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DEPARTMENT OF ECONOMICS



**THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH
IN SADC ECONOMIES (2011-2021)**

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DEDICATION

This dissertation is dedicated to my lovely family, especially my mother Silindiwe Hluyo – her unconditional love, care and support made this study a success. As well as, a special feeling of gratitude to my girlfriend Heather Sibanda, her words of wisdom, encouragement and prayers gave me strength on this journey till this far. Their unwavering support throughout my studies at Bindura University of Science Education is unmatched.

ABSTRACT

The aim of the study was to assess the effect of foreign direct investment (FDI) on economic growth in the Southern African Development Community (SADC) economies. In doing so, the study employed a panel data set of 5 SADC countries covering the period from 2011 to 2021, and used econometric techniques to analyze the relationship between FDI and economic growth. Also, the study used a panel data approach in estimating the coefficients of the variables used. The study used economic growth as a dependent variable. FDI, human capital, trade openness and exports were the explanatory variables used in the study. A pooled model was used to assess the effect of FDI on economic growth. The findings of the study suggest that the coefficient of FDI is statistically insignificant. This implies that there was no effect of FDI on economic growth in SADC countries during the study period. The study therefore recommended that the governments of SADC countries supplement FDI policies with other policies like exports incentives so as to stimulate growth.

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ACRONYMS AND ABBREVIATIONS

BUSE.....	Bindura University of Science Education
CJV.....	Contract Joint Venture
DI.....	Domestic Investment
EJV.....	Equity Joint Venture
ECM.....	Error Correction Model
FDI.....	Foreign Direct Investment
FEM.....	Finite Element Model
GDP.....	Gross Domestic Product
GMM.....	Generalized Method of Moment
IS-LM.....	Investment Savings- Money Supply
OLS.....	Ordinary Least Squares
RGDP.....	Real Gross Domestic Product
REM.....	Random Effects Model
SADC.....	Southern African Development Community
UK.....	United Kingdom
UNCTAD.....	United Nations Conference on Trade and Development
VECM.....	Vector Error Correction Model
ZIMSTAT.....	Zimbabwe National Statistics Agency

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction and Background

To obtain acceptance as a tool for economic growth and development, the majority of developing nations work to entice foreign direct investment (Eduardo et al. 1998). Additionally, a considerable and growing body of research has demonstrated that FDI makes a major contribution to a country's economic development. This thesis will therefore look into the relationship between economic growth and foreign direct investment in the SADC. Being one of the most influential regions in the world and having a significant impact on both global politics and economics is the SADC region (Bonga, 2014). For many years, both in rich and emerging nations, the health of an economy has been a central concern for policymakers. To promote economic growth, governments have been combining contractionary and expansionary monetary and fiscal policies. Investments are one of the tools available to many emerging nations for accelerating economic growth. Investments have been seen as a crucial component in achieving economic growth. Growth can be attained by investing in capital assets, according to both traditional theories of growth and the Keynesian IS-LM models. This demonstrates the willingness of policymakers to experiment and develop novel ideas in an attempt to improve the productivity of their separate economies.

Given that the majority of economic variables depend on the health of the economy, there is a pressing need to ensure sustainable economic growth. Economic growth is necessary for increased employment levels, high-quality exports, and human development. All of these and other economic variables will suffer if the economy is not performing well (Pradhan et al., 2015). Therefore, it is crucial for any society or nation to ensure that it achieves a sustainable rate of economic growth. This chapter will give the study's history, the problem statement, and the research goals.

Numerous academics have evaluated a nation's productive capacity in part by looking at its gross domestic product. Although it has been used as a gauge of a nation's growth in the literature on economic growth, it has come under fire for the accuracy of the data used in its measurement, the way in which income is distributed, and the fact that it does not include

transactions from the informal economy, which is crucial in determining a nation's output (Mankiw, 2010).

Growth theories suggest that investment can stimulate economic growth. Through increases in demand, unemployment, and capital stock, investment spending stimulates growth and raises national production levels. Anomalies have emerged in the growth and FDI trends in SADC nations, nevertheless. Growth rate increases have not kept pace with increases in FDI. This demonstrates that, contrary to the majority of growth and FDI theories and other empirical work on the subject, FDI may not have a growth effect in the SADC. Due to this vacuum, the study sought to determine whether FDI has an effect on economic growth in SADC economies.

1.3 Research Problem

Foreign investment trends have emerged; however, it seems that growth hasn't really benefited much from these advances. An important aspect of the SADC countries' economic performance has been fluctuating GDP growth. Since the countries gained their independence, an economic performance that is stable, consistent and sustainable has not been attained. According to growth theories, investments can significantly contribute to promoting economic growth. Growth and investments have been connected, particularly in emerging economies. There have been numerous foreign investments made in SADC by nations like China, the UK, Germany, and others. Many investors have been traveling to Africa from these places in an effort to expand their global market share. Therefore, the purpose of this study is to determine whether FDI has an effect on the economic development of SADC nations.

1.4 Goals of the Study

- The study's main objective is to assess how foreign direct investment has affected SADC economies.
- The study's second objective is to identify additional elements that influence the economies of the SADC.

1.5 Research Questions

- Does Foreign Direct Investment (FDI) have an impact on economic growth in SADC economies?
- What are the other factors that affect economic growth in SADC countries?

1.6 Justification and Significance of the Study

The analysis is made at a time when the SADC economy's ability to grow is severely crippled. The current economic situation in the region appears to have had an impact on a number of economic variables. Growth theories explain how FDI may impact a nation's economic development. Therefore, this study used a panel data to research how FDI affected SADC's economic growth. The results of this research will help policy makers create some regulations that support growth through FDI if they help to promote growth.

1.7 Statement of hypothesis

- Null hypothesis: there is no relationship between FDI and Growth in the SADC countries.
- Alternative Hypothesis: there is a positive relationship between FDI and Growth in the SADC countries.

1.8 Assumptions of the study

- The information gathered from ZIMSTAT and World Bank publications will be accurate and pertinent, and may thus be trusted.
- The research's recommendations will aid in facilitating the development of effective policies.

1.9 Delimitations of the study

The study will be focused on the SADC economies, confined to the relationship between FDI and economic growth of SADC countries.

1.10 Definition of Variables

Foreign Direct Investment: An ownership stake in a foreign company or project is known as a foreign direct investment (FDI) and is made by a foreign investor, business, or government. FDI is an important driver of economic growth and development in both the host country and the investing country. The host country benefits from FDI by gaining access to new technologies, skills, and expertise, creating new job opportunities, and increasing the supply of capital. The investing country benefits from FDI by gaining access to new markets, resources, and business opportunities, and diversifying its portfolio of investments.

Economic Growth: Economic growth is the term used to describe increased output of goods and services. Economic growth is an important indicator of the health of an economy and its

ability to generate wealth and improve the standard of living of its citizens. It is generally viewed as a positive development, as it can create new job opportunities, increase incomes, and improve access to goods and services. Economic growth can be driven by various factors, including increases in productivity, investments in physical and human capital, technological innovation, improvements in infrastructure, and favourable government policies.

1.11 Organisation of the Rest of the Study

The following chapter will review the literature on economic growth. Chapter three will outline the research methodology adopted by the study. Chapter four and five will give the results and recommendations of the study respectively.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The second chapter of this thesis aims to provide a comprehensive review of literature on the impact of foreign direct investment on economic growth in the SADC economies. The chapter begins with an overview of the theoretical framework that underpins the relationship between FDI and economic growth. It then reviews empirical studies that have investigated the impact of FDI on economic growth, highlighting the key findings and methodologies used.

2.1.1 Foreign Direct Investment

To begin with, a succinct description of FDI, it is the transfer of capital from an investor in one country to an enterprise in the host country. This is accomplished through the creation of a firm subsidiary (greenfield investment) or the expansion of an existing business (merger and acquisition).

It is crucial to make a distinction between the fundamental types of FDI in order to move further with our theoretical framework. There are two forms of foreign direct investment, from the viewpoint of a multinational corporation: export-oriented and domestic market-oriented. Domestic ones are also referred to as horizontal FDI, while export-oriented ones are known as vertical FDI. Countries that are export-oriented exclusively import raw resources and export finished goods. These investments are typically driven by the low cost of labor in the host country, which reduces production costs. The varying input prices make vertical FDI more alluring to investors. On the other hand, domestic market orientation creates items and markets them in the host nation (Markusen, 1992). Additionally, multinational firms' revenues increase if they are headquartered in a foreign nation due to previously existing networks.

2.1.2 Classifications of FDI

According to Fung (2002), OECD (2000), and Ali & Guo (2005), there are four different types of FDI. These classifications are defined below:

- **Joint exploration:** Refers to a situation where two or more foreign companies invest in a joint venture to explore opportunities in a particular sector or industry in a foreign country.
- **Equity Joint Ventures (EJVs):** it is a situation where a domestic and foreign companies invest in an equity joint partnership to conduct business in a foreign country. It provides

opportunity to share risks and costs in investing in a new market, access to local knowledge and expertise, and leverage the partner's existing network and resources. EJVs bring new technologies, expertise to the host country, which can help boost their economy.

- Contractual Joint Ventures (CJVs): It is a relationship between a local and foreign investor who share the same objectives.
- Wholly Foreign-Owned Enterprises: These are companies owned by foreign investors and not subject to domestic investment restrictions in the country they are established. Foreign investors have complete ownership and control of the company, rather than entering into a partnership or joint venture with local companies.

2.1 Theoretical Literature

The Classical theory of investment and growth

The following is the fundamental theory of interest rates, investment, and how these factors affect economic growth. The notion has its roots in the classical economic school of thought, which equated saving and investing. According to classical economics, investment depends on interest rates. The idea is that lower interest rates will encourage more investment. Investment growth influences the economy in the long run. Since interest rates are what determine how much it costs to borrow money, lowering them will enable firms to borrow more and make greater investments. Investing more money can increase a company's output, which will then lead to greater economic growth. This idea serves as the foundation for the link between economic growth and interest rates.

