The role of government policies on the attraction of Foreign Direct Investment to SADC Countries

By

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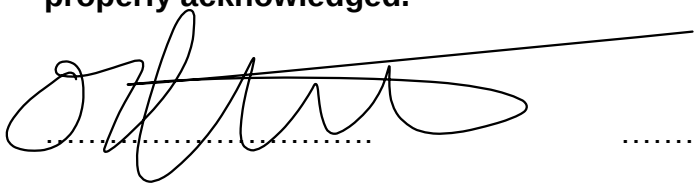
Declaration of originality

I, Queeneth Ivie Obazee (Student No. 36493708), declare that the dissertation titled: "The role of government policies on the attraction of Foreign Direct Investment to SADC Countries" is my work and has not been previously submitted to any other higher institution. All sources used or quoted have been properly acknowledged.



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Abstract

This dissertation examines the role of government policies in attracting the foreign direct investment (FDI) to SADC countries. To achieve this, the study uses econometric, statistical, and thematic methods within a panel data context and explores means through which SADC countries can attract the FDI. The study covered a panel of 15 SADC countries over the period 1980–2018. FDI is associated with several benefits, particularly in the less developed countries for their investment purposes. However, these less developed countries – including SADC member countries – encounter challenges of attracting FDI despite having abundant natural resources and proposing various regulatory reforms to liberalise their economies.

The empirical approach suggested several ways through which a country can attract FDI. The study found that FDI in SADC is not entirely driven by the presence of natural resources but by other determining factors such as the infrastructure development and economic growth, which proved to be paramount in attracting FDI. Therefore, the study recommends that SADC should not only adopt structural policy reforms that potentially improve trade openness, but also adopt strategic infrastructure development.

Key Words: Foreign direct investment, SADC, country attractiveness, policy reforms, market liberalisation, multinational companies (MNC)

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Dedication

I dedicate my dissertation to God, my parents Mr Emmanuel E Obazee and Mrs Pat Obazee for their constant love and support. I would also like to dedicate my dissertation to my lovely husband, Desmond Okoro, and our son Dominic Okoro.

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CHAPTER 1
INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 Background to the study

According to Wentworth, Schoeman and Langalanga (2015:2), Foreign direct investment (FDI) may be defined as a minimum of 10% ownership of a foreign alliance in a domestic firm or corporation. FDI has garnered the attention of the developing economies such as the Southern African Development Community (SADC) member countries. In the 1990s, developing nations began recognising FDI as a tool for development not exploitation (Bezuidenhout, 2015:4). The view is supported by Park and Choi (2014:108), who argue that FDI is increasingly viewed as a means for developing countries to realise development and modernisation of their economies, in addition to employment and income generation. Mallampally and Sauvant (2016:1) noted that the importance of the FDI has motivated developing countries to formulate policies that are aimed at liberalising their economies to attract the investment.

Mallampally and Sauvant (2016:1) observed that FDI has grown continuously. However, as noted by Grimsley (2016:1), some countries attract more FDI than others. For instance, statistics have revealed that large amounts of FDI flow to developing nations in Asia (Mallampally and Sauvant, 2016:2) while Africa receives the least amounts compared to Asia, Latin America, and the Caribbean. There must be a plausible explanation as to why some nations and regions attract more FDI than the others. As suggested by Organisation for Economic Co-operation and Development OECD (2016:8), the aspects considered by investors include a country's policy framework, its business environment, and economic situation. In the current study, focus will be limited to the policy framework of SADC countries.

Developing nations must create environments that enable them to attract FDI. This study explores how SADC countries have formulated and implemented structures and policies to attract FDI.

World Bank Report (2016:1) gave an analysis of the global trend of FDI flows. According to the report, FDI was less than $0.5 trillion in the 1990s but gradually rose to $0.5 trillion in 1997 and hit a climax of $3 trillion in 2007. As the world

experienced the economic recession in 2008 FDI declined sharply. By 2010, FDI was around $1.4 trillion, skyrocketed to about $2.2 trillion in 2011 and dropped sharply to about $1.6 trillion in 2015. Since then, FDI has been increasing although at a slower pace than prior 2007. These global trends show a significant role FDI plays both to the providers and recipients.

According to Majiyawa (2016:3), the global FDI in the year 2000 increased by 18%, which translated to $1.3 trillion, mostly directed to mergers and acquisitions. Munongo and Robinson (2018) argued that 85% of FDI in 2000 went to mergers and acquisitions in developed nations. According to Aregbeshola (2014:559), the situation has not changed because in 2010, the developed nations enjoyed 75% of all FDI global inflows, whereas a small portion was directed to the developing and under-developed nations. Why does this happen this way? What is it that the developed nations do differently that attracts more FDI inflows than other countries?

In Asia, the liberalisation of the Indian economy saw rapid growth of the FDI (Johngwanich and Kohpaiboon, 2016:97); however, FDI contributed less than 25% of the proportion of the gross investment in the country compared with other economies in the Asian region such as Singapore, Thailand, Indonesia, and China, citing internal and external reasons. These reasons include the cost of labour, labour productivity, education levels, infrastructure, availability of electrical power, labour policies, and nature of tariffs, government FDI restrictions, investment incentives, and the extent and nature of bilateral treaties.

Johngwanich and Kohpaiboon (2016) concluded that FDI was enhanced by certain selective government policies. Africa happens to be the least recipient of FDI in the world. Statistics presented by Aregbeshola (2014:560) indicated that the highest recipient of FDI were the developed nations, then followed by the developing nations of Asia, Latin America and the Caribbean, Central and Eastern Europe. It is unclear why Africa trailing behind despite the abundance of natural resources (Aregbeshola, 2014:562; Asiedu, 2015:110).

In SADC countries, the significance of FDI is embraced because member states depend on investment from other countries to achieve their strategic social and economic goals (Mahembe, 2014:6). According to Gnangnon (2017:66), developing countries find it difficult to attract FDI despite embarking on initiatives to liberalise

their economies, deregulate, and remodel regulatory frameworks that are supportive of FDI, create interconnected regional integrations within the developed and developing world.

Wentworth et al. (2015:5) alluded that South Africa is an anchor country within the SADC region, meaning its policies have an impact on other SADC countries. According to Bezuidenhout (2015:5), most of FDI inflows into the region are directed to South Africa, 65% of which are directed to mergers and acquisitions. As observed by Majiyawa (2016:4), FDIs directed to mergers and acquisitions do not benefit the country: they do not result in job creation, technology transfer or increased output.

1.2 Problem statement

FDI is associated with several benefits especially in the less developed countries as they require capital injection for investment purposes (Majiyawa, 2016:3). However, as noted by Gnangnon (2017:66), these less developed countries encounter challenges of attracting the investment despite being endowed with natural resources and liberalising their economies. This study explores how SADC member countries can attract the FDI. Although there are several ways that a country can attract FDI, this study focuses on the role of government policies, which it deemed major determinants in attracting the investment.

Aregbeshola (2014) suggests that various regulatory reforms have been initiated by most of the SADC countries; however, these regulatory interventions have not succeeded in improving the attractiveness of these countries to ensure there is inflow of FDI (Dzingai, 2017). The SADC region has performed poorly in attracting the investment to the concern of member states. Several reasons can be attributed to this poor investment performance: a small size of the domestic (and even regional) market, property rights, political instability, to name a few. The SADC trade protocol, which seeks to expand market borders through further liberalisation of intra-regional trade, is being implemented, with various benefits for individual member states in terms of investment, industrialisation, trade and economic growth (Bokpin, Mensah and Asamoah, 2017). The question that now arises is what specific form of regulatory interventions are required to improve the ranking of SADC countries as possible destinations for the FDI.

1.3 Aim of the study

The study explores the role of government policies in enabling an economy to attract an inflow of FDI. The information gained will enable the researcher to suggest possible regulatory interventions that SADC member countries may formulate and these policies may possibly attract potential investors, thereby realising an increase in FDI inflows.

1.4 Objectives of the study

To enable the study to address the cited research problem, the following research objectives were formulated:

1. To determine the various government policies utilised by SADC members in attracting FDI to the region.

2. To determine the success of the applied government policies utilised by SADC members in attracting FDI.

3. To determine the additional government policies that could make the SADC member countries more attractive to FDI.

4. To identify government policies that have less impact on the ability of SADC member countries to attract FDI.

1.5 Research questions

To enable the study to address the research objectives, the following research questions were raised:

1. Which government policies are used by SADC member countries to attract FDI?

2. How successful are the government policies used by SADC member countries in attracting FDI?

3. What are the additional government policies that SADC member countries need to improve on their attractiveness to FDI?

4. What government policies within SADC member countries have limited impact on their attractiveness to FDI?

1.6 Hypotheses

Previous studies have indicated that governments have to play a leading role in the formulation of policies, which have the capability of creating a suitable environment that is capable of attracting FDI (Asiedu, 2013). The assumption taken while conducting the study is that countries and regions have an opportunity to enjoy increased FDI inflows and in the process eradicate poverty and enjoy sustainable growth and development (Aregbeshola, 2014). To that extent, the research hypotheses are based on the theoretical understanding that the regulatory environment influences the inflow of FDI, especially to countries in the developing world (Aregbeshola, 2014). Thus, the following research hypotheses are proposed:

1.6.1 Hypotheses (role of government policy)

- FDI inflows are dependent on government policy.
- FDI inflows are not dependent on government policy.

1.7 Significance of the study

The findings derived from the study could be beneficial to several stakeholders such as researchers, government, potential and current foreign investors, SADC and other regional integrations, trading blocks, international community, and local communities.

Researchers will improve their current understanding of FDI and how it can be enhanced and preserved. SADC countries will have an insight into the impact of their policies on the FDI. Therefore, they will be able to propose initiatives targeted at improving their attractiveness to FDI, as well as ensuring that the current FDI flows are not diverted to other countries or regions. Moreover, the livelihoods of SADC residents will improve because FDI will create more job opportunities, improve technological and skills transfer.

1.8 Organisation of the study

The study is presented in six (6) chapters, the contents of which are briefly outlined as follows:

- Chapter one (1) introduces the issue under focus and covers aspects including the introduction and background to the study, problem statement, aim of the study, research questions and objectives, hypotheses, significance of the study and the study format.
- Chapter two (2) reviews theoretical and empirical literature on government influence over FDI flows, the concepts of government policies and benefits of FDI flows to host nations.
- Chapter three (3) focuses on FDI activities and related government policies within the SADC member countries.
- Chapter four (4) outlines the procedures followed while conducting the study and present the empirical model specification.
- Chapter five (5) discusses the empirical results of the estimations and their interpretations.
- Finally, Chapter 6 concludes the study by providing a complete summary of the study, policy recommendations, limitations of the study and proposed areas for further research.

CHAPTER 2

THE INFLUENCE OF GOVERNMENT BEHAVIOUR ON FDI FLOW

2.1 Introduction

This chapter examines the existing literature on government influence regarding FDI flows. Specifically, the relationship between FDI flows and government policies, the concept of government policies, and benefits of FDI flows to host nations will be outlined. The information derived from this chapter alongside that from chapter three will help formulate a theoretical framework upon which to base the current study, interpretation and discussion of the findings derived thereof.

2.2 Demography

Data collection was achieved in two parts. Part one gathered the demographic information of the sampled countries and the second part the information required to realise the formulated research objectives and ultimately address the research problem. The demographic information of the sampled countries is presented, discussed and analysed below in Table 2.1.

Table 2.1 Country Information (as of 2018)

Name	**Angola**	**Mozambique**	**Malawi**	**Swaziland**
Size	1,247,000 km^2	799,380 km^2	118,484 km^2	17,364 km^2
Distance from South Africa	2213 km	1138 km	2244 km	1176 km
Language	Portuguese	Portuguese	English	English
Land locked	No	No	Yes	Yes
Population	17.99 million	20.6 million	14.4 million	1.018 million
GDP	194.1 billion	11.4 billion	6.4 billion	3.5 billion
Per capita income	$3630.7	$387.5	$332	$3085.7

Information in Table 2.1 above was gathered from SADC (2018:1) and Global Finance (2018:1). Several trends were observed from the illustration as highlighted below.

Trend 1: FDI seems to be dependent of size, thus flowing more to larger countries. For instance, Angola, the largest country, has the largest FDI inflows while Swaziland, the smallest of the countries, has the least inflows. This is possible because, the larger the country size, the higher the possibility that it has a high population that could provide large markets locally, hence attracting FDI to the country. This argument is supported by Bartels et al. (2014:517) who report that the size of the local market could act as an incentive for the investment.

Further, it is argued that the larger the country the larger the number of resources, explaining why FDI would tend to flow more to large countries. This argument is supported by an observation by Romans and Ebbers (2015:242) who report that FDI flows to countries with abundant natural resources, explaining why Angola is the biggest recipient.

Trend 2: Of the four countries explored, two were landlocked while the other two were not. Angola and Mozambique, the two countries that were not landlocked had high inflows of FDI as opposed to Malawi and Swaziland, which were landlocked. This implies that landlocked countries are least attractive to FDI due to transportation challenges, corroborating Wals and Yu (2010:2) who argue that landlocked countries at times face slow movement of goods to and from the country owing to lack of full control and access to the ocean.

Trend 3: Countries with large populations tend to be the biggest recipient of FDI as opposed to those with small populations. The rationale as proposed by Bartels et al. (2014:517) is that they have large local markets.

Trend 4: FDI tends to flow to countries with high GDP such as Angola and Mozambique as opposed to Swaziland, because countries with high GDP tend to have residents with strong purchasing power (Nayak and Choudhury, 2014:1).

2.3 The concept of foreign direct investment

Paul and Singh (2013:2512) view FDI as a deliberate action by an organisation based in one country to invest in another country. The same authors went on to state that investment can be in various forms that include mergers, acquisitions, Greenfield investment, licensing, strategic alliances, and joint ventures. The definition is supported by Aregbeshola (2014:565) who views FDI as an investment from outside a host nation. Aregbeshola (2016:1256) indicated that investment from external sources can be either indirect or in the form of FDI. As observed by Bosman (2016:3), FDI has been described as a collection of resources that include capital, technology, knowledge and expertise that foreign investors can utilise and transfer to a host nation to create employment and grow fiscal revenues.

Bosman (2016:4) joined the argument with the observation that even though all other forms of FDI were beneficial to the host nation, the Greenfield investment type was the best as it involved formation of an entirely new establishment; hence, it resulted in large capital inflows, availability of resources and employment creation compared to other forms that aid international development.

Sub-Saharan countries have been trying to improve their FDI attractiveness for the past decades (Benzuidenhout, 2015:5). Initially, as indicated by Anyanwu (2017:134), several of these countries were just gaining independence especially between 1960s and 1990s and therefore limited their focus to policies dealing with import substitutes, command economies, socialism and protectionism particularly for infant industries. Their policies were also dithering between pursuing Soviet socialism or the Western capitalism. Hence, these policies attracted limited FDI inflows into the region.

In the 1990s, as indicated by Benzuidenhout (2015:6), Sub-Saharan countries realised that they had to change tactics to improve their attractiveness to FDI. This was made possible through the privatisation of several state-owned enterprises (SOE), liberalisation of the economy, and embracing the spirit of structural economic adjustments. Therefore, this resulted in an increase in FDI inflows as some multinational companies (MNCs) were attracted to the Sub-Saharan region. Other policies adopted by these countries included deregulation, repatriation of profits, exchange controls, trade liberalisation, privatisation, protection of foreign

investments, political stability, formation of regional and international integrations, establishment of export promotion zones, and provision of incentives such as tax holidays and rebates.

According to Bartels, Napolitano and Tissi (2014:517), there was a common school of thought that assumed that FDI inflows were largely influenced by the economic status of a country such as market size and its macro-economic dynamics. Subsequently, they noted that the thought no longer holds true as competition among nations to enact policies that attract FDI has diluted the economic status aspect. In other words, FDI flows are no longer determined by economic dynamics of the host nation but by host government policies and nature of bilateral agreements.

Foreign direct investments can be in many forms. FDI that involves setting up of new projects as noted by Ignat (2015:113) is referred to as Greenfield investment and has a huge impact on economic well-being of the host nation (Bassi, 2017:1). In the short run as noted by Bassi (2017:1), the other form of FDI that is connected to mergers and acquisitions tend to have minimal impact on job creation and output. Unfortunately, as Ashraf, Herzer and Nunnenkamp (2015:5) state, approximately 57% of all FDI inflows to less developed countries have been directed to mergers and acquisition (M&As), whereas to the developed countries it is approximately 10%, implying that developed countries benefit more from the FDI than less developed countries do. Ashraf et al. (2015:6) observed this as a serious concern because the Greenfield investment is required more in less developed region to address poverty, sustainable growth and development within the region.

Yuan, Xin and Bin (2017:130) further state that the right forms of FDI should be attracted. For instance, countries that need to address issues of poverty, sustainable growth and development need to attract Greenfield FDI as opposed to FDI directed to M&As. As observed by Ashraf et al (2015:5), it is the role of the governments to formulate and implement the right policies that will attract the right type of FDI.

2.4 FDI trends

To ensure that there is an understanding of FDI dynamics, trends of FDI globally and in Africa will be explored briefly.

2.4.1 Trend of FDI flow globally

Statistics on recent global trends have been exclusively derived from a report presented by UNCTAD (2016:7), which publishes the available statistics. According to the report, since the global recession of 2008/2009, the year 2015 experienced the highest FDI inflows ($1.76 trillion) that equate to 38% more than that of the previous year. The larger percentage of the flow was directed to M&As as flow towards the category rose to $721 billion compared to $432 billion in the year 2014, while Greenfield investments with $766 billion remained at around the same level. The rise in FDI flows in the year 2015 was largely attributed to movement in balance of payments (BOP), which were not accompanied by similar movement in operational activities.

After movements in BOP that were not accompanied by similar movements in operational activities were disregarded, the actual increase fell to 15%. FDI flow to developed countries in 2015 stood at $962 billion, which was about two times more compared to that of the previous year as it rose from 41% in 2014 to 55%, with the largest flow being to the USA and Europe. In 2015, the flow to developing nations stood at $764 billion, which was 9% above the 2014 inflows, with Asia being the largest recipient, while inflows to Americas, Caribbean and Africa continued to decline. FDI flow from developed countries rose to $1.1 trillion (33%) in 2014, which was 40% lower than in 2007. On average, inflows to primary sectors continued to decrease, while secondary sectors realised an increment. However, M&As attracted the highest percentage (50%) of FDI inflows.

