

Foreign direct investment: does it matter? A case for Zimbabwe

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ABSTRACT

The paper examines the factors that influence foreign direct investment (FDI) inflows into Zimbabwe between 1980 and 2012. Over the period, the country experienced low levels of both domestic and foreign direct investment leading to sluggish economic growth and high unemployment. The FDI that came into the country had a short life. Scant research has been undertaken to address the poor performance of FDI in the country. The paper differs from existing researches in that it considers individual country's investment priorities. Based on the modified acceleration theory of investment and FDI theories, a regression equation using Eviews on annual time-series data obtained from the World Bank database was estimated. The results indicate that output, trade openness, political stability, domestic investment and inflation were significant factors that influenced FDI inflows into the country. The data used did not substantiate the hypothesis that indigenisation and property rights policies curtailed FDI inflows into Zimbabwe. Furthermore, the findings confirm the applicability of the acceleration theory of investment in Zimbabwe. The study contributes to the information dearth on direct investment determinants in Zimbabwe. The findings are expected to shed light to policy-makers in their efforts to attract direct investment, thereby boosting economic growth and employment. Appropriate policy measures focused on aforesaid determinants of FDI are expected to attract investors. The study recommends that would-be FDI investors in developing countries consider joint ventures with the local investors and take into account the country's specific investment needs to ensure longevity of FDI in the host country.

Keywords: Zimbabwe, FDI, economic growth, unemployment, acceleration theory

INTRODUCTION

Foreign direct investment (FDI) can be viewed as the growth rate in capital inflows that add over time to fixed capital stock of the home country. This capital formation was expected to boost production and output of the wider economy. Globalization has reduced restrictions on world trade and this has had a positive effect on foreign direct investment in the world (UNCTAD, 2014). Both developed and developing countries compete globally for scarce FDI. The countries that manage to attract FDI are expected to improve employment, economic growth and development (UNCTAD, 2014). However, less developing countries have received relatively less of the FDI inflows compared to developed countries, for example, global trends on FDI indicate that FDI increased by nine percent in the period between 2012 and 2013 (UNCTAD, 2014). Africa had an increase of four percent in the same period (UNCTAD, 2014). The increase indicates the importance of FDI to economic growth and development.

Among developing countries, Africa, particularly Sub-Saharan Africa (SSA) of which Zimbabwe belongs, has had relatively insignificant FDI compared to Latin America and Asian countries (Mahembe, and Odhiambo, 2014; UNCTAD, 2014). Although Sub-Saharan Africa experienced an increase in FDI from US\$36.7 billion in 1990 to US\$108.5 billion in 2000, and further increase to US\$336.8 billion by 2008 (UNCTAD, 2014), Zimbabwe has not been able to attract significant FDI inflows despite the fact that the country was rich in minerals that include: gold, platinum and diamonds that normally attract resource-seeking FDI inflows. Also, investment promotion and facilitation by the Zimbabwe investment centre has been relatively unsuccessful in enticing foreign investors (ZimStats, 2013). In the 1990s the country recorded FDI of US\$950 million, however, by 2012 only US\$400 million was recorded (RBZ, 2014; ZimStats, 2013). The decline in FDI was reflected in the poor real economic growth rate over the period between 2000 and 2011 which averaged negative five percent (Index Mundi, 2014). Zimbabwe's lack of adequate investment hinders employment, and thereby negatively influencing the country's wider economic growth and development. Unemployment in Zimbabwe was approximately 80% in 2012 (Biti, 2013, CSO, 2005) leading to a grip of poverty for the majority of the population.

The increase in FDI inflows, therefore, was expected to augment domestic investment, and thereby contribute to employment opportunities for residents in the host country. This was particularly true for resource-seeking FDI inflows which are labour intensive. The determinants of FDI could be explained in two different ways which have not been explored in existing literature. On one hand, (which was prevalent in the literature) FDI was analysed on the multinational enterprises (MNE) and/or would-be investors point of view as to what should the host country do in order to attract FDI. In fact, in the literature the majority of developed countries' studies focus on MNEs perspective (see, for example, Sethi, Guisinger and Berg, 2003, Dunning, 1980, 1981). On the other hand, FDI could be analysed in the home country's perspective in an effort to answer the question why the host countries should accept MNEs investment. We are looking at a host country's perspective, such as what kind of investment is required by the host country, and in what sectors of the economy.

