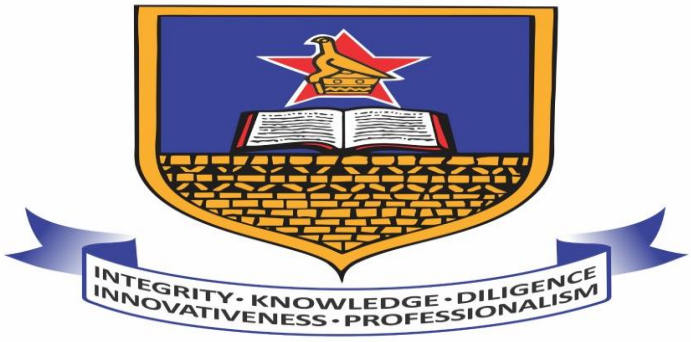

UNIVERSITY OF ZIMBABWE

BUSINESS SCHOOL OF MANAGEMENT

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON DOMESTIC INVESTMENT IN ZIMBABWE.

By

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DEDICATION

I dedicate this thesis to my late parents whose values still guide me today. This is also for my kids, Malachi and Micah, to whom I hope to be an example of hard work and resilience.

ACKNOWLEDGEMENTS

My sincere gratitude goes to my family for the support throughout the research period. I could not have done it without their love and encouragement. Many thanks all the lecturers who took me through this course, my special thanks goes to my supervisor Dr. A. Bara for his guidance and patience throughout this course.

ABSTRACT

The primary purpose of the study was to empirically examine the impact of Foreign Direct Investment on domestic investment. p, the study investigated on whether foreign direct investment crowds in or crowds out domestic investment. This study adopted the positivism research paradigm and a descriptive correlational research design that used time series data from 1990 to 2019. The Pooled Ordinary squares multiple regression analysis was used by the research. This study employed Classical Linear Regression Model (CLRM) to ascertain the statistical relationship between FDI and domestic investment. To evaluate the appropriateness and validity of the model the study carried out some diagnostic tests namely the normality, heteroskedasticity, serial correlations and multicollinearity among the regressors. Unit Roots tests were also used in the study to test for the stationarity of the variables to avoid. The findings on the impact of FDI on Domestic Investment revealed that FDI stimulates domestic investment in a positive direction. The findings suggest that trade liberalization positively impacts on domestic investment by boosting the growth of domestic investment. On the other hand, the findings revealed that a negative relationship exist between exchange rate and domestic investment. The study also found out that inflation is negatively associated with DI and the level of political stability, also affect direct investment. The findings of the study on the relationship between FDI and domestic investment revealed that FDI crowds out on domestic investment in the long term. This was indicated by the coefficient of -0.07 which was less than 1. The study recommends that inflation rates and exchange rates need to be monitored and controlled as these have a negative effect on FDI and domestic investment. The study also recommends that the government should implement a screening strategy to filter and select the type of FDI that is more beneficial to local firms.

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LIST OF ABBREVIATIONS

DI	Direct Investment
RBZ	Reserve Bank of Zimbabwe
MNC	Multinational Corporation
ZIA	Zimbabwe Investment Authority
AFDB	African Development Bank
IMF	International Monetary Fund
CLRM	Classical Linear Regression Modelling

CHAPTER ONE

INTRODUCTION

1.1 Introduction

FDI inflow fulfils the rising investment requirements to boost economic growth at higher pace and helps to achieve macroeconomic stability in the economy (Ullah, Shah& Khan, 2014). Chong and Lim (2009) argue that FDI affects economic development of the recipient country at macro- and micro level. The interaction between foreign and domestic investment is of paramount importance and both can cause each other in an economy (Ullah, Shah & Khan, 2014). These roles of domestic investment motivate the foreign investors to reap the benefits of high return (Ndikumana & Verick, 2008).

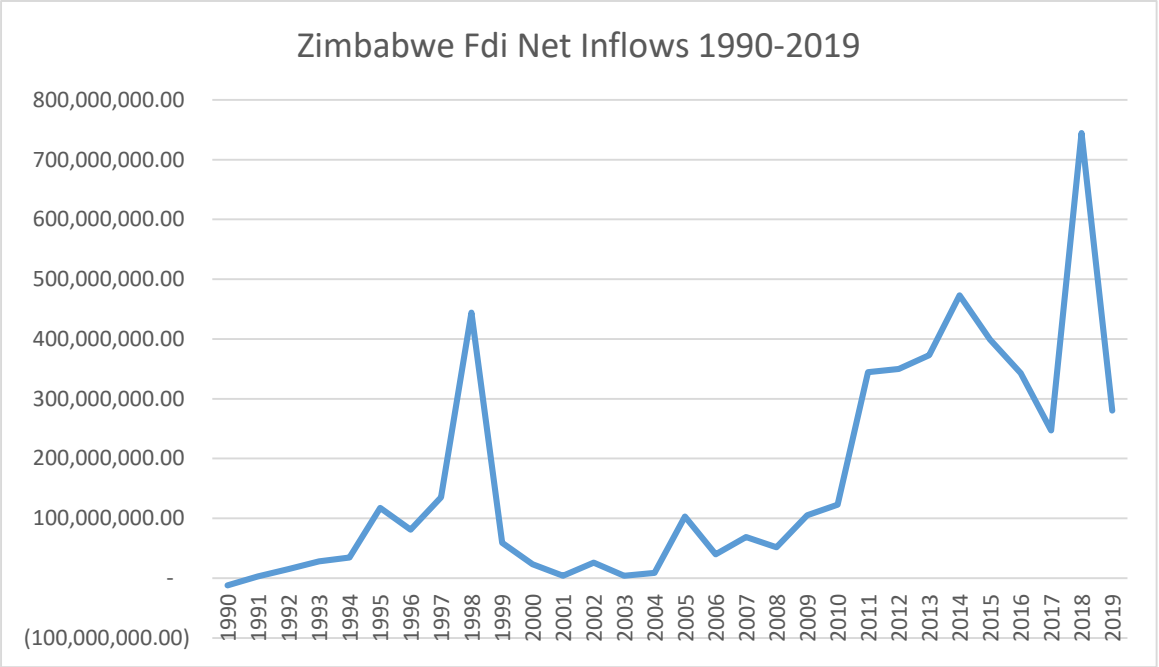
The study is unique from other empirical studies as it explores the economic trajectory from the ESAP era in the early 1990s, the Zimbabwean dollar (devaluation) in 1995-1997, land reform program, early 2000, hyperinflation and the global financial crisis 2007-2008, multicurrency regime 2009-2018 and the dollarization (Zim dollar) 2019 and the dual currency regime in the year 2020.Moreover, the study goes further to suggest strategies for promoting foreign direct investment that enhances domestic investment in Zimbabwe.

1.2 Background to the study

The Zimbabwean economy has seen drastic changes within the macroeconomic fraternity since the ESAP program during the early 1990s. Musharavati (2017) opines that during 1980 to 1998 the Zimbabwean economy experienced a high peak of FDI inflows which recorded the highest increase of 7% by 1998. However, Gwenhamo (2011) cited in Tsaurai & Odhiambo (2012) argued that the net inflows from 1980 to 1990 in Zimbabwe were very low due to the fiscal policy measures which were not attractive to foreign investors. Moreover, the economy came to a “near-comatose” condition as FDI and domestic investment drastically reduced in some years from the period 1998 to date . This was due to the policy shifts which were aggravated by the Government periodically during the years 1998 to 2020. Musharavati (2017) further propounded that the years 1998 to 2020 were also exposed to capital flights,

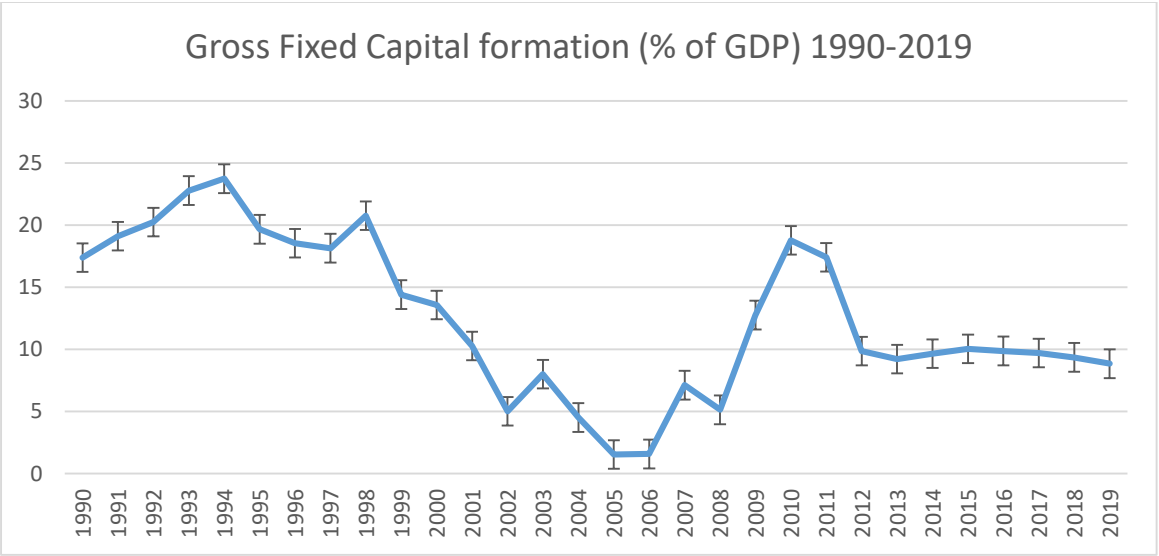
hyperinflations, policy inconsistency and lack of investor confidence in investing in Zimbabwe. The Figure 1 and figure 2 shows the foreign direct investment Net inflows and Gross fixed capital formation from 1990 to 2019 respectively.

Figure 1.1: FDI Net Inflows Zimbabwe



Source: Author Compilation from World Bank Economic indicators: Date Accessed 27/10/2020

Figure 1.2: Gross Fixed Capital formation in Zimbabwe



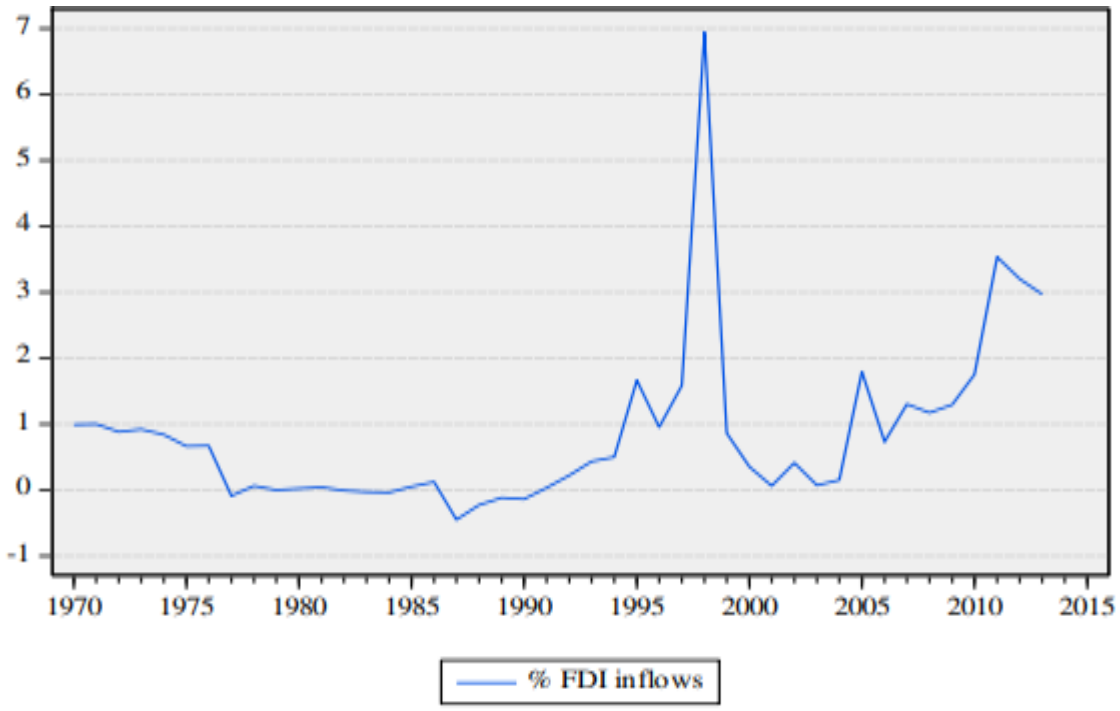
Source: Author Compilation from World Bank Economic indicators: Date Accessed 27/10/2020

1.2.1 Foreign Direct Investment in Zimbabwe

Zimbabwe has a potential to attract FDI because of its rich natural resources' potential, being the country with the second largest reserves of chrome and platinum, coal, diamonds, tin, nickel and copper. In addition, the country also boasts of an adequate infrastructure which, to foreign investors represents genuine assets (Lloyds Bank, 2020). The country also has boasts of highly literate and skilled citizens, better access to regional markets such as the SADC and Common Market for Eastern and Southern Africa (COMESA) and highly diversified economy (Munyanyi, 2017).

