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# Foreign Direct Investment, corruption, rule of law and economic growth in Zimbabwe

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## ABSTRACT

This study focuses on the impact of corruption, legal enforcement (rule of law and political stability) and economic growth on foreign direct investment in Zimbabwe. This study used the data for the period 1996 to 2019. The finding of this study revealed that there is strong evidence of weak legal institutions for the period 1996-2008 characterized by macro instability such as hyperinflation. Therefore, the country's Foreign Direct Investment decreased significantly during that particular period and this is in contrast with the results obtained between 2009 and 2019 where there was an improvement in the control of corruption though not enough to attract meaningful investment. It is worthwhile for the government of Zimbabwe to respect the rule of law and control corruption to attract meaningful Foreign Direct Investment which is crucial for the country to improve its capital allocation to various sectors of the economy such as infrastructure. Additionally, the government of Zimbabwe should adopt strong regulatory and monitoring instruments which attract meaningful foreign direct investment to promote economic growth.

**Keywords:** Foreign Direct Investment; Corruption; rule of law; Political stability; economic growth

## 1. INTRODUCTION

Despite being regarded as the bread basket of Southern Africa, Zimbabwe's economic growth and development was inconsistent for the last decades. The economic crisis currently prevailing in Zimbabwe is largely driven by economic institutions which are mainly the rules of the game. Anecdotal evidence claims that the country is characterized by rampant corruption, political instability and violence, poor governance, absence of rule of law and government ineffectiveness from the 1990s until 2020. The above institutional problems continue to send millions of Zimbabweans to the deepest end of poverty as they repel meaningful investment especially Foreign Direct Investment (FDI) because Zimbabwe's economic recovery and development are largely pinned on agriculture and investment patterns (World Bank, 2018).

Global financial flows of foreign direct investment diminished by 16%in 2017 to an estimated 1.52 trillion, down from a projected 1.8 trillion dollars in 2019. This is following the latest UNCTAD Global Investments t monitoring

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organization. The FDI recovery since the 2008 financial calamity continues to be on a bumpy road. While FDI flows in developing countries such as Zimbabwe remained consistent over years, more investment in productive sectors that has the potential of contributing to sustainable development goals is still needed for those countries to achieve their economic growth projection. The promotion of FDI for sustainable development remains a big challenge in developing countries such as Zimbabwe. Sadly, there is nose-dive in FDI flows to developed countries (-2.7%) as well as in North America (-3.3%) primarily due to a return to prior levels of inflows in the USA and the United Kingdom after spikes in 2019. The decline was tempered by 11% growth inflows to other developed economies, principally Australia. FDI to developing economies such as Africa remained stable at an estimated $635 billion 2% more than the previous year 2015 (UNICTAD, 2018).

In line with our study, it is important to analyze factors that may attract Foreign Direct Investment, particularly in developing countries such as Zimbabwe. This study develops from Dunning, (2002) who advocates that institutional factors are taking the lead as major determinants of foreign direct investment, especially in developing economies. Such institutional governance includes corruption, rule of law and political instability. Since the pioneering study by Rose-Ackerman, (1975), the concept of corruption as it affects the inflow of FDI has increasingly been researched (Habiband Zurawicki, 2002). Given the current economic problems faced by Zimbabweans where the country is globally isolated since the beginning of the 20th century. The country is facing numerous problems which range from the high level of unemployment, shortage of basic goods and services, underdeveloped markets and lack of meaningful infrastructural and technological development fueled by hyperinflation (768% as of June 2020 as reported by Financial Gazette) and the recent outbreak of Coronavirus pandemic. The study fills the gap overlooked by many different researchers. This study's objective is to find out if corruption impedes the flow of foreign direct investment. Second, do rule of law and political violence influence government policies towards foreign investors? It is argued that Politicians, who are engaged in financially expensive and politically costly military welfare, often have the incentive to enforce capital controls and prevent capital flight. Third, does foreign direct investment improves economic growth and revenues for public finance? Lastly, the study suggests some of the measures that can improve the inflows and outflows of foreign direct investment.

