15	15	15
Accountability and Voice	Pearson Correlation	.247	-.168	.197	-.221	.115	1	-.380	.691**
	Sig. (2-tailed)	.376	.550	.481	.428	.682		.162	.004
	N	15	15	15	15	15	15	15	15
Political Stability and Absence of Violence/Terrorist	Pearson Correlation	-.556*	-.226	.507	.831**	.360	-.380	1	-.003
	Sig. (2-tailed)	.031	.418	.054	.000	.187	.162		.992
	N	15	15	15	15	15	15	15	15
Regulatory Quality	Pearson Correlation	.282	.090	.349	-.049	.273	.691**	-.003	1
	Sig. (2-tailed)	.309	.749	.203	.862	.325	.004	.992	
	N	15	15	15	15	15	15	15	15

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Table 6: Correlations

Regression results analysis**Variables Entered/Removed^b**

Model	Variables Entered	Variables Removed	Method
1	X8 = Regulatory Quality, X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X3 = Government Effectiveness, X5 = Law & Order, X4 = Control of Corruption, X6 = Accountability and Voice, X1 = GDP per capita	.	Enter
2	.	X3 = Government Effectiveness	Backward (criterion: Probability of F-to-remove \geq .100).
3	.	X8 = Regulatory Quality	Backward (criterion: Probability of F-to-remove \geq .100).
4	.	X6 = Accountability and Voice	Backward (criterion: Probability of F-to-remove \geq .100).
5	.	X7 = Political Stability and Absence of Violence/Terrorist	Backward (criterion: Probability of F-to-remove \geq .100).

a. All requested variables entered.

b. Dependent Variable: Y = FDI inflows

Table 2: Regression results analysis

In backward selection, SPSS enters all the predictor variables into the model. The weakest predictor variable is then removed and the regression re-calculated. If this significantly weakens the model then the predictor, variable is re-entered – otherwise it is deleted. This procedure is then repeated until only useful predictor Variables remain in the model.

Model Summary

Model Summary^f

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.947 ^a	.898	.761	4.483E8	
2	.947 ^b	.898	.795	4.151E8	
3	.947 ^c	.897	.820	3.891E8	
4	.947 ^d	.897	.840	3.670E8	
5	.942 ^e	.888	.843	3.633E8	2.930

- a. Predictors: (Constant), X8 = Regulatory Quality, X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X3 = Government Effectiveness, X5 = Law & Order, X4 = Control of Corruption, X6 = Accountability and Voice, X1 = GDP per capita
- b. Predictors: (Constant), X8 = Regulatory Quality, X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X5 = Law & Order, X4 = Control of Corruption, X6 = Accountability and Voice, X1 = GDP per capita
- c. Predictors: (Constant), X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X5 = Law & Order, X4 = Control of Corruption, X6 = Accountability and Voice, X1 = GDP per capita
- d. Predictors: (Constant), X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X5 = Law & Order, X4 = Control of Corruption, X1 = GDP per capita
- e. Predictors: (Constant), X2 = openness of the economy, X5 = Law & Order, X4 = Control of Corruption, X1 = GDP per capita
- f. Dependent Variable: Y = FDI inflows

Table 3: Model Summary

The model summary contains five models:

Model 1 refers to the first stage in the multiple regressions when all variables (X1 to X8) are used as predictors.

In **Model 2**, X3 was omitted.

In **Model 3**, X8 was omitted.

In **Model 4**, X6 was omitted.

In **Model 5**, X7 was omitted.

In the column labeled R are the values of the multiple correlation coefficients between the predictors and the outcome. The next column gives us a value of R², which is a measure of how much of the variability in the outcome is accounted for by the predictors. For the first model its value is 0.898, which means that:

1. All variables (X1 to X8) accounts for 89.8% of the variation in the Investment value. However, for the final model (model 5), this value decreases to 0.888 or 88.8% of the variance in Investment value.
2. The Adjusted R Square value tells us that our model accounts for 84.3% of variance in the FDI – a very good model!