The report further went on to indicate that FDI inflows were expected to reduce by 10%–15% in the year 2017 as the global recession continues to be felt. With regard to groupings, transitional economies were the least recipient and they experienced reduced inflows, followed by developing countries that experienced slight growth in inflows at 9% from the year 2014 and developed economies experienced the highest inflow that was 84% in 2014. Statics showed that the African continent continues to

experience declining FDI flows, prompting the need to review their FDI policies to attract the investment.

2.4.2 Trend of FDI flow in Africa

Narrowing focus to Africa, UNCTAD (2015:2) revealed that the top five recipients of FDI in 2015, starting with the highest to the lowest, were Angola ($8.7 billion), Egypt ($6.9 billion), Mozambique ($3.7 billion), Ghana and Morocco ($3.2 billion each). In total, the inflows to Africa in 2015 amounted to $54.1 billion, which was 7.2% lower than the previous year and amounted to 3.1% of all the world inflows. With regard to regional inflows, starting with highest to lowest, the top recipients were Southern Africa, North Africa, West Africa, East Africa and lastly Central Africa. As indicated by the volume of inflows from the report, the Southern African region continues to be the largest recipient in terms of FDI. Therefore, with the right policies and structures, this region can experience increased FDI flows.

Furthermore, statistics regarding the real GDP growth in percentage for all the regions in Africa revealed that East Africa was 5.3% (the highest), followed by North Africa with 3%, Southern Africa 2.2%, Central Africa 0.8% and lastly West Africa with 0.4% (UNDP, 2017:23). As the focus is on SADC countries, which are located in the Southern African region, it is sensible to look for means of improving the real GDP growth as the region holds third position in the continent, yet it is endowed with huge amount of natural resources.

The aforementioned statistics corroborate macro-economic policy uncertainty statistics (actual and estimate) for Africa for the period 2008–2018 (UNDP, 2017:36). Apart from East African statistics that improved from 5.6% to 5.7%, the actual macro-economic statistics for all African regions declined between 2008 and 2016. To be specific, Central Africa saw a decline from 4.9% to 2.2%, North Africa from 4.4% to 3.4%, Southern Africa from 3.1% to 1.9% and West Africa from 6.2% to 3.5%. This further justifies the need for African countries to improve both politically and economically to the declining trends, as this negatively impacts the flow of FDI.

2.4.3 The intricacies of FDI behaviour in Africa

Information regarding the state of FDI in Africa is obtained from UNCTAD 2017 report as summarised by Chidede (2017:1–4). According to the article, FDI directed to Africa has decreased, despite the continent initiating several measures of sustained efforts towards attracting FDI. In 2016, the continent experienced a 3% decrease in FDI from $61 billion to $59 billion, which is attributed to low commodity prices that fell sharply in several countries on the continent. Statistics further indicate that FDI is unevenly distributed as the top recipient countries such as Ghana, Nigeria, Ethiopia, Egypt, and Angola enjoy about 57% of the continent's overall FDI flows. The entire continent enjoys only about 3.4% of the global FDI flow.

Chidede (2017:1) states that in the past, regions such as North, East and West Africa enjoyed increased FDI inflows, while other regions such as Central and Southern Africa continued to experience declining inflows. Research has shown that North Africa realised an 11% increase in FDI flows in 2016. This was mainly because Egypt became increasingly attractive to FDI after the discovery of gas, and Algeria realised heavy investments because of recently discovered oil deposits.

In East Africa, FDI rose by 13%; this increase was driven by a rise in FDI flows particularly in Ethiopia, Mauritius, and Madagascar. Conversely, countries such as Kenya and Tanzania experienced a decline in FDI inflows, estimated to be 39% and 15%, respectively. Furthermore, West Africa saw an increase of 12% in FDI in 2016 and this was driven by an upsurge of 45% in FDI flows to Nigeria and 9% to Ghana. However, countries such as Ivory Coast and Senegal experienced a decline of 3% and 4%, respectively. Central Africa saw a decline of 15% in FDI flows mainly due to reduced commodity prices in the Democratic Republic of Congo (DRC) that saw a decline of 12%, and Equatorial Guinea, which experienced a 77% decline. However, FDI inflows to Gabon and Congo Brazzaville rose by 13% and 8%, respectively, in 2016.

In 2016, Southern Africa experienced an FDI decline of 15% owing to a drastic drop in Zambia, Mozambique, and Angola by 70%, 20%, and 11%, respectively. In contrast, South Africa experienced a growth of 31%, which was still lower than in the previous year. Despite the decline, SADC countries continue to be the highest recipients of FDI compared to other African countries.

Regarding FDI outflows for the year 2016, the African continent realised an increase of 1% contributed by countries such as Angola, South Africa, Nigeria, Morocco and Botswana. The United States of America is the main source of FDI for African countries, followed by the United Kingdom, France, China, South Africa, Italy, India, Singapore, Switzerland and Malaysia.

The next focus is on the diverse industrial sectors and how they influence FDI activities in Africa. The highest recipient of FDI is the services sector which encompasses fields such as business services, infrastructure, real estate, electricity, gas, and water. It is followed by the manufacturing industry, which encompasses fields such as chemicals, renewable energy, textiles, clothing and then automobiles. FDI projects in primary sectors fell sharply due to low commodity prices. In this study, the focus is on FDI in the primary sector as it has the highest impact on a country's economic growth (Ashraf et al., 2015:5).

FDI flows to Africa are projected to increase by 10% in the year 2017 owing to increases in commodity prices. These increases are backed by oil exploration in Uganda and Nigeria, the proposed Chinese automotive project and investment in Harith Energy Partners, and the proposed largest energy plant in South Africa. This is further compounded by the formation of international and regional integrations that facilitate FDI and trade among nations.

2.5 Strategic importance of FDI attraction

According to Blonigen and Piger (2014:776), FDI is associated with several benefits; hence, countries strive to be potential FDI beneficiaries. The benefits as pointed out by Bosman (2016:4) and Benzuidenhout (2015:5) include the provision of new products, technological transfer, skills development and transfer, sustainable economic growth, inclusion of the host nation in international markets, improvement in competitiveness, promotion of entrepreneurship, and complementing local savings so as to ensure they match the investment requirements. FDI is a far more stable source of financing because it is inclusive of long-term goals, which focus on providing access to raw materials and markets. Other benefits that can be derived from FDI according to Amadeo (2016:1-2) include:

- Directing funds to viable business projects across national boundaries. This is because MNCs and other investors can invest outside their countries as long as the targeted investments promise to provide better returns than domestic opportunities.
- Creating opportunities for sustainable growth for functional businesses, as they can access adequate funding and international markets. This implies that a country can attract FDI as long as it creates an environment that influences investors to embrace good corporate governance practices.
- Reducing political impacts, as this will enable investments to be directed to countries with opposite political regimes. This will be achieved because such investments, particularly those from MNCs are usually directed to different countries that have different political environments. Therefore, such investments encourage countries to pursue a similar political environment.
- Assisting in the diversification of investments as they are spread across national boundaries. This is more applicable to MNCs as they tend to make investment in different countries. This way they can minimise losses in case there is political instability in some of the countries where they have invested.

In most cases, MNCs are headquartered in developed countries with advanced technology and good management practices. When investing in developing and less developed countries, there is tendency of transferring technology and superior management practices, which impacts positively on FDI's beneficiary countries.

The author of this study also cited reducing barriers to international trade to enlarge markets for businesses. This is achieved by forming trading blocks and regional integrations. Normally, these bodies tend to provide treaties that eradicate trade barriers between member states and facilitate the establishment of conducive business environments, hence governments will be encouraged to enact FDI friendly policies. Consequently, the impact of FDI will become visible to various governments, encouraging countries to develop frameworks that eventually creates an enabling environment for the investment.

FDI, particularly the Greenfield category, normally creates job opportunities and increases revenue for the host nations by initiating projects as opposed to M&As with

established projects exchanging hands, hence minimal change in employment and income levels. Therefore, Greenfield investments are preferable than other forms of investments, such as M&As.

Guru (2016:1) elaborated further regarding advantages associated with FDI. He stated that the FDI does not place a burden on tax payers because it is interest-free, because the motivating factor for the FDI is profit, hence the need to use resources efficiently. FDI provides transfer of technology, skills, managerial expertise, and innovations. This form of investment is directed towards less developed countries from developed economies.

As suggested by the author, income generated from FDI-funded projects at times is re-invested in host nations. Thus, more income is generated, jobs are created, and economic development is enhanced for the host nation. In most cases, FDI inflows are aimed at export related projects, thus boosting foreign earnings of the host nation. To some extent, FDI mobilises the host nation's idle capital by creating opportunities for a local organisation, which will in turn provide auxiliary or rather supportive services to FDI-funded projects. FDI also acts as a catalyst for infrastructure development. Major FDI-funded infrastructural facilities include power, telecommunications, ports, and road and railway networks. Therefore, FDI is beneficial to the host nation, because it is not easy for investors to pull out their investments as is the case with portfolio investments, whereby investors may decide to re-channel their investments.

2.6 Challenges posed by FDI attraction

Having explored the merits of the

FDI, the next step is to consider its demerits. Several scholars, politicians, and practitioners suggest that FDI is not beneficial to the host nation.

Critics such as Grimley (2016:2) argue that FDI causes income disparity amongst developed and less developed countries. This could be true considering that several MNCs repatriate all their profits to their home countries, thus leaving little investments for the development of host nations. The profits derived from FDI

projects are not equitably shared between the MNCs and host nations; a good example is Botswana, where MNCs invested in the diamond industry and share 50% of the unpolished products with the government. However, MNCs would polish and market diamonds and in the process retain the proceeds gained from value addition activities.

MNCs usually put small local companies out of business, thus distorting the host country's economy. They engage in unscrupulous or unethical marketing techniques to lure domestic customers. Owing to their financial muscle power, MNCs may influence the host country's policies to suit their own objectives; a good example is the Gupta state capture saga in South Africa. MNCs yield imbalances in the BOP because they repatriate profits to their country of origin.

South Arica serves as a perfect example where FDI does not add to the desired value. According to Majiyawa (2016:5), investments in South Africa between 1994 and 1998 at the Johannesburg Stock Exchange (JSE) never resulted in job creation and increased output. During the same period, approximately R36 billion was invested in M&As, which did not result in instant job creation and increased output. The author notes that only R10 billion of all FDI inflows was invested in projects that had a direct impact on job creation and increased output.

Other disadvantages of FDI noted by Amadeo (2017:3) include stifle domestic investments, because there could be a tendency of over relying on foreign funding. This is more prevalent in cases where investment is associated with advanced technologies, with which local organisations are unable to catch up, thus pushing them out of business. Henceforth, local businesspeople will overly rely on FDI from MNCs.

Owing to their financial strength, MNCs tend to influence government policies, thereby interfering with the sovereignty of the host country. Such influences result in state capture, which puts indigenous businesspeople in an undesirable position. The influence may lead to higher cost of production and eventually costly products, especially when the living standards of the host nation are high as there are circumstances in which investment comes from countries with lower standards of living to countries with high standards of living standards. Products produced in host

nations become expensive due to high cost of production. This results in unemployment particularly in cases where the investment is capital intensive.

At times, FDI is accompanied by high levels of capitalisation and local organisations may adopt the same system, thus resulting in massive layoffs. Hence, loss of investments emerges in circumstances where nationalisation and expropriation occur.

Political regimes change and with these changes foreign investors may find themselves being forced to relinquish all or some of their investments. It may result in capital monopoly, especially in circumstances whereby the MNCs stifle growth and development of domestic businesses. FDI predominantly comes from MNCs with headquarters in developed countries. This gives them an opportunity to conspire among themselves and in the process exclude locally funded companies, resulting in white capital monopoly.

Guru (2016:1) argued that, owing to financial muscles, FDIs interfere with the host nation's sovereignty, bringing instability to the host nation. FDI is rarely directed to sectors that increase economic growth such as infrastructure development. Infrastructure development is considered a public amenity, controlled by the government hence it is not deemed attractive to FDI. There could be a mismatch between FDI and what the host nation requires and so investing in infrastructure could be economically unviable. FDI may result in what is commonly referred to as 'modern day colonialism', where MNCs interfere with the sovereignty of the host nation because of their financial potency.

Grimsley (2016:3) argued that when weighing advantages and disadvantages, the FDI inflows to host nations will still be favoured. FDIs are usually stable and reliable when compared to grants and government loans. The author indicated that FDIs are efficient when based on skill and technological transfers.

After understanding the concept of FDI, merits and demerits, the next step is to explore other related studies; they will help the researcher identify gaps to be addressed and set the stage for a theoretical framework for the study.

2.7 Factors that influence FDI attraction

The level of FDI flows are determined by several factors, some of which are within the control of the host country. Gupta and Singh (2016) cited several factors that could be utilised by a nation to influence the level of FDI flows:

- Labour costs: labour costs particularly in less developed nations are far lower than those in developed nations. For labour intensive industries such as textile, horticulture, call centres, and flower, MNCs establish their production units in less developed countries to leverage cheap labour costs and eventually reduce their overall organisational costs.
- Stable economies: stable economies normally create enabling environments for FDIs because investors consider their investments safe, as opposed to when they invest in volatile economies.
- Strong institutions: these institutions include government regulating bodies such as the reserve bank, judiciary, legislative, and the executive. When they are strong and operating well, they ensure that foreign investments are protected and assure investors that their investments are safe.
- Political stability: this is a crucial determinant as it is directly linked to the safeguarding of investments. Investors usually have confidence that their investment will be safeguarded in countries with political stability; hence, they increase their investment in such countries.
- Economic development indicators: such indicators give direction to where the economy of a nation is going. Positive indicators assure positive returns in the near future for investments.

Kasasbeh, Mdanat and Khasawneh (2018: 1077) and Blonigen and Piger (2014:778) cited inflation as another determinant of FDI. Forecasted inflation can help investors know what the value of their investment in the future is. If inflation is high and projected to rise, FDI inflows will be deterred.

Foreign investors are attracted to protected large markets. They access them by establishing a local operation with access to protected markets. Unprotected markets may possibly deter FDI inflows and investors may be forced to set up production units in foreign countries to overcome trade barriers. It may also be difficult for foreign countries to operate in a host nation, thus discouraging them to invest.

FDI can be attracted by countries that have attracted it in the past because investors believe that the environment must be attractive to FDI if other foreign investors have invested before. Moreover, different corporations support one another. There are several network and linkage benefits that may be accrued by a company that is set up where there are other existing organisations.

2.8 Empirical framework of FDI behaviour

Blonigen and Piger (2014:775–812) conducted a study using statistical techniques to identify factors that have an impact on FDI inflows to a country. The factors found include income levels of the parent company, labour, skills and costs, nature of bilateral and regional trade agreements, cultural similarities with the parent company, higher returns and state of infrastructure. The results are supportive of an earlier study by Asiedu (2015:107-119) on Sub-Saharan Africa (SSA) countries; the study stated that the level of returns and state of infrastructure are crucial elements that attracted investors.

Another study by Rogmans and Ebbers (2015:240-257) explored factors that influence the flow of FDI to Middle East and North Africa member countries. The findings indicated that possession of energy related natural resources, particularly oil, had a negative impact on FDI inflows, whereas openness to trade and the rising price of fuel had a positive influence. However, the issue of economic risk was found not to have positive or negative impact. Countries with oil/energy related resources have deterrent policies to FDI hence they are deemed unattractive. Moreover, such countries can generate adequate income from selling energy related resources.

Denisia (2015:53-59) explored factors that motivate or demotivate countries to establish structures that promote FDI inflows. Competition to incumbent or local corporations is regarded as a demotivating factor, whereas employments, improvement in productivity, competitiveness, increase in exports, ability to penetrate international markets and access to a larger portion of foreign exchange are deemed motivating factors.

Yohanna (2015:55–82) explored the factors that enabled Nigeria to attract FDI inflows for the period 1981–2010. The concerns explored were institutional reforms, infrastructural development, and liberalisation of FDI regulatory frameworks. The

study revealed FDI flows to developing countries declined compared to other regions. Compared with other developing countries, Nigeria had minimal structural changes. Factors with a significant impact on FDI inflows were noted as openness to FDI, quality of institutions, and infrastructure.

Bartels, Napolitano and Tissi (2014:516–529) explored the factors influencing inflows to SSA for the period 2003–2010. The key factors found include political predictability/stability, availability of local resources in form of inputs, transaction costs and efficiency, exchange rates, market size, and openness to FDI.

Reinhardt and Dell'Ebra (2015:1–41) also conducted a study to identify factors that influence FDI inflows in emerging markets and industrial sectors and the benefits accrued from the inflows of FDI and the preferred mode for FDI. The findings acknowledged that the preferred mode for FDI was M&As, Greenfield, and strategic alliance. Greenfield, in particular, was found to be the most beneficial. Factors that attracted FDI included tax holidays, import substitution, ease of profit remittance, exchange control liberation, investment incentives, fiscal and monetary policy, infrastructure, and market size.

Ashraf et al. (2015:1–48) studied the impact of Greenfield investments and M&As on total factor productivity. The authors found that Greenfield investment did not have a significant impact on the total outcome of productivity, whereas M&As did, because M&As ensure capitalisation of management expertise, technical skills, and technology transfer. Dezhao and Helian (2015:1) conducted a study to explore the role of FDI on redundant rural workforce in China. The findings showed that with FDI inflows to cities, the redundant rural workforce was mobilised and moved to cities that were attractive to FDI.

Anyanwu (2016:433–470) conducted a study that identified factors influencing FDI inflows into Africa for the period 1996–2008 in 53 countries. The study noted that market size, openness to trade, rule of law, foreign aid, natural resources and past FDI inflows were key factors that influenced FDI inflows into Africa. In contrast, financial development has an insignificant impact on FDI inflows. East Africa and Southern Africa regions were more likely to realise more FDI inflows compared to other regions.

2.8.1 FDI theories

According to Nayak and Choudhury (2014:1), there are several theories that can be applied in explaining the flow of FDI from developed countries to developing countries. However, none of the theories covers the rationale behind the flow of FDIs. Holmes, Miller, Hitt and Salmador (2013:6) argue that all FDI theories agree on one element – the flow is directed to locations that permit investors to achieve maximum profit. The different theories and their application are explored below:

2.8.1.1 FDI perfect competition theory: As indicated by Nayak and Choudhury (2014:2), FDI perfect competition theory addresses situations where there is free flow of resources amongst investors and receiving nations. Nayak and Choudhury (2014:1) indicate a tendency of output dropping within investor countries, which is not accompanied by a decrease in income: Investor nations will eventually achieve increased income from their investment in host nation.

