Location Determinants and the Host-Country Impact of Foreign Direct Investment in Zimbabwe

by

Stephen Mandigora

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University of New England
Armidale, N. S. W.
Australia.

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Dedication

To my family, for their support and inspiration over the years.

Abstract

The importance of foreign capital in Zimbabwe's industrial and economic development cannot be over-emphasised. Indeed, foreign investment is regarded as a major component of the adjustment effort in the country's on going program of economic reform. The country has embarked on a campaign to attract more foreign investment through multinational corporations (MNCs) to complement the limited domestic savings in promoting investment.

This study is focused on analysing the host-country factors which may influence the location decisions of multinational firms in Zimbabwe and also the macroeconomic effects of foreign direct investment (FDI) on the country's private domestic investment, trade and economic growth in the period 1980 to 1993. The economic model used in this study is based on Dunning's (1974; 1988) eclectic paradigm of international production. The three-stage least squares (3SLS) technique is applied to estimate the multi-equation economic model simultaneously.

Location factors that are found to have a strong influence on FDI are tariffs, labour costs, corporate taxes, government policies and the country's political environment. The results also revealed a limited presence of resource-induced FDI in the country and a general absence of market-induced FDI. The statistical results also showed FDI as having a negative but insignificant effect on the country's private domestic investment. While a positive relationship was found between FDI and the country's exports, the highly significant positive correlation between FDI and imports reveals a strong import propensity of the multinational firms. The results also revealed that the stock of foreign capital in the country had a weak positive effect on economic growth.

While it can be concluded that Zimbabwe has a range of policy instruments which it can use to influence the pattern of FDI, the results have shown that such FDI flows did not improve the balance of payments situation. In fact, FDI may be argued to have added to the chronic current account deficit experienced in the country, due to its high import propensity. In addition, FDI did not result in the much needed expansionary effects on private domestic investment, hence its overall insignificant effect on economic growth. There is a need to further improve the macroeconomic and political environments in order to reduce the perceived business and political risk to investment. Although the results revealed some important insights on the host-country macroeconomic effects of FDI, micro-level studies are strongly recommended, in order to analyse the impact of FDI at the sector and industry level.

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