In this study, we used data from the World Bank, Kaufman's 2018 Governance indicators and Transparency International. The econometrical regression was used for empirical findings between 1996 and 2019 where the structural break was observed. In section 2 we focused on theoretical analysis, literature review and hypothesis development of FDI and institutional governance in Zimbabwe, section 3 looks at methodology and we discussed, interpreted and analyzed our results in section 4. Section 5 is crucial for concluding and recommending theoretical and practical policies.

## 2. LITERATURE REVIEW

**General overview of FDI in Zimbabwe and Institutional problems**

Foreign Direct Investment (FDI) is generally thought to be an important factor in economic growth and development in developing countries such as Zimbabwe. Therefore, "It is through the investments of large multinational corporations that host developing countries have access to productivity elements advanced technologies, management practices and research development-that are crucial for growth, but are otherwise unavailable in the developing world" (Borensztein et al., 1998). Never the less, the exiting of these key sectors of production within developing host countries may be inadequate for FDI to promote meaningful economic growth. Thus in that, key human and non-human variables that contribute to the FDI–growth relationship may be absent or present in suboptimal sums (Blomstrom, 1986; Balasubramanyam et al., 1998; Alfaro et al., 2004; Durham, 2004; McCloud and Kumbhakar, 2012).

Additionally, foreign direct investors usually network with different government officials in the host country, for example obtaining the requisite permits, ensuring the protection of property rights and enforcing investment contracts. In this study, we believe that institutional governance such as corruption, political instability and violence, government effectiveness, rule of law and regulatory framework are key determinants of Foreign Direct Investment in the host countries because government officials have the autonomy to extensively lobby for massive expenditures in delivering public goods. On the other hand, foreign investors may incur high irrecoverable costs in the business operation. This includes costs incurred and obligations to meet tax liabilities when they are due on profits from investment (Shleifer and Vishny, 1993) as a result this weakens investor's capacity and motivation in the expansion and growth of their firms, advancing some funds in research and development, imparting skills and knowledge to the local employees and financing social development programs which are beneficial to the society. Consequently, host countries such as Zimbabwe are likely to receive low social investment returns from FDI.

Relating to our study, Transparency International, (2012), defines corruption as the abuse of public office for personal gain at the expense of the targeted class or group and this agrees with Aguilera and Vadera, (2008) who define corruption as, "the abuse of



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power for private gain". Additionally, corruption is very difficult to define because of different cultural backgrounds. Accordingly, "there are differences in opinions among cultures and nations of what is morally and legally right and wrong" (Smarzynska & Wei, 2000).

Relating to this study, Zimbabwe accomplished her independence in 1980 and no major corruption cases were recorded except, the Paweni Grain scandal during the 1990s Willow gate, which left some government officials and politicians' careers in jeopardy. This resulted in high profile Zimbabwean government ministers unceremoniously leaving their cabinet posts and sadly one of the ministers committed suicide in shame (Shana, 2006). During the period from the 1990s to 2018, corruption in Zimbabwe's public institutions and major key sectors of the economy (parastatals) such as the Chiadzwa Diamond mining scandal (2010), the salary gate scandals in parastatals (2013) flourish in the protection of top government officials and powerful politicians as nothing tangible has been carried out and such culprits are still enjoying the fruits of anti-social behaviour of corruption activities at the expense of the Zimbabwean citizens who are in the low-income bracket (Kurauone et al., 2020). With the rise of this "economic cancer", corruption even overwhelmed the private sector more than ever before. Economists and academics argue that corruption has a significant influence on the flow of foreign direct investment in developing countries such as Zimbabwe which mainly depend on Foreign Direct Investment for economic development.

Political risk is defined as, "the possibility that political events in a country will affect the business environment and investors will not make as much money as expected" (Howell, 2001). We observed that political violence plays an important role in influencing the operation of government policies thus some foreign investors consider political violence when they make a decision on the investment location and the resources to be invested analysis claims that Zimbabwe has an objectionable reputation for being the most electorally violent country in Southern Africa, indisputably since the civil wars in Mozambique and Angola and the independence of Namibia and South Africa. From the 1990s to date, the country has experienced more violent elections, mass dislocations and incessant repression of innocent citizens in the 2000, 2002 and 2008; 2013 and 2018 elections. More evidently, the economic crisis in Zimbabwe deepens and foreign direct investment significantly weakened than ever before (World Bank, 2018). The Zimbabwe military heavily participated in the politics of the country thus negatively affecting the political atmosphere in the country. "The tendency for the military party interferences in political and economic matters, as well as the resort to violence, has been well-noted for Zimbabwe" (Bratton, 2014). Political stability plays a significant role in the location decisions of FDI (Dunning, 1993). Specifically, political instability has the potential of increasing uncertainty in the economic and political environment, therefore discouraging the incentives for foreign investors to invest meaningful capital into the host country.