2.8.1.2 FDI in imperfect markets: According to Moura and Forte (2015:18), this theory argues that FDI investors engage in competition with local organisations in the host nations, who have local advantages. The theory argues that for FDI to be successful, the organisation must have some form of market power: superior technology, brands, managerial expertise, and patents.

2.8.1.3 FDI in monopolistic situations: As indicated by Nayak and Choudhury (2014:6), the theory argues that FDI flows were high in host nations where FDI projects had more scope than local firms. In other words, the monopolistic power of FDI projects acts as the driving force behind FDI flows to host nations.

2.8.1.4 Internationalised theory: As indicated by Holmes et al. (2013:7), this theory focuses on the shift from country-specific to industry level characteristics such as the status of the market (perfect/imperfect) being the driving force behind FDI flows.

2.8.1.5 Oligopolistic theory: According to Nayak and Choudhury (2014:8), the theory looks at FDI flow as a subject of the market status (perfect/imperfect). The theory implies that the state of the market influences FDI flows.

2.8.1.6 Currency strength theory: As proposed by Moura and Forte (2015:19), the theory argues that FDI flow is subject to the difference between the strength of the

investor and the currency of the host nation. The authors observed that FDI flows from a nation with a strong currency to that with a weak currency.

2.8.1.7 Eclectic paradigm (OLI theory): As suggested by Dunning (1993), a firm would choose the most suitable form of entry into a new foreign market by considering their ownership advantages (O), the location advantages of the proposed host country (L), and the internationalisation advantages of the specific situation (I). Dunning (1980) proposed that the OLI triad of variables regulating FDI activities is similar to a three-legged stool where the stool is only balanced when all three legs are useful.

2.8.2 Empirical frameworks and lessons from the literature

Based on a review of the related literature, several empirical frameworks were identified and documented with the aim of providing the study with a pictorial form of some of the related previous studies. Some of these frameworks are tabulated as follows:

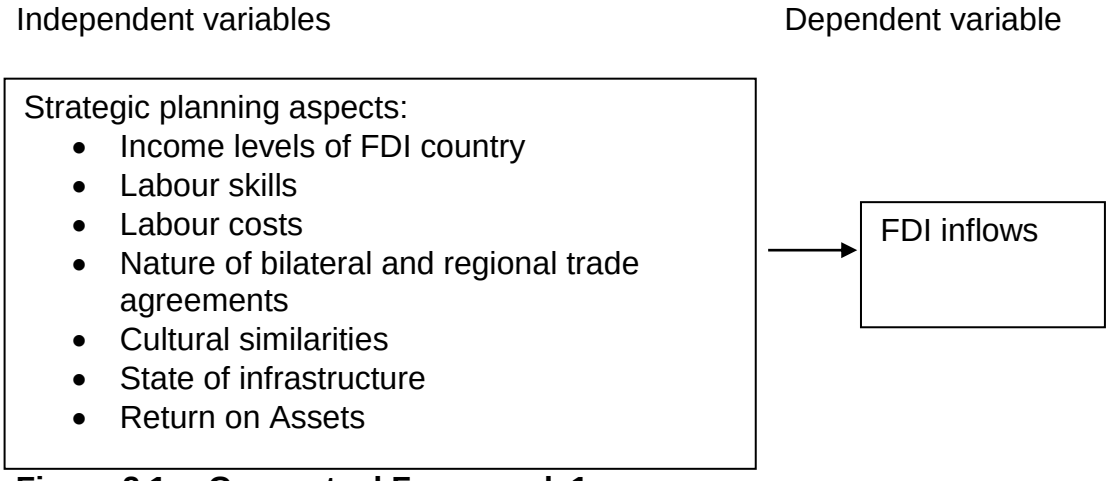


Figure 2.1 Conceptual Framework 1

Source: Blonigen and Piger (2014:775–812)

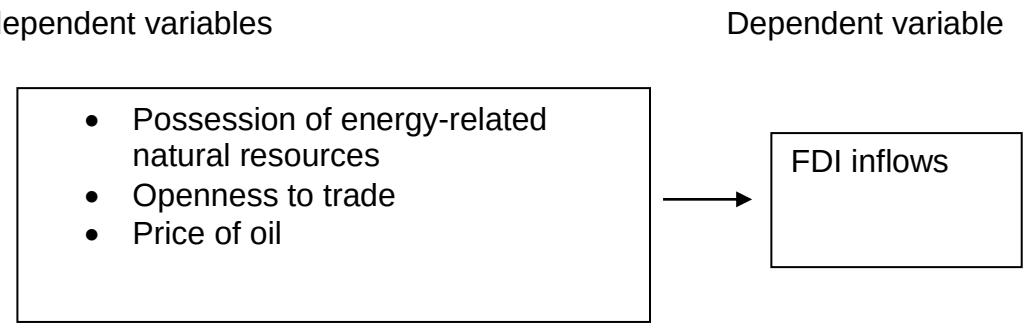


Figure 2.2 Conceptual Framework 2

Source: Rogmans and Ebbers (2015:240–257)

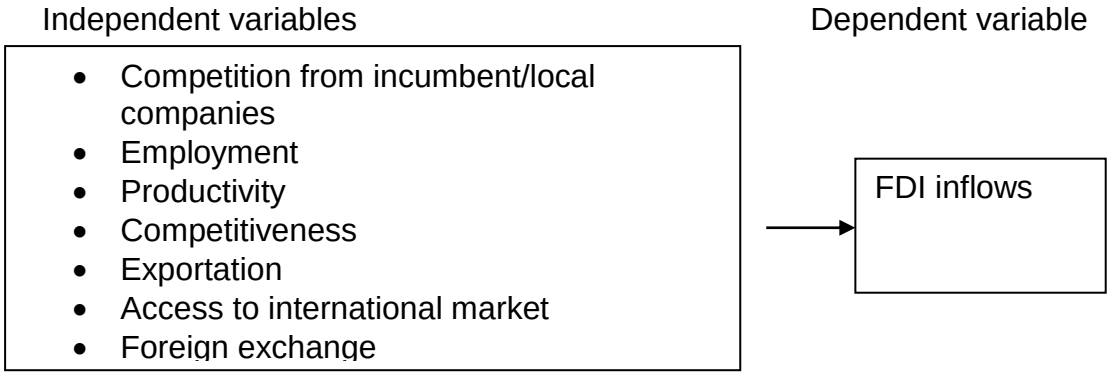
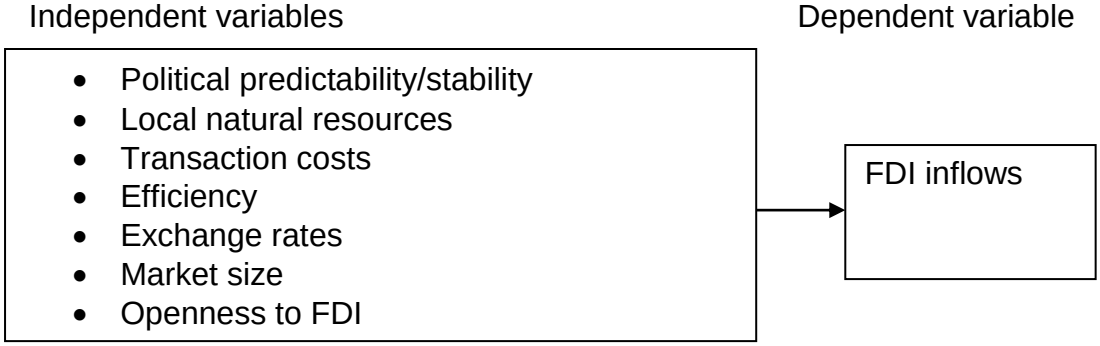


Figure 2.3 Conceptual Framework 3

Source: Densia (2015:53–59)

Figure 2.4 Conceptual Framework 4

Source: Yohanna (2015:55–82)



Source: Bartels et al. (2014:516–529)

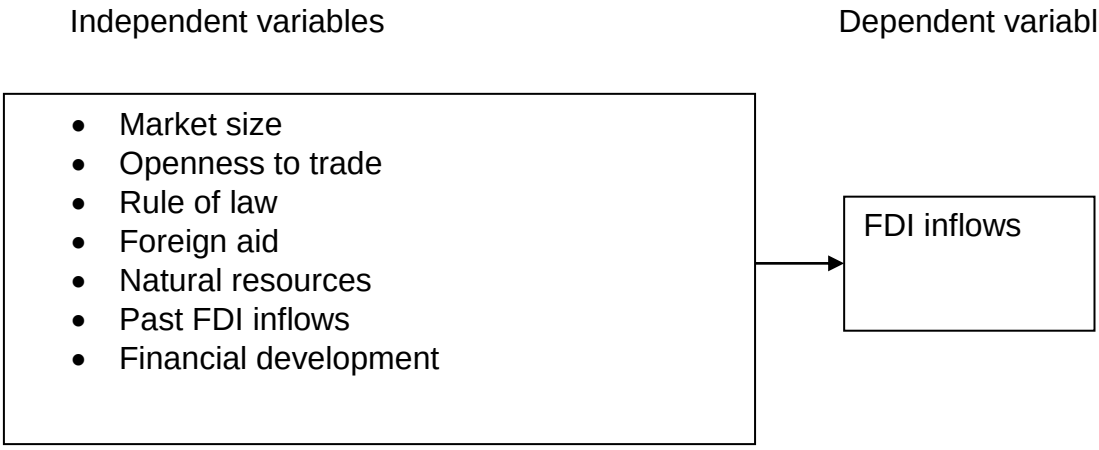


Figure 2.6 Conceptual Framework 6

Source: Reinhardt and Dell'Ebra (2015:1–41).

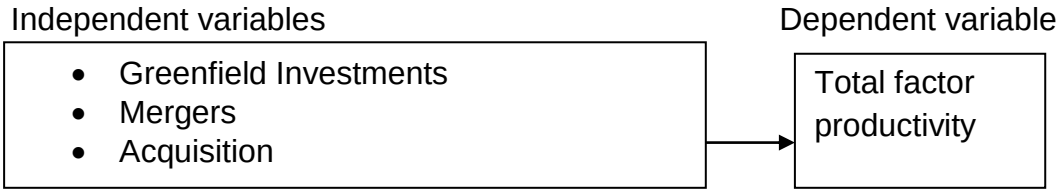


Figure 2.7 Conceptual Framework 7

Source: Ashraf et al. (2015:1–48)

2.9 Empirical framework for the current study

For this study, the researcher has adopted the empirical framework proposed by Reinhardt and Dell'Ebra (2015:1–41), which assumes that the level of FDI inflows is determined by the derived benefits and policies. In pictorial form, the relationship between the variables upon which the current study is based is depicted in Figure 2.8.

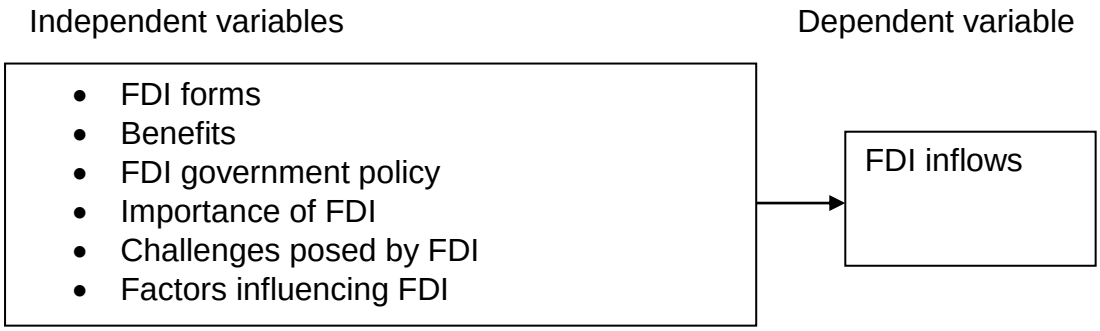


Figure 2.8 Conceptual Framework for the Current Study

Source: Reinhardt and Dell'Ebra (2015:1–41)

The empirical framework for the study is based on a combination of FDI theories: imperfect market, internationalised, oligopolistic, currency strength and monopolistic theories.

2.10 Conclusion

Evaluation of related literature review enabled the researcher to derive an empirical framework upon which the study is based. The empirical framework argued that benefits derived from FDI and FDI policies had an impact on FDI inflows. The following chapter evaluates FDI policies adopted by selected member countries, emphasising the success of their FDI policies.

CHAPTER THREE

OVERVIEW OF THE STATUS OF FDI AND RELATED POLICIES IN SADC

3.1 INTRODUCTION

This chapter focuses on FDI activities and related government policies within SADC member countries.

3.2 INFLOW OF FDI INTO SADC MEMBER COUNTRIES

Table 3.1 shows the trend of inflows for the period 2010–2015 for SADC member countries. Focus is on both performing and non-performing countries regarding FDI attraction. As noted in Chapter 2, the information gained from this exercise will assist the scholar when settling on the precise theoretical framework, upon which the present study will be based, and when interpreting and discussing findings of the study.

Table 3.1 FDI Inflows (2010–2015) USD millions

Country	2010	2011	2012	2013	2014	2015
Angola	-3227	-3024	-6869	-7120	1922	8681
Botswana	218	1371	487	398	515	394
D R Congo	2939	1687	3312	2098	1843	1674
Lesotho	51	149	138	123	162	169
Madagascar	808	810	812	567	355	517
Malawi	97	129	129	120	130	143
Mauritius	430	433	589	293	418	208
Mozambique	1018	3559	5629	6175	4902	3711
Namibia	793	1120	1133	801	432	1078
South Africa	3636	4243	4559	8300	5771	1772
Swaziland	136	93	90	29	-32	-121
Seychelles	211	207	261	170	230	195
Tanzania	1813	1229	1800	2087	2049	1532
Zambia	634	1110	2433	1810	3195	1653
Zimbabwe	166	387	400	400	545	421

Source: UNCTAD (2016:192)

As shown in the table, Angola was experiencing negative inflows in 2010 but subsequently became the highest recipient of FDI inflows. South Africa and Democratic Republic of Congo (DRC) experienced high FDI inflows by 2010 but this trend started to decrease towards 2015. Mozambique started on a high note but gradually continued to realise reduced inflows towards the year 2015.

Considering the year 2015, the recipients of FDI inflows from highest to the lowest as tabulated in Table 3.1 are Angola, Mozambique, South Africa, DR Congo, Zambia, Tanzania, Namibia, Madagascar, Zimbabwe, Botswana, Mauritius, Seychelles, Lesotho, Malawi, Swaziland. Looking at the countries from the viewpoint of their political stability, the level of FDI does not always correspond. Some countries such as Botswana and Namibia are politically stable but still do not attract much FDI owing to their small local markets (Muradzikwa, 2017:1). There is therefore a need to investigate how SADC member countries can improve their attractiveness to FDI.

SADC region should attract FDI to fuel growth in real gross domestic product (GDP) of the member countries. As indicated on Table 3.1, Southern African region experienced the third lowest real GDP growth in Africa for the year 2016 (UNDP, 2017:23). Through attraction of the right FDI, a country can improve its GDP growth (Muradzikwa, 2017:1). The Southern African region experienced real growth of 2.2%, which is way below the highest real growth of 5.3% experienced within the East African Region.

Several reasons can be attributed to the decline and increase in investment performance: small size of the domestic (and even regional) market, property rights, political instability, to name a few. The SADC trade protocol, which seeks to expand market borders through further liberalisation of intra-regional trade, is being implemented, with various consequences for individual member states in terms of investment, industrialisation, trade, and economic growth.

3.3 SADC FDI AND INITIATIVES

As noted by SADC (2018:1), SADC recognises that the long-term goal of its member countries is to harness investment from other nations. Therefore, the FDI would facilitate achievement of their set long-term social and economic goals. According to

SAIIA (2016:1), SADC advocates for its member countries to embrace policies and regulatory frameworks that endear them to foreign investors.

However, endearing of member countries is not enough according to SADC. As noted by SADC (2018:1), member countries should strive to minimise foreign investment in form of mergers, acquisitions, shares and bonds. Instead, they should enact policies and structures that attract Greenfield investments because such investments result in job creation, improved infrastructure, and sustainable economic development.

Bezuidenhout (2015:1) argues that in recognition of the importance of foreign investment to member countries, SADC has proposed several guiding documents, which include the following:

- Protocol on finance investment. The document highlights the importance of FDI where creating an enabling environment for entrepreneurship is cited as a recipe for the investment. The document in Article 4 Annex 3 underscores the importance of using tax incentives to attract the foreign investment.
- Regional Indicative Strategy Development Plan. This document outlines the factors essential for FDI decisions in response to a gradual reduction of FDI in the region by about 50% since the commencement of the 2008 economic meltdown.
- Regional Infrastructure Master Plan. This is the plan to enable the region to link its infrastructure to promote smooth flow of resources within the region. The plan will also ensure that infrastructure growth in the region develops at the same pace.

3.4 FDI-RELATED GOVERNMENT POLICIES IN SADC COUNTRIES

This section presents the country-based review of the literature. It discusses the impact of government policies, regulatory frameworks, and initiatives that attract FDI inflows for selected SADC member countries. The ideal policies that attract FDI are outlined; thereafter, a few selected cases of SADC member countries and their respective government FDI policies are reviewed

As observed by Ignat (2015:115), government policies have been known to either persuade or dissuade potential foreign investments. Such government polices according to Ashraf et al. (2015:5) rotate around fiscal policy, regional agreements,

tariffs, and openness to trade, FDI policies, investment agreements, and economic fundamentals.

3.4.1 Ideal FDI Government Policies

As revealed in government statistics earlier on, developed countries such as the USA are the highest recipient of FDIs globally (UNCTAD, 2016); hence, they are used as benchmarks when exploring the ideal FDI government policies. According to the US Department of State (2015:1–2), FDI government policies are essential to maximise FDI. OECD (2018:1–34), Velde (2018:1–64) and Columbia Centre on Sustainable Development (2017:1–51) corroborate the arguments by the US Department of State. The following aspects are considered favourable if a country is to benefit from FDI:

- Labour costs, relations, and levels of education

The first step is to ensure that a country directs a substantial amount towards education of its members. A bigger budget should be directed towards professions that are in serious demand to promote FDI. Secondly, ensure there is a healthy working relationship between the industry and workers unions. Finally, ensure the labour costs are checked because if they are not, they will repel investors.