Solow Growth Model

The Solow model is a neoclassical growth model developed by Robert Solow in 1956. The Solow model is designed to explain long-term economic growth in an economy by analyzing the relationships between capital accumulation, technological progress, population growth, and output growth. The model assumes that capital and labor are the two primary factors of production, and that technological progress is exogenous, meaning it is not directly affected by economic variables. The neoclassical production function, $Y = F(K, L)$, which demonstrates that output is reliant on capital stock and labor force, serves as the analytical foundation for the model. One of the model's presumptions is that the scale returns of this production function are constant. When the variables are represented in terms of the number of workers, the output per

worker equals y/L and the capital per worker equals k/L . The production function then changes to $y = f(k)$. This production function shows that output per worker, y , depends on capital per worker, k . This production function's slope is a representation of the capital's marginal product, or how much more output a worker can produce with an additional unit of capital. The capital stock is a significant factor in determining an economy's production under the slow model. Investments alter the capital stock, and the saving rate has an impact on this as well. Therefore, it is assumed in the Solow model of growth that investment and output will rise together with the level of capital stock. We may generalize the model in order to demonstrate that lower interest rates will improve investments, the accumulation of capital, and consequently economic growth since the interest rate affects the amount of investment. Thus, in contrast to Solow's model, which assumed external technology growth, the endogenous growth model was created (Solow, 1956). This model concentrated on technological advancement. The theory holds that FDI has a long-term impact on output growth. The simplest model, the "AK Model," which has the equation $Y = AK$ (where A is the marginal productivity of capital, and K is a total input of capital and labor), demonstrates that the marginal product of capital is constant, allowing for long-term growth. The value of technology was emphasized in the ideas of Lucas (1998) and Rebelo (1991), and it was advised to invest in technological breakthroughs because they offered better returns than other kinds of investments (Djurovic, 2012). Human capital and the accumulation of knowledge have both been introduced to the concept of capital by Romer (1990) and Barro and Sala-i-Martin (1995). As per the Romer model of 1990, economic growth is stimulated by Foreign Direct Investment (FDI) through the augmentation of both human and intellectual capital. However, this link does not hold true for all nations because the influence depends on the context of the host nation. For instance, it is typical for a country to benefit more from FDI than its counterpart if it has open trade policies and high export levels (OECD, 2002).

Endogenous Growth Theory

Endogenous growth theory is a macroeconomic growth theory that put emphasis on the need of enhancing an economy's internal components and a nation's population. Endogenous Growth Theory is an economic theory that emphasizes the role of knowledge and innovation in driving long-term economic growth. Unlike traditional neoclassical growth theory, which posits that economic growth is driven by exogenous factors such as population growth, investment, and technological progress, endogenous growth theory argues that growth is endogenously determined by factors that are internal to the economy. One of the key insights of endogenous

growth theory is that knowledge and innovation are not subject to diminishing returns, unlike physical capital and labor. This means that investing in research and development, education, and human capital can lead to sustained economic growth over time. Contrarily, in classical and neoclassical growth theories, the importance of endowments of natural resources, the implementation of new technologies which are external to the economy, capital accumulation, profits from trade and specialization, and these factors are given more weight. The endogenous growth theory holds that innovation and population increase have greater effects on GDP than physical capital. The rise of productivity in endogenous models is influenced by variations in Research and Development, and education spending. Hence, this result in a higher rate of technological advancement. In other words, greater economic growth can be encouraged. The fundamental precepts of endogenous growth theory are as follows: Government policies can serve to increase market competition and foster product and process innovation, which can help to increase a nation's growth rate. Higher returns to scale are being produced through capital investment, particularly in infrastructure and investments in telecommunications, health, and education. Technology advancement depends heavily on private sector investment in research and development. Preservation of property rights and patents is essential to incentivize businesses and entrepreneurs towards research and development.

Economic development is critically dependent on human capital. Government policy ought to encourage entrepreneurship as a means of starting new enterprises and, consequently, as a source of fresh employment, capital, and innovative ideas.

The IS-LM model

The IS- LM model is a macroeconomic framework used to analyze the relationship between interest rates, output, and the money supply in an economy. The model was first developed by John Hicks in 1937, and later refined by Alvin Hansen in 1949. It represents a short-term occurrence when national revenue fluctuates while the pricing level remains constant. The link between interest rates and national income in the goods market is depicted by the IS curve. This relationship can be explained by the Keynesian cross as well as investment function, which holds that interest rates, investments, and aggregate output are all directly causally related. The main factors influencing the relationship between interest rates and national output are planned investment and planned spending. Given that interest rates affect investment, a fall in interest rates will cause the expected level of investment in the Keynesian cross to increase. In the Keynesian cross, increasing budgeted spending will improve national output. This link

is highlighted by the IS curve, which shows a negative correlation between interest rates and GDP. Additionally, it demonstrates that for a specific mix of interest rate and income level, the products market is in equilibrium.

The LM curve in the money market illustrates the connection between the interest rate and GDP. The connection is based on the correlation between rising incomes and increased demand for real money balances in the money market. Due to the increasing demand for real money balances and strong spending on goods and services, the hike in interest rates will improve the country's output. Interest rates and the GDP have a positive correlation, as seen by the LM curve. The LM curve also illustrates the income level and interest rate at which the money market is in equilibrium. Interest rates can either have a positive or negative effect on national production, according to the IS-LM model.

The Harrod-Domar Model

The model developed by Harrod and Domar is a theory of economic growth that relies on investment and savings to fuel growth in a nation. The Harrod-Domar Model was originally developed by Roy Harrod, a British economist, in 1939. However, the model was later refined by Evsey Domar, a Russian-American economist, in 1946. The model is thus often referred to as the Harrod-Domar Model, reflecting the contributions of both economists. An alternative economic theory to explain economic growth is the Harrod-Domar model. It presupposes constant marginal returns on capital. This contrasts with the Thoreau growth model, which assumes diminishing returns on capital. The impact of the savings rate is where this model and the Solow model diverge. Solow anticipates that changes in savings rates will only have a transient effect. But it had a long-lasting impact on the Harrod Domar model. The Harrod Domar model explains how and why the economy is expanding. The savings rate and capital productivity of a nation are two key factors influencing economic growth, according to this model.

Due to the increasing demand for real money balances and strong spending on goods and services, the hike in interest rates will improve the country's output. Interest rates and the GDP have a positive correlation, as seen by the LM curve. The LM curve also shows the income and interest rate at which the money market is in equilibrium. Interest rates can either have a positive or negative effect on national production, according to the IS-LM model. Due to an imbalance in the competitive landscape caused by foreign enterprises' superior financial,

technological, managerial, and marketing capabilities, this can also result in the departure of many local businesses (Marksun and Venables, 1997).

Returning FDI capital and profits may also weaken a nation's foreign exchange reserves, which could endanger its capacity to maintain financial stability. According to the dependency theory, foreign direct investment hinders rather than promotes economic progress. Based on these various theoretical stances, researchers carried out empirical studies to assess the relationship. Investment policy studies carried out by UNCTAD in 2003 show how FDI boosts the economy by generating jobs and raising wages. The overall conclusion is that foreign direct investment (FDI), albeit impacts differ by country, has a beneficial impact on economic growth. Numerous studies have established a positive relationship between FDI and economic growth as a result of capital formation and technical transfers, which supports the endogenous growth theory (Zenasni and Benhabib, 2013; Borensztein et al, 1998; Aurangzeb and Ul Haq, 2012). This is so that the host economy can benefit from FDI's stock of knowledge capital, which raises factor productivity.

2.2 Empirical literature

Foreign Direct Investment (FDI) has been a major source of external capital for many developing countries. The Southern African Development Community (SADC) region has been one of the recipients of FDI inflows, which have contributed to the economic growth and development of the region. This empirical literature review aims to analyze the impact of FDI on economic growth. There has been a lot of research on FDI and growth in the past few years, but it is still unclear why there is either a beneficial or detrimental connection between the two. Multiple approaches have been employed to evaluate the relation between FDI and economic growth and also to suggest potential measures for various nations to take in order to encourage FDI and, in turn, economic growth. The majority of the evidence suggests a favorable connection. Theoretically, FDI can support economic growth through a variety of channels, including technology transfer, capital accumulation, and skill development. The balance of payments could worsen as a result of profit repatriation, for example, which would be detrimental to FDI (Tanggapanam et al. 2011). assert that there is a nexus between FDI and economic expansion. According to their research, environmental conditions, financial development, and the development of human capital are all essential preconditions for FDI to have a positive impact on economic growth. According to Ang (2009), FDI may eventually have a detrimental impact on production expansion if there has been insufficient financial stability, which is consistent with Tanggapanam et al.'s findings (2011). In order to benefit

economically from FDI, the host country's financial system, according to Ang (2009), must be effective. The following examines some of the empirical literature on FDI and economic growth.

More exports, between 1980 and 1990, were positively correlated with greater economic growth in China's 31 provinces, according to Shang-Jin Wei (1993). The results imply that, as a result of technological and managerial spillover, FDI in the late 1980s was significantly associated with economic growth in Chinese provinces. Dess (1998) came to the same conclusion and concluded that by advancing knowledge, foreign direct investment influences China's economic development. Furthermore, he showed that there is a positive correlation between FDI and economic growth over time, with the main justification being that China uses FDI to absorb technology advancements from other nations. The same outcome was validated in 2001 by Edward, Graham, and Wada as well.

Since 1993 until 2009, the assessment of how FDI affected China's as well as India's economic growth was also conducted by Agrawal et al. (2011). They modified the fundamental growth model as a starting point. The labor force, FDI, GDP, human capital, and gross capital formation were all incorporated in the growth model. Using the ordinary least-squares (OLS) approach of regression, they found that a one percentage point rise in FDI will result in a 0.07 percent rise in China's GDP as well as a 0.02 percentage point increase in India's GDP. They also found that FDI affects China's growth more than India's, and vice versa. Because China has a larger market, greater access to the export market, government incentives, developed infrastructure, cost effectiveness, and a stable macroeconomic environment, the majority of foreign investors choose China over India as their investment destination.

Researchers found a favorable and statistically significant relationship between FDI and economic growth in 32 emerging economies, like India, Pakistan, and Morocco (Lan, 2000; Hansen and Rand, 2006). According to studies, FDI and economic growth are causally associated in both the short and long terms, and both exports and FDI contribute to economic growth over the long term (Ahmad et al., 2012). This positive relationship could be further observed in the US, where FDI boosts total factor productivity, resulting increase in economic growth. This positive relationship may also be seen in the United Kingdom. However, other studies have found a conflict between FDI and economic growth. According to Rizvi and Nishat (2009) and Carkovic and Levine (2002), research has been done in a variety of countries, including Pakistan, India, and China. They arrived to an understanding that FDI is not the

primary generator of employment opportunities for any country and has minimal influence on economic growth., necessitating the adoption of augmentation techniques to boost employment growth. Ordinary Least Squares Regression (OLS) was used by Bornschieer et al. (1978) to investigate 76 developing countries. They found a weak negative correlation between FDI and GDP that increased as income levels increased.

Instead of using time-series and cross-section techniques to examine the implications of FDI on economic growth in Vietnam, Hoang et al. (2010) applied the Panel Least Square approach, to estimate the effects of inflows of FDI on economic growth in the sixty-one regions of the entire country from the period 1995-2006 with high accuracy and reliability. They found that FDI, which increases capital stock, has a significant and positive impact on economic growth in Vietnam. As of present day, Vietnam's human capital and commercial activities do not serve as the means through which FDI inflows may provide the ability to access cutting-edge knowledge and technological transfers to support the nation's economic growth.