The study's premise is that MNEs and would-be investors should put the host country's priorities first and see how these dovetail to their investment requirements if their longevity in host countries is to be guaranteed. In trying to answer the question what specific factors that are expected to influence FDI in a particular country such as Zimbabwe, the paper examines determinants of FDI that were acceptable to the host country. This approach is justified in that different countries are in different stages of development, and thereby have different investment needs, types, forms and quantities of FDI. On the contrary, literature on FDI has ignored the misalignment between the host countries prerequisite for FDI to flow

into the country and that of MNEs prerequisite for FDI to flow into the country. This analysis makes the assumption that for resource-seeking FDI to take place, the host country would want to share at an agreed proportion the ownership (O) (Dunning, 2001) advantage with the MNEs with respect to both natural resource and tangible/intangible factors of production possessed by the MNEs, which accounts to some kind of indigenisation policy (Karabay, 2010; Katrak, 1983). The indigenisation policy has been implemented in countries such as Norway, Sweden, Switzerland, Finland, France, USA and Canada (Karabay, 2010: 218). The policy was expected to ensure longevity of FDI in the host countries. Katrak (1983) describe indigenisation policy as a prerequisite that the host country require on foreign investors to share ownership with indigenous investors.

The overall purpose of this study is to explore the impact of factors that influence the inflow of FDI into Zimbabwe. The problem was that the country has received low levels of FDI between 1980 and 2011. Also, the FDI that finds its way into the country has a short life. The lack of fixed investment has led to sluggish economic growth and high levels of unemployment (Biti, 2013, ZimStats, 2012, 2013; Chingarande et al., 2012; Manda, 2014). The objective of the study was to identify policy variables that are expected to attract more foreign direct investment into Zimbabwe and ensure its permanence. The analysis seeks to answer the following questions: Is low output, trade openness, domestic investment, inflation, political stability, property rights and indigenization issues responsible for lack of FDI in Zimbabwe? The study is important to policy-makers in that less developed countries that fail to attract foreign direct investment are left with international institutions such as the World Bank, Africa Development Bank and International Monetary Fund as sources of finance for economic growth and development. However, those that fail to fulfil the conditions of the international financial institutions slowly degenerate into economic poverty. The economic remedy could come from discovery of resource-seeking FDI and use of the proceeds to develop the country. The other alternative would be to rationalize spending to release funds for investment. Arguably, one of the sources of international finance besides the World Bank and IMF has been FDI (Kugler, 2006: 445). Most of the literature uses a group of countries to estimate the FDI's to less developing countries, (for example, Asiedu, 2001; Zhang, 2001; De Mello, 1999; Choe, 2003; Siedu, 2001).

The paper differs from the current literature in the following aspects: The prerequisite for FDI by the host countries was often not adequately explained in the literature. The individual country perspective was ignored. This study seeks to fill the gap by focusing on factors that influence FDI inflows from an individual host countries prerequisite, and thereby ensuring permanence of FDI. Also, the current literature ignores the needs of a host country with respect to types of investment and the desire to share the proceeds of the expected returns on investment. It was useful to note that for FDI to be sustained in a given country the needs and aspirations of the country should be taken into account, otherwise would-be investors risk being disappointed in the long term, in that the LDCs would rather take part in the ventures undertaken by FDI investors than expropriation. In the case of Zimbabwe, there are few studies that have been undertaken on the determinants of FDI. The approach followed by this study has not been done in Zimbabwe. In this regard the study contributes to the literature on FDI. Based on the modified acceleration theory of investment and FDI theories a time-series regression analysis was carried-out using E-views computer program on annual data from the World Bank database (2014). The findings indicate that trade openness was important to allow technology, spare parts, production intermediate goods inputs, among other things, to flow into the country. Economic growth in terms of increased output in the home country enticed foreign investors to invest in the home country. Furthermore, findings indicate that output, trade openness, domestic investment, inflation and political stability were crucial in either curtailing or attracting FDI, for example, politically stable countries

were expected to attract direct investment. The assumption that Indigenisation and property rights policies curtail FDI was unsubstantiated by the data.

