

The Influence of Political Stability on Foreign Direct Investment in The Gambia. An ARDL Approach to Short-Run and Long-Run Dynamics

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Abstract. The political landscape in any country plays a significant role in attracting external investors. A stable and violence free polity is a panacea for sustain investment by and large economic development. Gambia, in the past decades have enjoy a stable political atmosphere required for any potential investors. Against this backdrop, this study empirically investigates the role of political stability in attracting foreign direct investment into Gambian's economy using annual time series data spanning the period from 1999 to 2023 using the bound test approach to cointegration. The cointegration bound test establishes that there is a long-run equilibrium relationship between political stability, Inflation, GDP, Trade and FDI. The result of the Error Correction Model (ECM) is negative and statistically significant, which implies that there exists a long-run association between the independent variables and FDI. The long-run coefficient indicated that Political stability as determined by the Political Stability and Absence of Violence/Terrorism index has a positive and insignificant long-run impact on FDI. Additionally, trade openness as the ratio of total trade to GDP has a negative statistically significant impact on FDI at 10% level. Both the inflation (measured by the change in consumer price index on an annual basis) and GDP (annual growth in real gross domestic product) growth are indicated to have a negative but statistically insignificant impact on FDI in the long run. The study suggests that the Government of The Gambia should reinforce its strategic plans of foreign direct investment (FDI) in an attempt to improve the economic stability of the country. The results have shown that a greater level of political stability will help in enhancing governance and reliability of regulation contributing to a better forecasted investment climate.

Keywords: Political Stability, Foreign Direct Investment, ARDL Model, Cointegration, Economic Growth, The Gambia.

Abstrak. Lanskap politik di suatu negara memainkan peran penting dalam menarik investor luar. Politik yang stabil dan bebas dari kekerasan adalah solusi untuk mempertahankan investasi dan secara umum perkembangan ekonomi. Gambia, dalam beberapa dekade terakhir, menikmati suasana politik yang stabil yang dibutuhkan untuk setiap investor potensial. Dengan latar belakang ini, studi ini secara empiris meneliti peran stabilitas politik dalam menarik investasi langsung asing ke ekonomi Gambia menggunakan data deret waktu tahunan dari periode 1999 hingga 2023 dengan pendekatan uji bound untuk kointegrasi. Uji bound kointegrasi menunjukkan bahwa ada hubungan keseimbangan jangka panjang antara stabilitas politik, inflasi, PDB, perdagangan, dan FDI. Hasil dari Model Koreksi Kesalahan (ECM) negatif dan secara statistik signifikan, yang menunjukkan bahwa ada hubungan jangka panjang antara variabel independen dan FDI. Koefisien jangka panjang menunjukkan bahwa stabilitas politik sebagaimana ditentukan oleh Indeks Stabilitas Politik dan Ketiadaan Kekerasan/Terrorisme memiliki dampak positif yang tidak signifikan terhadap FDI dalam jangka panjang. Selain itu, keterbukaan perdagangan sebagai rasio total perdagangan terhadap PDB memiliki dampak negatif yang signifikan secara statistik terhadap FDI pada tingkat 10%. Baik pertumbuhan inflasi (diukur dari perubahan indeks harga konsumen tahunan) maupun pertumbuhan PDB (pertumbuhan tahunan PDB riil) ditunjukkan memiliki dampak negatif tetapi tidak signifikan secara statistik terhadap FDI dalam jangka panjang. Studi ini menyarankan bahwa Pemerintah Gambia sebaiknya memperkuat rencana strategis untuk investasi asing langsung (FDI) dalam upaya meningkatkan stabilitas ekonomi negara. Hasil penelitian menunjukkan bahwa tingkat stabilitas politik yang lebih tinggi akan membantu meningkatkan tata kelola dan keandalan regulasi yang berkontribusi pada iklim investasi yang lebih baik.

Kata Kunci: Stabilitas Politik, Investasi Asing Langsung, Model ARDL, Kointegrasi, Pertumbuhan Ekonomi, The Gambia.