The serial correlation-relationship between foreign investment and GDP development in Nepal across the years, spanning 1983 to 2007, was analyzed by Xinfeng Yan et al. (2010). A linear regression model of GDP on FDI was employed in conjunction with the t-statistic in parentheses. The Durbin-Watson Test, Cochran-Orcutt approach, and non-log numbers were employed in the investigation. 9% of the volatility of GDP, as assessed by R squared, is accounted for by FDI, according to the fundamental linear regression model of GDP on FDI. The findings demonstrated that, despite the marginal effect appearing to be due to the existence of auto-correlation, FDI did not adequately characterize GDP without the presence of auto-correlation.

Kim and Seo (2003) used quarterly data from 1985 to 1999 to analyze time series approaches (a VAR model and innovation accounting techniques) to analyze the dynamic link between foreign direct investment, domestic investments, and economic development in Korea. Their findings disproved the idea that FDI in Korea displaces domestic investment. Similar to this, Tang (2008) found no evidence that FDI in China displaces DI but rather that FDI has a complementary impact on DI using quarterly time series data from 1988 to 2003. Additionally, they found that FDI increases DI through the technology diffusion channel. The research really improved our comprehension. This study, which covers the years 2000-2015, aims to build on Kim's work in the following fashion.

Muhammad Azam evaluated the impact of exports and FDI on the economies of Bangladesh, Sri Lanka, Bangladesh and India in his report from 2010. A simple log linear regression model was utilized in the study along with secondary data from 1980 to 2009. The study found statistically significant effects of FDI and exports. The research also recommended that policymakers across every South Asian nation diversify their exports to increase the quantity of exports and FDI inflows, as doing this could hasten prospective economic growth of South Asian nations.

2.2.1 Determinants of Foreign Direct Investment

Numerous research has attempted to determine the factors that influence the disparities in FDI levels between nations worldwide. The results confirm that particular elements like market size, infrastructural quality, political and economic stability, and free trade zones have a big impact on judgments about foreign direct investments. There is no conclusive solution for other factors, such as the business investment climate, openness, and climate (Pantelidis et al. 2012, Pantelidis, Pitelis, 1997, Lim, 2001). In the words of Walsh and Jiangyan Yu (2010), the impact of foreign direct investments on emergent and sophisticated economies varied depending on the nations' income levels, currency rate valuation, educational attainment, financial sophistication, judicial transparency, and labor market flexibility. These factors, however, do not adequately explain foreign direct investments in the primary sector.

2.2.2 Foreign Direct Investments in Sub-Saharan Africa

For the Sub-Saharan Africa region, there is still a lack of clarity, expertise, and depth in the corpus of literature on foreign direct investment. By diverging my methodology from earlier studies in this field, the study aims to apply the known link between foreign direct investment and economic growth to nations in Sub-Saharan Africa. The study by Adams (2009) examines domestic and foreign investment's effects on economic growth in Sub-Saharan Africa between 1990 and 2003. The study's results demonstrate that although foreign direct investment does not appear statistically significant in fixed effects estimation it is in the OLS. Despite initially crowding out the effects of local investment, the outcomes generally show that foreign direct investment has an upward effect on the growth of the economy. Jugurnath et al. (2016) show a significant positive correlation between foreign direct investments and growth in the economy for a subset of Sub-Saharan African nations between the years 2008 and 2014. Their fixed effects regressions show a favorable result but not statistically significant relationship between foreign direct investment and economic growth. The association between foreign direct investment, local investment, those who are employed, and economic growth is positive and

significant when using the static random effect model with dynamic panel GMM estimate. They further affirm that, although having detrimental effects on economic development, the Eurozone crisis did not affect their outcomes.

In a study published in 2014, Adeleke, Olowe, and Oluwafolakemi examined how foreign direct investment affected economic growth in Nigeria from 1999 to 2013. They used regression analysis with the ordinary least square (OLS) method to examine the relationship between direct foreign investment and economic growth. According to their analysis, which exhibited F-statistics of 5.964 (0.013) and R squared = 0.641, FDI, export earnings, and currency rate proved all significant concurrent predictors of GDP at the 5% level. The predictor factors collectively accounted for 64.1% of the GDP, with the remaining 35.9% of the GDP potentially explained by unrelated factors. According to the study, economic growth and FDI inflows are tightly related and statistically significant at the 5% level, suggesting that strong economic performance is a good indicator of FDI inflows. The analysis cited foreign direct investment as a growth driver. They suggested that in order to encourage investment, the government liberalize Nigeria's international trade by removing all trade restrictions, including arbitrary tariffs, import and export fees, and other charges.

Usiri (2014) investigated on how foreign direct investment affected Tanzania's economic expansion. Economic growth in Tanzania is not significantly impacted by FDI investment in the manufacturing sector, according to the results of an econometric analysis, but it is positively impacted by FDI investment in the mining and quarrying sector. This variable is statistically significant with a positive coefficient and a 5% level of significance.

In his research from 2015, Strauss examined FDI inflows and economic growth in South Africa using data gathered from the World Bank and Penn World Table databases. Granger causality testing and time series analysis of co-integration were employed in the study, which covered the years 1994 to 2013. The study looked into the connection between FDI, absorptive ability, and economic growth in South Africa. According to the study, FDI over time significantly reduces economic growth at the 1% level. The study discovered that the host nation needs to exhibit a fundamental degree of regional development in financial markets, infrastructure, and human capital for FDI to be efficiently channeled towards economic growth. The analysis revealed little evidence of a long-term relationship between FDI and elements including infrastructure, the growth of financial markets, education, and GDP per capita. The study came to the conclusion that FDI had no positive spillover effects. Because FDI only temporarily

slows economic growth and because there are no long-term correlations between the variables, the empirical findings are inconclusive.

Moshi (2015) carried out a study to examine the impact of FDI inflows in the quarrying and mining sector, the manufacturing industry, and agriculture and livestock sector on Tanzania's GDP growth with the aim to determine the degree to which FDI inflows in these sectors influence Tanzania's economic growth. On time series data during 1998 to 2013, multiple linear regressions were carried out using the ordinary least squares (OLS) method. The findings indicated that Tanzania's economic growth was positively impacted by foreign direct investment across the studied sectors of mining and quarrying, although manufacturing and agriculture had an advantageous but less significant influence. The study also found that in order for the hosting nation to gain from FDI, positive policies, or policies particular to FDI, must be in place. According to the study's findings, both parties must consider these factors before signing a contract, comprising the kinds of FDI to be recruited, how to accomplish so, including suitable incentives, how the country ought to obtain in regards to added value for each particular FDI that is drawn, and how to sustain the prospective and actual FDI advantages.

Ocaya, Ruranga, and Kaberuka (2013) looked into the connection between foreign direct investment and GDP-based economic growth in Rwanda over the years 1970 to 2010. They applied a Vector Autoregressive model to analyze the connection between the Engle-Granger tests. They examined both series' stationarity and lag structures as well as their cointegration and the relationship involving economic growth and FDI. The authors also discovered that GDP and FDI are stationary at initial disparities but not at levels, and that bivariate VAR (1) was the model that performed the best. The two series of order 1 are consequently joined. Cointegration tests reveal the two variables to be cointegrated, indicating a long-run equilibrium relationship between the two series. The Vector Correction of Errors (VECM) demonstrates that while GDP is unresponsive to changes in FDI, FDI does respond to changes in GDP. Granger tests reveal no causal relationship between the GDP and FDI of the Rwandan economy.

Foreign direct investment (FDI) and other inflows of foreign capital were studied by Elboiashi and Ali in 2011. The study used a multivariate VAR system utilizing the time series, panel data, and error correction model (ECM) techniques of cointegration for a country-by-country analysis of FDI, DI, and GDP in a sample of developing countries from 1970 to 2005. The

growth equation demonstrates that the individual and combined effects of FDI, LN, PF, and DI all have a favorable and statistically significant impact on economic growth. With the aim of conducting an experimental investigation into the function of FDI in the process of technological diffusion and economic advancement, Borensztein (1998) used a cross-country regression framework to assess the impact of FDI on economic growth in developing nations. The analysis made use of information on FDI flows over the previous two decades from industrialized countries to 69 developing nations. It was done using endogenous growth, where the main predictor of long-term income growth was the pace of technological development. According to the research, FDI contributes to growth at a higher rate than domestic investment and is a crucial avenue for the transfer of knowledge. Contrarily, the higher productivity of FDI can only be achieved when the host nation has a particular amount of human capital. Therefore, foreign direct investment (FDI) only contributes to economic growth when the host country has a substantial capacity for absorbing new technology.

Olokoyo (2012) looked into how foreign FDI affected the growth of the Nigerian economy. The purpose of the article was to address the questions: What drives FDI in Nigeria as well as how does it impact the country's economy? The researchers applied the Ordinary Least Square (OLS) regression model to evaluate the time series data between 1970 and 2007. The Cochrane-Orcutt iterative approach was used by the researchers to account for autocorrelation. The model posits that Nigeria's economic development and real gross domestic product (RGDP) have a functional connection. The regression analysis results categorically refute the preceding literature's assertion that FDI and economic growth in Nigeria are indissolubly connected. The model analysis makes it less likely that FDI has had a standalone impact on Nigeria's economic progress, but the results do not imply that it is insignificant.

This study's foundation is an analysis of ordinary least squares regressions, in addition to previous studies. This type of research has never been done before and offers fresh perspectives on how human capital influences multi-nation enterprise behavior in Sub-Saharan Africa. In conclusion, most academics view foreign direct investments as a significant pillar of development, which is frequently shown in the effects of FDI on the GDP domestic product and labor of host countries. Therefore, a crucial topic for developing countries is the debate over the consequences as well as the factors that attract foreign direct investments. The literature review mentioned above is provided to highlight the positive aspects of foreign direct investment and to offer some guidance on the best governmental policies.

2.3 Conclusion

The primary focus of this chapter was a theoretical and empirical examination of the impact of FDI in various countries throughout the world. Many studies show that FDI has a healthy and favorable impact on economic growth, but only a handful have concluded that it has a negative one. The next chapter's primary focus will be on the empirical model of economic growth and foreign direct investment (FDI). It also explains the procedure used to calculate the coefficients of the regression model.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the research methodology utilized to look into how FDI affects SADC's economic growth is presented. This chapter provides a comprehensive description of both the empirical model and the methodology employed for estimating the coefficients of the variables incorporated in the empirical model. In addition, a list of the diagnostic tests employed is provided in this chapter along with details on the research period and data sources.