The article is divided into five sections: Section One gives the introduction and briefly explains the problem of FDI in Zimbabwe, Section Two reviews the literature and theories of FDI; Section Three presents the methodology and gives model specification and data source. Section Four gives the results and discussion. Finally Section Five briefly gives the conclusion and recommendation.

LITERATURE REVIEW

Foreign Direct Investment theory

Foreign direct investment (FDI) theory has not been fully established in the literature, however, the pioneering work of Hymer (1976) laid down the concept of FDI of which this study has built-on. Hymer (1976) posits that FDI was a way of transferring – skills, knowledge, technology and other various intangible advantages of the organization to the host country for production purpose. Foreign direct investment might take place for two reasons: first, the FDI could be a result of home country possessing resources such as diamonds, gold and platinum that are attractive to foreign firms that eventually invest in the home country. As has been already mentioned in the introduction, this was particularly the case for Zimbabwe. The country has diamonds, platinum, gold, chrome, coal, among other minerals. This entails that Zimbabwe possess mineral resources that are expected to attract FDI. Second, the foreign firm would possess some advantage in the form of technology and capital that the home firms do not possess, and this could lead to an investment in the home country. In most cases foreign firms that are involved in research and development (R & D) are far ahead in innovation and technology and can easily be of some help to those countries without R & D advantages (Calvet, 1981). Calvet (1981) explains the theories of foreign direct investment that included: foreign direct investment in the context of the theory of markets. The market imperfection theory asserts that market disequilibrium hypothesis provides an incentive to invest abroad. The factor markets such as labour and capital markets persuaded organizations to invest in other countries. The cheap labour persuaded firms to move investment from high labour cost to countries with low labour costs. The governments in the home countries imposed distortions such as policies, tariffs, prices and wage rigidities some of which led by trade unionised industries that impeded foreign direct investment. The Multinational enterprises (MNEs) venture abroad in order to diversify risk, internalizes and appropriate their operations.

The eclectic theory for the multinational enterprises (Calvet, 1981) encompasses the location, industrial organization and property rights theories that explain why organizations carry-out transactions with home countries (Calvet, 1981; Dunning, 1973, 1979). Another popular theory of FDI is the Eclectic theory (Dunning, 1980), which attempts to answer the question of why a firm would want to produce in a foreign location instead of exporting or entering into a licensing arrangement with a local firm (Lim, 2001: 10). In other studies, Dunning (1980, 1988, 2001) avers that FDI inflows to host countries was influenced by three features, first, ownership, for instance, of assets by the foreign company at its original home that will give it a competitive edge when exported abroad. Second, location advantage, in this case firms decide to locate investment to a country or region where they will increase returns on investment. Third, investing firms might decide to internalize markets or ownership in order to maximize their profits (Dunning, 2001: 175-6). Also ownership advantage lead to technological superiority, size and access to raw material in the home country as well as competitive edge over domestic firms arising from the ownership of some intangible assets

(Dunning, 1980). Dunning (1980, 2000, and 2001) argues that paradigm ownership, location and internalization (OLI) could, perhaps, change in various regions experiencing low levels of FDI. It would be expected that a paradigm could shift in recognition of its application on the ground, the physical reality or actual investment. The application on the ground was expected to feedback to the paradigm OLI and a paradigm shift was expected to take place, particularly when we consider economic changes that have taken place in countries such as Zimbabwe since 1980. Subsequently, all other things being equal, the OLI paradigm is complemented by the returns on FDI and sharing of these profit returns with locals, particularly for resource based FDI, as the fundamental factor in both host and home country's of the MNEs, hence the internationalisation paradigm (Dunning, 1980).