1. INTRODUCTION

FDI involves the transfer of capital, technology, organizational procedures and managerial and marketing skills that allow the investor to acquire ownership of the enterprise. UNCTAD (2015) further reports that FDI is also an expenditure incurred to either acquire or establish an economic unit, modernize, and increase income-generating capacity, with the intention of having future returns on foreign investors (Rafat & Farahani, 2019). It is nowadays an inseparable component of an open and efficient international economic environment. Further, foreign direct investment spurs economic development and offers not only sustainable, highly-qualified and balanced economic development but also enables balanced economic development. Given the fact that the developing economies are also struggling to realize increased rates of development and economic growth, the attraction of foreign direct investment could be more relevant to the developing economies (Vasilyeva & Mariev, 2021).

Generally, FDI can be classified into greenfield and brownfield. Greenfield FDI involves setting up of new facilities and infrastructure, hence a direct increase in the capital stock of the host country. Conversely, brownfield FDI entails the acquisition of the already existing assets like mergers, acquisition, privatization, and strategic alliances, which do not necessarily increase the capital formation but can lead to an improvement in terms of productivity and competitiveness, through modernization and restructuring (Okara, 2023). The nature of the political stability, foreign direct investment (FDI) and economic growth has changed over the years as it is a dynamic interaction of institutional, financial, and developmental influence. As emphasized by Adams (2009), FDI has become a critical source of capital in developing countries ever since the 1980s debt crisis, and thus it holds a lot of potential in triggering economic growth and lessening dependence on conventional methods of external debt. It is well known that political stability is a major pillar of good governance; therefore, it is a central determinant to FDI. According to Dada and Abanikanda (2022), stable political environments would attract

greater foreign investment with the result that economic growth, reduction of poverty and

bridging the savings-investment gap especially among African economies will be enhanced. Such investment inflow encourages the creation of jobs, expansion of accessibility to world markets and increased connection of the foreign and domestic business and hence increases overall productivity and future development (Mthimkhulu et al., 2025). The political stability and Absence of Violence/Terrorism Index are used to measure political stability of a country as indicated by World Bank's Worldwide Governance Indicators (WGI), which obtained the political instability terrorism or violence which could destabilize a government. It indexes which is widely used to estimate the climate investment across the nations, ranges from -2.5 which is considered as a weak stability to +2.5 regarded as a strong stability.

The key components influencing this index includes Government stability, the lack of the internal and external conflicts, law and order, low corruption, and strong investment. (Kaur & Vij, 2020). The Gambia's political stability according to the World bank index on Political Stability and Absence of Violence/Terrorism has varied over the years during the study period. The index was range from a high of 0.83 in 2002, being regarded as high stability country to low rage of -0.44 in 2016 which was due to the heightened risk in the last years of authoritarian regime. Scores have been hovering around -0.01 in recent years indicating relative stability that is neither too secure nor too unstable. This interim condition can be seen as an indicator of a country in the transitional phase, where democratic reforms and institutional reconstruction have been made but not yet consolidated.

This level of political development might also build some wary optimism among investors, yet perhaps not robust enough to have statistically significant impacts on FDI inflows. The results of the study reflect this reality showing a positive and statistically insignificant long-run relationship between political stability and FDI (World Bank, 2023). Political stability is essential to accumulating business confidence, enhancing social cohesion, and catalysing economic growth in the long term particularly in

areas that are experiencing fragility of conflict (Growth et al., 2024). The Gambia presents a very compelling situation of how political stability and foreign investment interact. The nation had a long history of political instability, governance and currency volatility after the coup that took place in 1994 and this highly discouraged the entry of foreign direct investment. Nonetheless, a turning point was reached in the year 2017 with the political transition.

More reforms to enhance the democratic institutions, transparency, and to revitalize relations with international partners have started to rebuild investor confidence (Faal & Uk, 2023). However, The Gambia has a moderate political stability, as reflected in its fluctuating scores on the Political Stability and Absence of Violence/Terrorism index. This poses serious questions as to whether this stability is high enough to have a meaningful effect on FDI inflows. The events described above testify to the significance of political stability as not only a hypothetical concept, but also an actual precondition of economic renewal.