The cost of living is a major determinate of the level of FDI flows because many MNCs are attracted by lower production costs. If the cost of living is high, costs of other inputs that include labour are high, thus leading to production in host nations being high. For businesses to operate efficiently and countries to attract FDI, there is need to have adequate infrastructure in the form of road network, utilities, internet, networked airports, railway and practicable a properly networked harbour.

- Regulatory frameworks

Legal regulatory frameworks also play a key role. In any business, misunderstandings due to numerous legal contracts are common. These regulatory frameworks are needed to uphold the interest of all parties to the contract and other deputies that arise in a normal working relationship.

Working regulatory business framework ensures that the business environment supports investors. When a country regulates the business environment, it builds investor's confidence.

Repatriation of FDI profits from one country to another is a crucial factor in investment. Different countries have varying levels of control on MNCs repatriation of profits generated within their territory. The level and mode of repatriation of profits should be considered by host nations because repatriation of profits to host countries may be difficult.

Investor's protection regulatory framework is important as it is seen as a surety that investors do not lose on their investment when there is political change. Countries with a sound investor's protection regulatory framework are an attractive destination for FDI. Removal of government control that includes deregulation, privatisation, and liberalisation opens economies for foreign investments, thus making it easy for MNCs to easily operate. Therefore, MNCs can access shares in previously government controlled entities; they can easily enter into the country and repatriate their profits.

- Investment restrictions

There are certain investment restrictions that may deter FDI flows. If a country imposes limitations on MNCs investment to protect local businesses, this could limit their flexibility in investments and may therefore act as a deterrent to FDI flows. Tax incentives can play a significant role in attracting FDI flows. Host nations with favourable tax schemes ensure that profits are generated from FDI investments.

Bilateral and multilateral agreements make it easy for trade between economic blocks, regional and international integrations. Countries that have entered into such agreements tend to attract high FDI inflows as the investors are assured of access to a wider market and easy trading terms. A country's political climate determines whether a company operates freely without fear or not. In politically stable countries, a company is assured of operating without fear, with its future and that of its employees assured; hence, they are better positioned to attract high FDI flows.

Host country immigration laws play a significant role in determining the ease with which investors can have access to the most important organisational resource and competent workforce. In most cases, there is disparity in competency of workforce among countries. Therefore, a country with favourable immigration laws will be able to attract high FDI flows as investors are assured of easy access to competent workforce when the need arises.

Following exploration of the ideal FDI-related government policies, the policies in a few countries selected for this study are explored subsequently:

3.4.1.1 Angola

AfDB (2017:1–2) report reveals several factors regarding Angola. According to the report, in the years 2015 and 2016, the country experienced economic growth of 3.5% and 3.3%, respectively, and this was expected to revert to 3.5% in 2017. The economic growth statistics appear to have stagnated over the years because oil prices have plummeted and the country relies heavily on income from oil exports. ITA (2017) revealed that the country with $96.2 billion per capita income and a population of 27.4 million happens to be the 3rd biggest economy in the continent.

The AfDB (2017:1–-2), BAA (2016:1–3), Angola Commercial Guide (2017:1–2), Santander Trade (2018:1) and ITA (2017:2–6) cited several factors that influence current and potential investors. These factors are discussed as follows:

A shortage of foreign exchange may affect companies that have to make an application and at times be on the waiting list. The shortage of foreign exchange means that operations of investors are negatively impacted, which has to an extent acted as a deterrent to FDI especially from investors that require sourcing of inputs from outside of the country, needs to repatriate profits and are not established enough to have foreign exchange reserves.

The country's inefficient financial system may be cited as a crucial factor. Consequently, FDI investors who uphold good corporate governance practices may be deterred by an inefficient financial system and briberies to invest in a country. Restriction in repatriation of profits as FDI investors pay 50% tax on repatriated profits at initial stages, which reduces to 15% over time.

The 50% tax on repatriated profits may deter investors whose major focus is immediate repatriation of profits as they can only repatriate a portion of their profits at initial stages. This may not be attractive if they are not interested in re-investment. There are challenging government procedures that lead to lengthy processes, which may be deterrent to investors. The country is relatively safer if it has limited conflicts and does not have a strong central government. With limited conflicts, investors are assured of peaceful working environments.

A relatively large market of 27.4 million people, but very difficult to penetrate in absence of strong local partners can influence potential investors. Investors prefer a huge local market, which can be easily penetrated. In Angola, there are mixed signals as the market size is reasonable but unfortunately difficult to access mainly due to language and cultural barrier. The cost of living is relatively high compared to other countries in the region and continent. Products produced in the country cannot compete with those produced in the neighbouring countries. The country therefore largely attracts FDI that is directed towards mining of natural resources as opposed to other sectors.

Portuguese serves as a language barrier since majority of countries use English in the region. This language barrier hinders ease of movement of competent workforce from the neighbourhood. It makes it difficult to penetrate the local market as well as for MNCs to operate in the country, which is yet another deterrent to FDI flows.

The civil war between the government and the opposition existed for a prolonged period; it has impacted negatively on infrastructural development, a crucial determinant in FDI inflow levels. There is scarcity of skilled labour as the country stabilised in the recent past, meaning that most locals have not acquired the right skills to support investors. Conversely, the country's enormous natural resources, especially oil, have attracted more FDI from countries such as the USA, making the country attractive to the investment than other SADC countries.

The country's immigration laws are relatively flexible, especially when it comes to specialised skills. Owing to inadequate and competent workforce, the country

aspires to make it easy for investors to acquire such skilled and competent workforce outside the country. Weak legal framework as many foreign companies use foreign contract laws. Moreover, the country's laws are complicated, vague, and lack regulatory framework in some business aspects.

Angola is still stabilising from many years of civil war and has therefore not had a thorough crafting and implementation of adequate regulatory frameworks. As such, the country should make this a priority. There are high levels of corruption, which at times may increase cost of operations as well as discourage potential investors. Corruption can act as a deterrent, especially in the current era where good corporate governance practices are expected.

3.4.1.2 Mozambique

Focus Economics (2017:1–6) reveals that Mozambique has a population of 29.2 million, GDP of $23.6 billion, and per capita income of $76. In total, the country covers 799380 km^2. The real GDP growth was 7.3% and 7.5% in the years 2014 and 2015–2016, respectively, and it was projected to be 7.9% for the period 2017–2019.

Santos, Gallardo and Filipe (2017:3–8), Santander Trade (2018A:1), Mozambique Commercial Guide (2017:1–2), and Mundi, Leitao and Teles (2017:1–5) outlined several factors that influenced the flow of FDI to the country as follows:

The country has taken an indelible step regarding tax incentives in the form of accelerated tax capital allowances, rebates on duties, and tax credit of 5%–10% for investments depending on the location. Tax incentives increase on the profits generated, which seems attractive to investors.

Mozambique offers limited restrictions in areas reserved for foreign investment. This gives flexibility to potential foreign investors and in the process opens room for foreign investors to all levels and sectors. Such a move has the impact of widening the net for foreign investors. Citizens are entitled to a certain percentage (5%–20%, depending on the industrial sector) of ownership in foreign-funded ventures. This means that foreign investors access to businesses more so with SOEs and government is not limited even without or with limited local representation. This acts

as an incentive to attract FDI flows as investors feel that their investment is not diluted because they are not forced to partner with local representatives who in most cases have nothing to offer in terms of capital and expertise.

Portuguese as the official language of the country makes it difficult for nationals from English-speaking countries to operate in the nation. Most foreign investors are exposed to languages such as English, French, and Chinese, which are not widely spoken in Mozambique. Thus, it becomes difficult for foreign investors to penetrate the market due to language and culture barriers.

The nation possesses abundant natural resources in the form of gas, coal, and aluminium. This led to an attraction of Greenfield investment that has a significant contribution to employment and economic levels, making the country the second largest destination for FDI within SADC despite other drawbacks. However, political uncertainty in the country could deter investors as they are not sure of a peaceful environment to operate in the future as well as whether their investment is assured in the future. Further, poor financial and legal frameworks could deter FDI flows because promote corruption and insecurity of investments, which could dissuade foreign investors. The country has taken several measures to create a conducive environment that will be attractive to foreign investors; however, more still needs to be done regarding scarcity of specialised skills and expertise. This has led to the country relaxing immigration laws. It is advisable that the country directs a substantial amount of funds towards appropriate education to deal with the issue of scarcity of specialised skills.

Another crucial factor relates to a large population of citizens who possess limited purchasing power because of extreme poverty levels. This means that companies that invest in the country will have a tough time developing a sizeable market and may have to rely on neighbouring countries to realise a sizeable market. Investment will be dictated on the market of the neighbouring market, the bilateral and multilateral treaties that exist.

The country has established appropriate structures to provide assurance for foreign investment; however, the government should continue to improve on the framework.

Bilateral and multilateral trade agreements assure investors of access to large markets to complement the local market that is deemed as weak. Limited restriction in repatriation of profits means that investors can repatriate their profits with ease, a good motivator for foreign investors.

Santos, Gallardo and Filipe (2017:1) argue that Mozambique has done very little in enacting structures that are attractive to FDI yet it still attracts a substantial amount of FDI. The authors further note that the country lacks openness, political stability, economic stability, adequate infrastructure, reliable regulatory framework and institutions. Nonetheless, it is blessed with adequate resources that encourage MNCs to to direct FDI flows to the country.

3.4.1.3 South Africa

As observed by Sharara (2016:1), South Africa continues to be among the top five (5) recipients of FDI inflows within the SADC region. Statistics by Sharara (2016:1) indicate that inflows into South Africa hit a 10-year low in 2015, dropping by a total of 69%. The drastic drop in inflows to South Africa was attributed to poor economic performance in the recent past, drop in commodity prices, increase in electrical costs, increased labour costs, weak demand from conventional trading partners and over reliance on minerals as a major export (Smith, 2017:2).

However, as suggested by Smith (2017:3), Mlumbi-Peter (2015:1–39) and Sharp (2015:1–16), South Africa has been able to attract huge amounts of FDI than other african countries.

The country has a relatively stable economy, which creates an enabling environment for FDI as foreign investors are assured of peaceful operations and continuity of their operations into the foreseeable future. The country has strong institutions in the form of regulatory bodies such as the reserve bank, judiciary, legislative, and the executive. These organisations are strong and functioning well, assuring investors that their investments are protected. Security of investments is a very crucial factor when it comes to determination of FDI inflows.

Until recently, the country's economic development indicators have been positive. On average, positive indicators allude to a positive future for investors, assuring foreign investors that their investments would earn reasonable returns. Inflation in the country has continued to be lower than that of its neighbours, also enabling investors to realise the value of future investment with an element of certainty. With a population of about 50 million and regional integrations such as Southern African Customs Union (SACU) and SADC, the nation has access to large markets. This acts as a major attraction to FDI flows as they are assured of sizeable markets for their products and services.

The country's systems are open as compared to other SADC member countries, which makes it more attractive to FDI flows. With open systems, there are lower levels of corruption, ease of transactions, and a secure plan with certainty as the systems and their durations are clearly stipulated. Investors can take advantage of the lower level of bureaucracy and use legal means to protect their interest.

Another key factor to consider is clustering effect, where FDI activities tend to flow possibly due to linkage and networks that spill over from other FDI-funded projects. The clustering effect is common in South Africa as it has attracted more FDI flows than other SADC member countries.

Finally, the country has good infrastructure, which makes it attractive to FDI flows. It has the busiest airports, a large number of ports due to its long coast line, excellent and intensive road network, telephone network, internet connection, and railway network that is superior to other countries in the region.

3.4.1.4 Swaziland

According to AfDB (2017B:1–3), Swaziland experienced real GDP growth of 2.5%, 1.7% and 0.6% in 2014, 2015 and 2016, respectively. The estimated GDP growth is less than 2% for the years 2017 and 2018. The GDP for the year 2016 was $11.06 billion and the per capita income for the same year was $9800.

The U.S. Department of State (2015), Swaziland Commercial Guide (2018:1–2) and Santander Trade (2018:1) cited several factors that have an influence on FDI flows into Swaziland.

The country has a supportive labour position in terms of costs, labour relations, and high levels of education. This means that investors have access to cheap, skilled and competent workforce that is easy to deal with as it is less unionised compared to neighbouring countries such as South Africa. Although the nation is landlocked, it has adequate physical infrastructure due to its small size and proximity to South Africa, which has made it attractive to foreign investment.

Another vital factor to consider is a relatively stable political environment, which gives confidence to foreign investors about conducting their operations in a peaceful environment that promises continuity into the future. Owing to the ease of government control in terms of continuous deregulation, privatisation and liberalisation of the economy, the business environment is more attractive to foreign investment and investment opportunities. It offers limited restrictions in areas of foreign investments, which means that the country can attract more investments. Limited restriction on repatriation of profits creates opportunities for investors to repatriate profits when the need arises; this motivates FDI flows from even the short term investors. There are tax incentives in the form of 10-year exception from holding tax, low corporate tax at 10% and duty free for machinery. This means that foreign investors can generate more profits due to reduced taxes. Besides, provision should be made to place a system that militates against double taxation. Such an approach will ensure that a reasonable amount of profits are repatriated or rather generated from FDI-funded projects

The alleviation of government bureaucracy means that the investment environment of the country is attractive to potential investors because they can implement their projects with certainty and minimise operational costs. Working business and legal regulatory system, this means that investors have a clear plan on how to go about their operations and can seek for legal redress incase their rights while doing business are regulated. The protection of foreign investment laws assures investors that they will not loose on their investment if there is political change or regime.

Bilateral and multilateral trade agreements make the country attractive because investors will have access to a sizeable market through the economic blocks and integrations that the country has appended its signature to.

In addition to enforcing good practices to attract FDI, Guru (2016:1), OCECD (2018:1034) and Velde (2018:1-64) recommend that the host nations should ensure political stability because FDI flows to nations where there is surety that no loss comes to investors in case of political upheavals. The country must promote positive relations with neighbouring countries to minimise chances of external aggression as it may interfere with FDI projects

A healthy environment is essential for businesses to generate income by development and implementation of an enabling business and legal framework that gives guidance to businesses in their operations. Furthermore, the framework could be used to seek legal redress in case one feels that their rights have been violated in business operations. There should be provision for enacting laws that will ensure that investors are properly compensated if nationalisation is implemented. With nationalisation especially when there is regime change, many foreign investors have lost their investment, hence the need for protection framework. Immigration laws that create an environment that allows easy engagement of foreign skilled personnel should be enacted. FDI providers normally prefer having their own personnel holding top positions.

Structures that facilitate smooth repatriation of income from interest, dividends and interest from FDI-related operations should be created because many foreign investors invest with a single aim of going global, which means movement of profits back forth. According to Guru (2016:1), Swaziland has tried its level best to put structures in place that attract FDI flows. However, its major drawback is in the small size of its local market, poor infrastructure compared to the neighbouring SACU member countries, and weak regulatory frameworks and institutions.

3.4.1.5 Malawi

The economic growth rate for Malawi as noted by Mwanaketwe and Bhatia (2017:273) for the year 2014, 2015 and 2016 was 5.7%, 2.9% and 2.7%, respectively. For the years 2017 and 2018, the economic growth was projected at 4% and 5%, respectively. The down trend from 2014 to 2016 was attributable to weather variations, especially unreliable and inadequate rainfall that affected agriculture across the purely agrarian country. According to ADB (2017A:1), the country's population as of 2016 was 18.3 million in an area of 118484 km^2 and agriculture contributes to 36% of the country's GDP.

AfDB (2017A:1–4), World Bank (2017:1–3), Santander Trade (2018:1), U.S. Department of State (2018:1-5) and Mwanaketwe and Bhatia (2017:271–274) have outlined several factors that influence investments in the country.

Limited natural resources, with the major attraction being agriculture, can influence investments in the country. Unfortunately, the agricultural sector is largely influenced by weather variations; hence, it acts as a deterrent to investors. The country enjoys a relatively stable atmosphere, which could attract as a major attraction to foreign investors as they will feel safe and also have the knowledge that their investments are protected into the foreseeable future.
The infrastructure is reliable, which creates an enabling environment for an organisation to thrive since there is ease of communication, transport, access to adequate utilities and target markets.

Attempts are made to deregulate and privatise the economy. This has created an enabling operating environment for businesses as well as added investment opportunities due to privatisation. Government processes have been streamlined by reducing bureaucracy, making sure investors can plan with certainty as corruption is minimised and there is less wastage that may arise from delays resulting from bureaucracy.

The country has embarked on formation of regional and international integrations such as being members of SADC and COMESA.This move ensures that foreign investors in the country have easy access to large markets from bilateral and

multilateral trading partners. There is an enabling business environment, which makes it easy for businesses to operate. This reduces complications of doing business and therefore attractive to FDI.

There is a reliable financial system, which ensures that recording and reporting of business operations is straight forward, thus reducing the level of corruption and bureaucracy. Skills are available; therefore, investors do not have to spend more on labour costs because they can source cheap, skilled and competent staff locally. Immigration laws are favourable towards specialised skills; this makes it easy for foreign investors to bring specialised skills on board with ease and without delay. It also leads to the protection of foreign investment where foreign investors do not have to worry about the future even when there is political change as their investments are protected.

The country has a reliable legal framework that ensures that any work- or business-related disputes are well managed to uphold the interest of all parties satisfactorily. Adversely, there is a sizeable market, which is limited by the purchasing power due to limited purchasing power of the majority of the residents; this may act as a deterrent. However, most businesses enter into multilateral and bilateral agreements that assure foreign investors of easy access to sizeable markets. Moreover, availability of tax incentives to investors results in increased profits, which acts as a motivator to foreign investors, contrary to countries with inadequate tax incentives to foreign investors. Limited exchange controls and repatriation of profits ensure that foreign investors have adequate access to foreign exchange for their operations and they can repatriate their profits with ease when the need arises.

Similar to Swaziland, Malawi is faced with a small market that has low purchasing power (Mwanaketwe and Bhatia, 2017:272). The same article suggested the country made huge efforts but still lags behind regarding institutions and frameworks that guaranteed adequate protection of FDI.

3.5 Conclusion

This chapter focused on the status of FDI and related policies of selected SADC member countries. The chapter reviewed the existing literature on some of FDI-related policies and initiatives of FDI inflows into the countries. The evidence presented in the chapter revealed that factors that make a country attractive to FDI inflow are similar across the countries, with a few custom differences. For instance, in South Africa, the country is unique with macro-economic stability, infrastructure, institutions and predictability of the economy. For countries such as Angola and Mozambique, availability of natural resources at hand as opposed to political stability and security are unique.