3.2 Model Specification

The researcher will utilize a panel data regression to look at how FDI affects economic growth. The panel data diagnostic test results were utilized to establish the appropriate model (REM, Pooled, or FEM) to be employed in the research.

$$EG_{i,t} = \beta_0 + \beta_1 FDI_{i,t} + \beta_2 EX_{i,t} + \beta_3 TO_{i,t} + \beta_4 HC_{i,t} + \varepsilon_{i,t}$$

$$i = 1, 2, \dots, N : t = 1, 2, \dots, T$$

Where:

t is the time and i is the country,

FDI = Foreign Direct Investment,

EX = Exports,

TO = Trade Openness

HC = Human Capital.

EG = Economic Growth.

In the model, β_0 to β_4 are the model's coefficient. The error term, denoted by $\varepsilon_{i,t}$, is intended to reflect any unaccounted-for cross-sectional effects (missed variables), time effects, and other economic growth-affecting factors.

3.3 Justification of Variables

Economic Growth

The study's dependent variable is the GDP growth rate. It measures the rate of growth in total output in an economy.

Foreign Direct Investments

According to Duce and Espana (2003), the definition of foreign direct investment (FDI) is the acquisition of an equity interest in a business or firm located in another country by a resident entity of one economy. The growth of the economy may be positively impacted by an increase in FDI. This is due to the fact that FDI causes the provision of a range of goods and services, a rise in resident employment levels, and an increase in the demand for goods and services and income levels, all of which will result in output growth. This served as the study's key variable. Therefore, it is anticipated that FDI and GDP will have a positive relation in the study.

Exports

Exports refer to the sale of goods or services produced within a country to buyers in other countries. Exports are an important aspect of foreign investors' operations in the host country, as they help to generate revenue for the foreign investor and contribute to the growth of the host country's economy by creating jobs, generating income and increasing foreign exchange earnings. Consequently, a favorable relationship was anticipated.

Trade openness

One measure of a country's level of involvement in the global trading system is its level of trade openness. Trade openness (GDP) is commonly measured as the ratio of total exports to total imports to GDP. In the study, it was predicted that trade openness and export performance would be positively correlated.

Human Capital

Human capital is the term used to describe how valuable an employee's skills and expertise are economically. Employers value qualities like dependability and punctuality as well as skills, abilities, and good physical and mental health. People think that putting money into human capital will increase output and economic expansion.

3.4 Data Sources and Period of Study

In this study, panel data from the World Bank's World Development Indicators were used. For this study, panel data from SADC nations spanning a period of ten years (2011-2021) were

utilized to obtain a current and all-encompassing perspective of the influence of Foreign Direct Investment (FDI) on economic growth in the SADC region. The choice of this specific period was motivated by data availability during this timeframe.

3.5 Estimation Method

The study's estimation method to use was suggested by the Hausman test. In panel data models, there are three estimation methods which are the Random effect method, the Fixed effects model and the Pooled method. Each one has its own characteristic that makes it unique.

3.6 Conclusion

In this chapter, the study's methodology was laid forth. The researcher is satisfactory with the methodology because it will enable the study to accomplish its objectives. The results and their interpretation will be given in the following chapter.

CHAPTER FOUR

ESTIMATION, PRESENTATION AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter serves to presents the empirical results of the study. Firstly, descriptive data are displayed and interpreted, then the results from the regression model adopted will be interpreted.

4.2 Descriptive Statistics

Descriptive statistics were used to analyze the nature of the data which was used. Figure 1 below shows the mean, standard deviation, the minimum and the maximum values of the variables.

Table 1: Descriptive statistics

Variable		Mean	Std. Dev.	Min	Max	Observations	
EG	overall	4.844094	3.809959	-1.7	19.7	N =	55
	between		1.057498	3.536364	6.190909	n =	5
	within		3.688439	-1.501361	18.35318	T =	11
FDI	overall	31.81922	21.82534	.785693	81.21223	N =	55
	between		9.710007	19.59912	42.61303	n =	5
	within		19.98803	-.7158253	71.01496	T =	11
HC	overall	21033.52	16612.8	1988	57939	N =	55
	between		11811.94	8386.455	40343.55	n =	5
	within		12739.72	-6217.026	52500.88	T =	11
EX	overall	1.14e+11	1.11e+11	1.69e+09	4.48e+11	N =	55
	between		1.04e+11	1.24e+10	2.60e+11	n =	5
	within		6.05e+10	-3.35e+10	3.02e+11	T =	11
TO	overall	1.82e+10	2.66e+10	1.11e+08	8.34e+10	N =	55
	between		1.98e+10	2.53e+09	5.15e+10	n =	5
	within		1.97e+10	-2.42e+10	8.43e+10	T =	11

The mean value of Economic growth is 4.84. its maximum value is 19.7 and its minimum value is -1.7. Economic growth has a higher within standard deviation than between standard

deviation, which indicates that within-country variation in growth is greater than between-country variation. The mean value of foreign direct investment is 31.8. Its maximum value is 81.2 and its minimum value is 0.79. The within standard deviation of foreign direct investment is greater than the between standard deviation. This means that foreign direct investments are more volatile within the country than it is between countries.

4.3 Correlation Analysis

The correlation coefficient demonstrates the relationship between two variables. The most common correlation coefficient is the Pearson's correlation coefficient, sometimes called the product moment correlation. Using the Pearson correlation coefficient, the link between the dependent and independent variables was examined, and the correlation matrix was then displayed. Figure 2 below shows the correlation matrix.

Table 2: correlation matrix

EG	1.0000				
FDI	0.1368	1.0000			
HC	-0.3222	0.0066	1.0000		
EX	-0.0668	-0.0670	0.0786	1.0000	
TO	-0.3709	0.1183	0.8590	-0.2563	1.0000

The matrix shows a positive relationship between FDI and economic growth. It also shows a negative relationship between Human Capital, Exports, Trade openness and Economic growth.

4.4 Regression results

Economic growth was regressed against human capital, exports and trade openness. The results are presented in figure 3 below.

Table 3: Regression results

variable	Random effects		Fixed effects		Pooled OLS	
	coefficient	z-statistic [] p-value ()	coefficient	t-statistic [] p-value ()	coefficient	t-statistic [] p-value ()
<i>FDI</i>	0.037	1.64	0.035	0.256	0.108	0.108
<i>HC</i>	0.00009	1.26	0.00005	0.728	0.212	0.212
<i>EX</i>	-9.96	-1.79	-5.95	0.679	0.079	0.079
<i>TO</i>	-1.16	-2.5	-8.93	0.212	0.016	0.016
<i>R-squared</i>			<i>R-squared</i>		<i>R-squared:</i>	
<i>Within: 0.17</i>			<i>Within: 0.17</i>		<i>0.22</i>	
<i>Between: 0.97</i>			<i>Between: 0.75</i>		<i>F-statistic:</i>	
<i>Overall: 0.22</i>			<i>Overall: 0.21</i>		<i>3.55</i>	
<i>F-statistic: 0.00</i>			<i>F-statistic: 2.49</i>		<i>p-value:</i>	
<i>p-value: 0.0</i>			<i>p-value 0.058</i>		<i>0.0125</i>	
			<i>Chow- p-value 0.98</i>			

The Hausman test suggested the use of the pooled model. The coefficient of FDI and HC are statistically insignificant. The results also shows that there is a positive relationship between exports and economic growth, trade openness and economic growth.

At a statistical significance level of 10%, the export coefficient is statistically significant and positive. The economy will grow by 0.079 units for every unit rise in exports. This means that one important factor influencing growth in SADC economies is exports.

The coefficient of trade openness is positive and statistically significant at 5% level of significant. A one unit increase in trade openness will increase economic growth by 0.016. this implies that SADC countries gain by opening up their borders to international trade.

The R-Squared value of the model is 0.22 which means that 22% of variations in the dependent variable is explained by variations in the independent variables. A p-value of 0.0125 Implies that we reject the null hypothesis that all slope coefficients are simultaneously equal to zero.

4.5 Conclusion

The chapter estimated the slope coefficients of the variables. The study findings highlighted that there is no impact of FDI on the growth of SADC countries. The results also shows that there is a positive relationship between human capital, trade openness and economic growth of SADC countries. The upcoming chapter will provide an overview of the research findings and offer recommendations based on the study's results.

CHAPTER FIVE

SUMMARY AND CONCLUSION OF THE STUDY

5.1 Introduction

In this chapter, a comprehensive summary of the study's main findings will be presented, highlighting the key insights and outcomes that have been obtained through the research process. The chapter will also include a set of policy recommendations that draw upon the insights generated by the study. Suggestions for further research are also presented.

5.2 Summary

The objective of the study was to evaluate how foreign direct investment has affected the economies of the selected SADC member countries. In doing so, the study used a panel data approach using data for 5 SADC countries. Economic growth was used as a dependent variable. The independent variables used were FDI, human capital, exports and trade openness. The descriptive statistics were used to analyze the nature of the data. The Hausman test suggested the adoption of the pooled model. The study found out that there was no impact of FDI on the growth of selected SADC countries during the study period. The study also found that exports and trade openness impact economic growth positively.

5.2 Policy Recommendations

The study concludes that, FDI has no direct impact on SADC countries. This means that, SADC countries can improve their growth rate by making favorable policies like exports incentives that boosts exports and therefore increase growth. However, FDI can be important through reducing unemployment.

5.3 Suggestions for further study

Future studies should look at how FDI impact Africa comparing it with other developing countries in other continents. They can also use other estimation methods like AR DL to assess if there are long term relationships between economic growth and FDI.

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APPENDIX

. xtsum EG FDI HC EX TO

Variable		Mean	Std. Dev.	Min	Max	Observations	
EG	overall	4.844094	3.809959	-1.7	19.7	N =	55
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	between		1.04e+11	1.24e+10	2.60e+11	n =	5
	within		6.05e+10	-3.35e+10	3.02e+11	T =	11
TO	overall	1.82e+10	2.66e+10	1.11e+08	8.34e+10	N =	55
	between		1.98e+10	2.53e+09	5.15e+10	n =	5
	within		1.97e+10	-2.42e+10	8.43e+10	T =	11

. correlate EG FDI HC EX TO
(obs=55)

	EG	FDI	HC	EX	TO
EG	1.0000				
FDI	0.1368	1.0000			
HC	-0.3222	0.0066	1.0000		
EX	-0.0668	-0.0670	0.0786	1.0000	
TO	-0.3709	0.1183	0.8590	-0.2563	1.0000

. reg EG FDI HC EX TO

Source	SS	df	MS	Number of obs	=	55
Model	173.525477	4	43.3813692	F(4, 50)	=	3.55
Residual	610.327248	50	12.206545	Prob > F	=	0.0125
				R-squared	=	0.2214
				Adj R-squared	=	0.1591
Total	783.852725	54	14.5157912	Root MSE	=	3.4938

EG	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
FDI	.0367407	.0224336	1.64	0.108	-.0083185	.0817998
HC	.0000905	.0000716	1.26	0.212	-.0000534	.0002344
EX	-9.96e-12	5.56e-12	-1.79	0.079	-2.11e-11	1.21e-12
TO	-1.16e-10	4.64e-11	-2.50	0.016	-2.09e-10	-2.28e-11
_cons	5.016546	1.176487	4.26	0.000	2.653501	7.37959

. xtreg EG FDI HC EX TO, re

```

Random-effects GLS regression           Number of obs   =       55
Group variable: ID                     Number of groups =        5

R-sq:                                  Obs per group:
  within = 0.1741                       min =          11
  between = 0.9729                      avg =         11.0
  overall = 0.2214                      max =          11

corr(u_i, X) = 0 (assumed)              Wald chi2(2)    =        .
                                           Prob > chi2     =        .