In Zimbabwe, both domestic and FDI facilitation and promotion is tasked to an investment promotion body called the Zimbabwe Investment Authority (ZIA). This body was set up to facilitate both foreign and domestic investment. Most of the investors with interest in Zimbabwe are from China, South Africa and Mauritius with keen interests in the mining, manufacturing and agriculture sectors (Zimbabwe Investment Climate Statement, 2015). The diagram below depicts the FDI trend since the year 1970.

Figure 1.3: Annual FDI (as GDP %)



Source: World Bank Economic indicators

For better analysis, the time period is split into four distinct phases.

1970-1979 Phase

This phase was characterized by the independence war and imposition of sanctions on the country (Kurebwa, 2012). In this phase, there was a dramatic drop of FDI to about -0, 1% which was experienced in 1977.

1980-1998 Phase

The attainment of independence in 1980 saw an increase in the growth of FDI until 1998. After independence, the then new government adopted an inward-looking economy, which was highly controlled and depending highly on FDI for the promotion of economic growth (Munyanyi, 2017). The government offered a lot of incentives including tariff exemptions and tax holidays to attract foreign investors and the transfer of technologies. In addition, the economy saw the removal of previously imposed economic sanctions, and the embracement of better fiscal policies as well as the opening of external markets (IMF, 1998). Because of these positive strides FDI performance was triggered during this phase.

1999-2008 Phase

This phase was composed of economic mismanagement, capital flight, poor land reform practices, loss of support from the international community, low levels of domestic and foreign direct investment, and hyperinflation (Munyanyi, 2017). The period saw an exponentially rise in inflation and by end of year 2006, triple figures were reached. The increase of money supply by the Central bank into the economy further increased the inflation. According to Nangombe (2014), drought occurrence in Zimbabwe since 2002 resulted in most investors in the agricultural sector pooling out, in addition to entrenching rural poverty. The pooling out of investors resulted in low FDI during this phase as shown in figure 2.1. The imposition of economic sanctions further aggravated the situation and resulted in precipitation of negative perceptions about Zimbabwe, resulting in investors viewing it as a risky investment destination. From 1980 to 1999, institutions significantly assisted Zimbabwe financially. The year 2001 saw most of these institutions pulling back from supporting Zimbabwe. In 1998, AFDB stopped its support to Zimbabwe, in 1999 IMF stopped also through a BOP, and in 2001, World Bank also pulled back its support. According to the bulletin published by RBZ (2006), Zimbabwe was, during this period classified as a very risky investment zone, resulting in FDI.

2009 to 2019 Phase

This phase saw Zimbabwe adopting the multi-currency system and in 2009 the government of Zimbabwe dollarized the economy which was meant to revitalize the economy from the hyperinflation effects which had crippled the whole economy. As a result of dollarization, the economy moved in a positive direction, with a decrease in the inflation level to a range between 3.1% and 3.5% between the year 2010 and 2012 (Munyanyi, 2017). Furthermore, FDI inflows which had been hampered US$40 million in 2006 from US$103 million in 2005 to by economic challenges were brought to a halt. This also revamped the confidence level of investors with net FDI rising to US$ 90 million in 2010 from US$44 million in 2008 (ZimStat, 2013).

Figure 1.4: Foreign Direct Investment (2017-2019)

Foreign Direct Investment	2017	2018	2019
FDI Inward Flow *(million USD)*	349	745	280
FDI Stock *(million USD)*	4,688	5,433	5,713
Number of Greenfield Investments*	7	18	17
Value of Greenfield Investments (million USD)	415	6,114	709

Source: UNCTAD (2019)

The year 2018 saw FDI inflows rising to 745 million USD but subsequently dropped to 280 million USD in 2019 (UNCTAD, 2019). This drop could have been a result of changes in government policies on currency regulation.

1.2.2 Domestic Investment

Domestic investment is one of the key economic processes that countries Pay special attention to because of its contribution to the growth of the economy (Bakari, 2017). Capital accumulation is key to the health and growth of an economy, and therefore the development of private investment is important in improving accumulation of capital, improvement of production, and the general development of the economy (Aragie, 2014). Low domestic investment results in the economic being vulnerable to shocks.

1.3 Statement of the Problem

Zimbabwe, has been receiving FDI inflows since the past years upto now. FDI minimizes the dependence on foreign debt (Gochero, 2020). There has been continuous debate within empirical literature on the gains of foreign direct investment which have either spill over effects of either crowding-out or crowding-in investments or neutral effect. On one hand, empirical evidence propounded that foreign direct investment is positively correlated and act as catalyst for growth through physical and human capital which foster and increase production of goods and services (Adejumo & Asongu, 2019), whilst on the other hand, studies by Bende-Nabende (2017), Lehnert *et al* (2013) and Boyd and Smith (1992) lamented that foreign direct investment hinders and crowds out domestic investment which has a negative bearing on domestic industries and resource allocations

A growing importance is given today to foreign direct investment (FDI), which is seen as the main factor of stimulating the economic growth. Attracting FDI has become increasingly important, most often based on the assumption that greater FDI flows bring some benefits to the economy of the receiving country. It has been argued in the existing literature that FDI inflows positively influences economic growth and promotes domestic investment through modern technologies diffusion, human capital formation, strengthening back and forward linkages between Multinational Corporations (MNCs) and domestic firms in recipient countries' underdeveloped sectors (Donciu, 2015). Furthermore, FDI has a potential to equip workers with managerial skills and connects local industries with foreign markets (Ali, 2018). On one hand, empirical evidence propounded that foreign direct investment is positively correlated and act as catalyst for growth through physical and human capital which foster and increase production of goods and services (Adejumo & Asongu, 2019), whilst on the other hand, studies by Bende-Nabende (2017), Lehnert *et al* (2013) and Boyd and Smith (1992) lamented that foreign direct investment hinders and crowds out domestic investment which has a negative bearing on domestic industries and resource allocations.

1.4 Research Objectives

1.4.1 To investigate the impact of FDI on domestic investment in Zimbabwe.

1.4.2 To highlight the difference between FDI and domestic investment.

1.4.3 To examine strategies for promoting foreign direct investment that enhances domestic investment in Zimbabwe.

1.5 Research Question

1.5.1 What is the impact of FDI on domestic investment in Zimbabwe?

1.5.2 What is the difference between foreign direct investment and domestic investment?

1.5.3 What strategies can be adopted to promote foreign direct investment that enhances domestic investment in Zimbabwe?

1.6 Research Hypothesis

The hypothesis of the study is stated as follows:

H0: The relationship between FDI and domestic investment is directly proportional.

H1: There is no relationship between foreign direct investment and domestic investment in Zimbabwe.

1.7 Rationale of the Research

The study will be inimitable in the sense that the Zimbabwean economy had been subdued either negatively or positively for the past 3 decades due to the suppression or availability of the much-needed foreign direct investment and also domestic investment as investor risk appetite had been reducing. This research study strives to assist domestic investors on the merits of domestic investment which fosters economic growth through investing in the various productive sectors of the economy.

The research study also assists the government in crafting clear-cut foreign direct investment policies which are conducive to both the internal stakeholders and the foreign investors which assist the country to become once again the breadbasket of Africa and the World at large. The findings are important in bringing policies and strategies aimed at enhancing local investment through promoting FDI. The issues to do with the crowding out and crowding in effect will yield positive pass-on effects on the rebuilding of the economy.

To the academia, this study brings valid strategies and outcome-based policies for promoting FDI, and thus is crucial in fulfilling gaps in in Zimbabwe as very few studies had been conducted within the Zimbabwean macroeconomic environment as it can be argued that foreign investments have positive pass-through effects which are an ingredient to domestic investment and drives. Few research also utilized the pragmatic (qualitative and quantitative) approach in gathering data on the subject area.

1.8 Scope of the study

The study focuses on foreign direct investment inflows to Zimbabwe for the period 1990-2019 and their impact to local investment. The study analyses the inflows and compares to domestic investment (Gross capital formation) over the same period.

The study also focuses on policies aimed at ensuring that FDI improves or enhances local investment. Other factors included in the analysis is Real GDP, credit to private sector and money supply.

1.9 Dissertation Outline

Chapter one introduces the study, and the rest of the thesis is organized as follows: Chapter presents literature of FDI flows into Zimbabwe and its impact of FDI on domestic investment. Chapter Three discusses lays the methodology of the study, the econometric model, and the source and characteristics of the data used in the study. Findings are presented in chapter 4, and chapter five provides the summary of results and conclusions.

1.10 Chapter Summary

The chapter has introduced the topic on FDI and domestic investment, presenting the objectives that the study seeks to achieve, the research questions, the hypothesis of the study and the scope of the study. The significance of the study to the policy makers, to the government and to the academia has also been elaborated. The following chapter presents a review of the literature.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on foreign direct investment, its impact on domestic investment and strategies for promoting FDI that enhances domestic investment. The chapter discusses various concepts and theories on FDI. The relationship between foreign direct investment and domestic investment is discussed in this chapter. In addition, a conceptual framework is also developed, and a review of previous studies is also conducted in this chapter.

2.2 Theoretical Framework

There are several theories and models that have been developed and brought up by various authors in explaining the effects of impact of FDI on local investment (Salare, 2018). In this study, four main theories are discussed, and these include the theory of foreign direct investment by Hymer, the dependency theory and the capital arbitrage theory. In addition, the eclectic theory of FDI is also discussed in this study as relevant to the discussion of FDI and domestic investment.

2.2.1 The Hymer Theory of Foreign Direct Investment (FDI)

First developed by Hymer in 1960, it was published in 1976. Before the development of the Hymer (1976)'s theory, the theories of capital transfer were used to explain foreign direct investment (Badayi, 2017). Theories of capital transfers included the theory of comparative advantage by Ricardo (Budang & Hakim, 2020), and Heckscher-Ohlin theorem (HO). According to Hymer (1976), on the contrary to the opinions of the capital transfers posits that these theories are not adequate to explain the movement of capital across international borders. He also argued that these theories could not fully explain foreign direct investment. Hymer (1976), in his theory mentioned that the performance of FDI is determined by two main factors which all depend on existence of market imperfections. The two factors which determines direct investment are imperfect market and specific advantage. From the perspective of market imperfections, Hymer (1976) maintained that as more firms enter the market, there will

be a rise in competition, and such is referred to as a perfect market. He further argued that in such markets, FDI is difficult to attract and the competition or conflicts in those markets can be eliminated by taking over existing firms or by merging them. The Hymer theory focused on ownership and control and further suggested that the movement of FDI occurs mainly if firms possess a specific advantage in the foreign country which can enhance their market power through the imperfect market (Budang & Hakim, 2020). Dunning and Lundan (2008), in their study opined that firms with financial or marketing skills and which are innovative can invest in foreign countries. The Hymer theory mentioned that firms with financial, marketing and innovation skills can compete with rival companies and outweigh the domestic firms (Budang & Hakim, 2020). On Specific Advantage the Hymer (1976) theory postulated that it is difficult for the success or FDI to occur when firms lack certain characteristics that allow their investments to be viable. The theory states that it is ideal for firms to have better information about the local economic environment (Budang & Hakim, 2020).

2.2.2 Dependency Theory

This theory was developed in the late 1950s by Raul Prebisch who stated that developed economies continue to oppress poor countries under the auspice of assistance (Salare, 2018). The dependency theory argues that reliance on FDI has a negative effect on economic growth and the distribution of income. Firstly, FDI results in both increased output and income in the host countries. As a result of the investment of capital in various economic sectors, there will be an increase in production levels resulting in the growth and expansion of companies. This in turn creates employment opportunities that translate into household incomes. The increase in spending will support businesses and the global cycle will continue, promoting economic development. The second beneis technology transfer. Foreign Investors are on the lookout to optimize the productivity of their investments and this results in them introducing advanced systems and equipment to local businesses and thereby improve their performance. The third advantage can be seen in the increasing competition in the host country. The increase in industrial production in relation to demand has a downward effect on prices. The fourth benefit is local investment growth. The growth of businesses encourages the growth of local investment. The fifth benefit is that investment in export markets flows into manufacturing operations that target local consumption and export. Reducing the exchange rate difference is a final benefit (Salare, 2018).

It does this through limited savings and limited currencies when influenced by FDI, which in turn stabilizes currencies.

2.2.3 Capital arbitrage theory

The Capital arbitrage theory opines that direct investment flows from countries where profitability is low to countries where profitability is high (Cela, 2018). This means that capital flows both locally and internationally. The theory implies that countries with more and abundant capital should export while countries with less capital should import (Cela, 2018). The capital arbitrage theory posits that the existence of a link between return of capital and long-term interest rate would result in FDI and portfolio investment moving towards the same direction (Nayak, 2014).

2.2.4 The eclectic theory of FDI

The eclectic theory of FDI is one of the most robust and comprehensive theories of FDI developed by Dunning (Nayak, 2014). The eclectic theory determines the portion or pattern of domestic production that is controlled or owned by foreign firms (Dunning & Lundan, 2008). According to Robock and Simmonds (1989), the eclectic theory, in explaining FDI movements, includes as international explanatory factors, characteristics of both host and home countries. The theory argues that the configuration of three sets of advantages determines the form, patterns and extent of international production (Nayak, 2014). These factors include Ownership, Location and Internalization advantages and through these factors, the transfer of ownership advantages across national boundaries by firms is enabled. The eclectic theory states that for FDI to occur, all these three conditions must be met.