Having reviewed the extant literature on FDI-related policy architecture of the sampled countries, as well as the effectiveness of these policies in attracting FDI over a period of time, we now proceed to the research methodology chapter. The next chapter presents the methodological approach adopted in carrying out the empirical aspect of this study.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

This section of the study outlines the procedures followed while conducting the study. It highlights research design, philosophy, approach, strategies, time horizon of the study, population, sampling, data gathering instrument, data analysis, elimination of bias and ethical considerations of the study.

Saunders, Lewis, and Thornhill (2016:108) advocated the use of research onion as an aide to outlining the steps to be followed when conducting a study. In this study, the research onion depicts aspects such as research philosophy, approach, strategies, time horizons, and data collection methods as shown in Figure 4.1.

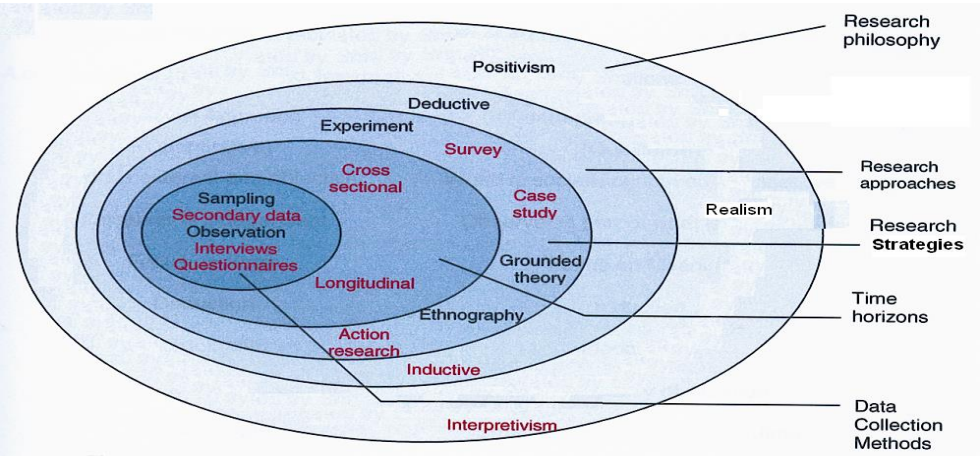


Figure 4.1: Research Onion

Source: Saunders et al. (2016:108).

4.2 Research design

According to Creswell (2015:16), research design is a plan of action for data collection and analysis. It helps the researcher choose an appropriate research design for the study.

Ragin (2014:36) indicated that there are several research designs that can be selected and utilised when conducting social research. The selected design must be the most appropriate for the study under focus. According to USC Libraries (2016:1), the common research designs are casual–comparative, co-relational, descriptive, and exploratory.

The aim of the current study is to explore the role of government policies on the attraction of FDI to SADC countries; hence, it will be suitable to use exploratory and casual research design within the qualitative and quantitative (realism) paradigm.

4.3 Research philosophy

As proposed by Saunders (2018:2), research philosophy is equated to a road map as it gives guidance to the implementation of the study. The philosophy focuses on the process through which new knowledge is generated (Saunders et al., 2016:107). It therefore enables the researcher not only to refine but clarify the research method appropriate for the study. There are three popular research philosophies: positivism, realism, and interpretivist (Saunders et al., 2016:113–116).

Positivism, as indicated by Saunders et al. (2016:113), calls for the study to be based on an already existing theoretical framework. That is, it calls for an objective study that involves gathering information through observation of subjects and their behaviour.

Realism research philosophy advocates for gathered information to be analysed from positivism and interpretivist point of view (Saunders et al., 2016:114). The philosophy therefore draws from the strength of the positivism and interpretivist philosophies.

The third philosophy interpretivist advocates for some gathered information to be interpreted in accordance with the researcher’s perception, whereas quantitative aspect will be analysed statistically and interpreted objectively (Saunders et al.,

2016:116). It advocates for information to be gathered from a small sample size, assuming that the sample characteristics will be representative of that study population.

This research will review the existing information about the FDI regulatory framework in place and how it can be enhanced to increase FDI inflows within SADC member countries. Amongst other philosophies, this study adopts the realism philosophy since the researcher will gather information from secondary sources, and the collected information will be converted into panel format and analysed using various econometrics, statistical, and thematic methods.

4.4 Research approach

The appropriate research approach should support the chosen research philosophy (Saunders et al., 2016:124). In social research, the most used research approaches according to Zalaghi and Khazaei (2016:24) are deductive and inductive. Saunders et al. (2016:125) observed that deductive approach advocates for a study to be first based on a theory and then proceeds to being specific. In contrast, the inductive approach states that the study starts by being specific and later generalised. This study is deductive as it is initially based on a theory that argues that by having an appropriate regulatory framework, SADC member countries will be able to attract increased FDI inflows.

4.5 Research strategy

As opined by Saunders et al. (2016:141), there are many research strategies, which are mainly primary data sources: survey, case study, interview, action research, ethnomethodology, and grounded theory.

The best strategy that will enable the study to realise its objective is through secondary data collected from online sources. The researcher will make use of regression analysis as a statistical process for estimating relationships amongst variables. The analysis focuses on a relationship between a dependent variable and one or more independent variables. In this study, the dependent variable relates to SADC member countries being in a position to attract FDI inflows, while the

independent variable relates to government policies and other related variables as possible determinants of FDI inflow to the identified countries.

4.6 Time horizons for the study

There are two time horizons: cross-sectional and longitudinal (Saunders et al., 2016:155). Cross-sectional studies occur at a particular point in time and longitudinal over the duration. The current study is a cross-sectional time series in a panel environment, given that data are collected at a specific time, while the dataset covers a specified period of time from 1980 to 2018

4.7 Target population

According to Messa (2016:1), population of a study refers to all the subjects/elements that have a likelihood of being included or chosen to participate in a particular study. In this study, the target population consists of all 15 SADC member countries.

4.7.1 Sampling

Messa (2016:20) defined a sample as elements or subjects of the population selected to participate in the final study by the researcher. The same author opines that the selected sample size is an important factor as it plays a significant role in ensuring that the participating subjects or elements are adequate and will therefore help estimate the characteristic of the population. As observed by Pajares (2018:2), sampling technique employed plays a significant role as it has an impact on the validity and reliability of the study. There are many sampling methods but the commonly utilised methods for social research include random, systematic, stratified, quota and cluster sampling (Chaturvedi, 2016:1-51)

In this study, non-probability or purposive sampling technique will be adopted for participants to use their judgement to select four countries from the region. The researcher will achieve this by arranging the countries from the highest FDI recipient to the lowest. The next step involves selecting the two (2) highest and two (2) lowest recipients. The lowest recipients are Swaziland and Malawi, while the highest are Angola and Mozambique. The four countries were sampled in the empirical analysis of the study. In addition, for time series analysis, the researcher opted to use 13

countries out of 15 SADC countries available as they have data that was readily available. This was done to ensure statistical findings were highly significant and representative of the entire SADC region.

4.8 Research instrument

The secondary data will be gathered from online sources. The researcher will obtain data from the World Investment Report and World Bank African Development Indicators (ADI), a statistical platform of the World Bank.

Data will be gathered from multiple sources depending on the required information as guided by the formulated research objective. The data source for each objective is briefly explored as follows:

Objective 1

Each SADC country's FDI attractive features will be identified. Using this information, countries are ranked depending on how they fair against each FDI attractiveness factor.

Objective 2

The latest micro-economic from WIP will be used to calculate the percentage of growth or decline of FDI flows. The figures derived from the calculation will be taken as an indicator of each SADC country's FDI flows attractiveness.

Objective 3 and Objective 4

To meet objective 3 and objective 4, panel data will be collected and regression analysis used as part of data analysis to find the relevant policies that increase attractiveness to FDI in SADC countries. The analysis is given below:

4.9 Data analysis

The researcher will make use of regression analysis on panel data. A series of diagnostics will be applied on the data. In addition, some diagnostic tests as well as simple statistics such as summation will be applied. For ease of presentation and discussions, tables and figures will be utilised to present the findings.

4.9.1 Relevant FDI variables defined

To successfully formulate the regression model, relevant factors were selected and defined. During the selection process, only factors that can be easily manipulated by government policies from an FDI perspective as suggested by Ignat (2015:115) were selected: the rule of law, investor protection, order and security, absence of corruption, corporate tax rates, trade restrictions and reliability of legal frameworks. These variables are explained in detail below.

4.9.2 Rule of law

According to World Justice Project (WJP Rule of Law Index: 2019), the rule of law is a durable system of laws, institutions and community commitment that delivers four universal principles:

- Accountability – The government and private sector must be accountable to the law.
- The publicised laws should be stable, evenly applied, and should protect the fundamental rights, which include security of people and contracts, human rights and property.
- Open government – The way in which laws gets enacted, administered, and enforced should be accessible, fair and efficient.
- Accessible and impartial dispute resolution – Justice must be delivered timely and in a competent and ethical manner by independent representatives who are accessible and who reflect on the make-up of the communities that they serve.

Furthermore, investors prefer countries that protect contracts, uphold property and physical rights (Alexander, John Seth, 2014:14–30).

4.9.3 Investor protection

Investment protection is used by countries as they compete for limited FDI to increase their attractiveness, especially in the form of bilateral investment treaties (Dreyer, 2016). Investors prefer countries that provide the utmost assurance in the protection of their investments.

4.9.4 Order and security

As countries become more open to FDI because of its benefits, one of the main barriers to a smooth flow of capital is the potential risk for the host country’s national

security or public order. According to the WJP (2019), public order is a condition that is characterised by the absence of widespread political and criminal violence such as kidnappings, riots, arson as well as intimidation against certain groups. Public disorder can be highly destabilising and will undercut efforts to attract FDI since investors prefer countries that are more orderly and stable.

4.9.5 Absence of corruption

Corruption negatively impacts FDI. The absence of corruption is expected to have a positive correlation with FDI (Manamba, 2017). In addition, corruption has two measures: corruption perception index (CPI) and control of corruption index. This study will make use of the CPI as utilised by Manamba (2017).

4.9.6 Corporate tax rates

Corporate tax rate is an assessment levied by federal state and government on business profits (Cavetti et al, 2017). As per economic theory, corporate tax is negatively correlated with FDI (Mudenda, 2015). Reinhardt and Dell'Ebra (2015:1–41) conducted a study to identify factors influencing FDI inflows in emerging markets and industrial sectors and benefits accruing from inflow of FDI. Some of the significant factors uncovered in the study were tax rates and tax incentives.

4.10 Model formulation

According to the literature and conclusions drawn from it, the model specification can be represented as follows:

$$FDI = f\ (X_1,\quad X_2,\quad X_3,\quad X_4,\quad X_5,\quad X_6),$$

where FDI is the level of FDI and X_1, X_2, X_3, X_4, X_5 and X_6 are different explanatory variables (Velde 2018:1–64).

The following econometric model is to be estimated:

$$FDI_{ct} = \beta_0 + \beta_1 ORS_{it} + \beta_2 COT_{it} + \beta_3 ROL_{it} + \beta_4 ABC_{it} + \beta_5 INP_{it} + \beta_6 RLF_{it} + \beta_7 GVE_{it} + \beta_8 TRR_{it} + U_{it}$$

where

ORS_{it} - represents order and security in country *i* in year t,

COT_{it} - represents the corporate tax rates in country *i* in year t,

ROL_{it} - represents the rule of law in country *i* in year t,

ABC_{it} - represents the absence of corruption in country *i* in year t,

INP_{it} - represents the investor protection in country *i* in year t,

RLF_{it} - represents the reliability of legal frameworks in country *i* in year t

GVE_{it} - represents government effectiveness in country *i* in year t

TRR_{it} - represents trade restrictions in country *i* in year t

β_0, β_1... β_8 are the regression coefficients

U_{it} represents the error term.

In estimating the above parameters, fixed effects or random effects regression models on panel data will be used depending on the outcome of the Hausman test results. More information about the Hausman test will be given below.

4.10.1 Diagnostic tests

Since pooled data are made up of time series of cross sections, stationarity tests are essential to ensure a meaningful analysis. (Lancet, 2018:939–48).

4.10.2 Testing for stationarity

In the literature, time series data are often assumed to be non-stationary (Večenaj and De Wekker, 2015). Non-stationarity arises from the accumulation of stationary over time and invertible first differences in series (Ying Pan, 2017). Likewise, many financial variables are known to exhibit unit roots; thus, it is necessary to conduct a univariate analysis to ensure whether a stationary co-integrating relationship exists among variables to avoid the problem of spurious regression. This consideration features in the analytical approach before analysing the relationships.

To conduct valid statistical inference, there is a need to make a key assumption in time series analysis that is the time series data being modelled is covariance stationary (Pellagati et al., 2015) A time series is stationary if its properties such as

mean and variance do not change over time. A stationary series must satisfy three principal requirements:

- The expected value of the time series must be constant and finite in all periods.
- The variance of the time series must be constant and finite in all periods.
- The covariance of the time series with itself for a fixed number of periods in the past of future must be constant and finite in all periods.

To gauge the stationarity of the dataset, the Augmented Dickey Fuller test is adopted. This approach is discussed in the sub-section that follows.

4.10.3 Augmented Dickey Fuller test

Currently, one of the most popular tests to determine if time series is stationary is the Augmented Dickey Fuller (ADF) test for a unit root (DeFusco et al., 2007:405). Therefore, the ADF test is employed to determine whether there is a unit root in variables used in the study. ADF is applied to the level variables as well as to their first differences in logarithmic terms.

ADF tests the hypothesis that the null hypothesis variables under investigation have a unit root against the alternative that they do not have. It tests whether φ is equal to 0 or not as in the following equation:

$$Y_t = \phi Y_{t-1} + U_t$$

The ADF tests the null hypothesis (H_0) against the alternative (H_1) hypothesis:

H_0: Each variable has a unit root

H_1: Each variable does not have a unit root

If a time series modelled is not stationary, the estimation results will have no economic meaning, but spurious results. However, an attempt can be made to convert the data to a stationary time series if the time series is not stationary by adopting a differencing technique.

4.10.4 Multicollinearity

The term multicollinearity refers to a situation where there is an exact or nearly exact linear relation among two or more of the input variables (Hawking, 2016). In other words, multicollinearity is the undesirable situation where the correlation between the independent variables is strong (Daoud 2017:1–7). The absence of multicollinearity is known as orthogonal (Daoud, 2017). In most regression applications, multicollinearity can be observed if significant changes in estimated coefficients are noted when a variable is deleted or added or when a data point is dropped or altered.

As observed by Daoud (2017:2), multicollinearity increases the standard errors of the coefficients. Increased standard errors, means that coefficients of some variables may not to be significantly different from zero. Without multicollinearity, the same coefficients might have been significant. Multicollinearity is tested by computing correlations between all pairs of predictors. If the correlation coefficient is close to 1 or -1, then there is high correlation (Daoud 2017:4).

4.10.4.1 Sources of multicollinearity

According to Williams (2015:3), multicollinearity emanates from four main sources:

- The method of data collection employed which may be poorly designed.
- The constraints in the population or the model.
- Model specification.
- An over defined model.

4.10.4.2 Consequences of multicollinearity

The greater the multicollinearity, the greater the standard errors (Williams, 2015). In addition, if there is high multicollinearity, confidence intervals for the coefficients would be very wide and the t-statistics would be small. To be statistically significant, coefficients should be larger. As a result, it becomes harder to reject the null hypothesis when multicollinearity is present. However, large standard errors may result from other elements besides multicollinearity.

4.10.4.3 Multicollinearity diagnostics

Given the sample information, the question often arises on how to diagnose the presence of multicollinearity in the data. There are several multicollinearity diagnostic measures available. However, according to Daoud (2017), the detection of multicollinearity involves three aspects:

- Determining its presence.
- Determining its severity.
- Determining its form or location.

Combining the highly correlated variables through principal component analysis or omitting some variables from the analysis can help solve multicollinearity problems in series. To start with, one of the approaches to attenuate multicollinearity problems in dataset is the test of normality. The occurrence of multicollinearity is low in well distributed dataset (Daoud, 2017).

4.10.5 Normality test

It is often conventional in statistics to assume that observations are normal. The whole statistical framework is rooted on this assumption and if it is violated, the inference becomes unstable (Rani Das and Rahmatullah-Imon, 2016). Thus, it is important to test for this assumption before any statistical data analysis. Normality assumption is critical when constructing reference intervals for the variables. If the assumption of normal distribution does not hold in dataset, it is impossible to draw accurate and reliable conclusions from the findings generated through the data analysis (Ghasemi and Zahediasl, 2012). Although true normality is considered rare, normality can be observed by using significance tests or normal plots.

The main normality tests are Kolmogorov-Smirnov (K-S), Shapiro-Wilk, Lilliefors corrected K-S, Anderson-Darling, Cramer-von Mises, D'Agostino-Pearson omnibus, Anscombe-Glynn kurtosis, D'Agostino skewness, and Jarque-Bera tests (Ghasemi and Zahediasl, 2012).

To test for normality, this study alludes to Kurtosis and Skewness tests. The two main significant measures of shape are skewness and excess kurtosis, which work well in normality test. If the skewness is not close to zero, then the dataset is not

normally distributed. Skewness measures the asymmetry of the probability distribution of a random variable around its mean. It indicates if the amount and direction of skew and its values can be negative, positive or even undefined. If skewness is 0, the data are perfectly symmetrical, and if the skewness is less than -1 and/or greater than 1, then the distribution is highly skewed. Furthermore, the skewness that is between -1 and -0.5 or between 0.5 and 1 implies moderately skewed distribution. The skewness between -0.5 and 0.5 implies that the distribution is approximately symmetric. Kurtosis shows the height and sharpness of the central peak, relative to that of a standard bell curve.

4.10.6 Hausman test

The Hausman test, also called Hausman specification test, is used to detect endogenous regressors in each regression model (Chmelarova, 2007). Endogeneity denotes values that are determined by other variables in the system of the equations. The presence of endogenous variables normally causes the ordinary least estimators to fail since it assumes no correlation among predictor variables. Thus, before carrying out the regression, it is important to determine if the predictor variables are not endogenous, and to gauge the effects of series disturbances – fixed or random.