Finally, the Durbin-Watson statistic (found in the last column), informs us about whether the assumption of *independent errors is tenable*. The closer to 2 that the value is, the better. For these data, the value is 2.930, which is so close to 2 that the assumption has almost certainly been met knowing that Durbin-Watson is usually between 0 and 4.

NOVA Table

In ANOVA we are trying to determine how much of the variance is accounted for by our manipulation of the independent variables (relative to the percentage of the variance we cannot account for).

ANOVA^f

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.058E19	8	1.322E18	6.578	.017 ^a
	Residual	1.206E18	6	2.010E17		
	Total	1.178E19	14			
2	Regression	1.058E19	7	1.511E18	8.770	.005 ^b
	Residual	1.206E18	7	1.723E17		
	Total	1.178E19	14			
3	Regression	1.057E19	6	1.762E18	11.639	.001 ^c
	Residual	1.211E18	8	1.514E17		
	Total	1.178E19	14			
4	Regression	1.057E19	5	2.114E18	15.700	.000 ^d
	Residual	1.212E18	9	1.347E17		
	Total	1.178E19	14			
5	Regression	1.046E19	4	2.616E18	19.821	.000 ^e
	Residual	1.320E18	10	1.320E17		
	Total	1.178E19	14			

- a. Predictors: (Constant), X8 = Regulatory Quality, X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X3 = Government Effectiveness, X5 = Law & Order, X4 = Control of Corruption, X6 = Accountability and Voice, X1 = GDP per capita
- b. Predictors: (Constant), X8 = Regulatory Quality, X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X5 = Law & Order, X4 = Control of Corruption, X6 = Accountability and Voice, X1 = GDP per capita
- c. Predictors: (Constant), X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X5 = Law & Order, X4 = Control of Corruption, X6 = Accountability and Voice, X1 = GDP per capita
- d. Predictors: (Constant), X7 = Political Stability and Absence of Violence/Terrorist, X2 = openness of the economy, X5 = Law & Order, X4 = Control of Corruption, X1 = GDP per capita
- e. Predictors: (Constant), X2 = openness of the economy, X5 = Law & Order, X4 = Control of Corruption, X1 = GDP per capita
- f. Dependent Variable: Y = FDI inflows

Table 4: ANOVA Report

This table reports an ANOVA, which assesses the overall significance of our model.

Conclusion:

At $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that at least one of the predictors is useful for predicting FDI value. Therefore, as $p < 0.05$ (Model 3, Model 4, Model 5), are significant models.