```

EG	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
FDI	.0367407	.0224336	1.64	0.101	-.0072283	.0807097
HC	.0000905	.0000716	1.26	0.206	-.0000499	.0002309
EX	-9.96e-12	5.56e-12	-1.79	0.073	-2.09e-11	9.44e-13
TO	-1.16e-10	4.64e-11	-2.50	0.012	-2.07e-10	-2.50e-11
_cons	5.016546	1.176487	4.26	0.000	2.710673	7.322419
sigma_u	0					
sigma_e	3.6266139					
rho	0	(fraction of variance due to u_i)				

. xtreg EG FDI HC EX TO, fe

```

Fixed-effects (within) regression      Number of obs   =       55
Group variable: ID                     Number of groups =        5

R-sq:                                  Obs per group:
  within = 0.1765                       min =          11
  between = 0.7592                      avg =         11.0
  overall = 0.2123                      max =          11

corr(u_i, Xb) = 0.0979                  F(4,46)        =       2.46
                                           Prob > F        =       0.0582

```

EG	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
FDI	.0352342	.0306373	1.15	0.256	-.0264355	.096904
HC	.0000456	.0001302	0.35	0.728	-.0002166	.0003077
EX	-5.95e-12	1.43e-11	-0.42	0.679	-3.47e-11	2.28e-11
TO	-8.93e-11	7.05e-11	-1.27	0.212	-2.31e-10	5.27e-11
_cons	5.069807	1.413623	3.59	0.001	2.224332	7.915282
sigma_u	.53351468					
sigma_e	3.6266139					
rho	.0211832	(fraction of variance due to u_i)				

F test that all u_i=0: F(4, 46) = 0.10 Prob > F = 0.9815

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CHAPTER ONE INTRODUCTION AND BACKGROUND 1.1 Introduction and Background To obtain acceptance as a tool for economic growth and development, the majority of developing nations work to entice foreign direct investment ([Eduardo et al. 1998](#)). Additionally, [a considerable and growing body of research has demonstrated that FDI makes a major contribution to a country's economic development](#). This thesis will therefore look into [the relationship between economic growth and foreign direct investment](#) in [the SADC](#). Being one [of](#) the most influential regions in the world and having a

significant impact on both global politics and economics is the SADC region (Bonga, 2014). For many years, both in rich and emerging nations, the health of an economy has been a central concern for policymakers. To promote economic growth, governments have been combining contractionary and expansionary monetary and fiscal policies. Investments are one of the tools available to many emerging nations for accelerating economic growth. Investments have been seen as a crucial component in achieving economic growth. Growth can be attained by investing in capital assets, according to both traditional theories of growth and the Keynesian IS-LM models. This demonstrates the willingness of policymakers to experiment and develop novel ideas in an attempt to improve the productivity of their separate economies. Given that the majority of economic variables depend on the health of the economy, there is a pressing need to ensure sustainable economic growth. Economic growth is necessary for increased employment levels, high-quality exports, and human development. All of these and other economic variables will suffer if the economy is not performing well (Pradhan et al., 2015). Therefore, it is crucial for any society or nation to ensure that it achieves a sustainable rate of economic growth. This chapter will give the study's history, the problem statement, and the research goals. Numerous academics have evaluated a nation's productive capacity in part by looking at its gross domestic product. Although it has been used as a gauge of a nation's growth in the literature on economic growth, it has come under fire for the accuracy of the data used in its measurement, the way in which income is distributed, and the fact that it does not include transactions from the informal economy, which is crucial in determining a nation's output (Mankiw, 2010). Growth theories suggest that investment can stimulate economic growth. Through increases in demand, unemployment, and capital stock, investment spending stimulates growth and raises national production levels. Anomalies have emerged in the growth and FDI trends in SADC nations, nevertheless. Growth rate increases have not kept pace with increases in FDI. This demonstrates that, contrary to the majority of growth and FDI theories and other empirical work on the subject, FDI may not have a growth effect in the SADC. Due to this vacuum, the study sought to determine whether FDI has an effect on economic growth in SADC economies.

1.3 Research Problem
Foreign investment trends have emerged; however, it seems that growth hasn't really benefited much from these advances. An important aspect of the SADC countries' economic performance has been fluctuating GDP growth. Since the countries gained their independence, an economic performance that is stable, consistent and sustainable has not been attained. According to growth theories, investments can significantly contribute to promoting economic growth. Growth and investments have been connected, particularly in emerging economies. There have been numerous foreign investments made in SADC by nations like China, the UK, Germany, and others. Many investors have been traveling to Africa from these places in an effort to expand their global market share. Therefore, the purpose of this study is to determine whether FDI has an effect on the economic development of SADC nations.

1.4 Goals for the Study ? The study's main goal is to assess how foreign direct investment has affected SADC economies. ? The study's second objective is to identify additional elements that influence the economies of the SADC.

1.5 Research Questions ? Does Foreign Direct Investment (FDI) have an impact on economic growth in SADC economies? ? What are the other factors that affect economic growth in SADC countries?

1.6 Justification and Significance of the Study The analysis is

made at a time when the SADC economy's ability to grow is severely crippled. The current economic situation in the region appears to have had an impact on a number of economic variables. Growth theories explain how FDI may impact a nation's economic development. Therefore, this study used a panel data to research how FDI affected SADC's economic growth. The results of this research will help policy makers create some regulations that support growth through FDI if they help to promote growth. 1.7 Statement of hypothesis ? Null hypothesis: there is no relationship between FDI and Growth in the SADC countries. ? Alternative Hypothesis: there is a positive relationship between FDI and Economic Growth in the SADC countries. 1.8 Assumptions of the study • The information gathered from ZIMSTAT and World Bank publications will be accurate and pertinent, and may thus be trusted. • The research's recommendations will aid in facilitating the development of effective policies. 1.9 Delimitations of the study The study will be focused on the SADC economies, confined to the relationship between FDI and economic growth of SADC countries. 1.10 Definition of Variables Foreign Direct Investment: An ownership stake in a foreign company or project is known as a foreign direct investment (FDI) and is made by a foreign investor, business, or government. FDI is an important driver of economic growth and development in both the host country and the investing country. The host country benefits from FDI by gaining access to new technologies, skills, and expertise, creating new job opportunities, and increasing the supply of capital. The investing country benefits from FDI by gaining access to new markets, resources, and business opportunities, and diversifying its portfolio of investments Economic Growth: Economic growth is the term used to describe increased output of goods and services. Economic growth is an important indicator of the health of an economy and its ability to generate wealth and improve the standard of living of its citizens. It is generally viewed as a positive development, as it can create new job opportunities, increase incomes, and improve access to goods and services. Economic growth can be driven by various factors, including increases in productivity, investments in physical and human capital, technological innovation, improvements in infrastructure, and favourable government policies. 1.11 Organisation of the Rest of the Study The following chapter will review the literature on economic growth. Chapter three will outline the research methodology adopted by the study. Chapter four and five will give the results and recommendations of the study respectively. CHAPTER TWO LITERATURE REVIEW 2.1 Introduction The second chapter of this thesis aims to provide a comprehensive review of literature on the impact of foreign direct investment on economic growth in the SADC economies. The chapter begins with an overview of the theoretical framework that underpins the relationship between FDI and economic growth. It then reviews empirical studies that have investigated the impact of FDI on economic growth, highlighting the key findings and methodologies used. 2.1.1 Foreign Direct Investment To begin with, a succinct description of FDI, it is the transfer of capital from an investor in one country to an enterprise in the host country. This is accomplished through the creation of a firm subsidiary (greenfield investment) or the expansion of an existing business (merger and acquisition). It is crucial to make a distinction between the fundamental types of FDI in order to move further with our theoretical framework. There are two forms of foreign direct investment, from the viewpoint of a multinational corporation: export-oriented and domestic market-oriented. Domestic ones are also referred to as horizontal FDI, while export-oriented ones are known as vertical FDI.

Countries that are export-oriented exclusively import raw resources and export finished goods. These investments are typically driven by the low cost of labor in the host country, which reduces production costs. The varying input prices make vertical FDI more alluring to investors. On the other hand, domestic market orientation creates items and markets them in the host nation (Markusen, 1992). Additionally, multinational firms' revenues increase if they are headquartered in a foreign nation due to previously existing networks.

2.1.2 Classifications of FDI According to Fung (2002), OECD (2000), and Ali & Guo (2005), there are four different types of FDI. These classifications are defined below:

- ? Joint exploration: Refers to a situation where two or more foreign companies invest in a joint venture to explore opportunities in a particular sector or industry in a foreign country.
- ? Equity Joint Ventures (EJVs): it is a situation where a domestic and foreign companies invest in an equity joint partnership to conduct business in a foreign country. It provides opportunity to share risks and costs in investing in a new market, access to local knowledge and expertise, and leverage the partner's existing network and resources. EJVs bring new technologies, expertise to the host country, which can help boost their economy.
- ? Contractual Joint Ventures (CJVs): It is a relationship between a local and foreign investor who share the same objectives.
- ? Wholly Foreign-Owned Enterprises: These are companies owned by foreign investors and not subject to domestic investment restrictions in the country they are established. Foreign investors have complete ownership and control of the company, rather than entering into a partnership or joint venture with local companies.

[2.1 Theoretical Literature The Classical theory of Investment and Growth](#) The following is the fundamental theory of interest rates, investment, and how these factors affect economic growth. The notion has its roots in the classical economic school of thought, which equated saving and investing. According to classical economics, investment depends on interest rates. The idea is that lower interest rates will encourage more investment. Investment growth influences the economy in the long run. Since interest rates are what determine how much it costs to borrow money, lowering them will enable firms to borrow more and make greater investments. Investing more money can increase a company's output, which will then lead to greater economic growth. This idea serves as the foundation for the link between economic growth and interest rates.