4.10.6.1 Use of Hausman test in Panel Regression

The Hausman test is also a good test for model misspecification when it comes to panel data analysis, which is the analysis of data over time and across sections. The Hausman test helps in choosing between fixed effects model and the random effects model for estimating the coefficients of the regression model. The null hypothesis is that there is no difference between fixed effects model and the random effects model. The alternative hypothesis is that these two models are different (Chmelarova, 2007).

4.10.6.2 Hausman Test Results Interpretation

If the p-value is small (that is less than 0.05), the null hypothesis is rejected and the alternative hypothesis is accepted. This means that to estimate the regression coefficients, the random effects model is ideal.

4.10.7 General model study

The general study of the model intends to test the overall significance of a model by developing two hypotheses:

H_0: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0$ (the model is not significant)

H_1: at least one of the β_t is not zero (the model is significant)

If this null hypothesis is true, none of the explanatory variables is assumed to have influenced FDI and thus the model is of no value. If the alternative hypothesis H_1 is true, then at least one of the parameters is not zero.

The alternative hypothesis does not indicate which variables have non-zero coefficients; thus, to test the null hypothesis, a test based on the F-distribution will be used. The overall significance of a model (the F-test statistic) can be modified:

$$\mathbf{F}=\frac{(SST-SSE)/k-1}{SSE/(t-k)}$$

where

SSE = Error sum of squares = $\sum_{i=1}^{n}(\mu_i^2)$

SST= Total sum of squares =$\sum_{i=1}^{n}(yi-\bar{y})^2$

SST = SSE + SSR

SSR = Regression sum of squares =$\sum_{i=1}^{n}(\hat{y}-\bar{y})^2$

SST is the total variability, which is the sum of the explained variability (SSR) and the unexplained variability (SSE).

The calculated value of this test statistic is compared to a critical value from the $F_{(k-1,\ t-k)}$ α distribution =F_{cr}. If $F_{cr} > F^*$ then the H_0 is true and the model is not significant. If $F_{cr} < F^*$, then the H_1 is true and the model is significant.

4.10.8 T-Statistics

As alluded by Kim (2015), the t-statistics for the independent variables are equal to their coefficient estimates divided by their respective standard errors. The larger the standard error, the lesser the precision of the coefficient estimates. Conversely, the

larger the t-ratio, the more the confidence in making estimates. More specifically, coefficient estimates are reasonably precise when their t-ratios are 2.0 or better.

4.10.9 R-squared/Coefficient of determination

According to Hamilton (2015:3), the coefficient of determination ($R^{2)}$ is the proportion of variability in a data set that is accounted for by a statistical model. It is useful because it gives the proportion of the variance (fluctuation) of FDI that is predictable from its proposed determinants. Further, it is a measure that allows the researcher to determine how certain predictions can be made from the econometric model and its ultimate estimates. In practice, a high R^2 implies a strong variability in the dependent variable explained by the independent variable, and a low R^2 indicates a weak predictability. The equation below depicts a generic formula for the derivation of the R^2:

$$R^2 = \frac{SSR}{SST} = 1 - \frac{SSE}{SST}$$

4.10.10 Adjusted R^2

As stated by Bartels (2015:2), adjusted R^2 denotes the number of explanatory terms in a model. Contrary to R^2, the adjusted R^2 increases only if the new term improves the model beyond expectations. The adjusted R^2 can be negative and it will always be less than or equal to R^2.

4.11 Ethical considerations

The data required for this study were gathered from public documents. Thus, the study does not have any significant external ethical issues for consideration. However, there are internal ethical issues to consider:

- The researcher ensured that the right information is gathered from the cited sources.
- The researcher is truthful in interpretation of the information generated through the analyses.
- The researcher strived to be objective throughout the research process.
- The researcher obtained ethical clearance from the university to conduct the study.

4.12 Elimination of bias

The researcher was able to meaningfully eliminate bias while conducting the study in several ways. Initially, this was achieved by ensuring that relevant reliable academic literatures are reviewed, and dataset for analyses are sourced from validated sources.

4.13 Conclusion

The study deemed it appropriate to gather secondary data of 13 SADC member countries. The researcher converted the gathered information into data that was statistically analysed. The next chapter presents analyses and discusses the findings of the study.

CHAPTER FIVE
DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

5.1 Introduction

This chapter discusses and interprets the findings derived from the study. For ease of presentation, the order of the items as indicated on the data gathering guide will be adopted. The reviewed literature outlined in chapter two and three of the study will be referred to during the discussion and interpretation of the findings. The chapter focuses on the estimation, presentation, and interpretation of the research findings. Thus, it enables the researcher to respond to research hypotheses in line with the research objectives through the research questions. Presented first is a summary of statistics followed by diagnostic tests, and then regression results. Stata version 14 has been used for the estimation of the models. Moreover, this chapter presents the empirical results of the estimations and their interpretations.

5.2 Descriptive statistics

The versions of the summary statistics are overall, between and within statistics. The cross-sectional dimension is captured by the between statistics, while the time series dimension is captured by the within statistics. The total number of observations was 507 as generated by 13 cross-sectional units (n=13) and 39 periods (T=39), because the sample size was reduced from a population of 15 countries down to 13 countries. This descriptive statistic gives the general impression concerning the structure of data and the source of variation between individual units. The maximum value for countries used is 15, equivalent to the number of cross-sectional units used in the study and the periods equals 39 from 1980 to 2018.

The overall minimum and maximum values for the dependent variable *(FDI)* are -0.07 and 0.3, respectively, with a mean of 0.04. The absence of corruption is the most volatile variable with a standard deviation of 23 and investment of 1.85. The least volatile variable is FDI with a standard deviation of 0.0455 on overall variations. Country-specific variables such as corporate tax and FDI have less between variations than within variations. These variations show that the variables are strongly deterministic in nature. Detailed tabular depiction is presentation below:

Table 5.1 Summary Statistics

Variable		Mean	Std. Dev.	Min	Max	Observations
Year	overall	1999	11.27	1980	2018	N = 507
FDI	overall	0.04	0.045	-0.069	0.312	N = 507
	between		0.018	0.012	0.080	n = 13
	within		0.042	-0.070	0.268	T = 39
Rule of law	overall	0.52	0.179	0.050	0.790	N = 507
	between		0.145	0.311	0.736	n = 13
	within		0.111	0.104	0.844	T = 39
Corporate tax	overall	0.33	0.103	0.150	2.220	N = 507
	between		0.048	0.227	0.410	n = 13
	within		0.092	0.198	2.221	T = 39
Absence of corruption	overall	25.10	23.024	1.7	79	N = 507
	between		18.926	2.851	58.497	n = 13
	within		14.100	0.878	61.831	T = 39
Order and security	overall	0.63	0.121	0.250	0.760	N = 507
	between		0.115	0.353	0.723	n = 13
	within		0.045	0.467	0.842	T = 39
Investor protection	overall	5.31	1.845	1	8	N = 507
	between		1.655	2.715	7.795	n = 13
	within		0.943	2.733	8.192	T = 39
Trade restriction	overall	0.22	0.056	0.150	0.440	N = 507
	between		0.051	0.171	0.352	n = 13
	within		0.026	0.154	0.338	T = 39
Reliability of legal framework	overall	0.41	0.209	-0.750	0.720	N = 507
	between		0.155	0.137	0.660	n = 13
	within		0.149	-0.504	0.698	T = 39
Government effectiveness	overall	-0.23	0.652	-1.400	0.700	N = 507
	between		0.608	-1.181	0.507	n = 13
	within		0.288	-1.232	0.50	T = 39

On average, countries in the SADC region and the government are not effective as shown by the mean government effectiveness of about -0.23. The table shows that the absence of corruption, investment, rule of law and order and security are highly volatile variables.

5.3 Findings from the main study

5.3.1 Objective 1: FDI indicators rating

Table 5.2 below indicates that the highest recipients of FDI flows would be Malawi, followed by Swaziland, then Mozambique, and finally Angola. The analysis of the policies and structures embraced by the countries, as stipulated by Jongwanich and Kohpaiboon (2015:142), Gnangnon (2017:66), Bezuidenhout (2015:6), Bosman (2016:3) and Bartels et al. (2014:517), who listed the above mentioned as the key issues that a country needs to address if it to position itself to attract high FDI inflows.

Table 5.2 Foreign Direction Investment Factors

Factor	Angola	Mozambique	Malawi	Swaziland	Average
Deregulation	3	3	4	5	3.75
Profit repatriation	4	4	4	4	4
Exchange rate controls	2	4	4	4	3.5
Trade liberalisation	3	3	4	4	3.5
Privatisation	3	3	3	2	2.75
Protection of foreign investment	4	3	5	5	4.25
Regional and international Integrations	3	3	4	2	3
Tax incentives	2	4	4	5	3.75
Immigration policies	4	3	2	3	3
Infrastructure	1	2	2	3	2
Level of local skills	1	2	3	3	2.25
Labour laws	1	2	4	3	2.5
Resources	5	3	1	1	2.5
Local market size	3	3	2	1	2.25
Political stability	3	2	4	3	3
Nationalisation	4	3	4	4	3.75
Average	2.88	2.93	3.38	3.25	3.12

5.3.2 Objective 2: Percentage of growth/Decline of FDI flows

Gnangnon (2017:65) argues that the determinant of a nation's FDI inflows should not be based on FDI amounts; instead, it should be the percentage of growth over a certain period. The rationale behind this argument as indicated by Jongwanich (2015:142) is that the rate of growth of FDI within the past few years matters more

than the stock of FDI. In determining how the sampled counties can attract FDI, we based our searchlight on the growth of FDI flows in the recent past.

The statistics utilised in the calculation of increment of FDI inflows are tabulated below in Figure 5.1 from UNCTAD (2016:192).

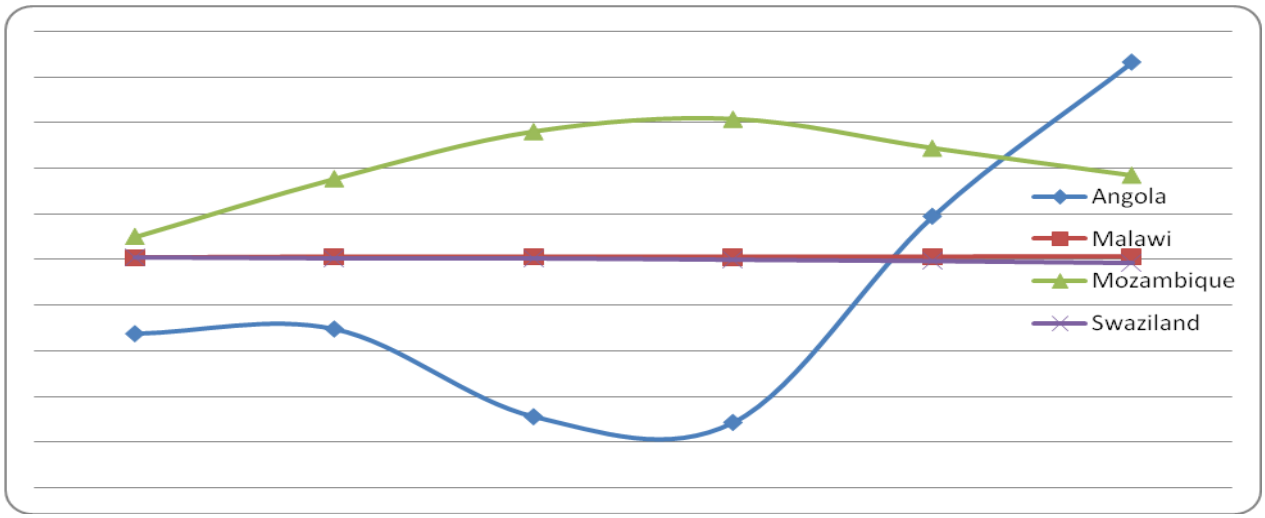


Figure 5.1: Growth of FDI inflows (2010–2015)

Source: researcher's analysis

As indicated in Figure 5.1, Angola had the fastest increase in FDI inflows. Mozambique initially experience growth, which declined from 2015. Malawi and Swaziland continued to attract the same levels of FDI inflows within the same period.

Angola realised more growth of FDI inflows, followed by Malawi, Swaziland, and lastly Mozambique. Based on the argument by Jongwanich and Kohiboon (2015:142), Gnangnon (2017:66), Bezuidenhout (2015:6), Bosman (2016:3) and Bartels et al. (2014:517), who listed the above mentioned as the key issues that a country needs to address if it is to position itself to attract high FDI inflows. From the findings, it would be assumed that Angola has the best FDI policies and practices followed by Malawi, Swaziland and then Mozambique.

However, as revealed by findings from Objective 1, Angola has the least attractive FDI policies and practices, yet its FDI flows increment is the highest. The country has abundant resources and a large local market compared to other countries under

focus, hence the increase in FDI inflows. This corroborates the argument posed by Amadeo (2017:1) who indicated that the number of resources, type of resources, and local market share may at times override other FDI policies and practices. The same argument may be extended to explain why Malawi has the best FDI policies and practices among the countries under focus yet it is not experiencing FDI flows owing to its small local market and limited natural resources compared to Angola.

5.4 Diagnostic tests/Objectives 3 and 4 results

Before conducting a panel regression analysis, we examined the OLS assumptions: no multicollinearity; normal distribution, no heteroscedasticity, and no unit root problem. Hausman specification test is also undertaken to select the appropriate effects in the model. The results of these tests are explained and presented in the next subsections.

5.4.1 Multicollinearity test

In this section, the study exposes the degree of linear association between the explanatory/dependent variables**.** Table 5.3 below shows correlation among different independent variables, for the period under study.

Table 5.3: Correlation Matrix

	rulelaw	***corptax***	***Acorupt***	***ordernsec***	***invest~t***	***trader~c***	***rlegal~m***	***gvt eff~s***
rulelaw	1.0000							
corptax	-0.1848	1.0000						
Acorupt	0.6134	-0.0975	1.0000					
ordernsec	0.6379	-0.1606	0.5233	1.0000				
invest~t	0.4061	0.0560	0.5561	0.3679	1.0000			
trader~c	0.0343	0.1452	0.0287	-0.0107	0.2733	1.0000		
rlegal~m	0.4304	-0.0197	0.5236	0.4059	0.5761	0.2965	1.0000	
gvteff~s	0.6149	-0.1483	0.6363	0.7284	0.6104	0.1126	0.4824	1.0000

*Source: *Author's calculations using Stata 14.*

As shown, the absence of corruption (Acorrupt), order and security are positively correlated with a coefficient of 0.5233, implying that higher levels of order and security in any country usually begets the absence of corruption. In addition, there is a significant positive correlation between government effectiveness and the rule of law of 0.6149, suggesting that effective government tends to have the best rule of law. The highest correlation is between order and security and government effectiveness. This implies that effective government tends to have order and security than an ineffective government. The second highest correlation is between order and security and rule of law; that is, countries with higher-order and security tend to respect the rule of law.

From the correlation results between the independent variables, the highest correlation coefficient of 0.7284 is less than 0.8, signifying the absence of multi-co linearity problem among the explanatory variables. In other words, the degree of correlation is not severe since it is below 0.8 (in absolute terms). Hence, there is no fear of multicollinearity between the independent variables.

5.4.2 Normality test

As discussed in the research methodology, this study alluded to Kurtosis and Skewness tests to test for normality. The normality results of this study are presented in Table 5.4 below:

Table 5.4: Normality test results

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
FDI	507	0.0000	0.0000	21.16	0.0000
Rule of law	507	0.0000	0.0163	21.16	0.0000
Corporate tax	507	0.0000	0.0000	21.16	0.0000
Absence of corruption	507	0.0000	0.0000	21.16	0.0000
Order and security	507	0.0000	0.0000	21.16	0.0000
Investor protection	507	0.0010	0.0324	13.68	0.0011
Trade restriction	507	0.0000	0.0114	46.03	0.0000
Reliability of legal frames	507	0.0000	0.0000	46.03	0.0000
Gvt effectiveness	507	0.0861	0.0000	46.03	0.0000

**Source: Owner's calculation using Stata 14*

5.4.2.1 Normality test results Interpretation

The null hypothesis states that the data are normally distributed. Greene (2018) postulates that the normality assumption is an unnecessary addition to the regression model; it is added for convenience. For normally distributed data, the *p*-value of kurtosis statistics should be less than 0.10. From the table above, observing the kurtosis *p*-values of all variables are significant at 10% as they are less than 0.10; therefore, the researcher concludes that all variables are normally distributed. The highest *p*-value of 0.0324 is on investor protection while the smallest *p*-value of 0.0000 is on government effectiveness.

5.4.3 Unit root test/stationarity test

To determine the stationarity, the presence of unit root in the variables used, the research employed the ADF test, which is one of the most popular tests for stationarity test (DeFusco et al, 2007: 405). ADF was applied to the level variables as well as to their first differences in logarithmic terms. The null hypothesis indicated that the variable contains a unit root, and the alternative is that the variable does not have the unit root problem. Further, the study excluded a constant. The results are shown in Table 5.5 below.

Table 5.5 Results of unit root tests

		ADF	
		Statistic	***P-value (5%)***
rulelaw	*	-	-
	**	-2.298470	-2.8865
corptax	*	-	-
	**	-0.130166	-2.8865
rlegal~m	*	-	-
	**	-1.325982	-2.8865
Acorupt	*	-	-
	**	0.144405	-2.8865
Ordernsec	*	-	-
	**	-2.021688	-2.8865
invest~t	*	-	-
	**	-0.900886	-2.8865
gvteff~s	*	-	-
	**	-2.1885	-2.8865

Notes: * *and* ** *respectively indicate the significance at 5% and 10% levels.*

Source: *Author's calculations using Stata 14.*

The unit root test accepted the null hypothesis for all variables, since the computed ADF test-statistics for all variables is greater than the critical values at 5% significance level. Therefore, the first differencing was applied, the results of which are displayed below in Table 5.6.

Table 5.6 Stationarity Test Results after the first differencing

		ADF	
		Statistic	*P-value (5%)*
rulelaw	*	-	-
	**	-6.5307	-2.8869
corptax	*	-	-
	**	-7.5887	-2.8869
rlegal~m	*	-	-
	**	-3.6182	-2.8869
Acorupt	*	-	-
	**	-6.7005	-2.8869
ordernsec	*	-	-
	**	-3.0216	-2.8869
invest~t	*	-	-
	**	-5.3286	-2.8869
gvteff~s	*	-	-
	**	-4.4125	-28869

Notes: * *and* ** *respectively indicate the significance at 5% and 10% levels.*

Source: *Author's calculations using Stata 14*

From the table above, after the first differences have been done, it can be concluded that the data are stationary; hence, the null hypothesis was rejected, implying that the results of the first difference could be used in the regression model.