**Theoretical approach to Foreign Direct Investment**

John, (1997) developed the Ownership, Location and internalization (OLI) theory. The theory postulates that the company should have advantages over its competitors for meaningful investment to take place. Thus, it can have the advantage of minimizing the cost of production in the host country. Additionally, the investing firm has the potential to gain more if the benefits accrued are internalized instead of selling or licensing. Furthermore, the investing firms can take advantage of the location specific. Various academics and researchers have numerous conflicting arguments regarding the socio-political determinants of FDI from the location side of OLI theory and the development of societal, economic and political processes that have the potential to significantly influence how the investors can weigh the locational benefits of specific host country.

In line with our study at hand, the suppression of property rights, human rights, political instability, respect for rule of law, high level of corruption and poor regulatory framework are some of the major governance problems in many developing countries such as Zimbabwe. Repression is an indication of the government's inability to attend to the well-being of its citizens using proper and standard channels (Mason and Krane, 1989). We observed that repressions by the host government can result in the socio and economic instability of the society. Consequently, this may lead to both indirect and direct effects on attracting meaningful foreign companies to carry out their business in such a hostile environment. Halfner-Burton, (2008) advocates that "even if the foreign investors avoid such direct threats, such countries with repressive laws may be perceived as complicit in the abuse and may face substantial audience costs, especially given the expanding regime of Non-Governmental Organizations (NGO) that can report cases of repressive laws in certain jurisdictions". Of particular note, during the last 2 decades, the arrest and harassment of independent Journalists and citizens who report cases of corruption activities by politicians and the elite ruling class continue in Zimbabwe. This has negative consequences of tarnishing the image of the country and therefore repels meaningful investment.

Blanton and Blanton, (2007) argue there is a need for human rights respect as this can provide both direct and indirect instruments for FDI enouragement. According to Kucera, (2002) respect for the citizens' rights and personal integrity provides investors with important information regarding their future investments. Moreover, studies from Isham, Kaufman and Pritchett, (1997) comment that countries with less repressive laws attract more meaningful investment than countries with more repressive rules. For example, a violent free country with less repressive government retribution results in most citizens being motivated to contribute their time resources, skills, expertise and more importantly ideas toward the economic development of their country (Blanton and Blanton, 1997). Accordingly, personal integrity protections can indirectly influence FDI by negatively affecting human capital.

It is believed that there are some publicized ways in which some states go to the extent of violating corporate interests through the takeover of foreign companies. For example, the land reform program (2000) and indigenization law (2008) in Zimbabwe grossly affected multinational foreign companies and investors because they were forced to cede more than 51% of their share capital to the locals. Along these lines, institutions encourage FDI by mitigating these potential threats to the business environment. Domestic political institutions especially corruption, democratic governance, rule of law, political instability and violence and regulatory framework signal a higher level of honouring property and contract right by certain governments. Under such conditions, potential investors will view government commitments as more incredible and they will lose confidence. Moreover, Jensen, (2003) and Li & Resnick, (2003) argue that the main element of democratic governance is the decentralization of administrative duties by different arms of government, which controls the administrative power of the executive branch. Such decentralization of power limits the potential rent-seeking behaviour by the local elite and ruling class. Specifically, massive bribery, fraud or inconsistency in local regulation that punishes the corporation "Corruption appears "legalized" and the control of tax corruption in these jurisdictions is likely to be slower than expected because of weak legal, institutional and regulatory systems" (Kurauone et al., 2020).