2.2.5 Foreign Direct Investment

Several definitions have been put to explain foreign direct investment (FDI) in literature. Foreign direct investment is defined as an investment made by an investor to acquire a lasting controlling interest in an enterprises operating in an economy other than that of the investor (Muzurura, 2019). Foreign direct investment (FDI) is also defined as a set of investments in which an enterprises resident in another country establishes a long-term interest in another enterprise outside its country borders (Munyanyi, 2017). According to Gwenhamo (2011), in foreign direct investment an

investor acquires a substantial controlling interest in foreign firms or sets aside a subsidiary in a foreign country. For the purposes of this study, FDI refers to all the financial assistance made by foreign investors to acquire non-controlling interest in domestic companies. FDI by foreign firms remains one of the largest and valuable sources of external financing over the past three decades in Zimbabwe (Muzurura, 2019). Foreign direct investment also includes green-field investments, where a foreign owned country builds its operations from the ground up in a different country, and also includes the construction of new production facilities (Ashraf & Herzer, 2014).

2.3 Relationship between FDI and Domestic Investment

The effect of FDI on key macroeconomic variables (growth and domestic investment) depends on a country's absorptive capacity measured in terms of the level of development of its human capital and financial system (Aigheyisi, 2016). This is hardly contentious considering that one of the benefits of FDI is that it is a means of technology transfer and the ability of an economy to absorb the benefits therefore is a determinant of its effect on the level of domestic investment in the economy (Aigheyisi, 2016). In countries such as less developed countries, the effects could be negative, but for fast emerging economies and developed countries the effects are usually positive.

The effects of FDI on domestic private investment varies depending on the domestic investment environment of the host country and therefore FDI could result in crowd-out of domestic private investors those who cannot compete with more efficient and technologically more superior MNCs and had operated under a heavily protected trade regime for a long time (Aragie, 2014). On the contrary, FDI generates spill overs through new technologies diffusion and as a result it can crowd-in domestic private investment.

The impact also sees movement from DI to FDI and in developing countries, this results in domestic investment catalysing FDI flows. In most cases, domestic investors tend to be adequately equipped with knowledge of the local investment climate and their performance signals the state of the economy to foreign investors. Consequently, in an environment where there is information asymmetry between domestic and foreign investors, domestic private investment will drive foreign investment (Aragie, 2014). Moreover, domestic investment may also create spill over to foreign direct investment

and for instance local investments in infrastructure reduces the transaction costs and increase the return on domestic private investment as well as foreign direct investment (Aragie, 2014).

FDI has both positive and negative effects on private investment despite its important role in the economic development of host countries (Van BoN, 2020). FDI inflows, on the other hand, encourages local investment. In some cases, domestic investors may supply raw materials and do outwork for FDI enterprises and receive and learn advanced technologies from these enterprises to lower production costs and this exemplifies the crowding-in impact of FDI on private investment (Agosin & Machado, 2005). This is an example of the crowding-out impact of FDI inflows on private investment (Delgado & McCloud, 2017).

Numerous conclusions showing both negative and positive effects of FDI on gross fixed capital formation have been made. A study by Fry (1993) conducted using five countries from the Pacific Basin on the effects of FDI on domestic investment established that domestic investment falls as a result of FDI. Fry (1993) therefore concluded that there are varying effects of FDI and its impact on domestic investment by location. A study by Bosworth and Collins (1999) found out that an increase in capital inflows results in domestic investment increase and concluded that FDI impacts significantly on domestic investment in a positive way.

Ndikumana and Verick (2008) found a bi-directional relationship between FDI and local investment. Numerous studies conducted in Africa have also found out a neutral relationship between FDI and gross fixed capital formation and these include studies by Agosin and Machado (2005), a study by UNCTAD (2003), and a study by UNECA (2006). Some studies have also provided evidence of a positive impact on private investment by FDI, suggesting that FDI crowd in private investment (Ndikumana & Verick, 2008).

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exemplifies the crowding-in impact of FDI on private investment (Agosin & Machado, 2005). This is an example of the crowding-out impact of FDI inflows on private investment (Delgado & McCloud, 2017).

The operations of foreign firms may influence domestic investment by causing knowledge spillovers, influencing factor cost, and promoting collateral benefits (Abdullah, 2017). However, how FDI influences domestic investment is dependent on the policies and the types of FDI received by a host country. Depending on these factors, FDI may promote or discourage domestic investment (Abdullah, 2017).

Where there is a dearth of domestic savings required to meet the investment need of an economy, foreign investment becomes desirable to fill the domestic savings-investment gap (Akande & Oluyomi, 2010). The inflow of foreign direct investment to an economy is expected to raise the level of investment therein, enhancing its growth (Aigheyisi, 2016). According to Arazmuradov (2015) firm efficiencies and productivity of private domestic investments are increased by FDI inflows. A study by Lamine (2010) established that the inflows from FDI allows for the integration into the global economy of domestic economy and this increases the earnings from exports. According to UNCTAD (2018), there is a positive link between FDI and domestic investment, with FDI resulting in improved domestic investment. Feeny et al. (2014) in their study established that the local economy is protected by FDI from domestic market imperfections that encumber the availability of credit during cash and financial crises.

Bjorvatn et al. (2016) revealed that domestic firms benefit from foreign firms through the introduction of new processes of production in the host countries. Foreign firms therefore result in diffusion of new technology which occurs at an accelerated pace. The Economic theory however refers to a number of ways in which capital accumulation may be affected by FDI in recipient economies and this is through effects (both direct and indirect) on capital formation. The impact of FDI largely depends on the entry mode of MNEs (Amighini, McMillan & Sanfilippo, 2017). In contrast, Ditimi and Ogbuagu (2014) argued that increasing FDI in the primary sector has a negative effect on domestic investment (Feeny et al., 2014).

A study by Morrissey and Udomkerdmongkol (2012) and a study by Mutenyo, Asmah, and Kalio (2010) found out that increases in FDI crowd out domestic investment. On

the other hand, Ramirez (2011), Al-Sadig (2013) and Farla et al. (2014) established some crowding in effects of domestic investment by FDI. Iacovone et al. (2014) and Eregha and Ibidapo (2012), through their studies, noted that FDI resulted in domestic investment being crowded out.

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According to Havranek and Irsova (2015) host countries can expect more spillovers from FDI when they enforce strong intellectual property protection. On the other hand, IMF (2015) stated that large capital inflows induced by financial openness have undesirable economic growth effects. The findings suggest that FDI causes rapid monetary expansion due, hence, high attendant costs of pursuing sterilization policies; inflationary pressures, real exchange rate appreciation and widening current account deficits (Muzurura, 2019).

Kosova (2010) conducted a study in the Czech Republic, which examined how FDI affects domestic investment and the findings showed that as a result of FDI, both crowding out effects and technology spillovers occur. Another researcher, Mullen (2010) pointed out that the outward FDI stocks are associated with a reduction in both domestic capital stocks and flows in a particular industry. The monopolistic tendencies of foreign subsidiaries may crowd-out domestic private investment (Eregha, 2015). This is because domestic firms do not have an ability to compete successfully with foreign firms because most foreign firms advertising and marketing power. Further, when a significant portion of an economy is controlled by MNEs, negative externalities occur. The extent to which foreign direct investment is growth enhancing depends on the degree of complementarities and substitutability between foreign direct investment and domestic private investment for the host-country (Aragie, 2014).

MNEs are known for causing technological spillovers in a host country, which may increase productivity of domestic firms, raise the return on investment, and promote investment and economic growth in the host country. FDI may also promote collateral

benefits and facilitate domestic investment and may change factor costs and influence domestic investment (Abdullah, 2017). Models on export spillovers suggest that local firms learn exporting strategies from their foreign counterparts by collaboration and imitation and use this knowledge to penetrate into new markets, which enables them to exploit scale economies and helps them to increase their productivity (Abdullah, 2017).

On the other hand, as a result of adverse competition, domestic firms are forced to move up along the average cost curve and because domestic firms have higher marginal costs than foreign firms, local firms will then lose market shares to MNCs, reduce output, and move up along the average cost curve (Abdullah, 2017). As a result of negative backward linkage effects, negative spillovers also occur. FDI may also reduce the consumption of domestic products if MNEs procure fewer inputs in a host country. This results in low productivity in host countries. It has also been argued that MNCs sometimes limit the flow to domestic firms of firm specific knowledge and therefore preventing spillovers to local firms. If the quality of labor is poor, the gap in technological know-how between local and foreign firms will be too wide, it will be difficult for the local workers to learn from foreign firms, and no significant spillovers from MNCs will take place (Abdullah, 2017). A large technology gap between local and foreign firms lowers spillovers.

If MNCs use old technology and employ low-skilled workers who are unable to learn from MNCs, spillover will be limited (Herzer, 2012). Some studies also report that MNEs do not use more advanced technology in countries where the proportion of skilled workers is low, which restricts the scope for improving productivity in host countries. MNEs sometimes pay wages hat are higher when compared to domestic firms, and this has disadvantages of restricting knowledge diffusion in the country of host. As MNEs offer higher wages domestic firms may also be forced to offer higher wages, and this influences the operational costs and thereby influencing negatively domestic investment. On the other hand, due to competitive pressure from foreign firms, if local firms modernize their production process, FDI may increase domestic investment (De Mello, 1999).

2.4 Total Investment

Total investment in an economy at any point in time comprises of domestic capital formation and foreign capital inflow (Aigheyisi, 2017). It is given by the following formula:

It = Id, t + If, t [1]

Where It = total investment, Id, t = domestic investment (investment by domestic firms) and If, t = foreign direct investment (and other forms of foreign investment) inflows (Aigheyisi, 2017).

The development impact of FDI (or If, t) depends on its effect on Id, t and if it has no effect on Id, t, increase in If, t will engender increase in total investment It in the economy (Aigheyisi, 2017). If there is a crowding in effect which is likely to occur where there are no existing domestic producers owing to non-availability of technological requirements or lack of knowledge of foreign markets, and FDI inflow engenders introduction of new products and services in the economy either for the domestic market or for exports, the increase in FDI will engender a more than proportionate increase in It (Aigheyisi, 2017). If FDI inflows results in crowding out (or substitution) of domestic investment which is likely to transpire where there already exist domestic producers, as a result of their being exposed to foreign competition, the contribution to total investment by such FDI will be less than the FDI inflow (Aigheyisi, 2017). The effect of FDI on domestic investment is however dependent on the country's absorptive capacities (Aigheyisi, 2017).

2.5 Strategies for Attracting and Promoting FDI

There are various strategies that host countries can adopt to encourage and promote quality FDI. These measures include direct measures such as subsidies, tax exemptions or reductions, which acts as incentives to induce foreign firms to act in a certain direction or indirect measures, which consists of regulations and/or restrictions designed to increase the cost of doing business and to determine the reduction or closure of certain operations (Donciu, 2015). In receiving countries, in general, and particularly in those in transition, setting and especially the implementation of some policies to promote FDI has contributed significantly to the attraction of foreign capital and

mentions about three generations of policies to promote foreign investment (Donciu, 2015).

The first generation of policies requires the adoption of "friendly" policies by the government to attract foreign investors, through reducing barriers to inflows of FDI, and through markets liberalization. This also includes building policies which are non-discriminatory treatment for foreign investors regarding the domestic ones by improving the functioning of market mechanisms (Donciu, 2015). Countries should also attract foreign investment by creating a good climate for investors. In general, government policies should be aimed attracting FDI and this should come as a result of improving access to input, both local and imports, through liberalization of trade, through production costs reduction, through incentives offering and development of export processing zones. There is need to create friendly policies that encourage investments, such as policies aimed at reforming domestic financial markets to ensure access to credit. FDI can be attracted when there are friendly financial systems that ensure that local companies are not exploited by foreign firms because of lack of funding. Alfaro et al. (2009) mentioned that through setting up friendly business systems, local and indigenous firms are able grow, prosper and self-select into supplier status.

2.5.1 Policies aimed at ensuring access to foreign markets

There is for access to foreign markets, to attract FDI which is export oriented. These is needto use frequently measures such as anti-dumping measures, compensatory or of protection measures (Donciu, 2015). During this framework, countries offering the most competitive environment for export production will ultimately be the beneficent of such investments (Donciu, 2015). It is difficult to attract foreign investment when there are restrictions which makes it difficult to trade. Shaping Export Processing Zones (EPZs) is important in attracting FDI and spearheading investment into the local economy. The EPZ must not be discriminatory and should promote investment from both foreign and local firms (Moran et al., 2016).

2.5.2 Ease of doing business

It is important to ensure ease of doing business as an important factor in attracting FDI. This includes the political and legal environment which should facilitate or attract

foreign investment. Economies with a high rank (1 to 20) have simpler and friendlier regulations for businesses. Countries with challenges in allowing business may face challenges in attracting FDI.

2.5.3 Transparent and dependable conditions for all firms

To attract FDI, there is need for the regulatory environment to exercise fairness.

2.5.4 Backward linkages from FDI into local economy

To raise competitiveness, there is need to allow pressure from foreign investors on local investors. On the other hand, there is also need for foreign firms to assist local firms, with assistance ranging training, management coaching, financial planning and assistance with export markets knowledge. The findings are consistent with the findings of a study by Gorg and Seric (2016) who found out that there is need for backward linkages to be integrated into the local economy.