To enhance Dunning's eclectic paradigm, Voutilanen (2005) avers that the low cost of raw material, cheap labour and nearness to customers are factors that attracts FDI into host countries. Other factors that lead to FDI include market-seeking and efficiency seeking investment. In the market-seeking MNEs idea would be to save the domestic demand or market enlargement in the host country. Low income countries in the Sub-Saharan Africa might attract very little of this kind of investment (Asiedu, 2002:109). Furthermore, Market-seeking FDI was essential to MNEs in that similar plants could be constructed in the host country, thereby making it easy for transfer pricing to work (Lim, 2001). Moving of investment by MNEs was influenced by different factors in different regions, for instance, Sethi, Guisinge and Berg (2003) examined the US FDI to Europe and Asia and concluded that US MNEs moved from their traditional investment location in Europe to new locations in Asian countries due to intensity in competition in the European region. The search for low production cost, looking for efficiency-seeking investment, new markets, and favourable government policies such as liberalization, technological infrastructure and relatively skilled cheap labour. In addition, the fact that other firms moved to Asian countries had a bandwagon effect, which saw the majority of the firms following suit (Sethi, Guisinge and Berg, 2003). The main thesis in FDI is that firms might be looking for resource-seeking, efficiency-seeking, market-seeking and strategic-market seeking investment depending on which region or country these investments manifest. Furthermore, Sethi, Guisinge and Berg (2003) points out that in less developing countries MNEs look for resource-seeking and efficiency-seeking investment depending on the resource base of each country, for example South Africa (mining and land), Zimbabwe (mining), Nigeria (oil) and Botswana (mining), among others.

Empirical literature

The study's approach to empirical literature on FDI is in two parts. On one hand, there are authors that look at the impact of FDI through spillovers and externalities from FDI once in the host country (Vadlamannat & Artur, 2009; Kugler, 2006; Villegas-Sanche, 2009; Borensztein, De Gregorio and Lee, 1998; Aitken and Harrison, 1999), among others. Vadlamannat and Artur (2009) in a study of the impact of FDI inflows on output per worker for 80 developing countries over the period 1980-2006 using aggregate data, found out that the output per worker was positively influenced by FDI inflows, policy reforms and institutional development. An increase in output per worker and/or productivity improved economic growth. Other authors on FDI have provided evidence of positive spillover from FDI to host countries' firms. Studies by Caves (1974); Aitken and Harrison (1999) report a positive spillover effect between the productivity of multinational firms and output added per worker of host firms for a given sector that the multinational firm was participating. Afaro, Chna, Kalemli-Ozean and Sayek (2004) explained that countries with relatively well developed financial sector would benefit with respect to economic growth better from FDI

spillover than those with relatively under-developed financial markets (Villegas-Sanche, 2009). Borensztein, De Gregorio and Lee (1998) assert that the technology benefits from FDI are easily absorbed when a host country has relatively a pool of educated and skilled labour force. Other studies (Alfaro, Chada, Kalemli-Ozcan and Sayek (2010:243) points out that the multinationals prevent technological positive spillovers going to their competitors even when they are in the host country. They assert that the spillovers from FDI are possible through forward and backward linkages like agricultural sector provision of inputs to manufacturing of food stuffs and agricultural chemicals from manufacturing to agriculture sector (Alfaro, Chanda, Kalemli-Ozcan and Sayek, 2010). This kind of linkages existed in Zimbabwe's economy between 1969 and 2000. Rodriguez-Clare (1996); and Jovorcik (2004) have shown that backward linkages existed between backward downstream suppliers and the existing multinational within the industry and this was evident in Brazil, Chile and Venezuela (Javorck, 2004).

Kugler (2006) estimated econometric model using panel data for Colombia and found that the inter-industry FDI spillovers propagated to the up-stream suppliers in the Colombian manufacturing industry. Kugler (2006) asserts that literature has paid less attention to inter-industry spillovers which actually exist. Meanwhile, more attention has been paid to intra-industry externalities, without showing that intra-industry spillovers from FDI have contributed to economic growth of host countries. Some studies have explained the intra-industry and inter-industry positive externalities from FDI inflows once the MNE were in the host country (Kugler, 2006; Aitken and Harrison, 1999; Rodriguez-Clare, 1996; Aitken et al., 1997; Markusen and Vanables, 1999; Hirschman, 1977). On the other hand, there are those authors who look at the factors that attract FDI inflows from the MNEs perspective (Masuku & Dlamini, 2009; Jensen, 2003; Quan Li & Resnick, 2003; Kandiero and Chitiga, 2006; Busse et al., 2010; Amyanwu, 2012; Selelo and Sikwila, 2012). Masuku and Dlamini (2009) assert that in Swaziland FDI was influenced by infrastructure, and market size. To summarise, current literature on FDI has ignored the aspiration of home countries with regard to explaining variables and policies that involve participation in the ventures undertaken by the MNEs.