Economists such as North (1990) and Acemoglu Johnson and Robinson, (2005) regard the quality of local institutions as the key determinant of cross-country differences in economic performance. Additionally, Li and Resnick, (2003) established those tariff policies, local corporate taxation, control of tax regulation, profit returns or transfer mandatories, intellectual property protections and labour market regulation as key elements of MTN'S decision of investment location. It, therefore, shows that the firm should have benefits which allow it to overwhelm the cost of working in a foreign country as earlier discussed above. This is consistence with Hecksher-Ohlin's theory of factor endowments in the international movement of physical capital in search of high returns/profits.

Baldi, (2000), outlined Asian countries such as Malaysia, Indonesia and Thailand as the major recipient of resource-seeking investment because of their cheap, skilled labour and natural resources. Thus, a steady supply of labour and/or raw materials and other key factors of production at a lesser cost make a host country more attractive to capital-seeking foreign investors. On the other hand, Argandona, (2005) argues that foreign investors avoid highly corrupt countries because this undermines the effective and efficient utilization of resources. Additional costs are required to meet the demands of corrupt behaviour thus increasing the cost of investment. In line with our study, we observed that in Zimbabwe, FDI dwindles since the beginning of the 20 centuries. Anecdotal evidence claims that it is partly due to public and political corruption currently taking place in developing countries such as Zimbabwe whereby the state administrators are reluctant to fight against corruption-related activities in both private and public institutions. We observed that the culprits are treated with "kid's gloves" therefore creating a fertile ground for corruption.

## 3. DATA AND MODEL SPECIFICATION

The data set is for the period 1996 to 2019 in Zimbabwe. The researcher's data is time series from a compilation of survey information from the World Governance indicator, the World Bank, from the late 19 century to the first decade of the 20-century millennium, the World Bank conducted the World Enterprise Survey (WES) and the Business Environment and Enterprise Performance Survey (BEEPS), which are surveys of specific businesses concerning their business environment in different countries. Additionally, the researchers gathered secondary data from the Zimbabwe Ministry of Finance, Reserve Bank of Zimbabwe, various scholars, academics, print and electronic media and other appropriate literature related to this research. More importantly, documentary sources such as books, magazines, journals, newspapers and organizational databases were used as data sources.

**Model Specification and variable selection**

The dependent variable in our study is the Net FDI inflows in millions of dollars, and the key explanatory variables are; corruption, Rule of law, political instability and political violence, Gross domestic product growth rate and inflation. We derived the econometric estimation below based on the key objective of the study and our hypothesis.

***Econometric estimation equation***

$$FDI = \beta 0 + \beta 1Cor + \beta 2Pv + \beta 3Rl + \beta 4Gdpg + \beta 5Inf \quad (1)$$



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FDI is the Net Foreign Direct Investment inflow per year measured in US millions of dollars. Foreign Direct Investment, is, "an investment made by a company or individual in one country, in the form of either establishing business operations or acquiring business assets in that country" (World Bank 2018). Corruption Perception Index (CPI), shows insights into the degree to which public power is applied for personal benefit including both insignificant and grand forms and is the top worldwide indicator of public and political corruption, providing an annual picture of the absolute level of corruption by ranking world countries.

In line with the study's objectives, we employed the control of corruption from Kaufman's (2018)'s governance indicators. The measurement of the variable is on a scale of -2.5 to 2.5 with -2.5 showing a highly corrupt country and 2.5a very clean country. Additionally other key variables such as political stability and absence of violence/ terrorism estimate perceptions of the likelihood of political instability and or politically motivated violence including terrorism. Furthermore, political instability and politically motivated violence are measured on a scale of -2.5 to 2.5 with -2.5 showing a degree of high political instability and politically motivated violence while 2.5 represents no political instability or politically motivated violence. Moreover, rule of law deals with the level to which persons and businesses abide by the rules and laws of society specifically. Again, it looks at the operation and the independence of the judiciary such as the police, the protection of property rights, the quality of contract enforcement as well as the likelihood of crime and violence. The variable is measured on a scale of -2.5 to 2.5 with -2.5 showing no rule of law in a given jurisdiction while 2.5 shows an exceptional rule of law for a given country.