5.4.4 Hausman test

The last diagnostic applied was the Hausman test, which as pointed out in the methodology tests for model misspecification. This test helped in choosing between fixed and random effects models for estimating the coefficients of the regression model. The null hypothesis states that there is no difference between the fixed and random effects models. The alternative hypothesis is that these two models are different. Table 5.7 depicts fixed and random effects coefficients while giving the difference between them.

Table 5.7 Hausman specification test results

Variable	Fixed coefficients	Random coefficients	Differences
Rule of law	0.0011424	0.0296953	-0.0285529
Corporate tax	-0.0148878	0.0096286	-0.0245164
Absence of corruption	0.0001694	0.000055	0.0001144
Order and security	-0.1073702	-0.211783	0.1044127
Investor protection	-0.0140607	-0.0080633	-0.0059974
Trade restriction	0.0119027	-0.1352143	0.147117
Reliability of legal framework	0.033884	0.0394919	-0.005608
Government effectiveness	0.0483613	0.0231252	0.0252361

Ho: difference in coefficients not systematic, chi^2 (8) = 197.1; Prob>chi2 = 0.0000

The null hypothesis is that the difference in coefficients is not systematic. The χ^2 statistic based on the Hausman test is 2.63 and the *p*-value is 0.9168. Therefore, the estimations are significant. The null hypothesis that indicates that these two models are not systematically different cannot be rejected at a 5% significance level, implying that either the fixed or random effects model could be applied. However, given that this estimation is done in a panel environment, the fixed effects model is deemed more appropriate and preferred to the random effects model.

5.5 Regression model estimation: The fixed effects model (FEM)

As stated in the methodology chapter, the model specification was represented as:

$$FDI = f\ (X_1,\quad X_2,\quad X_3,\quad X_4,\quad X_5,\quad X_6),$$

where FDI is the level of FDI and X_1, X_2, X_3, X_4, X_5 and X_6 are the different explanatory variables (Velde 2018:1–64). To estimate the coefficients of the following econometric model, the study adopted the fixed effects model as discussed below:

$$FDI_{ct} = \beta_0 + \beta_1 ORS_{it} + \beta_2 COT_{it} + \beta_3 ROL_{it} + \beta_4 ABC_{it} + \beta_5 INP_{it} + \beta_6 RLF_{it} + \beta_7 GVE_{it} + \beta_8 TRR_{it} + U_{it}$$

where $\boldsymbol{\beta_0}$, $\boldsymbol{\beta_1 \ldots\ \beta_8}$ *are the regression coefficients to be estimated and* $\boldsymbol{U_t}$ *represents the error term*

The following table shows the fixed effects model results in Stata 14.

Table 5.8: Estimated Fixed Effects Model results.

FDI	*Coefficients*	*t-statistic*	*P-Value*
Rule of law	0.0010	0.06	0.949
Corporate tax	-0.0150	-0.77	0.441
Absence of corruption	0.0001	1.28	0.201
Order and security	-0.1074	-2.73	0.006*
Investor protection	-0.0141	-6.62	0.000*
Trade restriction	0.0120	0.16	0.871
Reliability of legal framework	0.0338	2.54	0.011**
Government effectiveness	0.0484	6.88	0.000*
Constant	0.1730	6.17	0.000*

The asterisk (*) and (**) means significant at 1% and 5% respectively.

R-squared: within = 15%; between = 5%; overall= 4%; Dependent variable: FDI

5.5.1 Interpretation of results

5.5.1.1 Relationship Interpretation

Considering the constant value, FDI is expected to be 0.173% of GDP when all the independent variables are zero. The relationship between FDI and the explanatory variables is further explained:

- Order and security (ordernsec) are negatively related to inflow of FDI with a coefficient of -0.107. The relationship is significant at 5% (p= 0.006 < 0.05). Accordingly, there is a negative relationship between FDI and order and security. An increase in order and security by 1% may correspond to a decrease in FDI by 0.107%.

- There is a weak negative relationship between FDI and corporate tax rates (corptax) in that an increase in tax rate by 1% will correspond to a decrease in FDI by 0.149%. An insignificant probability value of 0.441 supports the weak relationship.

- There is a highly insignificant positive relationship between FDI and rule of law in that an improvement in the rule of law by 1% would correspond to an increase in FDI by 0.001%. The 0.949 insignificant probability value supports the meaningless relationship.

- There is a weak positive relationship between FDI and the absence of corruption in that an improvement in the absence of corruption by 1% will correspond to an increase in the FDI by a mere 0.00017%. The relationship is also statistically supported by the insignificant probability value of 0.20.

- Investor protection is negatively related to FDI (coefficient of -0.014) and is significant at 1% since its *p*-value of 0.000 is below 0.01. Accordingly, there is a fairly negative relationship between FDI and investor protection because an increase in investor protection by 1% may correspond to a decrease in FDI by 0.014%. This

implies that hypothesis (H1) of a significant positive relationship between FDI and investor protection is rejected.

- There is a fairly strong positive relationship between FDI and reliability of legal framework in that an improvement in reliability of legal frameworks by 1% will correspond to an increase in FDI by 0.03%. A 0.01 probability value explains the significance of the relationship.

- There is a fairly strong positive relationship between FDI and government effectiveness in that an improvement in the effectiveness of the government by 1 % will correspond to an increase in FDI by about 5 %. A 0.000 probability value explains the significance of the relationship.

The coefficient of determinations for within, between and overall for this model are 15%, 5%, and 4%, respectively. This means that the fixed effects estimator can only explain 15% of within variation, 5% of the between variation and 4% of the overall variation of inflow of FDI to SADC countries. Consequently, the model is not too strong in explaining the variation of FDI in the SADC region. Accordingly, other variables need to qualitatively explain the changes in FDI for SADC countries. This will finally justify undertaking post estimation on the significance of the whole model using Ramsey rest.

5.5.1.2. Significance of the Model

From the above fixed effects regression model, the significance output is as follows:

- *R-squared: within = 15%; between = 5%; overall= 4%; Dependent variable:*

As indicated in chapter four, R-squared statistics measures the strength of the relationship between the model and dependent variable. However, it is not a formal test to really establish statistical relationship. The F-test of overall significance is the appropriate interrogation of existence of reasonable relationship based on the chosen model. The F-test of the significance of the whole model indicates whether the panel regression model provides a better fit to the data than a model that contains no independent variables. In specific terms, Ramsey reset F-tests can evaluate multiple model terms simultaneously, which allows comparison of the fits of

different models whereas t-tests can appraise only one parameter at a time. The Ramsey F-test for overall significance has the following two hypotheses: The null hypothesis (H0) states that the model with no independent variables fits the data as well as the model. The alternative hypothesis (H1) states that the model fits the data better than the intercept-only model (Gujarati, 201

Table 5.9: Ramsey F-test for model significance

Ramsey RESET test using powers of the fitted values of FDI
Ho: model has no omitted variables
F(3, 495) = 11.61; Prob > F = 0.0000

Based on information in the table above, the analysis compares the p-value for the F-test as a valid barometer of significance level. Since the *p*-value (0.000) of the F-test is less than the significance level of 5% (0.05), the sample data provide sufficient evidence to conclude that the fixed panel regression model fits the data better than the model with no independent variables. As a result, this finding is good news because it means the independent variables given in the model fits well and justify the analysis. If none of the independent variables are statistically significant, the overall F-test would also not be statistically significant. Deductively, since the overall F-test is significant, this implies that R-squared does not equal to zero. It proves that the relationship between the model-independent variables and FDI dependent variable is statistically significant.

5.6 Discussion of results

5.6.1 Discussion based on fixed effects regression model

Regarding the control variables included in the model, government effectiveness and reliability of the legal framework impact positively on FDI (coefficient of 0.048 and 0.034 respectively) and are also significant at 5%. This corroborates Walsh and Yu

(2010) who noted several factors, which include strong legal institutions – government regulating bodies such as judiciary, central bank, executive and legislative – that could be utilised by progressive nations to influence the level of FDI. Deductively, when such institutions are strong and function well, they ensure that the foreign investors feel protected and their investments are secured. These results are in line with Yohanna (2015:55–82) who explored the factors that enabled Nigeria to attract FDI inflows and found that institutional reform, between 1981 and 2010, positively affects FDI. Specifically, factors that were found to have highly significant impact on FDI inflows were openness to FDI, quality of legal institutions, and government efficiency.

These results are according to the researcher's expectations based on theoretical basis of imperfect competition of FDI inflows where the government acts as a regulator. Accordingly, if the government is regulating investments effectively, it may boost chances of attracting FDI. This means that countries that have highly effective government tend to have more FDI as a percentage of GDP than the ineffective government. Therefore, the regression results have empirically shown that effective government policy will lead to an inflow of FDI in the SADC countries.

The negative relationship between FDI and corporate tax (corptax) confirms expectations that countries that have higher tax rates tend to dissuade investors. Investors consider them high risk destinations for investment portfolios. There is also a positive relationship between the rule of law and FDI. This is also according to the researcher's expectations and theoretical underpinning of perfect competition of FDI inflows, where transactions costs such as tax are assumed to be non-existent. Similarly, the absence of corruption is positively related to FDI, implying that SADC nations that do not have higher CPI tend to attract huge FDI. This is also according to the researcher's expectations and other researchers such as Reinhardt and Dell'Ebra (2015) and Anyanwu (2016).

As predicted by the economic theory, we found that the corporate tax rate has a significant negative impact on FDI in Southern Africa, narrowly corroborating the study by Reinhardt and Dell'Ebra (2015:1-41) on factors influencing FDI inflows in emerging markets. These authors found that tax holidays, import substitution, and ease of profit remittance favourably affect FDI.

In contrast, the rule of law, corporate tax, trade restrictions, and the absence of corruption were found to insignificantly affect FDI inflows as shown by their *p*-values, which are all above 0.05 level of significance. This result goes against Yohanna (2015:55–82) who explored the factors that enabled Nigeria to attract FDI inflows and found that tax reforms, openness to trade and corruption reforms between 1981 and 2010 positively affect FDI. Further, this is inconsistent with the study by Reinhardt and Dell'Ebra (2015:1-41) on factors positively influencing FDI inflows in emerging markets: tax holidays, import substitution, and absence of corruption.

This might have been constituted because of country-specific features, which make it difficult to obtain valid data on corporate tax and corruption. Furthermore, the finding is inconsistent with the study by Anyanwu (2016:433-470) on factors influencing FDI inflows in Africa between 1996 and 2008 for 53 countries. The author identified openness to trade and rule of law as main determinants.

Research results revealed that order and security (ordernsec) are negatively related to the inflow of FDI, refuting theoretical claims that order and security in any country will trigger higher inflow of investments including FDI (Yohanna, 2015:56). The finding is inconsistent with Enders and Sandler (2016) who argued that developing countries are prone to the economic ramifications of terrorism, which will not only lead to a loss in GDP but also significant losses in FDI and GDP growth (Abadie and Gardeazabal, 2017). Through disruptions, damage and insecurity, terrorism is anticipated to reduce FDI (Enders et al., 2006). Using a terrorism risk index for 2003–2017 in a cross-country analysis, Abadie and Gardeazabal (2008) conclude that a higher risk of terrorism depresses net FDI to a country. Divergence in results may have emanated from the fact that aggregate values used in computing order and security may not be compatible across the SADC region. Moreover, this result is inconsistent with the World Bank (2016) investor survey of multinational corporations that shows that political order and security are leading factors that drive decisions to invest in developing countries.

Investor protection is negatively and significantly related to FDI, which disproves the positive relationship between FDI and investor protection. The relationship is not in line with the anticipated positive relationship between the two variables. However, comparatively, this goes in line with notable UNCTAD (2009) observations that

international investment agreements (IIAs) are not effective enough in promoting inflows of foreign investment. Such an observation could have been reached as developing nations policymakers are often enticed to sign investment agreements without due diligence, which will normally result in investment policy reversal (UNCTAD, 2009). Accordingly, SADC policymakers need to know what role these treaties play and to what extent they can contribute to receiving more investment from abroad. A better understanding of the influence of IIAs on foreign investment can help avoid unrealistic illusions, as the costs and benefits will be assessed beforehand. However, this goes against the findings of Enders and Sandler (2016), who found out that investor protection has a positive effect on FDI as investors need to get assurance that their investments will not be tempered with in the absence of investment agreements.

The coefficient of determinations for within, between and overall for this model are 15%, 5%, and 4%, respectively. Consequently, the model is not that strong in explaining the variation of FDI in the SADC region. The analysis, however, proves that the whole model is significantly explaining the variations in FDI.

5.6.2 Discussion based on qualitative content analysis

Several hypotheses were proposed for the study; however, they were not quantitatively analysed. For ease of presentation and linkage, the proposed hypotheses were presented and discussed in the order in which they appear in chapter one of this study.

5.6.2.1 Government Role on FDI

H1: FDI inflows are not largely dependent on government policy.

Based on statistics contained in Table 5.2 in terms of government policy, Malawi's score of 3.38 was the highest, followed by Swaziland with a score of 3.25, Mozambique with a score of 2.93, and finally Angola with a score of 2.88. Regarding the FDI growth (Figure 5.1), Angola experienced the highest growth. Mozambique grew at a high rate then started declining significantly from 2015. Malawi and Swaziland did not experience any growth or decline for the same period.

If government policy was the sole determinant of FDI flows, then Malawi should have experienced the highest as it had the best government policies as revealed in Table 5.2, followed by Swaziland. However, this happens not to be the case. Therefore, it can be concluded that government policy is not the sole determinant of FDI inflow to SADC countries. The observation is supported by the argument posed by Nayak and Choudhury (2014:1) that many theories can be applied in explaining factors that influence FDI flows.

Therefore, a combination of factors is needed depending on the status of a country. The reason why Angola and Mozambique had higher inflows despite lagging in government policies could be explained by the argument posed by Romans and Ebbers (2015:242); the authors noted that FDI tends to flow to countries with the huge amount of natural resources. Both Angola and Mozambique have abundant natural resources. Though not statistically tested, the hypothesis stating that government policy is a crucial determinant of FDI flows does not necessarily hold true in this instance.

5.6.2.2 Natural Resources and FDI

H2: A country's natural resource is not the most crucial factor in the determination of FDI flows into a country.

As indicated in Table 5.2, Angola with a score of 5 was rated the highest, followed by Mozambique with a score of 3, Malawi and Swaziland with a score of 1 each. Regarding the growth of FDI flows between 2010 and 2015 as shown in Figure 5.1, Angola experienced the highest, and then followed by Mozambique, Malawi and finally Swaziland. The findings reveal that there is an association between natural resources and FDI flows as the country with the largest amount of resources experienced the largest FDI flows and the same case held as countries with limited natural resources such as Malawi and Swaziland had low inflows for the period under study. The hypothesis that a country's natural resources do not play a crucial role in FDI attraction is rejected and the alternative is adopted. Thus, natural resources play a primary role in the attraction of FDI with government policy possibly playing a supportive role in enhancing FDI flows to the sampled countries. The findings are in support of the argument posed by Amadeo (2017:1) that the amount

and type of natural resources play a significant role in the determination of FDI flows to a nation.

5.6.2.3 Market Size and FDI

H3: The size of the market is not the most crucial factor in the determination of FDI flows to a country.

Considering the size of the local market as indicated in Table 5.3, Angola was rated the highest with a score of 3, Mozambique scored 3, Malawi 2 and Swaziland 1. When looking at the growth of FDI flows between 2010 and 2015 as revealed by Figure 5.3, Angola experienced the highest, then Mozambique, Malawi, and Swaziland with the least score. The findings indicated that Angola with the highest score also experienced the highest FDI inflows among the four countries. Mozambique was rated second in both FDI growth and population or rather market size. Malawi was third in terms of FDI flows and had a market size or population lower than that of Mozambique and Swaziland came last on both fronts.

The findings allude to a strong association between the local market size and FDI flows. The hypothesis that states that the market is not the most crucial factor in determining FDI flows to the country is rejected, and the alternative hypothesis that states that the market size has a significant influence on FDI flows is adopted. The findings corroborate observations of Amadeo (2017:1) who noted that the local market size alongside natural resources has a significant influence on FDI flows.

5.7 Conclusion

Nayak and Choudhury (2014:1) argued that there is no single FDI inflow theory that explains why countries attract FDI flows. However, there are common factors that a country should embrace to enhance their FDI attractiveness. The chapter highlighted estimations, diagnostic tests, and results. Regarding estimations, the conclusion may be drawn that government effectiveness has a leading role in attracting FDI; reliable legal framework was also found to attract FDI. Conversely, corporate tax, absence of corruption, and trade restriction have no significant effects on FDI attraction.

Moreover, a qualitative approach was adopted to draw inferences on the findings generated from this study. Variables added for qualitative analysis include government policy, resources, and market size. Malawi was ranked the highest in terms of government policy while Angola was ranked the lowest. However, Angola together with Mozambique had higher inflows despite lagging in government policies as FDI tends to flow to countries with abundant natural resources. Angola had a huge market size while Swaziland had a lower market size; this mirrors FDI inflow based on the market size. The next chapter presents summary of the findings, recommendations, and conclusions.

CHAPTER SIX
CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

The empirical results of this study were analysed in the previous chapter. The format of analyses undertaken in the data analysis chapter followed the scheme of the specifications of the model articulated. The main objective of this study was to explore the role of government policies in enabling economies in SADC to attract inflow of FDI. The information gained enabled the researcher to suggest possible regulatory interventions to the SADC member countries and to formulate the type of policies that may possibly be attractive to potential investors, thereby increasing the inflow of FDI to these countries. This chapter summarises and concludes the study. It presents policy implications, recommendations, highlights limitations of the study and suggests areas for further research. The summary of results and conclusions are stated below.

6.2 Summary of results and conclusion

As many member states of the SADC are committed to the development of their economies, they rely on investments from other countries to achieve their long-term economic goals. For this reason, SADC has developed policies and procedures that encourage such direct foreign investment by placing funds directly into production instead of accumulating them through the sale of stocks and bonds. FDI contributes directly to projects that create jobs in the region and develops the infrastructure and industry necessary to grow the economy. Through these co-operation activities, businesses can benefit from the wider objective of the SADC for greater regional integration .