[Solow Growth Model](#) The Solow model is a neoclassical [growth model](#) developed by Robert Solow in 1956. The Solow model is designed to explain long-term economic growth in an economy by analyzing the relationships between capital accumulation, technological progress, population growth, and output growth. The model assumes that capital and labor are the two primary factors of production, and that technological progress is exogenous, meaning it is not directly affected by economic variables. The neoclassical production function, $Y = F(K, L)$, which demonstrates that output is reliant on capital stock and labor force, serves as the analytical foundation for the model. One of the model's presumptions is that the scale returns of this production function are constant. When the variables are represented in terms of the number of workers, the [output per worker equals \$y/L\$ and the capital per worker equals \$k/L\$](#) . The production function then changes to $y = f(k)$. This production function shows that output per worker, y , depends on capital per worker, k . This production function's slope is a representation of the capital's marginal product, [or how much more output a worker can produce with an additional unit of capital](#). The capital stock is a significant factor in determining an economy's production under the slow model. Investments alter the capital

stock, and the saving rate has an impact on this as well. Therefore, it is assumed in the Solow model of growth that investment and output will rise together with the level of capital stock. We may generalize the model in order to demonstrate that lower interest rates will improve investments, [the accumulation of capital, and](#) consequently [economic growth](#) since [the](#) interest rate affects the amount of investment. Thus, in contrast to Solow's model, which assumed external technology growth, the endogenous [growth model was](#) created ([Solow, 1956](#)). [This](#) model concentrated on technological advancement. The theory holds [that FDI has a](#) long-term [impact on](#) output [growth](#). [The](#) simplest model, the "AK Model," which has the equation $Y=AK$ (where [A is](#) the [marginal productivity of capital, and K is](#) a total input of capital and labor), demonstrates that the marginal product of capital is constant, allowing for long-term growth. The value of technology was emphasized in the ideas of Lucas (1998) and Rebelo (1991), and it was advised to invest in technological breakthroughs because [they offered](#) better [returns than other](#) kinds [of investments](#) ([Djurovic, 2012](#)). [Human capital and](#) the accumulation [of knowledge](#) have both been introduced to the concept [of capital by Romer \(1990\) and Barro and Sala-i-Martin \(1995\)](#). As per the [Romer model of 1990, economic growth](#) is stimulated [by](#) Foreign Direct Investment (FDI) through the augmentation of both human and intellectual capital. However, this link does not hold true for all nations because the influence depends on the context of the host nation. For instance, it is typical for a country to benefit more from FDI than its counterpart if it has open trade policies and high export levels ([OECD, 2002](#)). [Endogenous Growth Theory Endogenous growth theory is a macroeconomic growth theory that](#) put emphasis on [the](#) need [of](#) enhancing an economy's internal components and a nation's population. Endogenous Growth Theory is an economic theory that emphasizes the role of knowledge and innovation in driving long-term economic growth. Unlike traditional neoclassical growth theory, which posits that economic growth is driven by exogenous factors such as population growth, investment, and technological progress, endogenous growth theory argues that growth is endogenously determined by factors that are internal to the economy. One of the key insights of endogenous growth theory is that knowledge and innovation are not subject to diminishing returns, unlike physical capital and labor. This means that investing in research and development, education, and human capital can lead to sustained economic growth over time. Contrarily, in classical and neoclassical growth theories, the importance of endowments of natural resources, the implementation of new technologies which are external to the economy, capital accumulation, profits from trade and specialization, and these factors are given more weight. The endogenous growth theory holds that innovation and population increase have greater effects on GDP than physical capital. The rise of productivity in endogenous models is influenced by variations in Research and Development, and education spending. Hence, this result in a higher rate of technological advancement. In other words, greater economic growth can be encouraged. The fundamental precepts of endogenous growth theory are as follows: Government policies can serve to increase market competition and foster product and process innovation, which can help to increase a nation's growth rate. Higher returns to scale are being produced through capital investment, particularly in infrastructure and investments in telecommunications, health, and education. Technology advancement depends heavily on private sector investment in research and development. Preservation of property rights and patents is essential to incentivize businesses and entrepreneurs towards

research and development. Economic development is critically dependent on human capital. Government policy ought to encourage entrepreneurship as a means of starting new enterprises and, consequently, as a source of fresh employment, capital, and innovative ideas. The IS-LM Model The IS-LM model is a macroeconomic framework used to analyze the relationship between interest rates, output, and the money supply in an economy. The model was first developed by John Hicks in 1937, and later refined by Alvin Hansen in 1949. It represents a short-term occurrence when national revenue fluctuates while the pricing level remains constant. The link between interest rates and national income in the goods market is depicted by the IS curve. This relationship can be explained by the Keynesian cross as well as investment function, which holds that interest rates, investments, and aggregate output are all directly causally related. The main factors influencing the relationship between interest rates and national output are planned investment and planned spending. Given that interest rates affect investment, a fall in interest rates will cause the expected level of investment in the Keynesian cross to increase. In the Keynesian cross, increasing budgeted spending will improve national output. This link is highlighted by the IS curve, which shows a negative correlation between interest rates and GDP. Additionally, it demonstrates that for a specific mix of interest rate and income level, the products market is in equilibrium. The LM curve in the money market illustrates the connection between the interest rate and GDP. The connection is based on the correlation between rising incomes and increased demand for real money balances in the money market. Due to the increasing demand for real money balances and strong spending on goods and services, the hike in interest rates will improve the country's output. Interest rates and the GDP have a positive correlation, as seen by the LM curve. The LM curve also illustrates the income level and interest rate at which the money market is in equilibrium. Interest rates can either have a positive or negative effect on national production, according to the IS-LM model. The Harrod-Domar Model The model developed by Harrod and Domar is a theory of economic growth that relies on investment and savings to fuel growth in a nation. The Harrod-Domar Model was originally developed by Roy Harrod, a British economist, in 1939. However, the model was later refined by Evsey Domar, a Russian-American economist, in 1946. The model is thus often referred to as the Harrod-Domar Model, reflecting the contributions of both economists. An alternative economic theory to explain economic growth is the Harrod-Domar model. It presupposes constant marginal returns on capital. This contrasts with the Thoreau growth model, which assumes diminishing returns on capital. The impact of the savings rate is where this model and the Solow model diverge. Solow anticipates that changes in savings rates will only have a transient effect. But it had a long-lasting impact on the Harrod Domar model. The Harrod Domar model explains how and why the economy is expanding. The savings rate and capital productivity of a nation are two key factors influencing economic growth, according to this model. Due to the increasing demand for real money balances and strong spending on goods and services, the hike in interest rates will improve the country's output. Interest rates and the GDP have a positive correlation, as seen by the LM curve. The LM curve also shows the income and interest rate at which the money market is in equilibrium. Interest rates can either have a positive or negative effect on national production, according to the IS-LM model. Due to an imbalance in the competitive landscape caused by foreign enterprises' superior financial, technological, managerial, and marketing capabilities, this can also result in

the departure of many local businesses (Marksun and Venables, 1997). Returning FDI capital and profits may also weaken a nation's foreign exchange reserves, which could endanger its capacity to maintain financial stability. According to the dependency theory, foreign direct investment hinders rather than promotes economic progress. Based on these various theoretical stances, researchers carried out empirical studies to assess the relationship. Investment policy studies carried out by UNCTAD in 2003 show how FDI boosts the economy by generating jobs and raising wages. The overall conclusion is that foreign direct investment (FDI), albeit impacts differ by country, has a beneficial impact on economic growth. Numerous studies have established a positive relationship between FDI and economic growth as a result of capital formation and technical transfers, which supports the endogenous growth theory (Zenasni and Benhabib, 2013; Borensztein et al, 1998; Aurangzeb and Ul Haq, 2012). This is so that the host economy can benefit from FDI's stock of knowledge capital, which raises factor productivity.

2.2 Empirical literature

Foreign Direct Investment (FDI) has been a major source of external capital for many developing countries. The Southern African Development Community (SADC) region has been one of the recipients of FDI inflows, which have contributed to the economic growth and development of the region. This empirical literature review aims to analyze the impact of FDI on economic growth. There has been a lot of research on FDI and growth in the past few years, but it is still unclear why there is either a beneficial or detrimental connection between the two. Multiple approaches have been employed to evaluate the relation between FDI and economic growth and also to suggest potential measures for various nations to take in order to encourage FDI and, in turn, economic growth. The majority of the evidence suggests a favorable connection. Theoretically, FDI can support economic growth through a variety of channels, including technology transfer, capital accumulation, and skill development. The balance of payments could worsen as a result of profit repatriation, for example, which would be detrimental to FDI (Tanggapantnam et al. 2011). assert that there is a nexus between FDI and economic expansion. According to their research, environmental conditions, financial development, and the development of human capital are all essential preconditions for FDI to have a positive impact on economic growth. According to Ang (2009), FDI may eventually have a detrimental impact on production expansion if there has been insufficient financial stability, which is consistent with Tangapantnam et al.'s findings (2011). In order to benefit economically from FDI, the host country's financial system, according to Ang (2009), must be effective. The following examines some of the empirical literature on FDI and economic growth. More exports, between 1980 and 1990, were positively correlated with greater economic growth in China's 31 provinces, according to Shang-Jin Wei (1993). The results imply that, as a result of technological and managerial spillover, FDI in the late 1980s was significantly associated with economic growth in Chinese provinces. Dess (1998) came to the same conclusion and concluded that by advancing knowledge, foreign direct investment influences China's economic development. Furthermore, he showed that there is a positive correlation between FDI and economic growth over time, with the main justification being that China uses FDI to absorb technology advancements from other nations. The same outcome was validated in 2001 by Edward, Graham, and Wada as well. Since 1993 until 2009, the assessment of how FDI affected China's as well as India's economic growth was also conducted by Agrawal et al. (2011). They modified the fundamental growth model as a starting point.