According to the report by the United Nations Development Programme (UNDP, 2016), the violent extremism growth has caused an explosion of deaths in countries, religions, and communities. The cases of over 500 deaths by extremist violence increased by 120 percent between 2013 and 2014 as compared to five cases in the same period in 2012. Other states that were initially affected were Somalia, Ukraine, Yemen, the Central African Republic, South Sudan, and Cameroon which demonstrates that the growing geographic coverage and human impact of this growing menace (Growth et al., 2024).

Against this backdrop, the present study investigates how political stability affects the Foreign Direct Investment (FDI) in The Gambia from 1999 to 2024, using an Autoregressive Distributed Lag (ARDL) model, the study identifies both short-run and long-run equilibrium relationship between political stability and FDI. specifically, the study aims to:

- Investigate the extend of the relationship between at political stability and FDI in The Gambia.

- Distinguish the short run and the long run dynamics of the relationship between political stability and FDI.
- Derive policy-relevant implications to support perpetuate investment growth in a post-transition context.

2. LITERATURE REVIEW

Foreign Direct Investment (FDI) and political stability relationship has been a subject of long debate in development economics especially in emerging and transitional economies. An ample literature substantiates the importance of political stability as a prerequisite of FDI inflows attraction and maintenance as such is impacted on investor confidence, institutional trustworthiness, and long-term economic planning. Since the 1980s debt crisis, FDI has become an essential substitute to the usual sources of external financing and provides in addition to capital, transfer of technology, managerial skills and integration in the global market (Adams, 2009). Nevertheless, this is not a purely stagnant type of relationship but is influenced by the changing government systems, macroeconomics conditions, and geopolitical threats.

Political transitions, institutional reforms can either trigger investment in fragile states or post conflict settings, or they may increase uncertainty as a result of the credibility and consistency of policy signals. This literature review critically engages the existing theoretical studies to explain clearly the multidimensional correlation between political stability and FDI in The Gambian political environment.

2.1 Political Stability and FDI

Political stability is considered one of the basic determinants of the Foreign Direct Investment (FDI) inflows, especially in emerging and transitional economies. Both the Institutional Theory and the Governance Theory state that stable political regimes are the basis of formulating and maintaining accurate laws and regulations that uphold property rights, ensure the enforcement of contracts, and foster a predictable economic climate conducive to investment. Such institutional assurance reduces the uncertainty and risk for foreign investors, thereby enhancing investor confidence and long-term commitment (Kaur & Vij, 2020).

Building on this theoretical foundation, Kurečić & Kokotović (2017) explores the relationship between political stability, foreign direct investment (FDI), and economic growth within three different panels of countries including the small economies, the highly developed economies that are politically stable and the economies that are vulnerable to political violence or terrorism. Based on Granger causality tests, VAR models and ARDL analysis, the research establishes long term relationship between political stability and FDI in small economies. This is however not the case in the more developed or politically unstable panels. There is a positive and a significant influence of political stability, GDP growth and trade openness on the Foreign Direct Investment (FDI) inflows into the top 15 competitive nations in the Asia Pacific region.

Political stability is the most influential determinant among these factors and it has strong long-term relationship with FDI. These results highlight the need to have a stable political and economic climate to boost investor confidence in the country to sustain foreign investment. Moreover, Ajimobi, (2024) further explored the impact of political stability on the inflows of foreign direct investment (FDI) in Nigeria. The study employed the desk research strategy in analysing existing literature and reports published in online libraries and journals. Argues that political stability is an important factor that encourages FDI because it provides a safe and predictable environment that reduces risks of policy changes, expropriation, civil unrests and hence confidence in the investor. Kim (2010) examines the role of political stability on foreign direct investment (FDI) using FDI inflows on country-level and political indicators.