The global economic recession that began in 2008 strongly affected FDI SADC. Between 2009 and 2010, the total FDI decreased by almost 50%. However, not all member states are equal in terms of market size, political stability, infrastructure quality or availability of natural resources and factors that affect international investment. Thus, some member countries maintained high levels of FDI than others. South Africa and Angola have historically attracted higher levels of the

investment. The DRC increased its net income from FDI in 2010 to almost $3 billion. Similarly, Seychelles have significantly increased their FDI as a percentage of GDP, reaching 40%. Even member states that are below average in terms of these key decisive indicators can often attract constant FDI in extractive industries, as the potential international demand for natural resources outweighs the risks.

With the recently established general infrastructure development plan, SADC recognises the success of public–private partnerships in attracting FDIs in regional infrastructure. Through these associations, member states have successfully attracted private sector support to the main roads, railways and ports along the Maputo corridor and elsewhere, for the development of oil and gas and telecommunications services in the whole region. In addition, several member states have found investors for tourism infrastructure to improve border posts in Lesotho and to build shelters in Botswana and Mozambique .

However, the most important factor in attracting FDI in a region is its economic integration in world markets. Therefore, promoting SADC's emphasis on economic liberalisation and regional integration will in turn attract international companies and investors to the region .

Although SADC member states encourage FDI, each member state currently administers its own regulatory framework with its own level of economic liberalisation. Although many member states are fully open to foreign investment in various sectors, some strategic sectors still have limits for foreign investment. Many member states impose restrictions on foreign ownership of extractive industries, particularly mines, oil and gas; transport and telecommunications; banking and insurance; and media. These sectors are part of special policies and programmes designed to economically empower the populations of the region and protect sovereignty.

The summary statistics of the study results from the model that was specified in chapter 5 and presented in Table 5.1. The total number of observations was 507, which was generated by 13 transversal units (n = 13) and 39 periods (T = 39). This descriptive statistic gives the general impression about the structure of the data and the source of variation between the individual units. The maximum value for the countries is 13, which is equal to the number of cross units used in the study and the

periods are equal to 39. The minimum and maximum total values for the dependent variable (FDI) are -0.07 and 0.3, respectively, with an average FDI of 0.04. The absence of corruption is the most volatile variable with a standard deviation of 23; subsequently, the investment continues with 1.85.

The least volatile variable is FDI with a standard deviation of 0.0455 in general changes. Country-specific variables, such as corporate tax and FDI, have fewer variations between changes. These show that there are almost deterministic variables. On the average, the government for SADC countries is not effective, as evidenced by the average government effectiveness of around -0.23. The table shows the absence of corruption, investments, rule of law, order, and security are highly volatile variables.

SADC countries have warmed up to FDI in the last two decades. Most SADC countries have reformed their FDI policies and institutions in a quest to attract foreign investments. The national structures that govern FDI have not been studied in depth; hence, this study uses a unique conceptual framework to examine the role of policies and institutions for FDI boosting in SADC. The current SADC structures that govern FDI reflect a disorderly network, difficult to decipher and inadequate to form a basis for a regional regime. Policy learning and structural convergence can be essential for better FDI governance. In many SADC countries, explicit policies for FDI at the national, sectoral and business levels are mainly implemented by state institutions and sanctioned by laws, political documents, guidelines, white and green papers that directly address the processes and procedures for investing in a country. It defines rights, guarantees for investors, and establishes mechanisms to resolve disputes. However, direct institutions such as line ministries and board of directors may be governmental institutions or semi-governmental state agencies. Furthermore, some FDI attraction often function as government and private sector stakeholders, as well as civil society

6.3 Policy implications and recommendations

The common perception that FDI in SADC is driven by the presence of natural resources seems applicable to sampled countries, although not predominantly so. Other determining factors such as the infrastructural development, market size and GDP growth are more important for the creation of FDI in the sampled countries.

This implies that countries that lack natural resources could still attract FDI, given the divergence of deterministic effects of variables tested in this study.

In addition, SADC countries should not only be concerned with structural policies and reforms that potentially improve trade openness, but also realise this through improved infrastructure development, and improvement of purchasing power of the population. These opportunities, driven by the effects on FDI, could help job creation that is commingled with inflow of FDI, and ultimately poverty eradication via increased employment and wages. Eventually, improved wages may lead to a higher living standard and improved sustainable development through the introduction of new technologies, which could lead to greater productivity.

Another important finding is the implementation of a tax system that reduces the costs and burdens for compliance with regulations without eroding operational profits. By "simplifying" intervention measures, that is, by separating the registration of companies from taxation, governments can encourage entry of foreign investors. This could be a first step towards improving company performance and facilitating fiscal compliance.

In addition, promotion of good governance and a stable business environment are found to be essential in attracting FDI inflow to the sampled countries. One of the possible approaches would be an improvement in operational transparency and lean governance. If well implemented, investors may benefit from effective regulatory frameworks, fair regulatory protection, and strengthened investment-related instruments. More importantly, it may be considered important to align national regulatory instruments with best practices and principles.

6.4 Limitations of the study and suggestions for further research

The value of the findings of the study and conclusion derived were limited by the following several factors:

- The study was limited to the investigation of the role of government policy as determinants of FDI inflows. The researcher limited the focus of the study to addressing government policy hoping SADC countries could manipulate, as opposed to resources that cannot be manipulated, to attract FDI.

- Quantitative approach was employed while conducting the study. It follows that the interpretation of findings may be influenced by data behaviour from secondary sources.

- The sample in this study may not yield correct generalisations considering the economic and political diversity of the other omitted countries.

A more complete analysis, which seeks to explain how government policies influence the inflow of FDI to all 15 SADC countries, is suggested for future research. Future research should be conducted to show levels of individual countries' development within the SADC region.

6.5 Chapter summary

The chapter provided an overall summary of the study as well as some policy recommendations considered appropriate for SADC countries to improve their attractiveness to FDI inflows. This study examined generic role of government policies that govern FDI environments in SADC countries, at both national and interstate levels. Similar to many other liberal states and regional economic integrations, SADC policies are intended to actively attract and regulate FDI. These policies include specific, interstate, national, sectoral and corporate agreements and the application of suitable regulatory instruments.

Although the region has embarked on various initiatives, some of them have not led to convergence and notable ammonisation between these interventions. Each country seems to be pursuing national interests and interstate mechanisms aimed at protecting its FDI interests. Therefore, there is no political learning about best practices and best structures to manage the attraction and possession of FDI among SADC countries. It is therefore considered essential to adopt investment-tailored policies that could enhance the attractiveness of FDI inflows into the region. Government FDI reforms based on policy learning can lead to an informed convergence of structures that will form a basis for an explicit regional regime. Therefore, the adoption of global best standard of regional and international support for policy learning in the SADC countries is encouraged.

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Data gathering guide

Demographic Information

1. Name of the country ----------

2. Size of the Country----------

3. Distance from South Africa ----------

4. Official language----------

5. Is the country land locked or not----------

6. Population----------

7. GDP ----------

8. Per Capita Income ----------

Evaluation of Objectives

Task 1

On a scale of 1 to five where 1 = extremely poor and 5 = extremely well please indicate where each of the four countries stand with regard each of FDI factors cited in the Table below

Factor	**Angola**	**Mozambique**	**Malawi**	**Swaziland**
Deregulation				
Profit repatriation				
Exchange rate controls				
Trade liberalisation				
Privatisation				
Protection of foreign investment				
Regional and international Integrations				
Tax incentives				
Immigration policies				
Infrastructure				
Level of local skills				
Labour laws				
Resources				
Local market size				
Political stability				
Nationalisation				

APPENDICES

APPENDIX 1: DATA SUMMARY

```
. xtset nation year
       panel variable:  nation (strongly balanced)
        time variable:  year, 1980 to 2018
                delta:  1 unit

. xtsum year nation fdi rulelaw corptax acorupt ordernsec investprotect traderestric riegalfram gvteffectiveness
```

Variable		Mean	Std. Dev.	Min	Max	Observations	
year	overall	1999	11.26574	1980	2018	N =	507
	between		0	1999	1999	n =	13
	within		11.26574	1980	2018	T =	39
nation	overall	9.153846	4.790059	1	16	N =	507
	between		4.980732	1	16	n =	13
	within		0	9.153846	9.153846	T =	39
fdi	overall	.0365108	.0454959	-.069	.312	N =	507
	between		.0184324	.0117359	.0803846	n =	13
	within		.0419003	-.0701558	.2681262	T =	39
rulelaw	overall	.5168836	.178594	.05	.79	N =	507
	between		.1450365	.3105128	.7361539	n =	13
	within		.1115345	.1043195	.8443195	T =	39
corptax	overall	.3277584	.1025883	.15	2.22	N =	507
	between		.0476976	.2274359	.4096282	n =	13
	within		.0917614	.1981302	2.221092	T =	39
acorupt	overall	25.10059	23.02429	1.7	79	N =	507
	between		18.92643	2.851282	58.49744	n =	13
	within		14.09999	.8775145	61.83136	T =	39
ordern~c	overall	.6251085	.1210516	.25	.76	N =	507
	between		.1148753	.3530769	.7230769	n =	13
	within		.0494791	.4671598	.8420316	T =	39
investpt	overall	5.306903	1.849509	1	8	N =	507
	between		1.654581	2.715385	7.794872	n =	13
	within		.9426759	2.732544	8.191519	T =	39
trader~c	overall	.2248126	.0556325	.15	.44	N =	507
	between		.0509528	.1710256	.3523077	n =	13
	within		.0263393	.1535306	.3378895	T =	39
riegal~m	overall	.4051085	.2087658	-.75	.72	N =	507
	between		.1553207	.1366667	.66	n =	13
	within		.1458436	-.5043787	.6984418	T =	39
gvteff~s	overall	-.2306903	.6521686	-1.4	.7	N =	507
	between		.6084241	-1.180513	.5066667	n =	13
	within		.2880001	-1.231716	.5003353	T =	39

.

APPENDIX 2: MULTICOLLINEARITY TEST RESULTS

	rulelaw	corptax	acorupt	ordern~c	invest~t	trader~c	rlegal~m	gvteff~s
rulelaw	1.0000							
corptax	-0.1848	1.0000						
acorupt	0.6134	-0.0975	1.0000					
ordernsec	0.6379	-0.1606	0.5233	1.0000				
investprot~t	0.4061	0.0560	0.5561	0.3679	1.0000			
traderestric	0.0343	0.1452	0.0287	-0.0107	0.2733	1.0000		
rlegalfram	0.4304	-0.0197	0.5236	0.4059	0.5761	0.2965	1.0000	
gvteffecti~s	0.6149	-0.1483	0.6363	0.7284	0.6104	0.1126	0.4824	1.0000

APPENDIX 3: NORMALITY TEST RESULTS.

Skewness/Kurtosis tests for Normality

				joint	
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
fdi	507	0.0000	0.0000	.	0.0000
rulelaw	507	0.0000	0.0163	21.16	0.0000
corptax	507	0.0000	0.0000	.	0.0000
acorupt	507	0.0000	0.0000	.	0.0000
ordernsec	507	0.0000	0.0000	.	0.0000
investprot~t	507	0.0010	0.0324	13.68	0.0011
traderestric	507	0.0000	0.0114	46.03	0.0000
rlegalfram	507	0.0000	0.0000	.	0.0000
gvteffecti~s	507	0.0861	.	.	.

APPENDIX 4: STATIONARITY TEST RESULTS.

Fisher-type unit-root test for fdi
Based on augmented Dickey-Fuller tests

Ho: All panels contain unit roots		Number of panels =	13
Ha: At least one panel is stationary		Number of periods =	39
AR parameter: Panel-specific		Asymptotics: T -> Infinity	
Panel means: Included			
Time trend: Not included		Cross-sectional means removed	
Drift term Included		ADF regressions: 1 lag	

		Statistic	p-value
Inverse chi-squared(26)	P	118.9291	0.0000
Inverse normal	Z	-7.8094	0.0000
Inverse logit t(69)	L*	-8.9388	0.0000
Modified inv. chi-squared	Pm	12.8869	0.0000

P statistic requires number of panels to be finite.
Other statistics are suitable for finite or infinite number of panels.

```
. stunitroot fisher rulelaw , dfuller drift lag(1) demean

Fisher-type unit-root test for rulelaw
Based on augmented Dickey-Fuller tests
------------------------------------------
Ho: All panels contain unit roots        Number of panels =     13
Ha: At least one panel is stationary     Number of periods =     39

AR parameter: Panel-specific             Asymptotics: T -> Infinity
Panel means:  Included
Time trend:   Not included               Cross-sectional means removed
Drift term    Included                   ADF regressions: 1 lag
------------------------------------------------------------------------------
                                  Statistic      p-value
------------------------------------------------------------------------------
Inverse chi-squared(26)  P        84.9985       0.0000
Inverse normal           Z        -4.6972       0.0000
Inverse logit t(69)      L*       -4.6750       0.0000
Modified inv. chi-squared Pm       5.4081       0.0000
------------------------------------------------------------------------------
P statistic requires number of panels to be finite.
Other statistics are suitable for finite or infinite number of panels.
------------------------------------------------------------------------------

. stunitroot fisher corptax , dfuller drift lag(1) demean

Fisher-type unit-root test for corptax
Based on augmented Dickey-Fuller tests
------------------------------------------
Ho: All panels contain unit roots        Number of panels =     13
Ha: At least one panel is stationary     Number of periods =     39

AR parameter: Panel-specific             Asymptotics: T -> Infinity
Panel means:  Included
Time trend:   Not included               Cross-sectional means removed
Drift term    Included                   ADF regressions: 1 lag
------------------------------------------------------------------------------
                                  Statistic      p-value
------------------------------------------------------------------------------
Inverse chi-squared(26)  P       200.6744       0.0000
Inverse normal           Z       -11.6384       0.0000
Inverse logit t(69)      L*      -15.4351       0.0000
Modified inv. chi-squared Pm      24.2230       0.0000
------------------------------------------------------------------------------
P statistic requires number of panels to be finite.
Other statistics are suitable for finite or infinite number of panels.
------------------------------------------------------------------------------

. stunitroot fisher acorupt , dfuller drift lag(1) demean

Fisher-type unit-root test for acorupt
Based on augmented Dickey-Fuller tests
------------------------------------------
Ho: All panels contain unit roots        Number of panels =     13
Ha: At least one panel is stationary     Number of periods =     39

AR parameter: Panel-specific             Asymptotics: T -> Infinity
Panel means:  Included
Time trend:   Not included               Cross-sectional means removed
Drift term    Included                   ADF regressions: 1 lag
------------------------------------------------------------------------------
                                  Statistic      p-value
------------------------------------------------------------------------------
Inverse chi-squared(26)  P        86.8664       0.0000
Inverse normal           Z        -6.1953       0.0000
Inverse logit t(69)      L*       -6.5216       0.0000
Modified inv. chi-squared Pm       8.4407       0.0000
------------------------------------------------------------------------------
P statistic requires number of panels to be finite.
Other statistics are suitable for finite or infinite number of panels.
------------------------------------------------------------------------------

. stunitroot fisher ordersec , dfuller drift lag(1) demean

Fisher-type unit-root test for ordersec
Based on augmented Dickey-Fuller tests
------------------------------------------
Ho: All panels contain unit roots        Number of panels =     13
Ha: At least one panel is stationary     Number of periods =     39

AR parameter: Panel-specific             Asymptotics: T -> Infinity
Panel means:  Included
Time trend:   Not included               Cross-sectional means removed
Drift term    Included                   ADF regressions: 1 lag
------------------------------------------------------------------------------
                                  Statistic      p-value
------------------------------------------------------------------------------
Inverse chi-squared(26)  P       107.6044       0.0000
Inverse normal           Z        -7.0400       0.0000
Inverse logit t(69)      L*       -8.0834       0.0000
Modified inv. chi-squared Pm      11.3165       0.0000
------------------------------------------------------------------------------
P statistic requires number of panels to be finite.
Other statistics are suitable for finite or infinite number of panels.
```

APPENDIX 5: HAUSMAN SPECIFICATION TEST RESULTS

```
. hausman fixed random
```

	Coefficients (b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
rulelaw	.0011424	.0296953	-.0285529	.0096029
corptax	-.0148878	.0096286	-.0245164	.0047135
acorupt	.0001694	.000055	.0001144	.0000569
ordernsec	-.1073702	-.211783	.1044127	.0308288
investprot~t	-.0140607	-.0080633	-.0059974	.0015388
traderestric	.0119027	-.1352143	.147117	.0638213
rlegalfram	.033884	.0394919	-.005608	.0061629
gvteffecti~s	.0483613	.0231252	.0252361	.0048218

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(8) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 197.81
Prob>chi2 = 0.0000
(V_b-V_B is not positive definite)

APPENDIX 6: FIXED EFFECTS PANEL REGRESSION RESULTS

```
Fixed-effects (within) regression               Number of obs      =       507
Group variable: nation                          Number of groups   =        13

R-sq:                                           Obs per group:
     within  = 0.1493                                         min =        39
     between = 0.0505                                         avg =      39.0
     overall = 0.0363                                         max =        39

                                                F(8,486)           =     10.66
corr(u_i, Xb)  = -0.5344                        Prob > F           =    0.0000
```

fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
rulelaw	.0011424	.0178221	0.06	0.949	-.0338754	.0361602
corptax	-.0148878	.0193138	-0.77	0.441	-.0528366	.023061
acorupt	.0001694	.0001323	1.28	0.201	-.0000905	.0004292
ordernsec	-.1073702	.0392581	-2.73	0.006	-.1845068	-.0302337
investprotect	-.0140607	.0021237	-6.62	0.000	-.0182335	-.0098879
traderestric	.0119027	.0734131	0.16	0.871	-.1323436	.156149
rlegalfram	.033884	.0133413	2.54	0.011	.0076702	.0600977
gvteffectiveness	.0483613	.0070299	6.88	0.000	.0345486	.062174
_cons	.1730391	.0280267	6.17	0.000	.1179707	.2281074
sigma_u	.02753711					
sigma_e	.03943402					
rho	.32779198	(fraction of variance due to u_i)				

F test that all u_i=0: F(12, 486) = 5.10 Prob > F = 0.0000

.

APPENDIX 7: RAMSEY F-TEST RESULTS

```
. ovtest

Ramsey RESET test using powers of the fitted values of fdi
       Ho:  model has no omitted variables
                 F(3, 495) =     11.61
                  Prob > F =      0.0000
```