The labor force, FDI, GDP, human capital, and gross capital formation were all incorporated in the growth model. Using the ordinary least-squares (OLS) approach of regression, they found that a one percentage point rise in FDI will result in a 0.07 percent rise in China's GDP as well as a 0.02 percentage point increase in India's GDP. They also found that FDI affects China's growth more than India's, and vice versa. Because China has a larger market, greater access to the export market, government incentives, developed infrastructure, cost effectiveness, and a stable macroeconomic environment, the majority of foreign investors choose China over India as their investment destination. Researchers found a favorable and statistically significant relationship between FDI and economic growth in 32 emerging economies, like India, Pakistan, and Morocco (Lan, 2000; Hansen and Rand, 2006). According to studies, FDI and economic growth are causally associated in both the short and long terms, and both exports and FDI contribute to economic growth over the long term (Ahmad et al., 2012). This positive relationship could be further observed in the US, where FDI boosts total factor productivity, resulting increase in economic growth. This positive relationship may also be seen in the United Kingdom. However, other studies have found a conflict between FDI and economic growth. According to Rizvi and Nishat (2009) and Carkovic and Levine (2002), research has been done in a variety of countries, including Pakistan, India, and China. They arrived to an understanding that FDI is not the primary generator of employment opportunities for any country and has minimal influence on economic growth., necessitating the adoption of augmentation techniques to boost employment growth. Ordinary Least Squares Regression (OLS) was used by Bornschier et al. (1978) to investigate 76 developing countries. They found a weak negative correlation between FDI and GDP that increased as income levels increased. Instead of using time-series and cross-section techniques to examine the implications of FDI on economic growth in Vietnam, Hoang et al. (2010) applied the Panel Least Square approach, to estimate the effects of inflows of FDI on economic growth in the sixty-one regions of the entire country from the period 1995-2006 with high accuracy and reliability. They found that FDI, which increases capital stock, has a significant and positive impact on economic growth in Vietnam. As of present day, Vietnam's human capital and commercial activities do not serve as the means through which FDI inflows may provide the ability to access cutting-edge knowledge and technological transfers to support the nation's economic growth. The serial correlation-relationship between foreign investment and GDP development in Nepal across the years, spanning 1983 to 2007, was analyzed by Xinfeng Yan et al. (2010). A linear regression model of GDP on FDI was employed in conjunction with the t-statistic in parentheses. The Durbin-Watson Test, Cochrane-Orcutt approach, and non-log numbers were employed in the investigation. 9% of the volatility of GDP, as assessed by R squared, is accounted for by FDI, according to the fundamental linear regression model of GDP on FDI. The findings demonstrated that, despite the marginal effect appearing to be due to the existence of auto-correlation, FDI did not adequately characterize GDP without the presence of auto- correlation. Kim and Seo (2003) used quarterly data from 1985 to 1999 to analyze time series approaches (a VAR model and innovation accounting techniques) to analyze the dynamic link between foreign direct investment, domestic investments, and economic development in Korea. Their findings disproved the idea that FDI in Korea displaces domestic investment. Similar to this, Tang (2008) found no evidence that FDI in China displaces DI but rather that FDI has a

[complementary](#) impact [on DI using quarterly time series data from 1988](#) to 2003. Additionally, they [found that FDI](#) increases [DI through the technology diffusion channel](#). The research really improved our comprehension. This study, which covers the years 2000-2015, aims to build on Kim's work in the following fashion. Muhammad Azam evaluated the impact of exports and FDI on the economies of Bangladesh, Sri Lanka, Bangladesh and India in his report from 2010. A simple log linear regression model was utilized in the study along with secondary data from 1980 to 2009. The study found statistically significant effects of FDI and exports. The research also recommended that policymakers across every South Asian nation diversify their exports to increase the quantity of exports and FDI inflows, as doing this could hasten prospective economic growth of South Asian nations.

2.2.1 Determinants of Foreign Direct Investment

Numerous research has attempted to determine the factors that influence the disparities in FDI levels between nations worldwide. The results confirm that particular elements like market size, infrastructural quality, political and economic stability, and free trade zones have a big impact on judgments about foreign direct investments. There is no conclusive solution for other factors, such as the business investment climate, openness, and climate (Pantelidis et al. 2012, Pantelidis, Pitelis, 1997, Lim, 2001). In the words of Walsh and Jiangyan Yu (2010), the impact of foreign direct investments on emergent and sophisticated economies varied depending on the nations' income levels, currency rate valuation, educational attainment, financial sophistication, judicial transparency, and labor market flexibility. These factors, however, do not adequately explain [foreign direct investments](#) in [the primary sector](#).

2.2.2 Foreign Direct Investments in Sub-Saharan Africa

For [the](#) Sub-Saharan Africa region, there is still a lack of clarity, expertise, and depth in the corpus of literature on foreign direct investment. By diverging my methodology from earlier studies in this field, the study aims to apply the known link between [foreign direct investment and economic growth](#) to nations [in Sub-Saharan Africa](#). The study by Adams (2009) examines domestic and foreign investment's effects [on economic growth in Sub-Saharan Africa](#) between [1990](#) and [2003](#). The study's [results](#) demonstrate that although foreign direct investment does not appear statistically significant in fixed effects estimation it is in the OLS. Despite initially crowding out the effects of local investment, the outcomes generally show [that foreign direct investment has](#) an upward effect [on the growth of the](#) economy. [Jugurnath et al. \(2016\)](#) show [a significant positive](#) correlation [between foreign direct](#) investments [and growth](#) in the economy [for](#) a subset of [Sub-Saharan African](#) nations between the years 2008 and 2014. Their fixed effects regressions show a favorable result but not statistically significant relationship between foreign direct investment and economic growth. The association between foreign direct investment, local investment, those who are employed, and economic growth is positive and significant when using the static random effect model with dynamic panel GMM estimate. They further affirm that, although having detrimental effects on economic development, the Eurozone crisis did not affect their outcomes. In a study published in 2014, Adeleke, Olowe, and Oluwafolakemi examined how [foreign direct investment](#) affected [economic growth in](#) Nigeria [from](#) 1999 [to](#) 2013. They used regression analysis with [the ordinary least square \(OLS\)](#) method [to](#) examine [the relationship between](#) direct foreign investment [and](#) economic growth. According to their analysis, which exhibited [F-statistics of 5.964 \(0.013\)](#) and [R squared = 0.641](#), [FDI, export earnings,](#) [and](#) currency [rate](#) proved [all significant](#) concurrent [predictors of](#)

GDP at the 5% level. The predictor factors collectively accounted for 64.1% of the GDP, with the remaining 35.9% of the GDP potentially explained by unrelated factors. According to the study, economic growth and FDI inflows are tightly related and statistically significant at the 5% level, suggesting that strong economic performance is a good indicator of FDI inflows. The analysis cited foreign direct investment as a growth driver. They suggested that in order to encourage investment, the government liberalize Nigeria's international trade by removing all trade restrictions, including arbitrary tariffs, import and export fees, and other charges. Usiri (2014) investigated on how foreign direct investment affected Tanzania's economic expansion. Economic growth in Tanzania is not significantly impacted by FDI investment in the manufacturing sector, according to the results of an econometric analysis, but it is positively impacted by FDI investment in the mining and quarrying sector. This variable is statistically significant with a positive coefficient and a 5% level of significance. In his research from 2015, Strauss examined FDI inflows and economic growth in South Africa using data gathered from the World Bank and Penn World Table databases. Granger causality testing and time series analysis of co-integration were employed in the study, which covered the years 1994 to 2013. The study looked into the connection between FDI, absorptive ability, and economic growth in South Africa. According to the study, FDI over time significantly reduces economic growth at the 1% level. The study discovered that the host nation needs to exhibit a fundamental degree of regional development in financial markets, infrastructure, and human capital for FDI to be efficiently channeled towards economic growth. The analysis revealed little evidence of a long-term relationship between FDI and elements including infrastructure, the growth of financial markets, education, and GDP per capita. The study came to the conclusion that FDI had no positive spillover effects. Because FDI only temporarily slows economic growth and because there are no long-term correlations between the variables, the empirical findings are inconclusive. Moshi (2015) carried out a study to examine the impact of FDI inflows in the quarrying and mining sector, the manufacturing industry, and agriculture and livestock sector on Tanzania's GDP growth with the aim to determine the degree to which FDI inflows in these sectors influence Tanzania's economic growth. On time series data during 1998 to 2013, multiple linear regressions were carried out using the ordinary least squares (OLS) method. The findings indicated that Tanzania's economic growth was positively impacted by foreign direct investment across the studied sectors of mining and quarrying, although manufacturing and agriculture had an advantageous but less significant influence. The study also found that in order for the hosting nation to gain from FDI, positive policies, or policies particular to FDI, must be in place. According to the study's findings, both parties must consider these factors before signing a contract, comprising the kinds of FDI to be recruited, how to accomplish so, including suitable incentives, how the country ought to obtain in regards to added value for each particular FDI that is drawn, and how to sustain the prospective and actual FDI advantages. Ocaya, Ruranga, and Kaberuka (2013) looked into the connection between foreign direct investment and GDP-based economic growth in Rwanda over the years 1970 to 2010. They applied a Vector Autoregressive model to analyze the connection between the Engle-Granger tests. They examined both series' stationarity and lag structures as well as their cointegration and the relationship involving economic growth and FDI.. The authors also discovered that GDP and FDI are stationary at initial disparities but not at levels, and that bivariate VAR (1) was the model that

performed the best. The two series of order 1 are consequently joined. Cointegration tests reveal the two variables to be cointegrated, indicating [a long-run equilibrium relationship between the two series. The Vector Correction of Errors \(VECM\)](#) demonstrates [that](#) while GDP is unresponsive to changes in FDI, FDI does respond to changes in GDP. Granger tests reveal no causal relationship between the GDP and FDI of the Rwandan economy. Foreign direct investment ([FDI](#)) and other [inflows of foreign capital](#) were studied by Elboiashi and Ali in 2011. The study used a multivariate VAR system utilizing the [time series, panel data](#), and [error correction model](#) (ECM) techniques of cointegration for a country-by-country analysis of [FDI, DI, and GDP in](#) a sample [of developing countries from 1970 to](#) 2005. The growth equation demonstrates that the individual and combined effects of FDI, LN, PF, and DI all [have a favorable and statistically significant impact on economic growth](#). With the aim of conducting an experimental investigation into the function [of FDI in the process of technological diffusion and economic](#) advancement, [Borensztein \(1998\) used a cross-country regression framework to](#) assess [the impact of FDI on economic growth in developing](#) nations. [The](#) analysis made use [of](#) information on FDI flows over the previous two decades from industrialized countries to 69 developing nations. It was done using endogenous growth, where the main predictor of long-term income growth was the pace of technological development. According to the research, FDI contributes to growth at a higher rate than [domestic investment](#) and [is a crucial](#) avenue [for the](#) transfer [of](#) knowledge. Contrarily, the higher productivity of FDI can only be achieved when the host nation has a particular amount of human capital. Therefore, [foreign direct investment \(FDI\)](#) only contributes [to economic growth](#) when [the](#) host country has a substantial capacity for absorbing new technology. Olokoyo (2012) looked into how foreign FDI affected the growth of the Nigerian economy. The purpose of the article was to address the questions: What drives FDI in Nigeria as well as how does it impact the country's economy? The researchers applied the Ordinary Least Square (OLS) regression model to evaluate the time series data between 1970 and 2007. The Cochrane-Orcutt iterative approach was used by the researchers to account for autocorrelation. The model posits that Nigeria's economic development and real gross domestic product (RGDP) have a functional connection. The regression analysis results categorically refute the preceding literature's assertion that FDI and economic growth in Nigeria are indissolubly connected. The model analysis makes it less likely [that FDI has had a](#) standalone [impact on](#) Nigeria's [economic](#) progress, but the results do not imply that it is insignificant. This study's foundation is an analysis of ordinary least squares regressions, in addition to previous studies. This type of research has never been done before and offers fresh perspectives on how human capital influences multi-nation enterprise behavior in Sub-Saharan Africa. In conclusion, most academics view foreign direct investments as a significant pillar of development, which is frequently shown in the effects of FDI on the GDP domestic product and labor of host countries. Therefore, a crucial topic for developing countries is the debate over the consequences as well as the factors that attract foreign direct investments. The literature review mentioned above is provided to highlight the positive aspects of foreign direct investment and to offer some guidance on the best governmental policies.