Model Parameters

The next part of the output is concerned with the parameters of the model. We are more interested in the last model because this includes all predictors that make a significant contribution to predicting Investment value. Therefore, we will look only at the last model (Model 5) in the table. This model makes the most valuable contributions of the attributes.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.240E10	1.338E10		.926	.390		
	X1 = GDP per capita	537316.584	233104.792	.913	2.305	.061	.109	9.205
	X2 = openness of the economy	-3.312E8	2.268E8	-.439	-1.460	.195	.189	5.299
	X3 = Government Effectiveness	56459486.95	3.214E9	.006	.018	.987	.134	7.445
	X4 = Control of Corruption	-1.555E9	2.034E9	-.273	-.764	.474	.133	7.492
	X5 = Law & Order	1.611E8	67941731.10	.819	2.371	.055	.143	6.997
	X6 = Accountability and Voice	-5.784E8	3.852E9	-.056	-.150	.886	.122	8.164
	X7 = Political Stability and Absence of Violence/Terrorist	-4.127E8	7.247E8	-.240	-.570	.590	.096	10.371
	X8 = Regulatory Quality	4.493E8	2.821E9	.058	.159	.879	.128	7.820
2	(Constant)	1.223E10	8.846E9		1.383	.209		
	X1 = GDP per capita	534529.569	158131.336	.909	3.380	.012	.202	4.942
	X2 = openness of the economy	-3.282E8	1.397E8	-.435	-2.350	.051	.427	2.344
	X4 = Control of Corruption	-1.559E9	1.866E9	-.274	-.836	.431	.136	7.357
	X5 = Law & Order	1.615E8	59504704.82	.821	2.714	.030	.160	6.261
	X6 = Accountability and Voice	-5.401E8	2.939E9	-.052	-.184	.859	.180	5.544
	X7 = Political Stability and Absence of Violence/Terrorist	-4.079E8	6.195E8	-.237	-.658	.531	.113	8.841
	X8 = Regulatory Quality	4.495E8	2.612E9	.058	.172	.868	.128	7.820
	3	(Constant)	1.130E10	6.564E9		1.722	.123	
X1 = GDP per capita		551602.929	115418.815	.938	4.779	.001	.334	2.996
X2 = openness of the economy		-3.166E8	1.148E8	-.420	-2.758	.025	.555	1.802
X4 = Control of Corruption		-1.730E9	1.482E9	-.304	-1.167	.277	.189	5.286
X5 = Law & Order		1.694E8	35341209.37	.861	4.794	.001	.398	2.513
X6 = Accountability and Voice		-1.093E8	1.444E9	-.011	-.076	.942	.657	1.522
X7 = Political Stability and Absence of Violence/Terrorist		-3.291E8	3.916E8	-.191	-.840	.425	.249	4.021
X8 = Regulatory Quality		4.495E8	2.612E9	.058	.172	.868	.128	7.820
4	(Constant)	1.125E10	6.160E9		1.827	.101		
	X1 = GDP per capita	548365.699	101108.804	.932	5.424	.000	.387	2.585
	X2 = openness of the economy	-3.142E8	1.037E8	-.416	-3.029	.014	.605	1.654
	X4 = Control of Corruption	-1.733E9	1.398E9	-.305	-1.240	.246	.189	5.282
	X5 = Law & Order	1.686E8	31848834.02	.857	5.295	.000	.436	2.295
	X7 = Political Stability and Absence of Violence/Terrorist	-3.229E8	3.610E8	-.187	-.894	.394	.260	3.840
	X8 = Regulatory Quality	4.495E8	2.612E9	.058	.172	.868	.128	7.820
5	(Constant)	1.159E10	6.087E9		1.904	.086		
	X1 = GDP per capita	565718.541	98232.578	.962	5.759	.000	.402	2.490
	X2 = openness of the economy	-3.317E8	1.008E8	-.440	-3.289	.008	.627	1.595
	X4 = Control of Corruption	-2.714E9	8.571E8	-.477	-3.167	.010	.493	2.027
	X5 = Law & Order	1.774E8	30016821.53	.902	5.908	.000	.481	2.080

a. Dependent Variable: Y = FDI inflows

Table 5: Coefficients

In multiple regression the model takes the form of an equation that contains a coefficient (b) for each predictor. The first part of the table gives us estimates for these b values and these values indicate the individual contribution of each predictor to the model. The b values tell us about the relationship between FDI value and each predictor. If the value is positive, we can tell that there is a positive relationship between the predictor and the outcome whereas a negative coefficient represents a negative relationship. For these data, two predictors have positive b values indicating positive relationships and the other two has a negative value indicating negative relationships.

The tolerance values are a measure of the correlation between the predictor variables and can vary between 0 and 1. The closer to zero the tolerance value is for a variable, the stronger the relationship between this and the other predictor variables. You should worry about variables that have a very low tolerance. SPSS will not include a predictor variable in a model if it has a tolerance of less than 0.0001.

VIF is an alternative measure of collinearity (in fact it is the reciprocal of tolerance) in which a large value indicates a strong relationship between predictor variables.