More importantly, some scholars like Brown et al. (2014) and Othman & Kossentini (2015); Kurauone et al. (2020) gather and employ data constructed by Kaufmann (2018). Notably, Sun et al. (2019) employed these achieved data collection methods when examining the institutional quality of government policies. Thus, in this research, the measures for legal enforcement variables were derived from the calculation of Kaufmann's (2018)'s worldwide governance indicators. The gross domestic product growth rate specifies the degree to which domestic products change from one period to another. The control of corruption, political stability and rule of law's measurement scale was transformed to a baseline of 100 so that they can be easily compared with other variables (GDP growth rate and inflation GDP deflators) and for better interpretation and analysis of the results. The above explanatory variables were used to test whether in this econometrical equation they are statistically and econometrically significant to the above independent variables over a specific period of 20 years (1996 to 2019).

In this study, we applied the chow test to our OLS because of structural changes in government during the first period of 1996 to 2008 and the second period of 2009 to 2019. Gujarati (2004) advocates that, "the possible differences, that is, structural changes may be caused by differences in the intercept or the slope coefficient or both and therefore we should apply the chow test".

$y = \alpha + \beta x + \varepsilon$ for all observations (1996 to 2019) (2)

$y = \alpha 1 + \beta 1 x + \varepsilon 1$ for n1 observations (period1 1996 to 2008) (3)

$y = \alpha 2 + \beta 2 x + \varepsilon 2$ for n2 observation (period2 2009 to 2019) (4)

The null hypothesis is $\alpha 1 = \alpha 2$ and β1 = β2 if the null hypothesis is rejected two periods have different slopes and intercepts, and data are not poolable.

We, therefore, derived the following ratio from Gujarati (2004)

$$F = \frac{(RSSr - RSSur)/k}{(RSSur)/(n1 + n2 - 2k)} \sim F[K, (n1 + n2 - 2k)]$$

Whereas RSSr is the restricted sum of squares assuming that the sub-period regressions are not different (from Equation 2). RSSur which is the unrestricted residual sum of squares and the two sets of samples are deemed independent so we add RSS1 and RSS2that is obtained:

RSSur= RSS1+RSS2 (from Equation 3 and equation 4). If the computed F value in an application does not exceed the critical F value obtained from the F table at the chosen level of significance (p values) we do not reject the null hypothesis of parameter stability (no structural change).

## 4. EMPIRICAL FINDINGS

**Descriptive statistics**

**Table 1** Summary Statistics

| Variable | Obs | Mean Std. Dev. | Min | Max |
|---|---|---|---|---|
| FDI (US$million) | 20199 | 00159.92 | 3.8 | 472.8 |
| Corruption | 200.26 | 0.060.29 | | 0.45 |
| Political stability | 200.30 | 0.06 | 0.18 | 0.39 |
| Ruleoflaw | 200 .19 | 0 .070.13 | 0.39 | |



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| | | | | |
|---|---|---|---|---|
| GDP growth | 200 .01 | 0.10-0.18 | 0.16 | |
| GDP inflation | 200.03 | 0 .10-0.27 | | 0.27 |

**Summary statistics during a period of 20 years (1996 to 2019)**

The standard deviation of US159.92 million in the 20 years under study indicates the unevenness of FDI receipts. Probably the FDI dropped significantly due to institutional governance ills such as control of corruption which dropped from as high as 45% to an all time low level of 29%. Additionally, there is no significant improvement in the volatility of political stability which remains hovering in the 30s threshold due to a lack of transparency on elections in 2000, 2002, 2005, 2008 and recently 2018. To reiterate, we can argue that lack of democracy in this period marred by political instability, and massive allegations of election fraud repel meaningful investment in Zimbabwe implies that such an insignificant improvement could do little to attract meaningful foreign investment in an already bleeding economy. Furthermore, the rule of law dropped to an all-time lower level of 19%. Prior literature argues that this has a detrimental effect on attracting meaningful investment inflow to the country.