2.3 Conclusion

The primary focus of this chapter was a [theoretical and empirical](#) examination [of the impact of](#) FDI [in](#) various [countries](#) throughout [the world](#). Many [studies show that FDI has a](#) healthy and favorable [impact on economic growth, but](#) only a handful have

concluded that it has a negative one. The next chapter's primary focus will be on the empirical model of economic growth and foreign direct investment (FDI). It also explains the procedure used to calculate the coefficients of the regression model. **CHAPTER THREE RESEARCH METHODOLOGY 3.1**

Introduction In this chapter, the research methodology utilized to look into how FDI affects SADC's economic growth is presented. This chapter provides a comprehensive description of both the empirical model and the methodology employed for estimating the coefficients of the variables incorporated in the empirical model. In addition, a list of the diagnostic tests employed is provided in this chapter along with details on the research period and data sources.

3.2 Model Specification The researcher will utilize a panel data regression to look at how FDI affects economic growth. The panel data diagnostic test results were utilized to establish the appropriate model (REM, Pooled, or FEM) to be employed in the research. $CC_{i,t} = \beta_0 + \beta_1 CCC_{i,t} + \beta_2 CX_{i,t} + \beta_3 TN_{i,t} + \beta_4 CC_{i,t} + \epsilon_{i,t}$, $t = 1, 2, \dots, N : t = 1, 2, \dots, T$ where t is the time and i is the country, FDI is foreign direct investment, EX Exports, TO is Trade Openness and HC is Human Capital. EG is for economic growth. In the model, β_0 to β_4 are the model's coefficient. The error term, denoted by $\epsilon_{i,t}$, is intended to reflect any unaccounted-for cross-sectional effects, time effects, and other economic growth-affecting factors.

3.3 Justification of Variables Economic Growth The study's dependent variable is the GDP growth rate. It measures the rate of growth in total output in an economy. Foreign Direct Investments According to Duce and Espana (2003), the definition of foreign direct investment (FDI) is the acquisition of an equity interest in a business or firm located in another country by a resident entity of one economy. The growth of the economy may be positively impacted by an increase in FDI. This is due to the fact that FDI causes the provision of a range of goods and services, a rise in resident employment levels, and an increase in the demand for goods and services and income levels, all of which will result in output growth. This served as the study's key variable. Therefore, it is anticipated that FDI and GDP will have a positive association in the study.

Exports Exports refer to the sale of goods or services produced within a country to buyers in other countries. Exports are an important aspect of foreign investors' operations in the host country, as they help to generate revenue for the foreign investor and contribute to the growth of the host country's economy by creating jobs, generating income and increasing foreign exchange earnings. Consequently, a favorable relationship was anticipated.

Trade openness One measure of a country's level of involvement in the global trading system is its level of trade openness. Trade openness (GDP) is commonly measured as the ratio of total exports to total imports to GDP. In the study, it was predicted that trade openness and export performance would be positively correlated.

Human Capital Human capital is the term used to describe how valuable an employee's skills and expertise are economically. Employers value qualities like dependability and punctuality as well as skills, abilities, and good physical and mental health. People think that putting money into human capital will increase output and economic expansion.

3.4 Data Sources and the Period of Study In this study, panel data from the World Bank's World Development Indicators were used. For this study, panel data from SADC nations spanning a period of ten years (2011-2021) were utilized to obtain a current and all-encompassing perspective of the influence of Foreign Direct Investment (FDI) on economic growth in the SADC region. The choice of this specific period was motivated by data availability during this timeframe.

3.5 Estimation Method The study's estimation method to use was suggested

by the Hausman test. In panel data models, there are three estimation methods which are the Random effect method, the Fixed effects model and the Pooled method. Each one has its own characteristic that makes it unique.

3.6 Conclusion In this chapter, the study's methodology was laid forth. The researcher is satisfactory with the methodology because it will enable the study to accomplish its objectives. The results and their interpretation will be given [in the following chapter. CHAPTER FOUR ESTIMATION, PRESENTATION AND INTERPRETATION OF RESULTS](#)

4.1 Introduction This chapter serves to presents [the empirical results of the](#) study. Firstly, descriptive data are displayed and interpreted, then the results from the regression model adopted will be interpreted

4.2 Descriptive Statistics Descriptive statistics were used to analyze the nature of the data which was used. Figure 1 below shows the mean, standard deviation, the minimum and the maximum values of the variables. Table 1: Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
EG overall	4.844094	31.81922	21033.52	1.14e+11
FDI overall	1.82e+10	3.809959	-1.7	1.057498
HC overall	3.536364	3.688439	-1.501361	21.82534
EX overall	.785693	9.710007	19.59912	19.98803
TO overall	19.98803	-.7158253	16612.8	1988
EG within	11811.94	8386.455	12739.72	-6217.026
FDI within	1.11e+11	1.69e+09	1.04e+11	1.24e+10
HC within	6.05e+10	-3.35e+10	2.66e+10	1.11e+08
EX within	1.98e+10	2.53e+09	1.97e+10	-2.42e+10
TO within	19.7	6.190909	18.35318	81.21223
EG between	42.61303	71.01496	57939	40343.55
FDI between	52500.88	4.48e+11	2.60e+11	3.02e+11
HC between	8.34e+10	5.15e+10	8.43e+10	N=
EX between	N=	n=	T=	N=
TO between	N=	n=	T=	N=
	N=	n=	T=	N=
	55	5	11	55
	5	11	55	5
	11	55	5	11
	55	5	11	55

The mean value of Economic growth is 4.84. its maximum value is 19.7 and its minimum value is -1.7. Economic growth has a higher within standard deviation than between standard deviation, which indicates that within-country variation in growth is greater than between- country variation. The mean value of foreign direct investment is 31.8. Its maximum value is 81.2 and its minimum value is 0.79. The within standard deviation of foreign direct investment is greater than the between standard deviation. This means that foreign direct investments are more volatile within the country than it is between countries.

4.3 Correlation Analysis The correlation coefficient demonstrates the relationship between two variables. The most common correlation coefficient is the Pearson's correlation coefficient, sometimes called the product moment correlation. Using the Pearson correlation coefficient, the link between the dependent and independent variables was examined, and the correlation matrix was then displayed. Figure 2 below shows the correlation matrix. Table 2: correlation matrix

	EG	FDI	HC	EX	TO
EG	1.0000				
FDI	0.1368	1.0000			
HC	-0.3222	0.0666	1.0000		
EX	-0.0668	0.0670	0.1183	1.0000	
TO	-0.3709	-0.2563	0.0786	0.8590	1.0000

The matrix shows a positive relationship between FDI and economic growth. It also shows a negative relationship between Human Capital, Exports, Trade openness and Economic growth.

4.4 Regression results Economic growth was regressed against human capital, exports and trade openness. The results are presented in figure 3 below. Table 3: Regression results

Variable	Random effects	Fixed effects	Pooled OLS	coefficient	z-statistic	p-value
EG	0.037	1.64	0.035	0.256	0.108	0.108
HC	0.00009	1.26	0.00005	0.728	0.212	0.212
EX	-9.96	-1.79	-5.95	0.679	0.079	0.079
TO	-1.16	-2.5	-8.93	0.212	0.016	0.016

R-squared F- Within: 0.17 statistic: Between:0.97 00 Overall: 0.22 p-value: 0.0 R-squared Within: 0.17 Between: 0.75 Overall: 0.21 F-statistic: 2.49 p-value 0.058 Chow- p-value 0.98 R-squared: 0.22 F-statistic: 3.55 p-value: 0.0125 The Hausman test suggested the use of the

pooled model. [The coefficient of FDI and](#) HC are [statistically](#) insignificant. The results also shows that there is a positive relationship between exports and economic growth, [trade openness and economic growth](#). At a statistical significance level of 10%, the export coefficient is statistically significant and positive. The economy will grow by 0.079 units for every unit rise in exports. This means that one important factor influencing growth in SADC economies is exports. The coefficient of trade openness is positive and statistically significant at 5% level of significant. A one unit increase in trade openness will increase economic growth by 0.016. this implies that SADC countries gain by opening up their borders to international trade. The R-Squared value of the model is 0.22 which means that 22% of variations in the dependent variable is explained by variations in the independent variables. A [p-value of 0.0125](#) Implies [that we reject the null hypothesis that all slope coefficients are simultaneously equal to zero.](#)

4.5 Conclusion

The chapter estimated the slope coefficients of the variables. The study findings highlighted [that there is no impact of FDI on the growth of](#) SADC countries. The results also shows that there is a positive relationship between human capital, trade openness and economic growth of SADC countries. The upcoming chapter will provide an overview of the research findings and offer recommendations based on the study's results.

CHAPTER FIVE SUMMARY AND CONCLUSION OF THE STUDY

5.1 Introduction

In this chapter, a comprehensive summary of the study's main findings will be presented, highlighting the key insights and outcomes that have been obtained through the research process. The chapter will also include a set of policy recommendations that draw upon the insights generated by the study. Suggestions for further research are also presented.

5.2 Summary

The objective of the study was to evaluate how foreign direct investment has affected the economies of the selected SADC member countries. In doing so, the study used a panel data approach using data for 5 SADC countries. Economic growth was used as a dependent variable. The independent variables used were FDI, human capital, exports and trade openness. The descriptive statistics were used to analyze the nature of the data. The Hausman test suggested the adoption of the pooled model. The study found out [that there was no impact of FDI on the growth of](#) selected SADC [countries](#) during the study period. The study also found that exports and trade openness impact economic growth positively.

5.2 Policy Recommendations

The study concludes that, FDI has no direct impact on SADC countries. This means that, SADC countries can improve their growth rate by making favorable policies like exports incentives that boosts exports and therefore increase growth. However, FDI can be important through reducing unemployment.

5.3 Suggestions for further study

Future studies should look at how FDI impact Africa comparing it with other developing countries in other continents. They can also use other estimation methods like AR DL to assess if there are long term relationships between economic growth and FDI.

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