2.5.5 Provision of Commercial infrastructure

There is need to provide the necessary infrastructure required to attract quality investments, such as good transport facilities, including road, rail and air, sufficient number of ports, reliable energy supply, and highly skilled labour. The perennial power shortages experienced in Zimbabwe are not ideal for investment and this affects FDI promotion.

2.5.6 Protection of intellectual property rights

There is need for policies aimed at protecting the intellectual property rights of foreign investors. Investors require guarantee that their assets will not be exploited or invaded.

2.5.7 Encouraging spill overs from FDI into the indigenous economy

FDI can be promoted when spill overs are integrated into the indigenous or local economy. Here, there is need for movement of employees from foreign firms to local firms to spread skills and knowledge. Boly et al (2014) mentioned that there is also need to encourage diaspora members to form corporations with local firms and this generation of linkages results in host countries' internationalization.

2.5.8 Providing access to credit reforming local financial markets

There is need to reform the domestic financial markets to ensure access to credit to boost confidence of investors.

2.5.9 Regulation

There is need for regulations and restrictions when foreign firms are being hostile to local firms. Regulation is important to protect both foreign and local firms.

2.5.10 setting up Investment Promoting Agents

To attract FDI, the MoF and the RBZ should set up an Investment Promotion Agency (IPA) with the focus of promoting FDI. The role of the IPA would be to identify suitable foreign investors. The IPA can also act as the link between foreign investors and the domestic economy and provide all foreign investors seeking to invest in Zimbabwe with all the information and act as a catalyst for FDI promotion (Moran, 2014). In addition, the IPA should make follow up and be involved in after-investment care, identifying satisfied investors and any factors affecting the operations of foreign investors.

2.6 Empirical Literature Review

The study reviews empirical literature from an international perspective, from a regional perspective and from a local perspective, looking at both developed and developing countries.

2.6.1 Empirical Literature: International Perspective

Sohail, Rehman, and Azeem (2014), in a case of single country case study of Pakistan, investigated the relationship between FDI and DI. The results from the regression and correlation analysis revealed that FDI crowd-in domestic investment. Haq and Zhu (2016), subsequently found mixed findings with FDI having a crowd-out effect in Pakistan and a crowd in effect in the long run.

A study was also conducted by Ullah et.al (2014) on the dynamic interaction of FDI and domestic investment and economic growth in Pakistan for the period 1976–2010. In a study by Megbowon et al (2016) on FDI and gross fixed capital formation in South

Africa using a time series analysis for the period from 1980-2014. The study found out that in the long run, there was no causality between FDI and gross fixed capital formation. Amighini et al (2017) also made an investigation on the relationship between FDI and DI and found out that FDI brings positive impacts to DI.

Deok-Ki Kim and Jung-Soo (2003) conducted a study in Korea and established that FDI depends strongly on the local country's macroeconomic conditions. Szkorupova (2014) also investigated on the relationship between FDI and DI in Eastern and Central Europe. The study used panel data for the period 1993 to 2012. The study found a negative crowd out effects of FDI on domestic investment. The study was however based on 19 observations which were considered too little to establish reliable findings.

Kamaly (2014) conducted an empirical study using a 30-year panel data study for 16 countries where he investigated whether foreign direct investment crowds in or crowds out domestic investment. The results of the study revealed that the effect of FDI ON domestic investment varied across the 16 countries. A positive crowd in effect was reflected in 13 nations.

Farla, Crombrugghe and Verspagen (2013) studied on the effects of FDI on DI using a GMM estimator for 46 countries on a 12 years' panel data. The study also found out that FDI crowds in domestic investment and observed a weak relationship, although positive, positive between high investment and good governance. Findings from a study by Agosin and Mayer (2000) on a study of 3 regions which are Latin America, Asia and Africa showed mixed effects of FDI on domestic investment.

Similar to the findings of a study by Agosin and Mayer (2000), Agosin and Machado (2005) used the (GMM) estimation method to investigate the effects of FDI on DI and the findings revealed that FDI crowds out DI. The study was however criticized for not undertaking robustness checks such as serial correlations, heteroscedasticity and normality test to minimize risk of obtaining spurious results which could lead to unjustified results.

A study by Wang (2010) conducted using panel data study from 1970-2004 to assesses the impact of FDI on domestic investment in both less developed and developed countries using a sample of fifty countries showed that FDI crowds out DI in the short term in developed countries, but in less developed countries it has neutral effects.

In Vietnam, Pham (2016) conducted a study to establish the effects of FDI on DI, and applied a GMM approach on 2001–2010, pane data. Firms in Vietnam were found to have lost a significant share of the market as a result of FDI. The study concluded that FDI while FDI can crowd out domestically owned firms, it contributes to a positive spillover effect and does not influence their industry.

Begum and Akhi (2019) also examined the impact of foreign direct investment inflows on domestic investment using time series data obtained from 1978 to 2017 in Bangladesh-. The study used Gross Capital Formation (GCF) as the dependent variable and used FDI, export and broad money supply as independent variables. The study concluded that FDI while FDI can crowd out domestically owned firms, it contributes to a positive spillover effect and does not influence their industry.

A study was conducted by Goedegebuure (2006) on the relationship between FDI and domestic investment in the Netherlands, with focus on Dutch MNEs. In the study, domestic investment was divided into capital investment which comprised of machinery and equipment and research and development (R&D). The study concluded that FDI while FDI can crowd out domestically owned firms, it contributes to a positive spillover effect and does not influence their industry.

2.6.2 Empirical Literature: Regional Perspective

A study was conducted by Anaman (2018) on the impact of foreign direct investment on domestic investment in Saharan Africa, as a cross country study of Kenya and South Africa from 1972 to 2011. The study used direct investment, trade openness, and domestic credit to private sector as independent variables (Anaman, 2018). The study used controls variables which included inflation and civil liberty. The study findings revealed that FDI has no impact on DI in both short and long run. The study also found a negative impact of FDI on domestic investment in South Africa in the short run. However, critics can be laid upon the study which could have led to unjustified results. Firstly, as opined by Levine and Zervos (1996) cited in Badze and Nhavira (2016) a cross-country study is prone to measurement, statistical and conceptual problems.

An empirical study carried out by Ahmed et al. (2015) using time series data analysis in Uganda for the period 1992 to 2012 investigated whether FDI has a crowding out effect on domestic investment, specifically targeting the nine productive sectors of the

Ugandan economy. The study used total investment as a proxy for foreign direct investment (dependent variable) whilst nine production sectors of the economy namely mining, agriculture, construction, transport, finance, electricity, community services, manufacturing and economy were used as independent variables for the domestic investment. The authors also employed some diagnostic tests such as the LM Test to test for the autocorrelations, Unit Root test (Augmented Dickey Fuller test) for stationarity and no serial correlation were found in the study. The results of the study revealed that FDI has a neutral effect on domestic investment. Specially, in the study, the authors found pout that the agriculture and construction sectors had a persistent crowd-out effect, whilst crowding in effect was also found out specifically in the mining & wholesale sectors. The transport, finance, electricity and community services had neutral effects. However, the study falls short as it is argued in empirical literature that, a time series data analysis should have twenty-five of more observations so it the produce reliable and justified results. Fink *et al* (2003) cited in Badze and Nhavira (2016) also supports that Granger causality tests for time series data analysis produce unreliable results for small samples of less than 25 years.

Acar et al. (2012) conducted a study which analysed data from some selected MENA countries to establish the effect of FDI on domestic investment. The time period was 1980-2008. The study classified the selected countries into oil-rich and oil-poor countries and the GMM technique was used in the analyses. The findings showed that FDI has a negative effect on DI. Lautier and Moreaub (2012) also extended the research by exploring the impact of DI on FDI in developing countries. The study showed that countries with political stability had high FDI inflows.

A study conducted by Ndikumana and Verick (2008) focused on the linkages between FDI and domestic factor markets in Africa. The study aimed at establishing whether FDI inflows were impacted by domestic investment and whether FDI impacted on domestic investment. A study by Adams (2009) examines the relationship between FDI, domestic investment and economic growth for a panel of forty-two countries in Sub Saharan Africa for the period 1990-2003. Using OLS and fixed effects estimation, the study finds a significant negative effect of current period FDI, but a significant positive effect of lagged FDI on domestic investment with both estimation methods (Adams, 2009).

Thus, the results from this study show that FDI has an initial crowding-out effect on domestic investment, and a subsequent crowding-in effect in later periods and concludes that there is the need for the continent to have a guided approach to FDI (Adams, 2009).

Eregha (2011) implemented a panel co-integration analysis to determine the dynamic linkages between FDI and domestic investment in ten Economic Community of West African States (ECOWAS) countries from 1970 to 2008 (Acquah, 2017). Although foreign investment inflows increased during the 1990s, the study shows that, the increase of foreign investment inflows in Africa was less than that of other developing regions (Acquah, 2017). The results also affirm that there is a simultaneous relationship between inward FDI and domestic investment and revealed that FDI inflow substitutes domestic investment in the region ((Acquah, 2017). The conclusions made from the study was that to attract FDI, there is need to ensure that there are proper regulations. Omri and Kahouli (2014) in their study on effects of FDI on DI found out that a significant and positive relationship exist between FDI and DI.

2.6.3 Empirical Studies: Local Perspective

A study by Banks (2020) mentioned that due to the process of economic normalisation and the improvement of the business climate, the flow of FDI to Zimbabwe has gradually recovered since 2008 but remains far under their potential. However the passage of cyclone Idai and the drought caused by El Niño experienced in 2019 caused the recession in the country resulting in poor performance in terms of FDI. According to the UNCTAD's 2020 World Investment Report, FDI the inflow of FDI fell rapidly to USD 280 million in 2019, compared to pre-crisis period (USD 745 million in 2018). The total FDI stock in the same year reached USD 5,7 billion.

According to Gwenhamo (2011), in foreign direct investment an investor acquires a substantial controlling interest in foreign firms or sets aside a subsidiary in a foreign country. For the purposes of this study, FDI refers to all the financial assistance made by foreign investors to acquire non-controlling interest in domestic companies.

A study conducted by Gochero and Boopen (2020) on the effect of foreign direct investment inflow in mining on the economic growth of Zimbabwe. The autoregressive distributed lag (ARDL) approach is used in this study to examine the impact of between

foreign direct investment (FDI) in the mining sector on the Zimbabwe economy, while controlling for both non-mining FDI and domestic investment. From the studies conducted between 1988–2018, the results show that there is a significant positive relationship between foreign direct investment in the mining sector and the country's GDP in the long run. As compared to FDI in non-mining sector and domestic investment, mining FDI is revealed to have relatively higher effects. However short-run analysis revealed that though at a relatively lower extent, mining FDI as well as non-mining and domestic investment still has positive and significant impacts on growth of the economy. This implies that for such investments to have their full effect on the economy, it should take some time.

Muzurura (2019) with focus on the role of uncertainty, exports, cost of capital, corruption and market size, conducted a study on foreign direct investment in Zimbabwe. The study mentioned that most developing countries, including Zimbabwe, see foreign direct investment as a panacea for increasing domestic savings, creation of employment, eradicating poverty, and boosting economic development. Foreign direct investment also has some spill over benefits to the economy which includes, facilitating technological progress, enhancing production efficiencies, promoting skills and knowledge diffusion and increasing international competitiveness. The paper investigated how cost of capital, uncertainty, exports, market size and other macro factors in attracts FDI in Zimbabwe. This time series analysis using Ordinary Least Regression equation for the period 1998-2017 was used for this study. Market size and lagged exports were found to be positive and statistically significant, while uncertainty and cost of capital were found to be negative and statistically significant. The paper recommended that in a bid to improve domestic absorptive capacity such as the elimination of uncertainties in the economy, promoting more trade openness, improving market size and liberalisation of credit and financial markets there is need for adoption of policies to reduce firm borrowing costs.

From the review of the literature, it is observable that most previous studies focused on the effect of interaction between FDI and financial development or economic growth While several previous studies about foreign domestic investment and domestic investment concentrated on continents as a whole or specific economic regions, this study adds to the existing literature by breaking down the analysis to the country level.

This is because of the little studies that have been conducted to investigate the effects of FDI on domestic investment in Zimbabwe. To the best of the researcher's knowledge, there are few studies on the effect of FDI on domestic investment in Zimbabwe. This study intends to add to the body of knowledge in this field.

2.7 Conceptual framework

The conceptual framework in this study shows the variables of the study. Foreign Direct Investment, Real GDP per Capita, Credit to Private Sector and Money Supply (M2) are the independent variables while Gross Fixed Capital Formation is the dependent variable. For instance an increased real GDP oer capita,acts as appositive springboard for investments.Money supply increases the amount of money in the economy which typically lowers interest rates,this attracts more investment. Control variables include Trade Openness, Inflation, Exchange Rates and Political Stability. The figure below (Figure 2.1) shows the conceptual framework adopted for the study.