Again, the government's ill-advised laws such as the land reform programme, indigenization bill whereby foreigners were forced to cede 51% of the shares to the locals worsened the situation as more foreign-owned firms left the country and move to neighbouring countries such as Zambia, Botswana, South Africa and Nambia. Generally, foreign capital inflows in Zimbabwe dwindled during the last 2 decades. Macroeconomic measurement tool such as inflation is a critical factor in revenue collection and determination of FDI in flowsce. The hyper higher inflation experienced by the country from 2000 to 2008 negatively affects meaningful investment. The inflation as the % of GDP deflators in $ the US increased to 27% during the period under study. Furthermore, the consumer index inflation ballooned to as high as 232 million per cent in 2008 and is currently pegged at 786% as of May 2020. It, therefore, shows that very few investors will invest in such a country with volatile macroeconomic instability in a weak regulatory and monitoring environment. Additionally, the economic depression of 18% experienced by Zimbabwe in 2008 contributed to the loss of capital investment in the country.

**Econometrical results**

***Results for 20 years (whole period)***

**Table 2** The level of significance is at 1%, 5 % and 10%.

| FDI | Coef. | t | P>t |
|---|---|---|---|
| corruption | - 2257.228 | -3.69 | 0.003 |
| Political stability | 1304.246 | 3.28 | 0.007 |
| Rule of law | 1370.602 | 2.03 | 0.065 |
| GDP growth | 490.709 | 2.27 | 0.042 |
| GDP inflation | 5.630.02 | 0.982 | |
| _cons | 96.4909 | 0.69 | 0.506 |
| No of OBSE | 18 | | |
| R squared | 0.8403 | | |
| Adjusted R square | 0.7734 | | |

The above results show that Corruption, political stability, rule of law, and GDP growth rate are all statistically significant with both corruption and political stability being statistically significant at a 1% level of significance while rule of law is statistically significant at 10% level of significance. Additionally, there is a positive relationship between FDI and rule of law. This implies that there was a significant improvement in rule of law in Zimbabwe from 1996 to 2019, therefore, attracting FDI. GDP growth rate is statistically significant at a 5% level of significance. It can be deduced that; the GDP growth rate significantly influences the increase in FDI. Inflation is statistically insignificant and therefore the variable has no significant influence on the FDI. Two major explanatory variables of this research; corruption and political stability and terrorism / political violence are further discussed below.

First, Zimbabwe's corruption index dropped significantly from 45 in 1996 to all low time level of 21.4 in 2014 measured on a baseline of 100. This is in line with the majority of scholars and researchers such as Al-Sadig, (2009) and Azam and Ahmad, (2013), in their study of the influence of corruption on FDI in the least Developed Countries (LCDs) who found a negative relationship between corruption and FDI implying that corruption can impede FDI and reduces the inflow of FDI, especially in developing countries such as Zimbabwe. The estimated results are in contrast with Wheeler and Mody, (1992), Habib and Zurawicki, (2001)



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and Cazzura, (2006) who found a positive relationship between both variables which shows that corruption activities attract more FDI.

Second, there is a positive and significant relationship between FDI and political stability at a 10% level of significance and absence of violence/terrorism from 1996 to 2019. It shows that there is a slight improvement in political stability and the absence of terrorism and political violence from a low score of 18.2 in 2002 to 37.8 in 2019 measured on a baseline of 100. These econometric estimation results are consistent with that of Woodward and Rolfe, (1993) using the data from all reported industrial plant openings from 1984 to 1987 and finding that political stability raises the possibility of a country being chosen as an investment place. Never the less, Olive and Crumbley, (1997) results are inconsistent and argue that the political risk index does not influence US FDI flows to 10 out of 13 OPEC countries. Similarly, Li and Resnick, (2003) argue that political instability is statistically insignificant to FDI inflows, though regime stability encourages FDI inflows. Furthermore, Phelan and Berg, (2003) find that political instability measured by a merged variable on a 100-point scale, has an insignificant influence on US FDI flows in 28 countries for the period 1981 to 2000. Globerman and Shapiro, (2003) employing 2stage regression analysis of US FDI flows to 143 countries found that, political instability and violence, armed conflict, public discontent, extremist threat and others. Does not have an impact on whether a country obtains FDI inflow although it reduces the FDI inflow of such a country.