Since all dependent variables has a variance inflation factor (VIF) very small, this indicates that no multi-collinearity between variables. In other words, Predictors variables has no multi effect. In general, As $VIF < 10$ it will be good.

We can summarize the result in the following table:

Model 5	B	t	Sig (p-value)
(constant)	11,589,958,548.214834	1.904	0.086
X1 = GDP per capita (GDPP)	565,718.5411062313	5.75	0.000
X2 = openness of the economy (Openness)	-331,672,372.2129736	-3.28	0.008
X4 = Control of Corruption (PRSCC)	-2,714,237,318.662012	-3.16	0.010
X5 = Law & Order (PRSLO)	177,352,175.22063538	5.90	0.000

Table 1: Results of the Analysis

Based on the above table we can conclude the regression equation as:

$$FDI = 11,589,958,548.214834 + 565,718.5411062313 * \text{GDP per capita} - 331,672,372.2129736 * \text{openness of the economy} - 2,714,237,318.662012 * \text{Control of Corruption} + 177,352,175.22063538 * \text{Law \& Order}$$

Or Shortly:

$$Y = 11,589,958,548.214834 + 565,718.5411062313 * X1 - 331,672,372.2129736 * X2 - 2,714,237,318.662012 * X4 + 177,352,175.22063538 * X5$$

Thus the conclusion investigates that the constructed model is significant where X1 (GDP per capita), X2 (openness of the economy), X4 (Control of Corruption), and X5 (Law & Order) are good predictors of the model at significance level 0.05 (5%).

This means that the null hypothesis is accepted for predictors: control of corruption and law and order that significantly are good predictors for the FDI in Lebanon.

IV. CONCLUSIONS & RECOMMENDATION

Foreign direct investment plays an important role in the development of the economy in Lebanon. Many different factors

are to be taken into consideration from the foreign investors' side before they make their investment's decision. The purpose of this study- was initially presented- to analyze the linkage between these political factors as well as both openness of the economy and the GDP per capita in Lebanon with the foreign direct investment. This study covered data about six independent political variables (Government effectiveness, Political Stability and Absence of Violence, Control of Corruption, Law & Order, Regulatory Quality and Accountability and voice), openness of the economy, GDP per capita and a unique dependent variable which is the FDI for the span between 2002 and 2016 in Lebanon. The results of the study can be summarized by a regression equation for the FDI ($FDI = 11,589,958,548.214834 + 565,718.5411062313 * \text{GDP per capita} - 331,672,372.2129736 * \text{openness of the economy} - 2,714,237,318.662012 * \text{Control of Corruption} + 177,352,175.22063538 * \text{Law \& Order}$). This shows that the FDI in Lebanon responds in various ways to these different political factors. The results show that the political risk factors: control of corruption and law and order as well as the GDP per capita and the openness of the economy variables are considered to be good predictors of the Foreign direct investments' inflow to Lebanon with a significant level 0.05 while the remaining factors are not significant at the 5% level.