METHODOLOGY

The hypothesis put forward was that an increase in economic output of a country was expected to attract both domestic and foreign direct investment. The approach follows the acceleration principle that purports that an increase in output leads to a proportional increase in stock of capital (Clark, 1917; Selelo and Sikwila, 2012). This was presented by the relationship between the stock of capital and output given as;

$$CP^* = \alpha Q_t \quad (1)$$

Where: CP^* represents desired capital stock, Q_t current output, ' α ' accelerator constant and t , time.

The desired capital stock per period was not fully covered in that investment responds with a lag to changes in demand (Chenery, 1952; Junankar, 1972; Knox, 1952; Koyck, 1954). The lags were a result of delays in decision making between the recognition of investment and actual investment taking place. Also, ordering of machinery and equipment takes time. To encompass the decision and ordering lags the acceleration theory (Evans, 1969; Junankar, 1972; Koyck, 1954 and Wallis, 1979) was modified with respect to linking the acceleration theory of investment to FDI theory. To improve on equation (1) Koyck (1954) formulation was followed as;

$$CP_t = \alpha(1-\lambda)\sum_{j=0}^{\infty} \lambda^j Q_{t-j} \quad 0 < \lambda < 1 \quad (2)$$

Where: CP_t current capital stock, λ ; a constant rate of adjustment with values ranging between zero and one, ∞ ; very large number, $j = 1, 2, \dots, \infty$. Equation (2) states that capital stock at time 't' was a formation of current past output. Net investment (NI) in a country can be given as;

$$NI_t = CP_t - CP_{t-1} = (1 - \lambda)CP_t^* - CP_{t-1} \quad 0 < \lambda < 1 \quad (3)$$

Where CP_{t-1} is previous period capital stock, equation (3) indicates that net investment is only part of the gap between desired and actual capital stock (Clack, 1979). Equation (3) can be rewritten as;

$$NI_t = CP_t - CP_{t-1} = (1 - \lambda)\alpha Q_t - (1 - \lambda)CP_{t-1} \quad (4)$$

Equation (4) indicates that net investment is equal to output and lagged capital stock. Gross investment that constitutes net investment plus depreciation is presented as;

$$GI_t = NI_t + (1 - \delta)CP_{t-1} = (1 - \lambda)\alpha Q_t - (1 - \lambda - \delta)CP_{t-1} \quad (5)$$

Equation (5) represents the widely used flexible accelerator (clay-clay) model.

Assume firms pursue output or profit maximization and are subject to constant returns to scale production function. For a small open economy like Zimbabwe savings "S" are important in order to realise investment in factories, machinery and equipment which lead to an increase in capital stock CP and the savings could be used to invest abroad as foreign direct investment (FDI). Linking equation (4) and (5) to savings (S) gives:

$$FDI_t - FDI_{t-1} + CP_t - CP_{t-1} + (1 - \delta)CP_{t-1} = S_t; \quad (6)$$

Equation (6) can be rewritten as $\Delta FDI = S_t - GI_t$ which is the capital exported by would be FDI investors (Solow, 1956; Sorensen and Whitta-Jacobsen, 2010). However, for a country that has negative savings it has to import capital (FDI) for its production which is the case for small open economies such as Zimbabwe. Subsequently, it was assumed that foreign direct investment in Zimbabwe was influenced by change in output and other variables given as;

$$FDI/GDP = f(\Delta Q, TO, DI, PR, ID, \pi, PS) \quad (7)$$

The a priori expected signs are partial derivatives of equation (7) given as:

$$\partial(FDI/GDP)/\partial Q, \partial(FDI/GDP)/\partial DI, \partial(FDI/GDP)/\partial PS > 0 \quad (8)$$

$$\partial(FDI/GDP)/\partial \pi, \partial(FDI/GDP)/\partial PR, \partial(FDI/GDP)/\partial ID < 0 \quad (9)$$