The study reveals that the higher the political rights of countries, the greater it FDI outflows, however, those with more corruption and lower democracy tends to attract higher FDI inflows. The research confirms that FDI patterns are highly influenced by political factors showing a positive correlation between the FDI inward performance and corruption, and a negative relationship with political rights. Lamsal (2024) examines the determinants that influence the role of FDI inflows in Nepal, revealing that political stability is one of the

most prominent determinants with 1% increase in political index will lead to a 61.1% rise in FDI. However, comparative evidence for BRICS economies such as Brazil, Russia, India, China, and South Africa shows that political stability may not be a key factor in driving FDI.

From the period of 2000 to 2010, using a panel data analysis, only Government Effectiveness and Regulatory Quality exhibit a positive relationship with FDI inflows whereas Political Stability, Voice and Accountability, and Control of Corruption reveal a negative relationship. Further arguing that this contradiction political stability can be a key factor in attracting FDI inflows, but its influences could be different in regional settings and investor concerns, institutional effectiveness and clarity of regulations could be more decisive in the BRICS setting (Jadhav & Katti, 2012).

2.2 Inflation, Trade and GDP on FDI

Foreign Direct Investment is seen as a critical driver for economic growth, especially in the emerging economies. Its role does not only provide capital inflows, but also the transfer of technology, managerial skills, and integration into global value chains. However, the determinants of FDI are multidimensional, which the macroeconomic indicators such as inflation, trade openness, and gross domestic product (GDP) play important roles.

2.3 Theoretical Anchors

Drawing on the causality analysis by Morshed & Hossain (2022), the study on Bangladesh highlights that inflation and trade openness exert a positive influence on FDI inward. The existence of this relationship is supported by bidirectional causality confirmed through Granger test. However, other factors such as interest rate, corporate tax, wage rate, exchange rate and GDP growth have an insignificant effect on FDI inflows. The results given by variance decomposition analysis and impulse response analysis show strong explanation power of trade openness, moderate of inflation, and weak or negligible influence of other variables. Fahmi & Septiani (2023) conducted a time series through an ARDL Model with data spanning from 1990 to 2020 in the context of Indonesia. The study reveals that GDP positively and significantly influences foreign direct investment (FDI) in while inflation

negatively affect FDI in the long-run. Additionally, deposit interest rates exhibit a negative long-term, but positive and significant short-run impacts on FDI.

Asiamah et al (2019), investigate the Ghanaian context and identify a cointegrating relationship between FDI and its determinants, both the long run and short run analysis indicate statistically significant negative effects of inflation, exchange rate, and interest rate. Conversely, GDP, electricity production and telephone usage have positive effects on FDI inflows. Underscoring the importance of infrastructure and economic scale. Extending the scope to the global world, recent empirical evidence has highlighted the role of the institutional quality in drawing FDI between income groups, the study estimates using system GMM from the period of 1996 to 2016. The study reveals that institutional indicators, including control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability have a positive effect on FDI in both the developed and developing countries with stronger effects being observed in the developed countries. Moreover, while GDP per capita, agriculture value-added, and inflation have a negative relationship with FDI in the developed economies, trade openness, infrastructure, and agriculture value-added have positive and statistically significant effects on FDI in developing economies (Sabir et al., 2019).

Combined, these studies indicate that even though institutional quality is a dominant driver of FDI in the developed context, macroeconomic stability, infrastructure, and openness are essential factors in developing economies. The relationship between structural conditions and governance structures still defines the current dynamics of world investment flows.

several studies explored the relationship between political stability on foreign direct investment (FDI) across developed and developing countries. For instance (Rashid et al., 2017) on the role of political stability in the most competitive Asia Pacific regions, to the determinants of FDI in developed and developing economies (Vasilyeva & Mariev, 2021), and evidence from selected small, developed and instability threatened economies

on the relevance of political stability on FDI inflow (Kurecic & Kokotovic, 2017).

Evidence from The Gambia, however, is still limited and especially in the context of the post political transition period. The study will thus attempt to fill this gap in the literature by investigating how political stability interacts with macroeconomic fundamentals, including GDP, inflation and trade in shaping the inflows of FDI in The Gambia.