REFERENCES

- [1] Al Nahar, 2018. Lebanon still ranks high in corruption. [Online]
- [2] Available at: <https://en.annahar.com/article/835445-naya--breast-cancer-survivor-nathalie-bouerys-new-project-at-hotel-dieu>
- [3] [Accessed 29 July 2018].
- [4] Alonso, R. A., 2016. Studying the Effects of Political Risk on FDI Inflows: The Case of Egypt. [Online]
- [5] Available at: [file:///C:/Users/Hp/Downloads/201606PositionPaper_PoliticalRiskonFDIInflows_Egypt_RaulAlcaide_EN%20\(1\).pdf](file:///C:/Users/Hp/Downloads/201606PositionPaper_PoliticalRiskonFDIInflows_Egypt_RaulAlcaide_EN%20(1).pdf)
- [6] [Accessed 27 July 2018].
- [7] Blom Bank Group, 2016. Foreign Direct Investment Inflows to Lebanon Rose to \$2.56B in 2016. [Online]
- [8] Available at: <http://blog.blominvestbank.com/21979/foreign-direct-investment-inflows-lebanon-rose-2-56b-2016/>
- [9] [Accessed 11 7 2018].
- [10] Carril, F., Baleix, J. M. & Paniagua, J., 2013. FDI in MENA : Impact of institutional environment and violence. [Online]
- [11] Available at: https://www.uv.es/inteco/jornadas/jornadas13/Milgram_Carril_Paniagua.pdf
- [12] [Accessed 27 July 2018].
- [13] Erkekoglu, H. & Kilicarslan, Z., 2016. DO POLITICAL RISKS AFFECT THE FOREIGN DIRECT INVESTMENT INFLOWS TO HOST COUNTRIES?. [Online]
- [14] Available at: <http://dergipark.gov.tr/download/article-file/226216>
- [15] [Accessed 27 July 2018].
- [16] Ezeoha, A. E. & Ugwu, J. O., 2015. Interactive Impact of Armed Conflicts on Foreign Direct Investments in Africa. [Online]
- [17] Available at: <https://onlinelibrary.wiley.com/doi/epdf/10.1111/1467-8268.12161>
- [18] [Accessed 2 August 2018].
- [19] FDI Intelligence, 2018. The FDI Report 2018. [Online]
- [20] Available at: http://report.fdiintelligence.com/?gclid=Cj0KCQjwvqbaBRCOARIsAD9s1XAAV_mCp6GOqVYG-Xt4yTOIwl_aYcIMDsh2RKWkA2cNzTlml2OacXEaAkByEALw_cB
- [21] [Accessed 14 July 2018].
- [22] Hakim, D. A., 2015. THE ROAD AHEAD. [Online]
- [23] Available at: <https://www.thebusinessyear.com/lebanon-2015/the-road-ahead/interview>
- [24] [Accessed 10 7 2018].
- [25] Hakim, Y., 2011. Weak governance: Lebanon 11th in MENA in Government Effectiveness: World Bank report. [Online]
- [26] Available at: <http://www.businessnews.com.lb/cms/Story/StoryDetails.aspx?ItemID=1146>
- [27] [Accessed 29 July 2018].
- [28] IDAL, 2013. FOREIGN INVESTMENT STRUCTURE. [Online]
- [29] Available at: http://w.idal.com.lb/en/lebanon_at_a_glance/foreign_direct_investments/foreign_investment_structure
- [30] [Accessed 16 July 2018].
- [31] IDAL, 2017. FOREIGN INVESTMENT STRUCTURE. [Online]
- [32] Available at: http://investinlebanon.gov.lb/en/lebanon_at_a_glance/foreign_direct_investments/foreign_investment_structure
- [33] [Accessed 10 7 2018].
- [34] IDAL, n.d. Investment Law No 360. [Online]
- [35] Available at: http://investinlebanon.gov.lb/Content/uploads/IDAL_-_Law_360.pdf
- [36] [Accessed 10 7 2018].
- [37] Investopedia, 2018. Political Risk. [Online]
- [38] Available at: <https://www.investopedia.com/terms/p/politicalrisk.asp>
- [39] [Accessed 30\ July 2018].
- [40] Jadhav, P., 2012. Determinants of foreign direct investment in BRICS economies: Analysis of economic, institutional and political factor. [Online]