Where: $\partial(FDI/GDP)$ (investment ratio) is partial derivative with respect to each independent variable. Equation (8) indicates a direct variation between FDI ratio and output, domestic investment and political stability, while equation (9) suggests an inverse variation with inflation, property rights and indigenisation. In equation (7): FDI is foreign direct investment; 'f', functional operator; Δ is the change; Q, output presented by real gross domestic product (GDP). The inclusion of output in the specification of the model is supported by the acceleration theory and was expected to carry a positive sign with respect to the dependent variable (FDI). TO, trade openness consists of exports plus imports divided by GDP as proxy. On a priori it was assumed to be positively related to FDI. Favourable trade openness was expected to improve the balance of payments which allows repatriation of profits. Also an open economy will make it easy to import machinery and equipment, raw material and spare parts for industry in the long term. PR, property rights policy, ID, indigenisation policy, these two variables would ensure that investors do not lose their investment and are assumed to be negatively related to FDI. The inclusion of PR and ID in the model is justified by the fact that the country applies these policies Act (14:33) (The Sunday Mail, 2015:6). For both PR and ID a dummy variable which assumed a '0' between 1980 and 2000 when the policies did not exist and '1' between 2001 and 2011 when the policies were applied. Π , is inflation rate and it negatively impacts on FDI, implying that stable prices were attractive to the investor in that stable prices lead to a stable exchange rate and PS the political stability variable has a positive effect on FDI, implying that political stability improves investors confidence in the country's economy. In fact, it was argued that

political stability in any country was a prerequisite for consistent economic policy. DI is domestic investment and gross fixed capital formation was used as a proxy for DI, implying that investment by host country's firms induced foreign direct investment. The time-series annual data from 1980-2012 was obtained from the World Bank (2014) database and values are in the US\$ millions. Taking logs on both sides of equation (7) gives;

$$\ln(\text{DFDI}/\text{DGDP}) = \alpha + \beta_1 \ln \Delta \text{DGDP}_t + \beta_2 \ln(\text{DTO})_t + \beta_3 \ln(\text{DPR})_t + \beta_4 \ln(\text{DID})_t + \beta_5 \ln \text{D}\pi_t + \beta_6 \ln(\text{DPS})_t + \beta_5 \ln \text{DDI} + \xi_t \quad (10)$$

Where 'ln' is natural logarithms of the original variable series, β_i are the parameters of the relationship to be estimated, 'i' represents 1, 2...7, ξ is the random disturbance, 't' is the time period and D, is first difference of a variable. Equation (10) was estimated using E-Views computer program and results are given as indicated in Table 2 (Appendix). Before carrying out Ordinary Least Squares (OLS) estimates an Augmented Dickey-Fuller test for unit roots (Dickey and Fuller, 1979) was performed and found that the time-series variables (GDP, TO, DI, π) contained a unit root. On differencing (D) once all variables were found to be stationary and integrated of order I(1), implying that their means, variance and covariance remain constant over the long term.

As shown in Table 1 (Appendix) the Ramsey reset test reveals that the model was correctly specified. The F – statistic and t- statistics are both significant at 5% level.

RESULTS AND DISCUSSION

The results of the estimate of equation (9) are as indicated in Table 2 (Appendix). The trade openness, political stability, domestic investment, inflation were statistically significant at 5% level (with t-ratios of 2.2*, 2.3*, 2.0* and -2.4* respectively) while output with a t-ratio of 1.8** was statistically significant at 10% level of significance. The significance of the output variable supports the applicability of the acceleration theory of investment in Zimbabwe (Selelo and Sikwila, 2012). The results suggest that Zimbabwe needs to improve economic growth in order to attract FDI. Zimbabwe empowerment regulation encourages the ownership of businesses by locals (indigenisation). This approach does not in any way deter FDI inflows into the country. The hypothesis that indigenisation and property rights policies curtailed FDI in the country was unsubstantiated by the data used in our study as indicated by insignificant t-ratios of -0.7 and -0.8 respectively. All the variables carry the expected correct a priori signs. The coefficient of multiple determination (R^2) of 66% implies that 66% of variation in FDI was explained by variation in output, trade openness, domestic investment, inflation and political stability. The Durbin-Watson (DW) statistics of '2' indicates the absence of serial correlation. The lagged output variables were also experimented but produced inferior results, and thereby dropped from the model. Nevertheless, these results should be interpreted with caution in that the data from the developing country was far from being accurate.