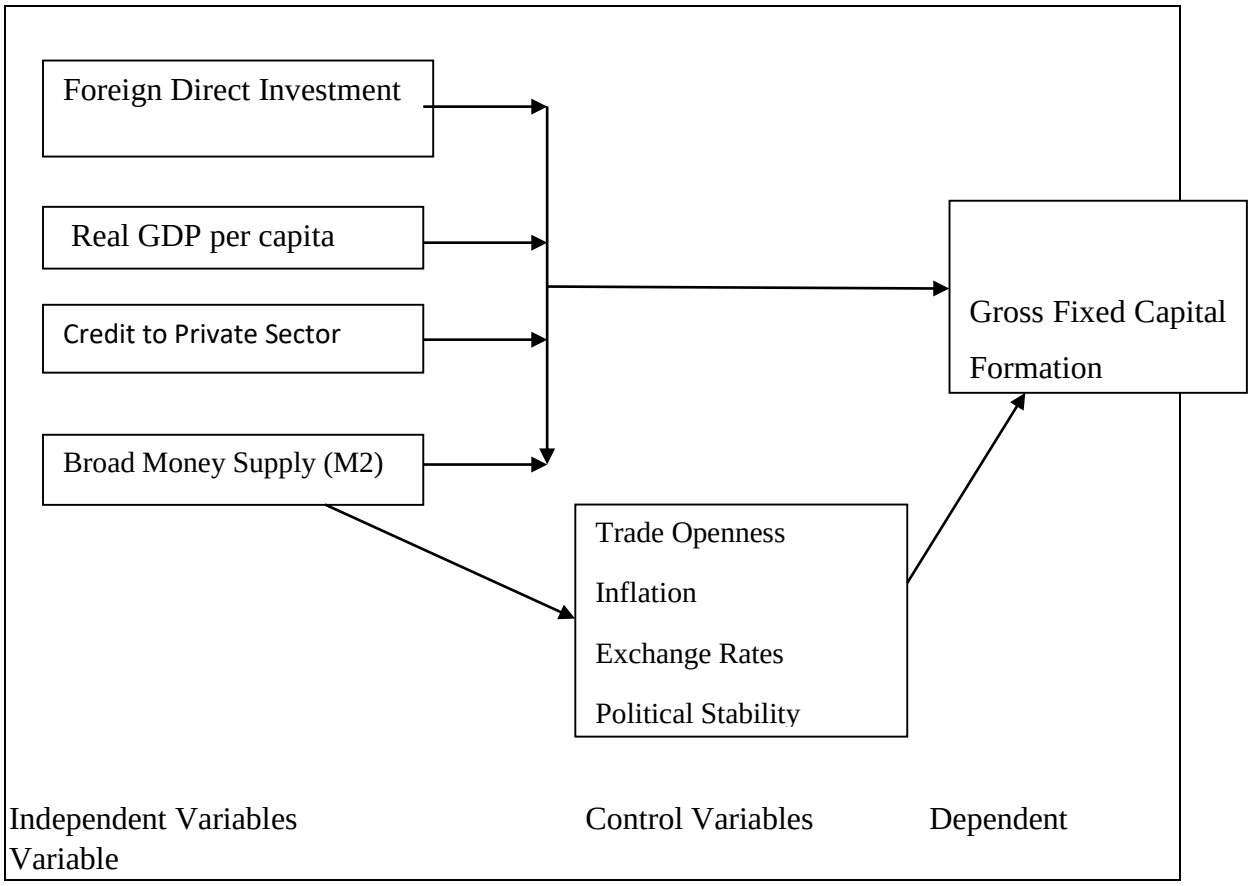

Figure 2.1: Conceptual Framework Source: Author Own Compilation

2.8 Chapter Summary

The chapter has presented literature on foreign direct investment and domestic investment in Zimbabwe. The chapter has presented the movement of foreign direct investment in Zimbabwe from 1970 to 2019.Also discussed were the variables of the study through a conceptual framework. Empirical studies were also reviewed, and the study gap revealed. The following chapter presents the methodology of the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

According to Saunders, Lewis and Thornhill (2009), research methodology is defined as the approach by which the meaning of data is extracted and is a continuous process. The research methodology lays out the steps to take in order to get answers to issues that are of concern in research (Kedge, 2017). This chapter discusses the methodology of the study.

3.2 Research Philosophy

Research philosophy can be defined as the development of research assumption, its knowledge, and nature (Saunders, Lewis & Thornhill, 2007). Positivism, interprevism and realism are the main research philosophies. This study adopted the positivist approach. The positivism approach assumes that the research can be purely objective since the researcher is independent of the research. Research independency means that when carrying out the research, the researcher maintains minimal interaction with the research participants (Wilson, 2010). Studies with The positivist paradigm consider the world to be external and objective thus the study is based purely on facts. Positivism proposes for the application of the methods of natural science to the study of social reality and beyond (Bryman & Bell, 2007). On promoting FDI that enhances local investment, the research was considered to be best answered from a positivist approach, which required an objective analysis of the phenomenon.

3.3 Research approach

According to Saunders, Lewis and Thornhill (2009) there are two main research approaches which are inductive and deductive. Saunders, Lewis and Thornhill (2009) further mention that the deductive approach is also known as “testing a theory”, in which the researcher develops a theory or hypotheses and designs a research strategy to test the formulated theory. The inductive approach on the other hand, is also known as “building a theory”, an approach in which the researcher starts with the collection of data to develop a theory.

In this research, deductive approach was adopted in carrying out this study. Deductive approach is an approach in which theory and hypothesis are developed and tested. The validity of assumptions (or theories/hypotheses) in hand is tested using the deductive approach. This study involved assessment of casual relationships between variables using primarily quantitative type of data being collected. The deduction approach aims to address the question of validity of the theory in explaining a particular phenomenon, i.e. theory driven, which is the basis of this research hence the use of a deduction approach. The study also involved development of a hypothesis and also used the deductive approach based on the understanding that the research problem of this study comes from existing theories. The theories used in this study have deduced a theoretical framework that shows the links between the different variables of interest.

3.4 Research Design

Research design is defined as the plan and structure of investigation that is used to obtain answers to research questions (Saunders, Lewis & Thornhill, 2009). A research design, according to Cooper and Schindler (2014), is an overall scheme or program of the research that outlines what the researcher will do, from writing hypotheses to operational implications to final data analysis. It enables the achievement of objectives pertaining to the research purpose through empirical evidence that is required economically. According to Collins and Hussey (2015), a number of research designs exists, which include descriptive (correlational, survey, evaluative, meta-analysis), exploratory and causal comparative. This study adopted a descriptive correlational research design. With descriptive research, information that concerns the current status of phenomena is obtained and a description of what exists with respect to variable or conditions in a particular situation is provided while correlational research identifies relationships that are predictive using correlations or statistical techniques (Creswell, 2014).

In this study in order to cover a wide range of variables and their descriptive their interrelations to show the extent to which conditions in a situation are connected, a correlational approach was adopted. The researcher found this research design suitable because of the need to gain an understanding of the variables of the study.

3.5 Research Strategy

A research strategy is defined as the general plan of how the researcher will answer the research questions (Cooper & Schindler, 2014). Research strategy according to Saunders et al. (2012), is the general plan of how the researcher will approach answering the research questions. The common research strategies used when conducting a research include survey, case study, grounded theory, action research, ethnography, cross sectional studies, archival research, longitudinal studies and participative enquiry (Esterby-Smith, Lyles, & Lowe, 2003). The objectives and research questions of the study determines the choice of a research strategy. As a research strategy, a survey was used for this study. A survey was adopted because it is associated with both the deductive and descriptive research approach (Saunders, Lewis, & Thornhill, 2009). The survey strategy was deemed best to answer the research questions because the study adopted a deductive research approach and a descriptive research design. According to Saunders, Lewis and Thornhill (2009) with surveys, a large amount of data can be collected from a population size economically. Moreover, collection of quantitative data which can be analysed quantitatively through descriptive and inferential statistics is enabled through surveys. The data generated from surveys can be useful in several ways that include the suggestion of possible reasons for existence of certain relationships between variables as well as for producing models of these relationships.

To seek convergence of results, a mixed method approach was used. According to Burns and Grove (2003), qualitative research is one that does not require a statistical procedure to produce research findings. Quantitative research methodology On the other hand, is the systematic, controlled, empirical and critical study of natural phenomena driven by theory and hypothesis about the presumed relationship among such phenomena (Strauss and Corbin, 1990). Accordingly, Tashakkor and Teddlie (2003) further posits that for better opportunities to answer research questions and better evaluation of the extent to which research findings can be trusted and inferences made from them, multiple methods provide better opportunities. Thus, the researcher used both research types (Qualitative and Quantitative) to gather a much more reliable and relevant information on how FDI impacts on domestic investment. The Pooled Ordinary squares multiple regression analysis which was used by the research is revealed by the quantitative research. Some diagnostic tests were carried out during the

research study which included the normality, heteroscedasticity, serial correlations and multicollinearity among the repressors. For the stationarity of the variables, Unit Roots tests were carried out and this was done to avoid spurious results in a time series data analysis.

3.6 Research/Econometric Analysis

The study sought to achieve objective three by using time series data.

Model Specification

The study adopted and modified a study by Anaman (2018). The respective baseline model for both pooled OLS and time series analyses on the impact of FDI on Gross Capital Formation (used as the proxy of domestic investment) is specified below:

DI=f (FDI; RGDP; CPS; M2; TO; IFR; ER; PS)

Therefore, to estimate the parameters *β,* the equation can take the following form

$$lnDI_t = \beta_0 + \beta_1 lnFDI_{it} + +\beta_2 lnRGDP_{it} + \beta_3 lnCPS_{it} + \beta_4 lnM2_{it} + \beta_5 lnTO_{it} + \beta_6 lnIFR_{it} + \beta_7 lnER_{it} + \beta_8 lnPS_{it} + \varepsilon_{it} \quad (1)$$

Time Series Equation

The baseline equation is specified below

$$lnDI_t = \beta_0 + \beta_1 lnFDI_t + \beta_2 lnRGDP_t + \beta_3 lnCPS_t + \beta_4 lnM2_t + \beta_5 lnTO_t + \beta_6 lnIFR_t + \beta_7 lnER_t + \beta_8 lnPS_t + \varepsilon_t \quad (2)$$

The study employed the following variables

Where: DI= Gross Fixed Capital formation

FDI= Foreign Direct Investment

RGDP= Real GDP per capita

CPS= Credit to private Sector (domestic)

M2= Broad Money Supply

TO= trade openness

IFR=Inflation Rate

ER= Exchange Rate

PS=Political Stability

ε_t =Error term

Explanation of Key Variables

Domestic investment- This refers to the use of capital in cash or other lawful assets By non-foreigners.

FDI- FDI is a category of cross border investment in which an investor resident in one economy establishes a lasting interest and a significant degree of influence over an enterprise resident in another economy. According to Mutenyo (2010), the effect of FDI on domestic investments is abstruse. On one hand, inward investment from abroad may crowd -out domestic firms by competing in the product, labor, and financial markets. On the other hand, FDI can crowd-in domestic firms by complementing their productivity through advanced technology spillover (Anaman, 2018). Domestic investment includes FDI from an analytical point of view thus if the coefficient is significantly greater than unity, it implies the crowding-in effect. However, if the reported coefficient is significantly less than unity, the crowding-out effect is implied and if the coefficient equals to one, then FDI has a n eutral effect on domestic investment (Mutenyo et al., 2010).

GDP- According to the neoclassical investment theory, private investment is assumed to be positively related to the growth of real GDP (Mutenyo et al., 2010). The relevance for GDP growth is that a growing economy would boost the prospects of market potential.

Trade Openness- It is the sum of imports and exports normalized by GDP.The competitiveness of an economy increases due to openness of the economy to the international market. As a result, increased trade openness will mean increased level of domestic investment to meet up with the foreign demand (Andaman, 2018). A very open country permits trade of goods without regulatory barriers or their associated cost with other countries.In summary there is appositive correlation between trade openness and domestic investment.An empirical measure of trade openness is defined as the ratio of total trade to GDP,and represents a convenient variable routinely used for cross country studies on a variety of studies. The second proxy is the ratio of exports to

GDP,while the third proxy is the ratio of imports to GDP.The last proxy is an index of trade openness, which accounts for the country size and geography.

Inflation- It is the rate of increase in the cost of living as the price of goods and services rise. The rate of inflation measures the annual percentage change in the general price level.The depreciation of the nominal exchange due to a rise in domestic inflation in response to foreign inflation with a given level of real exchange rate, adversely hurt investors who rely on imported goods for their business. An indicator of inflation is the Consumer price index (CPI). It measures the percentage change in the price of a basket of goods and services consumed by households.

Broad Money Supply- It refers to the total stock of money of all types (currency as well as demand deposits). Broad money supply is a mode of measuring the amount of money circulating in an economy. Money and quasi money (M2) is usually expressed as % of GDP. For this study, money supply was represented by 'M2' in the models. Theoretically according to Keynes, when money supply increases interest rate falls and investment increases.

Political stability- The index of political stability is measured on a scale from 0 to 10 based on the degree of severity of political protest and violence in each natio in a given year. Indicators of political stability are rule of law,durable index,political stability. Government stability with the absence of internal conflict and ethnic tensions, basic democratic rights and ensuring law and order have a statistically significant effect on FDI attraction.

Methodology for Objective 3: To examine strategies for promoting foreign direct investment that enhances domestic investment in Zimbabwe.