***Further Testing (Period between 2009 and 2019)***

**Table 3** The level of significance is at 1%, 5 % and 10%.

| FDI I | Coef. | t | P>\|t\| |
|---|---|---|---|
| Corruptionper | -7617.254 | -1.82 | 0.211 |
| Political stability | 454.7359 | 0.20 | 0.862 |
| Rule of law | 2865.782 | 0.93 | 0.452 |
| GDP growth | 772.6416 | 0.87 | 0.477 |
| Gdpinflation | -208.1469 | -0.48 | 0.681 |
| cons | 1353.132 | 1.24 | 0.340 |
| R-squared = 0.9391 | | | |
| Adj R-squared = 0.7869 | | | |
| No of Observation8 | | | |

From 2009 to 2019, our econometric results show that all the independent variables are statistically insignificant to FDI though did not change signs from the previous model. Variables such as rule of law and GDP growth have a positive relationship with FDI while inflation has a negative relationship with FDI. The results mean that key institutional governance such as Corruption and rule of law did not have much impact on FDI during that period. Probably it is because of the Government of National unity between 2009 to 2013 when the country enjoyed peace and stability having controlled corruption.

***Period between 1996 and 2008***

**Table 4** The level of significance is at 1%, 5 % and 10%.

| FDI<br>Coef. | Coefficient | T | P>t |
|---|---|---|---|
| corruption | 7333.1722 | 1.26 | 0.275 |
| Political stability | 21.92835 | -0.08 | 0.941 |
| Rule of law | -649.4483 | -1.25 | 0.281 |
| GDP growth | 19.7048 | 0.52 | 0.628 |
| GDP inflation | -390.4217 | -2.36 | 0.077 |
| cons | -3.9766 | -0.960 | 0.05 |
| R-squared =0.7491<br>Adjsquared=0.4354<br>No. observation 12 | | | |

From 1996 to 2008, the estimated econometric results show that only inflation is statistically significant at 10% (p=0.077). There is a significant negative relationship between FDI and inflation. It is in that period when Zimbabwe experienced the world's highest hyperinflation of more than 232 million per cent. Corruption has a positive relationship with FDI during that period while political stability and political violence/ terrorism and rule of law have a negative relationship with FDI. The country experienced waves of political instability characterized by a lack of rule of law which ranges from farm invasion to election fraud. This reduced the foreign direct investment inflow to the country. Overall, due to the inconsistency of results obtained in 2 periods, we concluded that there was a structural break as obtained from the chow test.

## 5. SUMMARY AND CONCLUSION

The study focuses on the effects of rule of law and corruption in Zimbabwe during the period of 20 years (1996-2019). The ordinary least square method was employed and there was a structural break during that period of 20 years. The country's foreign direct investment inflows decreased particularly between 1996 to 2008. There is strong evidence of an increase in corruption, and lack of rule of law characterized by hyperinflation. Other crucial results obtained from this study indicate that there was an improvement in rule of law between 2009 and 2019 and this improves Foreign Direct Investment inflows. Additionally, the insignificant and negative relationship between corruption and foreign direct investment implies that there was an improvement in the control of corruption though not enough to attract meaningful investment.

It is worthwhile for the government of Zimbabwe to respect the rule of law and control corruption to attract meaningful Foreign Direct Investment which is crucial for the country to improve its capital allocation to various key sectors of the economy. Investors need the protection of their investments. The violation of the law adversely affects attracting meaningful investments. The country's dilapidated infrastructure which is key in conducting the country's operating environment needs to be improved in a conducive and politically stable environment. The arresting and prosecution of whistle-blowers in corruption cases should be condemned at all levels to promote transparency. The government of Zimbabwe should protect its citizens thus cultivating transparency, equity and equality among the key economic players. Additionally, the government of Zimbabwe should adopt strong regulatory and monitoring mechanisms which can curb l corruption. This can be done by building strong legal enforcement (Kurauone et al., 2020).

The study faced a limitation in accessing qualitative data from the state administrators because such data is treated as confidential and for strategic purposes. Further studies should be carried out on the effects of weak governance institutions on multinational firms in Zimbabwe.

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**Ethical approval**

Not applicable.

**Informed consent**

Not applicable.

**Conflicts of interests**

The authors declare that there are no conflicts of interests.

**Data and materials availability**

All data associated with this study are present in the paper.

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