As indicated in Table 2 (Appendix) trade openness; political stability, domestic investment, inflation and output variables induce FDI inflows into the country. A significant output variable implies that 'ceteris paribus' an increase in output attracts direct investment. This result was consistent with study on output by Vadlamannat & Artur (2009). Also the results support the applicability of the acceleration theory in Zimbabwe). Trade openness (significant and positive sign) allowed both multinational enterprises and domestic firms to import machinery, equipment and inputs with ease and thereby positively influencing FDI. The domestic investment significant and positively related to FDI implies that investment by domestic firms leads to an increase in output. All other things being equal, an increase in output induce FDI which, in turn, contributes to economic growth and lower inflation. In turn, low inflation attracts FDI, while high level of inflation discouraged FDI. Political

stability creates conducive economic environment for both domestic and foreign investment. Its significance implies that Zimbabwe should strive to maintain a political climate that was expected to attract FDI. Appropriate policies, therefore, that improve trade openness, domestic investment, output, inflation and political stability were expected to positively influence investors' perception and attract more FDI into the country. The investment that comes into the country could have an impact that affects forward and backward linkages (Alfaro, Chada, Kalemlı-Ozcan and Sayek (2010). An increase in FDI augments domestic investment and leads to improved employment, economic growth and development for the wider economy. The study has focused on an individual country as opposed to cross-country studies found in the current literature. Of paramount importance the Zimbabwean case plays a pivotal role as it contributes immensely to FDI literature on Less Developing Countries. The case suggests that foreign investors should take into account the development policies of each individual country rather than a group of countries perception. The recognition of individual country investment needs ensure the longevity of the FDI in Less Developing Countries.

CONCLUSION AND RECOMMENDATIONS

The paper examines the foreign direct investment (FDI) inflows into Zimbabwe. The argument focuses on factors that influence FDI inflows into the individual country and that such investment should recognize the priorities of the host country. Based on the modified acceleration theory and FDI theories an FDI/GDP regression equation was estimated using time-series data obtained from the World Bank database. E-Views computer program was used to obtain OLS estimation. The results (see: Appendix) indicates that output, trade openness, political stability, domestic investment and inflation had an influence on foreign direct investment inflows into the country. Appropriate policies on aforementioned variables were expected to induce FDI and improve employment, economic growth rates and development. The data used do not support the hypothesis that asserts that indigenisation and property rights policies inhibit FDI inflows into the country. The results are important for policy-makers in Zimbabwe and other developing countries in the Sub-Saharan Africa. Indeed FDI does matter and contributes to employment, economic growth rates and development. The study recommends that would be FDI investors in developing countries such as Zimbabwe consider joint ventures with the local investors to ensure longevity of the FDI, particularly in sectors such as mining and manufacturing.

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APPENDIX

Table 1: Ramsey-Reset Test

Equation Specification: Dependent variable FDI

Independent variables: DGDP, DTO, DPR, DID, $D\pi$, DPS, DDI

	Value	df	Probability
t- statistics	1.8	23	0.04*
F - Statistics	2.8	1,2	0.03*
Likelihood ration	3.0	1.0	0.4

*significant at 5% level of significance

Source: Computed from World Bank database

Table 2: OLS Regression Results

Dependent Variable: $\ln(\text{DFDI}/\text{DGDP})$ (Data in US\$Million)

Variable	Coefficient	Std Error	t - Statistics
Output ($\ln(\Delta \text{DGDP})_t$)	5.5	3.0	1.8**
Trade openness ($\ln(\text{DTO})_t$)	2.9	1.3	2.2*
Political Stability ($\ln(\text{PS})_t$)	3.5	1.5	2.3*
Domestic Inv ($\ln(\text{DDI})$)	8.5	4.2	2.0*
Inflation ($\ln(\text{D}\pi)_t$)	3.1	1.3	-2.4*
Property rights ($\ln(\text{DPR})_t$)	-6.1	8.3	-0.7
Indigenisation ($\ln(\text{DID})_t$)	-15.2	18.2	-0.8
Constant (C)	-5.6	14.4	-0.4

$R^2 = .66$, DW = 2.0, Observations = 35; * and ** presents significance at 5% and 10%

Source: Computed from World Bank database