The researcher sought to answer objective one and two by using interviews. Ryan *et al.* (2002) postulates that interview must be recorded either by tape or through Skype-interviews and notes should be recorded.

3.7 Data Collection Methods

3.7.1 Secondary data collection

The study used secondary data and adopted annual time series data from 1990 to 2019 to examine the impact of foreign direct investment in Zimbabwe. Secondary data was

derived from the World Bank Economic Indicators and from prior relevant literatures (journals, UNTA, World Bank journals, electronic cites).

3.7.2 Primary data collection

Interviews were used to collect primary data.

3.7.3 Interview guide development

In conducting this study, the research also used interviews to answer the third objective of policies aimed at promoting FDI that enhances local investment. The interview guide contained open ended questions. Prospective respondents were approached for an appointment before the interviews. A cover letter was used as an introduction to introduce the interviewer to the respondents and inform them on the purpose of the study. Confidentiality was guaranteed and the consent was sought before the questions were asked. Furthermore, respondents were informed that they are free to stop the survey at any point during the process if they feel uncomfortable to continue for whatever reasons. For respondents that were difficult to get, interviews were conducted via zoom, skype and telephone.

3.8 Population and sampling techniques

3.8.1 Population

Population is described as the complete set of elements with common observable characteristics or patterns that the researcher wishes to make some inferences (Cooper & Schindler, 2014). The target population of interest in this study consisted of respondents from the Ministry of Finance and Economic Development, Ministry of Industry and Commerce and RBZ, as well as independent economists and economic analysts. The target population for this study was 15 respondents who were interviewed. This is a relatively small sample size which is enough to support the depth of the study and richly textured information relevant to support the phenomenon under investigation.

3.8.2 Sampling methods

The techniques used include convenience, judgmental, quota and snowball sampling technique.

A purposive sampling was used for the selection of respondents which is a form of subjective sampling. Purposive sampling according to Bryman (2012) is a technique in which researchers strategically formulate their own questions in mind and a sample in an orderly and not random manner. For the purposive sampling, respondents were chosen based on their knowledge of the matter under investigation. Ten respondents were chosen by virtue of them working in ministries or agents of ministries which deals with FDI and thus were considered to desirable characteristics and could provide the required information.

3.9 Methods of data analysis

In the first part of the analysis, the researcher constructed a baseline model (Model I). The study also used robustness checks, to run a pooled OLS estimation. In the second part, an individual investigation through time series analyses is conducted using the baseline model that of the pooled OLS model. The researcher runs an OLS estimation and then checks for the stationarity of the residuals for the model to see if they are stationary at level.

The models used in the study were subjected to robustness checks for heteroskedasticity and for normality as a way on enhancing the validity of the findings. Data triangulation, which involves the use of multiple data collection methods and use of both qualitative and quantitative approaches was also used to enhance validity and reliability of data in this research.

In assessing whether the variables of the study are normally distributed, The Jarque-Bera normality test was adopted in the study. The tests of confidence intervals, the bivariate correlation analysis, hypothesis testing, and classical linear regression modelling assumes that variables are normally distributed and therefore assessing the variables' normality is a prerequisite. The Jarque-Bera normality test was therefore conducted before conducting the CLRM and correlation analysis to ensure that the normality assumption is met.

The necessary tables and narrative models were also used to represent the results obtained from the data analysis. Furthermore, each research question has been structured in such a way that it generates the underlying information, thereby answering a particular area of the subject so as to meet a defined objective.

3.10 Validity and reliability

According to Biyan (2012), reliability of a measure is referred to as the consistency of repeated measures to produce the same results across time and observation. In the study, the interview responses were sent to the interviewees for authentication and for reliability to be assessed. Saunders et al (2009) defined validity as the extent to which a test measures and produce what it intends to. In the study the interview questions were given to accounting experts during the research and the interview questions were sent to the respondents in order to ascertain if the instrument used was ideal, so that the interview process would be a smooth flow.

The models used in the study were subjected to robustness checks for heteroskedasticity and for normality as a way on enhancing the validity of the findings. Data triangulation, which involves the use of multiple data collection methods and use of both qualitative and quantitative approaches was also used to enhance validity and reliability of data in this research.

In assessing whether the variables of the study are normally distributed, The Jarque-Bera normality test was adopted in the study. The tests of confidence intervals, the bivariate correlation analysis, hypothesis testing, and classical linear regression modelling assumes that variables are normally distributed and therefore assessing the variables' normality is a prerequisite. The Jarque-Bera normality test was therefore conducted before conducting the CLRM and correlation analysis to ensure that the normality assumption is met.

3.11 Ethical Considerations

The researcher paid special attention to ethical issues relating to informed consent, no harm to participants, confidentiality and anonymity and the issue of permission.

3.12 Limitations

The major limitations encountered during the study was during administration of research instruments during the study i.e. in conducting the interviews. Firstly, the topic was viewed as political from some of the respondents and some of interviewees were reluctant to air out their views for fear of victimisation. The researcher however assured the respondents that the study is for academic purposes and is not linked to any political

affiliation. The study also encountered a general delay in getting responses from some of the respondents because of the general lockdown measures where some of the respondents were home and the researcher had to reschedule the interview slots and most of the interviews were conducted via zoom, video calls and skype and challenges were faced in connectivity. There was also challenges in getting data from some of the ministries due to bureaucracy issues.

3.13 Chapter Summary

This chapter has discussed and justified the research methodology that was used in the study. The chapter outlined the research design, population, sampling, the research instruments and data analysis methods used. This study adopted descriptive research design. Both the qualitative and quantitative methodologies (mixed methods research) were adopted in this study. In this study, the population was made up of respondents from the Ministry of Finance and Economic Development, Ministry of Industry and Commerce and RBZ, as well as independent economists and economic analysts. Purposive sampling was used in this study and the sample size was 10 respondents. The study used secondary data and adopted annual time series data from 1990 to 2020 to examine the impact of foreign direct investment in Zimbabwe. Secondary data was derived from the World Bank Economic Indicators and from prior relevant literatures (journals, UNTA, World Bank journals, electronic cites). The next chapter (chapter 4) presents, and analyses data collected.

CHAPTER FOUR

FINDINGS AND ANALYSIS

4.1 Introduction

The chapter empirically examines the relationship between foreign direct investment (FDI) and Gross Capital Formation in Zimbabwe. In this chapter, the presentation is provided on the findings from the analysis of the data from World Bank and RBZ on FDI inflows in Zimbabwe, GDP for Zimbabwe, Inflation and exchange rates, and the political stability situation of Zimbabwe for the period from 1990-2019. To obtain the historical evidence the researcher consulted both primary and secondary sources. From the findings presented in this chapter, conclusions and recommendations also emanated which were presented in the final chapter of the study.

In this chapter, descriptive statistics of the data used in the analysis were explored, and data diagnostics were also conducted before Classical Linear Regression Modelling (CLRM) was performed. The bivariate correlation analysis was conducted to check for multicollinearity problems. Eviews version 10 was used for computing the descriptive statistics and in the conducting of data diagnostics as well as in regression analysis. The study, using the Augmented Dickey Fuller Test, conducted Unit root tests on individual time series using at 1% significance, 5% significance and 10% significance levels. This was done to ensure that non-stationary variables are made stationary either by differencing or smoothing. The study also conducted Normality tests using the Jarque Bera normality test for each time series to ensure that before model estimation, the normality assumption is satisfied. Diagnostic checks were conducted to avoid regressions results that are spurious.

In estimating the relationship between FDI and DI, the pooled Ordinary Least Squares (OLS) technique was used using EVIEWS 10 software. The results of the study were analysed with a reconciliation to theory and empirical literature, to identify studies that concur with this study and those with divergent views.

4.2 Descriptive Statistics

The descriptive statistics from the sample data is shown in Table 4.1 below. The sample consists of a dataset on foreign investment and domestic investment (Gross fixed capital

formation) for the period 1990-2019. The statistics used were obtained from World Bank, as well as RBZ. Domestic investment (Gross Fixed Capital Formation) for the period 1990-2019 reached an average 7,3 billion US dollars (7,323,089,000) while the maximum investment was 25.9 billion US dollars (25,943,443,000) (World Bank Indicators). FDI inflows for the same period was 4.96 billion US Dollars. The estimated FDI inflow from the pooled data set is 0.17 billion US dollars with a standard deviation of 1.23 billion US dollars. An estimated real GDP of 28.25 billion US dollars was also recorded for the same period.

Since the study used time series data used, data diagnostics like the Augmented Dickey Fuller (ADF) test and the Jarque Bera test were made a prerequisite and used to interrogate the data structure before fitting the pooled Ordinary Least Squares (OLS) model. Descriptive statistics which were used for the preliminary investigation of each of the time series is shown in Table 4.1 below.

Table 4.1: Descriptive Statistics

Mean estimation Number of obs = 30

	Mean	Std. Err.	[95% Conf.	Interval]
di	12.70573	1.208107	10.23487	15.17658
fdi	1.333902	.2436744	.8355322	1.832272
rgdp	6.85e+08	6.85e+08	-7.16e+08	2.09e+09
cps	24.5855	3.48414	17.45964	31.71137
m2	273.9416	16.09762	241.0182	306.8649
to	-1.063825	.0603806	-1.187317	-.9403323
ifr	7.72e+07	7.72e+07	-8.06e+07	2.35e+08
er	2.24e+08	2.24e+08	-2.34e+08	6.82e+08
ps	-.8689286	.0484089	-.967936	-.7699213

Source: Author's compilation from Eviews 10

All the time series variables are continuous.

4.2.1 FDI- According to Mutenyo (2010), the effect on FDI on domestic investments is abstruse. On one hand, by competing in the product, labor, and financial markets, inward investment from abroad may crowd -out domestic firms. On the flip side, FDI may crowd-in domestic firms by complementing their productivity through spillover of advanced technology (Anaman, 2018).

From an analytical point of view, domestic investment includes FDI thus the response variable, which is a proxy has an average value of 1.333 percent, implying that there was a positive growth in foreign direct investment for the period understudy. This result is consistent to the results of the report by OECD (2019) which showed that direct investment grows at an average of 1.5 percent. Its minimum value is 0.19 percent with a maximum value of 6.120 percent, associated with a parallel standard error of 0.24 percent. This error is small implying that the mean is a suitable measure of central tendency since all observations of the time series are clustered around the mean.

4.2.2 GDP Growth - GDP Growth (GDPG) has a mean of 6.85 percent, with a minimum value of -6.61 percent and a maximum value of 4.72 percent. The result is supported by the findings of the study by Ndebele, and Mambo (2018) who found that the average GDP growth for Zimbabwe from 2015 to 2018 was 4.7 percent. Since 2019 the country has been reporting and posting negative GDP Growth (GDPG).

4.2.3 Trade Openness- Increase in trade openness will mean high level of domestic investment to meet up with the international demand (Anaman, 2018). A very open country allows countries to trade goods without regulatory barriers or their associated cost.

4.2.4 Credit to Private-According to Mutenyo et al., (2010), financial markets in developing economies are generally underdeveloped. In this vein, credit policies would affect domestic investment through the stock of credit available that have access to preferential interest rates (Mutenyo et al., 2010). It has a relatively high mean score of 24.58 percent. This result shows that there has been a substantial rise in credit to private levels in Zimbabwe.

4.3 Data Diagnostics

This section examines the diagnostic tests which were conducted. These include stationarity tests, tests for multicollinearity and normality in the data variables.

4.3.1 Unit Root test

The study, using the Augmented Dickey Fuller Test, conducted Unit root tests on individual time series using at 1% significance, 5% significance and 10% significance levels.

Table 4.2: Stationarity Test using ADF Test

Series	Test Method	Test Level	ADF -Test Statistic	MacKinnon t – critical value	Prob.	Decision	Variable for modelling
FDI	ADF - Fisher Chi-square	1%	-4.9870	-3.9204	0.0013	Stationary at First Diff	D(FDI)
		5%	-4.9870	-3.0656	0.0013	Stationary at First Diff	
		10%	-4.9870	-2.6735	0.0013	Stationary at First Diff	
RGDPG	ADF - Fisher Chi-square	1%	-3.7847	-3.0574	0.0116	Stationary at First Diff	D(RGDPG)
		5%	-3.7847	-3.0404	0.0116	Stationary at First Diff	
		10%	-3.7847	-2.6606	0.0116	Stationary at First Diff	
CPS	ADF - Fisher Chi-square	1%	-4.2528	-3.8868	0.0048	Stationary at First Diff	D(CPS)
		5%	-4.2528	-3.0522	0.0048	Stationary at First Diff	
		10%	-4.2528	-2.6666	0.0048	Stationary at First Diff	
M2	ADF - Fisher Chi-square	1%	-3.0875	-3.0574	0.0457	Stationary at First Diff	M2
		5%	-3.0875	-3.0404	0.0457	Stationary at First Diff	
		10%	-3.0875	-2.6606	0.0457	Stationary at First Diff	
TO	ADF - Fisher Chi-square	1%	-4.5813	-3.8315	0.0021	Stationary at Level	TO
		5%	-4.5813	-3.0300	0.0021	Stationary at Level	
		10%	-4.5813	-2.6552	0.0021	Stationary at Level	
IFR	ADF - Fisher Chi-square	1%	-4.1364	-3.8574	0.0057	Stationary at First Diff	D(IFR)
		5%	-4.1364	-3.0404	0.0057	Stationary at First Diff	
		10%	-4.1364	-2.6606	0.0057	Stationary at First Diff	

Source: Author's compilation from Eviews 10

The results of the ADF unit root tests presented in Table 4.2 above revealed that except TRADE OPENNNES all other variables are stationary after first difference. Because there is a mixture of both stationary and non-stationary variables in the model, the transformed variables for modelling were used and these are shown in the column indicated 'Variable for modelling'. Instead of the original form being used, the variable for modelling were used into the regression equation to avoid regression results that are spurious. Inflation was found to be non-stationary in level, first and second differences and was therefore dropped from the model.