This paper has two contributions. First, it uses autoregressive distributed lag (ARDL) bounds testing framework to investigate the impact of political stability on FDI in The Gambia, which is not comprehensively covered in the existing literature. Second, the study shows the variation into how governance quality and economic fundamentals influence FDI inflows by integrating political stability with macroeconomic indicators.

The findings of this study contribute to a broader literature on governance and investment in the Gambia economy.

3. Methodology

3.1 Research Design

In the study, Auto Regressive Distributed Lag (ARDL) model is used to assess the effects of political stability on foreign direct investment (FDI). The analysis is enhanced by including such control variables as GDP, trade and inflation. Using data collected in the World Bank database, from the year of 1999 to year of 2023, for data sourced, the research examines key economic and political trends. The use of EViews-13 is based among the statistical tools to conduct analysis for most effective and accurately. The paper includes a variety of visual aids, graphs, charts, tables etc. to present the collected data in the appropriate manner.

3.2 Model Specification

The Autoregressive Distributed Lag (ARDL) approach is particularly useful for analyzing variables with mixed orders of integration (I(0) and I(1)) because it allows for the estimation of long-run relationships without requiring that all variables be stationary. This flexibility is advantageous as it accommodates the integration properties of the variables involved. Since the variables employed in the study are a mix order of integration, Therefore, the study employed an Auto Regressive

Distributed Lag (ARDL) model to investigate the effect of political stability on foreign direct investment (FDI). This proposed methodological approach by Pesaran et al. (2001) has been recognized to overcome the constraints imposed by the existing procedures (Long et al. 2020). ARDL is one of the strong suit points, because it very robust for analysing variables of different kinds of orders of integration, for instance I(0) and I(1), to find single long run relationships and to specify good enough in small samples. However, the limitations of this model arise when the integrated stochastic trend of order I(2)) coexists (Nkoro & Uko, 2016).

This research uses the ARDL model to examine the impact of political stability (amongst other control variables such as GDP, trade and inflation) on FDI given that it is suitable for the purposes of the study. This study also handles variables that are integrated at different orders whilst ensuring that the framework is robust by not transforming the variables into logarithmic form since the values are in percentage terms instead. The study uses an approach similar to Azahar & Khan (2024) and Irene Nkechi et al (2024). An ARDL Econometric model for the variables can be express as $FDI_t = \beta_0 + \sum_{i=1}^p \beta_1 FDI_{t-i} + \sum_{k=0}^q \beta_2 PS_{t-k} + \sum_{j=0}^q \beta_3 gdp_{t-j} + \sum_{n=0}^q \beta_4 Inf_{t-n} + \sum_{m=0}^q \beta_5 Trade_{t-m} + \varepsilon_t$ Such a representation permits the dependent variable to be modelled by its own lag as well as the current and lag values of the regressors. The FDI (Foreign Direct Investment) at time t serves as the dependent variable, while Political Stability (PS) is treated as the primary independent variable of interest. The model includes Gross Domestic Product (GDP), Inflation (INF) and Trade as control variables in order to control for macroeconomic factors. The model accounts for the lagged value of the FDI, in capturing its dynamic behaviour over time. The constant term (β_0) represents the intercept, while the coefficient β_1 through β_5 captures the short run dynamics effects of each variable respectively. The p and q are optimal lag orders are determined using the standard information criteria such as AIC or BIC to ensure that the model captures the temporal dependencies without overfitting. The error term (ε_t) captures those shocks that are not observed and the stochastic disturbances that are affecting FDI.

The hypothesis to determine the was formulated as

- Null hypothesis (H_0): There is no cointegration among variables in the long-run.
- Alternative hypothesis (H_1): there exist cointegration relationship among variables in the long run.

To distinguish between the short-run dynamics and the long-run equilibrium relationships, the ARDL can be re-parameterized into the Error Correction Model (ECM) form as: $\Delta FDI_t = \alpha \sum_{i=1}^{p-1} \phi_i \Delta FDI_{t-i} + \sum_{k=0}^{q-1} \delta_k \Delta PS_{t-k} + \sum_{j=0}^{q-1} \gamma_j \Delta GDP_{t-j} + \sum_{n=0}^{q-1} \theta_n \Delta INF_{t-n} + \sum_{m=0}^{q-1} \partial_m \Delta Trade_{t-m} + \rho ECT_{t-1} + u_t$

The ECT_{t-1} is the error correction term which is defined as the deviation from the long-run equilibrium.

