

INSTITUTIONS, FOREIGN DIRECT INVESTMENT (FDI) AND ECONOMIC GROWTH: DOES THE EXISTENCE OF STRATEGIC NATURAL RESOURCES MATTER?

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Abstract

The paper analysed the interlinkages among institutions, FDI and economic growth. The paper analysed whether institutions play a role in determining the effect of FDI on economic growth and whether the existence of strategic natural resources matter. Dynamic Panel General Method of Moments Technique (GMM) model with Weidmeijer corrected errors and orthogonal deviations is applied for the period 1996 to 2016. The results show that the effect of FDI on economic growth is both negative and positive across the estimated models indicating the heterogeneity in terms of the initial host country conditions. The thesis found that institutions as a whole are weak for SADC countries hence a negative relationship between institutions and economic growth for the SADC countries. What is however key is that FDI on its own without institutional indicators can lead to an increase in economic growth for the SADC countries. The effect of institutions on FDI and hence economic growth was not significant in the full sample. However, after taking out countries endowed with strategic natural resources, good institutional indicators leads to an increase in economic growth eliminating the natural resource endowment bias.

Keywords: FDI, Institutions, Economic growth, SADC, MNCs, GMM

JEL Codes: E, E02

Citation : Chapfuwa, D.F. & Baur, P. (2020). Institutions, Foreign Direct Investment (FDI) and Economic Growth : Does the Existence of Strategic Natural Resources Matter ?, *Review of Socio-Economic Perspectives*, Vol 5(3), 23-49.

Article Type: Research Article
Application Date: 12.06.2020 & **Admission Date:** 29.08.2020
DOI: 10.19275/RSEP087

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