4.3.2 Normality test

The Jarque-Bera normality test results are presented in Table 4.3 below.

Table 4.3: Jarque-Bera normality test

```
. sktest di fdi rgdp cps m2 to ifr er ps

                    Skewness/Kurtosis tests for Normality
                                                              ------ joint ------
    Variable |        Obs  Pr(Skewness)  Pr(Kurtosis) adj chi2(2)    Prob>chi2
-------------+-------------------------------------------------------------------
          di |         30      0.8348        0.1602        2.19         0.3343
         fdi |         30      0.0000        0.0001       25.57         0.0000
        rgdp |         30      0.0000        0.0000       47.18         0.0000
         cps |         30      0.0000        0.0001       25.10         0.0000
          m2 |         30      0.2262        0.1582        3.76         0.1530
          to |         30      0.0732        0.7999        3.60         0.1655
         ifr |         30      0.0000        0.0000       47.18         0.0000
          er |         30      0.0000        0.0000       47.18         0.0000
          ps |         30      0.0667        0.7762        3.74         0.1538
```

Source: Author's compilation using Eviews 10

The findings in Table 4.3 above revealed that the probability value corresponding to the JB statistic for FDI was found to be 0.3343 (>0.05) indicating that DI is normally distributed. The adjusted chi value corresponding to the JB statistic for GDP Growth was found to be 47.18 (>0.05) revealing that the variable real GDPG) is normally distributed. The adjusted chi value corresponding to the JB statistic for CPS was found to be 25.10 (>0.05) indicating normal distribution. The probability value corresponding to the JB statistic for M2 was found to be 0.153 (>0.05) indicating normal distribution. Trade openness has the probability value equal to 0.165, greater than 0.05 denoting normal distribution. The findings revealed normal distribution of all variables as evidenced by probability values greater than 0.05 in correspondence to their Jarque-Bera. The study, since the normality results indicated that all variables have met the required normality assumption, progressed to conducting the CLRM and the bivariate correlation analysis.

4.3.3 The correlation between model variables

The study performed a correlation analysis to establish the relationship between the variables i.e. the dependent and independent variables. The dependent variable was Domestic Investment (Gross Fixed Capital Formation) is the dependent variable while the independent variables were Foreign Direct Investment, Real GDP per Capita, Credit

to Private Sector and Money Supply (M2). Control variables included Trade Openness, Inflation, Exchange Rates and Political Stability.

Table 4.4: Correlation Matrix

```
. correlate
(obs=30)
```

	year	di	fdi	rgdp	cps	m2	to	ifr	er	ps
year	1.0000									
di	-0.5548	1.0000								
fdi	0.3235	0.0624	1.0000							
rgdp	0.3111	-0.0008	0.1746	1.0000						
cps	-0.3544	0.3243	-0.1257	-0.0554	1.0000					
m2	-0.8795	0.5043	-0.1894	-0.1360	0.2581	1.0000				
to	-0.5257	0.2390	-0.0200	-0.0771	0.5406	0.6246	1.0000			
ifr	0.0751	-0.2689	-0.0234	-0.0345	-0.2335	-0.1834	-0.1114	1.0000		
er	0.0751	-0.2689	-0.0234	-0.0345	-0.2334	-0.1833	-0.1114	1.0000	1.0000	
ps	0.0832	0.5509	-0.0762	0.1107	-0.1708	-0.0312	-0.1799	-0.0545	-0.0544	1.0000

Source: Author's compilation using Eviews 10

The findings as presented in the correlation matrix in table 4.3 above shows a positive correlation between all the independent variables and Gross fixed capital formation. Inflation and exchange rate are the only variables that had a negative correlation with Gross Fixed Capital Formation (DI).

4.4 The impact of FDI on domestic investment in Zimbabwe

The first objective aimed at investigating the impact of FDI on domestic investment in Zimbabwe.

4.4.1 Pooled OLS estimates

In estimating the impact of FDI on domestic investment in Zimbabwe, a Pooled Ordinary Least Squares (OLS) was run. Table 4.5 below presents the results. Reported in hypothesis are the standard errors.

Table 4.5: Pooled OLS estimates model 1

Dependent Variable: DI	
Variables	Model 1
FDI	-0.03262674 (0.01 5983)
RGDP	0.56224108*** (0.1 56454)
Trade Openness	0.3915381 ** (0.17121)
NER	-0.003121*** (0.000772)
Credit	0.70101 11 *** (0.094735)
Inflation	-0.75235*** (0.32155)
M2	0.321211 *** (0.002325)
PS	-0.6011211 *** (0.023735)
CONS	-1.93383**** (0.475473)
R-SQUARE	0.9848
ADJ R SQUARE	0.9839
F Statistics	1011 .79
Prob>F	0.0000
Sample	30

Note: *** Significant at 1% level; ** Significant at 5% level; * Significant at 10% level

From the Pooled OLS estimates presented in table 4.6 above, it can be noted that an increase in FDI results in a -0.03 percent decrease in the log of domestic investment holding all other factors equal. Despite the results showing a negative relationship between DI and FDI and the parameters were not significant.

The OLS estimation provides little evidence of FDI having an impact on gross fixed capital formation in Zimbabwe. On the contrary, a study by Mutenyo et al (2010) on establishing whether FDI crowd-out domestic private investment in Sub-Sahara Africa over the period 1990-2003 found evidence of crowding out effect of FDI on domestic investment (Anaman, 2018).

Holding all other independent variables that correlated with Gross Fixed Capital Formation, the results also indicate that a change in real GDP results in a 0.562 change

in DI. As a positive relationship, the indications are that the growth of the economy because of FDI, domestic investment is stimulated in a positive direction.

The results also indicated a positive relationship between trade openness and domestic investment with a significant coefficient at 5 percent. The findings suggest that trade liberalization positively impacts on domestic investment by boosting the growth of domestic investment. On the other hand, a negative relationship was observed between exchange rate and DI.

The depreciation of a local currency (ZWL) against the USD results in the shrinkage of DI, with an increase in exchange rate leading to a 0.3 percent reduction in DI. This could be attributed to the fact that the Zimbabwean Dollar (ZWL) has over the years from 2008 been unstable and any movement in exchange rates affects DI. Moreover, the fall in ZWL results in importers incurring huge costs related to import duties and this cripples the local investment opportunities as a result of high production costs.

Inflation was also found to be negatively associated with DI, and these results are not far from reality in Zimbabwe, as Zimbabwe has a world record of having inflation of 785.55% in 2020 and in November 2008, the worst ever inflation with a rate estimated at 79,600,000,000% per month (Hanke et al, 2015). When there is high inflation, foreign investors are wary of investing in such an environment, and this affects the local investment.

Political stability, as a factor determining DI, the study found out that the stability has an impact on DI. Zimbabwe is a country with a history of political instability, with a coup-de-tat being held in 2017. The political environment for Zimbabwe has been bad, and this has repercussions on foreign investors' decision to invest. The findings revealed a negative relationship between political stability and domestic investment.

Social unrests, continuous persecutions of civilians and the unruly actions of the police and army, as in Zimbabwe hampers the development and plans of foreign investors to invest and this reduces domestic investment.

In the model, a high R-square was reported, indicating that the variation of dependent variable (DI) is highly explained by the independent variables. The model also explained the F-Statistic probability values, which were significant at 1% level, indicating that overall, the model is significant as well.

4.5 Relationship between foreign direct investment and domestic investment

The second objective of the study aimed at examining the relationship between FDI and DI, with main focus on examining whether FDI crowds in or crowds out DI in the host country. Data used was for the period 1990-2019. The estimation of crowding in and crowding out effects of DI by FDI was performed using the equations in Chapter 3 of this study. The study performed a regression analysis based on the equation (1) in chapter 3.

4.5.1 Regression model 2 Results

Table 4.6 Regression table for fixed effect of FDI on DI for the entire period of 1990-2019.

Variables	Coefficient
FDI	-0.0652
	(-1.512)
RGDP	0.089**
	(0.2329)
Openness	-0.0465**
	(0.0232)
NER	-0.1731***
	(0.0421)
Credit	0.2329***
	(0.0562)
Inflation	-0.1487*
	(0.0521)
BMS	-0.1897)
	(0.0613)
PS	-0.2637***
	(0.0642)
R-SQUARE	0.0583
F Statistics	0.0000

Note: *** Significant at 1% level;
** Significant at 5% level
* Significant at 10% level

4.5.2 Long-term Crowding Effects

The study findings in determining the long term effects on FDI' s crowding on DI are presented in table 4.7 below.

Table 4.7: Long-term effects of foreign direct investment on domestic investment

Period	Long-term Coefficient between FDI and DI	Long-term Effects
1990-2019	-0.07	crowd out

Table 4.8 shows that FDI crowds out on DI in the long term. This is indicated by the coefficient in Table 4.8 which is less than 1. Studies by Kao, Chiang, and Chen (1999) and a study by Westerlund (2007), in a co-integration test, showed similar crowding effects of FDI on DI as shown in the table 4.9 below.

Table 4.8: Co-integration test

Johansen tests for cointegration

Trend: constant — Number of obs = 29

Sample: 1991 - 2019 — Lags = 1

maximum rank	parms	LL	eigenvalue	trace statistic	5% critical value
0	8	.	.	.	156.00
1	23	.	1.00000	.	124.24
2	36	.	0.73846	.	94.15
3	47	.	0.65660	.	68.52
4	56	.	0.48382	.	47.21
5	63	.	0.40030	.	29.68
6	68	.	0.31461	.	15.41
7	71	.	0.17884	.	3.76
8	72	.	0.03047		

For confirmation, a quadratic deterministic trend in the variables was assumed considering the possibility of non-linear relationship between them

Agosin and Mayer (2000) in their study also revealed that FDI tends to crowd out DI. A crowd-in effect occurs when the long-term coefficient is larger than 1, and a neutral effect happens when the long-term coefficient is equal to 1. This empirical result is similar to many empirical studies such as a study by Haq and Zhu (2016) and a study by Pilbeam (2012) who established that FDI crowds-out DI. The negative effect of FDI on DI is attributed to reasons that mainly foreign companies fail to cooperate with local companies. Moreover, foreign owned companies have strong capital bases, and sometimes pose serious competition to local companies.

In addition, foreign companies usually acquire shares in industries that are very important in the country, such as manufacturing and telecommunications industries and this crowds out domestic investment. In most cases, local companies fail to comply with global quality standards for supplies, and therefore multinational companies do not favor supplies from local suppliers in host countries.

4.6 Evaluating Model adequacy

To evaluate the adequacy, validity and appropriateness of the model, the properties of the statistical distribution of the residuals were analyzed for normality, autocorrelation, and heteroscedasticity. The study inspected the model's coefficient of determination (R-squared) to evaluate the overall significance of each model. The F statistic value was also inspected.

4.6.1 Autocorrelation Test Results

The Durbin Watson (DW) statistic was employed to examine whether the residuals from each fitted model were not auto correlated as it is a prerequisite for CLRM that the resultant residuals from the fitted model should not be auto correlated (Watambwa, 2021). The Durbin Watson test, with a value close to 2, means the fitted CLRM are not autocorrelation implying that the model is adequate (Watambwa, 2021). The DW statistics for each of the models are shown in Table 4.9 below.

Table 4.9: Autocorrelation test for residuals of the two fitted regression models

Model	1	2
DW Statistic	2.00032	2.002363

Author's compilation from Eviews 10

From the findings in Table 4.9 the DW statistic for each model is not significantly different from 2, implying that the residuals generated by each of the two models are not autocorrelated. The absence of autocorrelation means the R-squared and F-statistic values yield the right inference on the significance of the model coefficients hence the adequacy and reliability of the fitted models (Watambwa, 2021).

4.6.2 Normality Test Results

The Jarque-Bera normality test was used to assess the normality in the distribution of the standardized residuals from the fitted models. The test uses a histogram to evaluate normality by showing the disturbance mean and associated levels of kurtosis and skewness (Watambwa, 2021). The findings are shown in Table 4.10.

Table 4.10: Jarque-Bera Normality Test Results

	Statistical properties of the residuals generated					
Model	**Mean**	**Skewness**	**Kurtosis**	**Jarque-Bera**	**Probability**	**Observations**
1	0.0000	0.053	2.642	1.233	0.425	30
2	0.0000	0.079	2.353	1.833	0.085	30

Source: Author's compilation from Eviews 10

For Model 1, the findings revealed a skewness score of 0.053 for the residual series and 0.079 for Model 2. According to McNeese (2017), series is considered fairly symmetrical if and only if its corresponding skewness score lies between -0.5 and +0.5 (Watambwa, 2021). The findings imply that the individual distributions of their corresponding residuals are fairly symmetrical as evidences by skewness scores which were between -0.5 and +0.5. Model 1 showed residuals with a maximum kurtosis of 2.642, and Model 2 showed a kurtosis score of 2.535. The findings revealed that all the models' kurtosis scores were below 3 substantiating that each model have a normal residual. The maximum acceptable range of peakedness is 3 for the distribution to be considered normal (Watambwa, 2021). Alternatively, the models showed probability values corresponding Jarque-Bera statistics greater than 0.05, and this implied normal distribution for the residuals generated by the models.

