Review of Socio-Economic Perspectives **Chapfuwa, D. F. pp. 1-24**
Vol. 5 Issue: 2/ June 2020

THE ROLE OF INSTITUTIONS IN DETERMINING FDI FLOWS INTO THE SADC REGION

Dzingai Francis Chapfuwa[1]

Abstract

The aim of this study is to examine the role of institutions in determining Foreign Direct Investment (FDI) flows into the Southern African Development Community (SADC) region. Given the financing gap within SADC and the role of FDI in covering the gap, there is a need for the region to attract more FDI. Traditionally, the most popular instrument for attracting FDI is through fiscal incentives. However, over the years this has failed to attract or deliver the expected levels of FDI inflows into the SADC region. The study applies a panel modelling approach (Fixed Effects Model) for all the SADC countries using annual data from 1996 to 2016. However, to deal with the problem of endogeneity, the study further applies the 2 Stage Least Squares (2SLS) methodology. For robustness check, Dynamic General Method of Moments Technique (GMM) is applied. The results of the model indicated that institutions are important in determining the flow of FDI into the SADC region. However, where the host countries have got natural strategic resources, the role of institutions is overshadowed. The market size was also found to be insignificant. Furthermore, the institutional variables affect FDI inflows differently and one of the major findings is that democratic accountability does not matter in influencing the flow of FDI into the SADC region.

Keywords: Foreign Direct Investment, Institutions, SADC, MNCs

JEL Codes: E, E02.

Citation : Chapfuwa, D.F. (2020). The Role of Institutions in Determining FDI Flows into the SADC Region, Review of Socio-Economic Perspectives, Vol 5(2), pp. 1-24, DOI : 10.19275/RSEP079.

Article Type: Research Article
Application Date: 17.02.2020 **& Admission Date:** 13.05.2020
DOI: 10.19275/RSEP079

---

1. University of Johannesburg, Faculty of Economics and Econometrics, Johannesburg, South Africa
E-mail: dchapfuwa@gmail.com