$ECT_{t-1} = FDI_{t-1} - \beta_{PS} PS_{t-1} - \beta_{GDP} GDP_{t-1} - \beta_{INF} INF_{t-1} - \beta_{Trade} Trade_{t-1}$ The $\phi_i, \delta_k, \theta_n, \gamma_j, \partial_m$ are coefficient of different terms that capture the short-run dynamics, while the lagged value coefficient represent the long-run multipliers. The ρ is the adjusted parameter that is expected to be negative and statistically significant in the cointegration, it measures the speed at which deviation from the long-run equilibrium are corrected in the subsequent periods.

3.3 Estimation Techniques

3.3.1 ADF Test

the Augmented Dickey-Fuller (ADF) test is an advanced version of the simple Dickey-Fuller test, primarily used to test for stationarity in time series data. Stationarity is crucial in time series analysis, as non-stationary data can lead to unreliable statistical inferences (Mushtaq, 2011). We begin by testing for the existence of the unit root using the Augmented Dickey-Fuller (ADF) test which they are non-stationary. According to Long et al (2020), this will cause the errors to be correlated and the standard t-test will be wrongly calculated because the variance of the errors is not consistently estimated. In order to avoid such errors we use first difference I(1) for the variables that were not stationary at level during testing. These variables include inflation, FDI and trade.

3.3.2 F-bound test

The F-bound test is used to determine whether there exists a long-run relationship between the dependent and the independent variables.

Furthermore, the use of stability, heteroskedasticity, and normality tests were applied in the study. The goal of the stability test is to know whether the relationship captured by the model remains stable and does not show significant variations across different time periods (Correa, 2023).

3. Empirical Results and Discussion.

4.1 ADF Test

ADF Test Result							
Variable Order	Level			First Difference			Integration
	C	C&T	None	C	C&T	None	
FDI	-1.762	-2.23	-0.417	-5.321*	-5.208*	-5.375*	I(1)
PS	-2.421	-2.603	-2.519*	-6.919*	-6.942*	-6.926*	I(0)
GDP	-5.291*	-5.216*	-3.343*	-6.340*	-6.299*	-6.504*	I(0)
INF	-1.894	-1.859	-0.067	-3.285*	-4.030*	-3.236*	I(1)
Trade	-2.961	-3.041	-0.637	-5.591*	-5.482*	-5.717*	I(1)

Note: * Denotes P < 5% Significant level.

According to Ghose et al (2018), spurious regression is linked to nonstationary time series, which can lead to unreliable inference in econometric analyses. The assessment of variable stationarity through ADF test leads to transformation of nonstationary elements for valid and reliable analytical results. As part of the ARDL procedure and to prevent variables from having an order of integration I(2), we perform the ADF test. The results show that only GDP and political stability (PS) have an order of integration of zero, which is also denoted as I(0), this indicates that the variables have a stationarity at level. On the other side, FDI, INF and Trade have an order of integration of one, which is denoted as I(1), showing that they have stationarity at first difference as seen on the table.

4.2 Bound test for co-integration

Null relationship	Null hypothesis: No levels		levels	
	Test Statistic	Value	Significant	
			I(0)	I(1)

F-statistic	6.506983	10%	2.525	3.560
		5%	3.058	4.223
		1%	4.28	5.840

Decision Rule: We reject the null when the

F-statistics is greater than I(0) and I(1) bound F-statistics is greater than I(0) and I(1) bound.

In the above result of the bound test co-integration, the I(0) shows the level of lower bounds while I(1) shows the upper bound level. The null hypothesis, its indicating that there exist no levels of co-integration in the model. But since our actual result is concern, we reject the null hypothesis since the F-statistic in the above table is greater than both I(0) and I(1) at all significant levels. But remember, the analysis relied on 5% significant level, therefore with a F-statistic of 6.506983 greater than I(1) at 5% significant level. We therefore conclude that there exist a long run relationship among variables in this model. This validates the use of the ARDL model for further analysis of both short-run and long-run dynamics.