- [41] Available at: https://ac.els-cdn.com/S1877042812007495/1-s2.0-S1877042812007495-main.pdf?_tid=168820ff-807a-4ddf-88e9-9a1b5e3e40e6&acdnat=1532725465_8a4c467c66047db058854ba6fe616d3f
- [42] [Accessed 27 July 2018].
- [43] Khan, M. M. & Akbar, M. I., 2013. The Impact of Political Risk on Foreign Direct Investment. [Online]
- [44] Available at: https://mpira.uni-muenchen.de/47283/1/MPPA_paper_47283.pdf
- [45] [Accessed 27 July 2018].
- [46] Koboekae, T., 2013. the impact of political risk on foreign direct investment decisions by South African multinational corporations. [Online]
- [47] Available at: <https://repository.up.ac.za/bitstream/handle/2263/30613/dissertation.pdf;sequence=1>
- [48] [Accessed 27 July 2018].
- [49] Matei, Ani; Grigoriou, Panagiotis; Shivergueva, Margarita; Vašiček, Davor, 2010. The Quality of Bureaucracy and Public Sector Performance: A Comparative Study in South-Eastern Europe. [Online]
- [50] Available at: <https://bib.irb.hr/datoteka/757403.SSRN-id1695076.pdf>
- [51] [Accessed 2 August 2018].
- [52] Mattar Law Firm, n.d. Foreign Investments in Lebanon. [Online]
- [53] Available at: <http://mattarlaw.com/lawyers-lebanon-library/foreign-investments-in-lebanon/>
- [54] [Accessed 10 7 2018].
- [55] MatthiasBusse & CarstenHefeker, June 2007. Political risk, institutions and foreign direct investment. *European Journal of Political Economy*, 23(2), pp. 397-415.
- [56] Mercy Corps, 2013. THINGS FALL APART: political, economic and social instability in Lebanon. [Online]
- [57] Available at: https://www.mercycorps.org/sites/default/files/MC%20Lebanon%20LivelihoodConflict_Assesment_%20Full%20Report%200913.pdf
- [58] [Accessed 28 July 2018].
- [59] Moreau, M., 2014. Lebanon political crisis threatens investment environment. [Online]
- [60] Available at: <https://globalriskinsights.com/2014/12/lebanon-political-crisis-threatens-investment-environment/>
- [61] [Accessed 10 7 2018].
- [62] Nasser Bouyahiaoui, S. H., 2013. The Impact of Country Risk On Foreign Direct Investments In The MENA Region. [Online]
- [63] Available at: <http://airccse.com/ectj/papers/1115ectj01.pdf>
- [64] [Accessed 27 July 2018].
- [65] Nordea Trade, 2018. Foreign direct investment (FDI) in Lebanon. [Online]
- [66] Available at: <https://www.nordeatrade.com/en/explore-new-market/lebanon/investment>
- [67] [Accessed 10 7 2015].
- [68] Pierpont, B. & Krueger, G., 2005. Violent Conflict and Foreign Direct Investment in Developing Economies: A Panel Data Analysis. [Online]
- [69] Available at: <https://www.minneapolisfed.org/~media/files/mea/contest/2006papers/pierpont.pdf?la=en>
- [70] [Accessed 2 August 2018].
- [71] Powers, S., 2016. Conflict, Inequality, and FDI. [Online]
- [72] Available at: https://scholar.colorado.edu/cgi/viewcontent.cgi?article=2382&context=hon_r_theses
- [73] [Accessed 2 August 2018].
- [74] Reguly, E., 2017. Political turmoil threatens stability of Lebanon's economy. [Online]
- [75] Available at: <https://www.theglobeandmail.com/report-on-business/international-business/african-and-mideast-business/political-turmoil-threatens-stability-of-lebanons-economy/article37029279/>