4.3 Short Run Result and EC

Variable	Coefficient t	Std. Error	t-Statistic	Prob.
Cointeq(-1)*	-1.1586	0.1619	-7.1584	0.000
fdi(-1)	-1.1586	0.2132	-5.4346	0.0001
Ps	1.4886	1.9397	0.7674	0.454
gdp(-1)	-0.235	0.1775	-1.3244	0.204
Inf	-0.1263	0.1435	-0.8797	0.392
Trade	-0.1169	0.0525	-2.2241	0.0409
D(gdp)	-0.0812	0.1225	-0.6622	0.5172
C	0.9091	0.7274	1.2497	0.2294

Since the Cointeq (-1) is the heart of the ECM, its significant and negative sign are a critical important part since it proves long-run association. The negative (-1.1586) coefficient value and a p-value of (0.000) of cointeq (-1) shows that there exist a long-run equilibrium association among variables. This suggests that approximately 116% of the deviation from the long run equilibrium is corrected each period,

implying a very fast adjustment back to equilibrium. In the short-run, trade serve as a major driver for investment level. Similarly to GDP and inflation, although not statistically significant, has a negative influence on FDI. However, political stability exhibits a positive insignificant impact on FDI. A rise in political stability will lead to 1.49 increase in FDI. The findings agreed with Jewel (2015), who reported no significant relationship between political stability and FDI in the short-run. The results also contradict the findings of Nepal (2018), who found a positive significant impact of political stability on FDI in Nepal

4.4 ARDL Long-run Results

Variable	Coefficient	Std.Error	t-stats	Prob.
PS	1.2848	1.7308	0.7423	0.4675
Gdp	-0.2028	0.1521	-1.3335	0.199
Inf	-0.109	0.1261	-0.8645	0.3987
Trade	-0.1009	0.049	-2.0565	0.0545
C	0.7846	0.6112	1.2838	0.2155

The results in the table illustrate the long-run relationship between the explanatory variables (Ps, Inf, gdp and Trade) and the dependent variable FDI. The result shows that only trade has substantial significant impact on FDI in the long-run, which exhibit a negative relationship with FDI. A 1% rise in trade will lead to 10% decrease in FDI. This result is consistent with the findings of Abdi et al (2024), who argues that trade openness is a factor that hamper FDI in Arican countries in the long-run. However, this finding is inconsistent with the study conducted by Liargovas & Skandalis (2012) who found that trade contributes positively and significant to the inflow of FDI in developing countries. Additionally, Le et al (2023) confirmed the positive role of trade on FDI. Although political stability, GDP and inflation exert a statistically insignificant impact on FDI, it is noticed that political stability display a positive insignificant impact on FDI. The result of the study is in line with Ozekhome (2022) who established that political stability exerts a positive insignificant impact on FDI in Nigeria. Likewise, Musse & Echchabi (2024) observed a

positive association of political stability on FDI but it effect is not statistically significant in the East African countries. In contrast, the result contradicts with the findings of Rashid et al (2017) who documented that political stability positively and significantly influences FDI in the top 15 Asia Pacific countries. (Akm, 2019) also reveal a similar finding, the study on five fragile countries consisting of Brazil, Indonesia, Turkey and South Africa.