- [76] [Accessed 28 July 2018].
- [77] The Arab Investment and Export Credit Guarantee Corporation, 2016. Lebanon: Inward and Outward FDI. [Online]
- [78] Available at: <http://dhaman.net/wp-content/uploads/2016/02/Lebanon.pdf>
- [79] [Accessed 14 July 2018].
- [80] The Daily Star Lebanon, 2017. Only Lebanon sees positive FDI growth in MENA. [Online]
- [81] Available at: <http://www.dailystar.com.lb/Business/Local/2017/Aug-23/416849-only-lebanon-sees-positive-fdi-growth-in-mena.ashx>
- [82] [Accessed 14 July 2018].
- [83] The International Trade Administration (ITA), U.S. Department of Commerce, 2017. Lebanon - 9.2-Political & Security Environment. [Online]
- [84] Available at: <https://www.export.gov/article?id=Lebanon-Political-Violence>
- [85] [Accessed 28 July 2018].
- [86] The Lebanese Transparency Association, n.d. Corruption in Lebanon. [Online]
- [87] Available at: <http://www.transparency-lebanon.org/En/Corruption/52>
- [88] [Accessed 29 July 2018].
- [89] The PRS Group, n.d. Guide to Data Variables. [Online]
- [90] Available at: <https://epub.prsgroup.com/list-of-all-variable-definitions>
- [91] [Accessed 5 August 2018].
- [92] The World Bank, 2018. Lebanon: Political Stability. [Online]
- [93] Available at: https://www.theglobaleconomy.com/Lebanon/wb_political_stability/
- [94] [Accessed 6 August 2018].
- [95] The World Bank, 2018. Lebanon: Rule of Law. [Online]
- [96] Available at: https://www.theglobaleconomy.com/Lebanon/wb_ruleoflaw/
- [97] [Accessed 6 August 2018].
- [98] The World Bank, 2016. Foreign direct investment, net inflows (% of GDP). [Online]
- [99] Available at: https://todata360.worldbank.org/indicators/BX.KLT.DINV.WD.GD.ZS?country=BR&indicator=1541&viz=line_chart&years=1970,2016
- [100] [Accessed 29 July 2018].
- [101] The World Bank, 2017. Country Report, s.l.: The World Bank.
- [102] The World Bank, 2018. Lebanon: Control of corruption. [Online]
- [103] Available at: https://www.theglobaleconomy.com/Lebanon/wb_corruption/
- [104] [Accessed 6 August 2018].
- [105] The World Bank, 2018. Lebanon: Government effectiveness. [Online]
- [106] Available at: https://www.theglobaleconomy.com/Lebanon/wb_government_effectiveness/
- [107] [Accessed 6 August 2018].
- [108] The World Bank, 2018. Lebanon: Corruption Perceptions. [Online]
- [109] Available at: https://www.theglobaleconomy.com/Lebanon/transparency_corruption/
- [110] [Accessed 6 August 2018].
- [111] The World Bank, 2018. Lebanon: Regulatory Quality. [Online]
- [112] Available at: https://www.theglobaleconomy.com/Lebanon/wb_regulatory_quality/
- [113] [Accessed 6 August 2018].
- [114] The World Bank, 2018. Lebanon: Voice and Accountability. [Online]
- [115] Available at: https://www.theglobaleconomy.com/Lebanon/wb_voice_accountability/
- [116] [Accessed 6 August 2018].
- [117] Trading Economics, 2016. Lebanon - Government Effectiveness: Percentile Rank. [Online]
- [118] Available at: <https://tradingeconomics.com/lebanon/government-effectiveness-percentile-rank-wb-data.html>
- [119] [Accessed 29 July 2018].
- [120] U.S. Department of State, 2014. Department of State: 2014 Investment Climate Statement. [Online]
- [121] Available at: <https://www.state.gov/documents/organization/227353.pdf>
- [122] [Accessed 10 7 2018].
- [123] UNCTAD, 2015. World Investment Report 2015. [Online]
- [124] Available at: http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf
- [125] [Accessed 16 July 2018].
- [126] Wafo, K. & Leopold, G., 1998. Political Risk and Foreign Direct Investment. [Online]
- [127] Available at: <https://d-nb.info/1088447856/34>
- [128] [Accessed 27 July 2018].
- [129] Wikipedia, 2018. Foreign direct investment. [Online]
- [130] Available at: https://en.wikipedia.org/wiki/Foreign_direct_investment
- [131] [Accessed 29 July 2018].

AUTHORS

First Author – Youssef AbdulKhalek, Lebanese International University

Second Author – Malak Tlais, Lebanese International University