4.5 ARDL Diagnostic Test Results

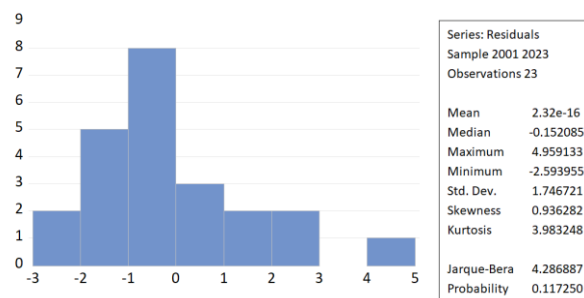
4.5.1 Breusch-Godfrey Serial Correlation LM

Null hypothesis: No serial correlation at up to 2 lags				
F-statistic	0.0949	Prob. F(2,14)		0.91004
Obs*R-squared	0.30765	Prob. Square(2)	Chi-	0.85742

4.5.2 Heteroskedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity				
F-statistic	0.187402	Prob. F(6,16)		0.97605
Obs*R-squared	1.510211	Prob. Square(6)	Chi-	0.95881
Scaled explained SS	1.090138	Prob. Square(6)	Chi-	0.98196

4.5.3 Normality Test



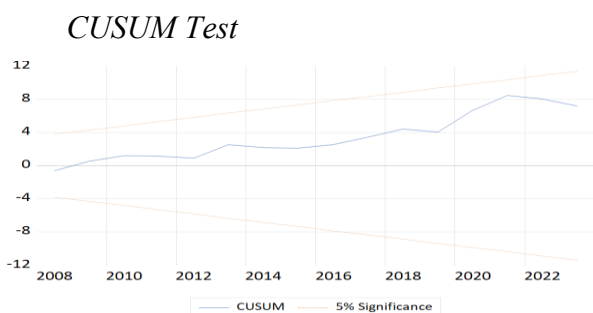
4.5.3 Ramsey RESET Test

	Value	Df	Probability
t-statistic	1.04449299	15	0.31279879
F-statistic	1.0909656	(1, 15)	0.31279879
Likelihood ratio	1.61477872	1	0.20382136

Several post-estimation diagnostic tests were

conducted in order to validate the robustness and reliability of the ARDL model estimates. The outcome of the results displays that there is no evidence of serial correlation or heteroskedasticity presence in the model. The Breusch-Godfrey Serial Correlation with a p-value of (0.910043) suggesting that its residuals are not autocorrelated. Similarly, the Breusch Pagan-Godfrey test with a p-value of (0.976053) shows that there is no presence of heteroskedasticity. Additionally, the Jaque-Bera test with a p-value of (0.117250) which is above the 5% significant level, this indicates that residuals are normally distributed and the RAMSEY RESET Test which reveal that the model is free from functional from misspecification.

4.5.4 Stability Test



In order to test the reliability of the estimated ARDL model, the stability test using Ramsey RESET and CUSUM test methods was conducted. The figures represent the results of Ramsey RESET and CUSUM tests. The results of the Ramsey RESET test indicate that the model is well-specified, with a F-statistic whose p-value is 0.3128, this finding implies that the model correctly describes the data with no specification or functional form errors. The CUSUM line remains within 5% significance bounds throughout our sample period indicating that the model's parameters are stable and enhancing this robustness overall.

5. CONCLUSION

The paper examines the influence of political stability on Foreign Direct Investment in The Gambia from 1999 to 2024 using a dynamic time series modelling framework. By employing the ARDL bounds testing approach, the research confirms the existence of a long-run equilibrium relationship among the variables in the model. The Error Correction Model (ECM) further validated the presence of a stable long-

run relationship, with political stability exerting a positive through statistical influence on FDI. Trade, Inflation and GDP showed a negative long-run effects, with trade being marginally significant at 10% level.

The stability of the model was also validated by extensive diagnostic tests, such as, Ramsey RESET and CUSUM tests which confirmed the model stability and specification. These results offer an empirical foundation to policy suggestions designed to promote FDI inflows and economic resilience in The Gambia.

Notably, this research fills a crucial gap by incorporating the political stability measured in into the empirical analysis of FDI determinants, which has not been well covered in the previous literature. The findings reflect the Gambia's historical trend of moderate political stability, which may not be strong enough to significantly drive FDI on its own but plays a constructive role in shaping investor confidence.

By highlighting a nuanced role of political stability and providing targeted policy recommendations. The study contributes meaningfully to the discourse regarding sustainable investment strategies in emerging economies. Future studies may further develop on this base by including other indicators of governance or the sectoral response of FDI to political and economic reforms.

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