4.6.3 Heteroscedasticity Test Results

To examine heteroscedastic error terms, the Breusch-Pagan-Godfrey test was employed.

Model 1

Satisfactory results were yielded as indicated in Table 4.11 below.

Table 4.11: Model 1: Breusch-Pagan-Godfrey Test Results

F-statistic	0.944268	Prob. F(2,16)	0.4096
Obs*R-squared	2.005876	Prob. Chi-Square(2)	0.3668
Scaled explained SS	7.20202	Prob. Chi-Square(2)	0.0273

Source: Author's compilation from Eviews 10

The findings in Table 4.12 above showed that acceptable results were yielded as shown by the Breusch-Pagan-Godfrey test results which showed a heteroscedastic value greater than 0.05. Since the since residuals are not heteroscedastic, we therefore make conclusions that the model is adequate.

Model 2

Satisfactory results were yielded as indicated in Table 4.12 below.

Table 4.12: Model 2: Breusch-Pagan-Godfrey Test Results

F-statistic	0.995289	Prob. F(2,16)	0.1114
Obs*R-squared	8.139203	Prob. Chi-Square(2)	0.3171
Scaled explained SS	5.429063	Prob. Chi-Square(2)	0.0662

Source: Author's compilation from Eviews 10

The findings in Table 4.12 above showed that acceptable results were yielded as shown by the Breusch-Pagan-Godfrey test results which showed a heteroscedastic value greater than 0.05. Since the since residuals are not heteroscedastic, the conclusion made is that the model is adequate.

4.7 Strategies for promoting foreign direct investment in Zimbabwe

The final objective of this study aimed at establishing the strategies for promoting foreign direct investment that enhances domestic investment in Zimbabwe. The objective hinges on the idea that to attract FDI, host countries need to resort to a number of measures or strategies that results in quality FDI which contributes to enhanced local investment, including the creation value adding and decent jobs, improved skills of

local companies, facilitates the transfer of knowledge, technology and results in boosted competitiveness of local firms. The essence of the suggestions presented below is to allow policy makers to develop policies aimed at generating backward linkages as deep as possible into the host economy. To achieve this objective, the study conducted some interviews with key informants from the RBZ, directors from foreign owned companies and respondents from the Ministry of Finance (MoF). The responses were analysed as below.

The findings in from the interviews revealed that the most significant strategy for attracting FDI is Opening markets and allowing for FDI inflows, allowing ease of doing business, transparent and dependable conditions for all firms, backward linkages from FDI into the local economy, as well as providing commercial infrastructure. Other strategies identified for promoting quality FDI include the use of incentives (tax exemptions and subsidies), regulation by the government, friendly policies, Non-Discriminatory policies, opening up access to imports, ensuring relatively flexible labour markets, protection of intellectual property rights, setting up investment promoting agents, encouraging spill overs from FDI into the indigenous economy, encouraging first-time foreign direct investors, providing access to credit by reforming domestic financial markets and shaping Export Processing Zones (EPZs).

Opening markets to allow for FDI inflows

The findings revealed that promoting FDI requires that the government opens markets, minimise restrictions to attract FDI. It is difficult to attract foreign investment when there are restrictions which makes it difficult to trade.

Ease of doing business

Ease of doing business is an important factor in attracting FDI. This includes the political and legal environment which should facilitate or attract foreign investment. Economies with a high rank (1 to 20) have simpler and friendlier regulations for businesses. Zimbabwe is ranked 140 among 190 economies in the ease of doing business, according to World Bank annual ratings (2020). This means the country may face challenges in attracting FDI.

Transparent and dependable conditions for all firms

To attract FDI, there is need for the regulatory environment to exercise fairness to

Backward linkages from FDI into local economy

To raise competitiveness, there is need to allow pressure from foreign investors on local investors. On the other hand, there is also need for foreign firms to assist local firms, with assistance ranging training, management coaching, financial planning and assistance with export markets knowledge. The findings are consistent with the findings of a study by Gorg and Seric (2016) who found out that there is need for backward linkages to be integrated into the local economy.

Provision of Commercial infrastructure

There is need to provide the necessary infrastructure required to attract quality investments, such as good transport facilities, including road, rail and air, sufficient number of ports, reliable energy supply, and highly skilled labour. The perennial power shortages experienced in Zimbabwe are not ideal for investment and this affects FDI promotion.

Protection of intellectual property rights

There is need for policies aimed at protecting the intellectual property rights of foreign investors. Investors require guarantee that their assets will not be exploited or invaded.

Friendly policies

There is need to create friendly policies that encourage investments, such as policies aimed at reforming domestic financial markets to ensure access to credit. FDI can be attracted when there are friendly financial systems that ensure that local companies are not exploited by foreign firms because of lack of funding. Alfaro et al. (2009) mentioned that through setting up friendly business systems, local and indigenous firms are able grow, prosper and self-select into supplier status.

Encouraging spill overs from FDI into the indigenous economy

FDI can be promoted when spill overs are integrated into the indigenous or local economy. Here, there is need for movement of employees from foreign firms to local firms to spread skills and knowledge. Boly et al (2014) mentioned that there is also

need to encourage diaspora members to form corporations with local firms and this generation of linkages results in host countries' internationalization.

Providing access to credit reforming local financial markets

There is need to reform the domestic financial markets to ensure access to credit. This boosts attraction of quality investors.

Regulation

There is need for regulations and restrictions when foreign firms are being hostile to local firms. Regulation is important to protect both foreign and local firms.

Use of Incentives (Tax Exemptions, Subsidies)

To encourage foreign investment there is need for host countries to use incentives such as subsidies, tax reductions or exemptions to induce foreign firms to act in a certain direction that also promote local investment.

Non-Discriminatory Policies

In order to attract FDI, policies must be fair and non-discriminatory, applicable to all firms without consideration of where the investors are originally from. Policies which liberalizes foreign investors are critical in promotion of FDI.

Shaping Export Processing Zones (EPZs)

Shaping Export Processing Zones (EPZs) is important in attracting FDI and spearheading investment into the local economy. The EPZ must not be discriminatory and should promote investment from both foreign and local firms (Moran et al., 2016).

Setting up Investment Promoting Agents

To attract FDI, the MoF and the RBZ should set up an Investment Promotion Agency (IPA) with the focus of promoting FDI. The role of the IPA would be to identify suitable foreign investors. The IPA can also act as the link between foreign investors and the domestic economy and provide all foreign investors seeking to invest in Zimbabwe with all the information and act as a catalyst for FDI promotion (Moran, 2014).

In addition, the IPA should make follow up and be involved in after-investment care, identifying satisfied investors and any factors affecting the operations of foreign investors.

4.8 Discussion of Findings

The findings from the study on the impact of FDI on DI are similar to the findings of a study by Anaman (2018) who established that GDP and trade openness have a strong significant and positive relationship with DI, while exchange rate and inflation had a negative impact on DI. A similar study by Szkorupova (2014) revealed that FDI crowds out DI, which is similar to the findings of this study. A study by Budang and Hakim (2019) also revealed that FDI inflows by no means always promise a good effect. In fact, instead of helping local firms out, the inflow of FDI may endanger local firms by crowding them out of the Asian business market (Budang & Hakim, 2019).

A study by Morrissey and Udomkerdmongkol (2012) also revealed that FDI has some crowding out effects on DI in developing countries with the involvement of political stability factor. On the contrary, a study by Lean and Tan (2011) found a crowd in effect of FDI in Malaysia as a result of good collaboration between FDI and DI.

This study also shares similar findings to a study by Mahmood and Chaudhary (2012) which revealed long run relationships between FDI, financial market development and economic growth with all the factors having a positive and significant impact on the domestic investment. Similarly, a study by Amighini, McMillan and Sanfilippo (2017) revealed that there exists a positive impact of FDI on total investment which was measured as the ratio of gross fixed capital formation to GDP.

Abdullah (2017) also mentioned that FDI crowds out DI as a result of a large technology gap between local and foreign firms and this affects DI. As also discovered by Aragie (2014), foreign direct investment could crowd-out domestic private investors mainly those who cannot compete with more efficient and technologically more superior MNCs. On the other hand, foreign direct investment could crowd-in domestic private investment by generating spill overs through the diffusion of new technologies and forward or backward production linkages (Herzer, 2012).

On ways of attracting FDI, this study's findings are similar to the findings of a report by UNCTAD, (2010), UNCTAD (2013) and Donciu (2015) who mentioned the need for friendly policies, proper regulation, incentives and developing proper infrastructure to lure foreign investors into the country. There is also a need to promote a safe operating environment as revealed by Donciu (2015).

4.9 Chapter Summary

This chapter has presented the findings obtained from the secondary and primary data on FDI and DI. Primary data was obtained from structured interviews while secondary data was obtained from World Bank statistics. Correlation analysis, unit root tests and regression analysis was used to test the relationship between FDI and DI. Factor analysis was also used to rank strategies for promoting FDI in order of their significance. The following chapter presents the conclusion and recommendations based on the findings from this chapter.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings obtained and presented in the preceding chapter (Chapter 4). In addition, conclusions based on the findings are also presented in this chapter. Further, the chapter also provide recommendations based on the findings in chapter 4. Lastly, the chapter provides implications to the study as well as areas for further research.

5.2 Summary of the study

The main objective of the study was to empirically examine the impact of FDI on DI as well as establishing strategies for promoting and attracting foreign direct investment. The first Chapter of the study highlighted the background, problem statement, objectives of the study, research questions, and the rationale of the study as well as the scope of the study. The second chapter (Chapter 2) provided a review of literature on FDI and DI. The chapter provided a comparison and a critique of literature obtained from other scholars who have written about FDI and DI, from an international, local and regional perspective. The third chapter (Chapter three) laid out the research design, research approach, research strategy, population, and data collection procedures as well methods of data analysis. The chapter also presented ethical consideration as well as validity of the research instruments. In chapter three, data collection was mainly based on secondary data which is shown in the appendix section of this study. Chapter four of this study presented the findings obtained from the data in relation to the objectives of the study. Data was analysed through content analysis, correlation, regression and unit root tests and presented through graphs and tables.

The major findings of the study are as follows:

5.2.1 Impact of FDI on domestic investment in Zimbabwe

The findings on the impact of FDI on DI revealed that FDI stimulates domestic investment in a positive direction.

The results also indicated a positive relationship between trade openness and domestic investment with a significant coefficient at 5% significance. The findings suggest that trade liberalization positively impacts on domestic investment by boosting the growth of domestic investment. On the other hand, the findings revealed that a negative relationship exist between exchange rate and domestic investment. The study also found out that inflation is negatively associated with domestic investment and the level of political stability, also affect DI.

5.2.2 Relationship between foreign direct investment and domestic investment

The findings of the study on the relationship between FDI and DI revealed that FDI crowds out on DI in the long term. This was indicated by the coefficient of -0.07 which was less than 1. The negative effect of FDI on DI is attributed to reasons that mainly foreign companies fail to cooperate with local companies. Moreover, foreign owned companies have strong capital bases, and sometimes pose serious competition to local companies. As a result, domestic companies are unable to conduct business effectively and be competitive than multinational companies.

5.2.3 Strategies for promoting foreign direct investment that enhances domestic investment in Zimbabwe

The findings revealed that the most significant strategy for attracting FDI is opening markets and allowing for FDI inflows, ease of doing business, transparent and dependable conditions for all firms, allowing backward linkages from FDI into the local economy, as well as providing commercial infrastructure. Other strategies identified for promoting quality FDI include the use of incentives (tax exemptions and subsidies), regulation by the government, friendly policies, setting up investment promoting agents, encouraging spillovers from FDI into the indigenous economy, encouraging first-time foreign direct investors, providing access to credit by reforming domestic financial markets and shaping Export Processing Zones (EPZs).

5.3 Conclusions

From the findings detailed above, the study concludes that:

5.3.1 Impact of FDI on domestic investment in Zimbabwe

The study finds that despite many of the variable showing that FDI has a significant positive impact on domestic investment, foreign direct investment also has some negative effects on direct investment. The study therefore concludes that the impact of FDI inflows on direct investment may vary depending on the domestic investment environment of the host country. In countries with high inflation, foreign investors are wary of investing in such an environment, and this affects the local investment. Where there is continuous depreciation of a local currency the shrinkage of domestic investment occurs as poor exchange rates cripples the local investment opportunities as a result of high production costs. Thus, the impact of foreign direct investment on domestic investment is dependent on the macroeconomic variables and showed both negative and positive effects of FDI on gross fixed capital formation. A study by Fry (1993) conducted using five countries from the Pacific Basin on the effects of FDI on domestic investment established that domestic investment falls as a result of FDI, while a study by Bosworth and Collins (1999) found out that an increase in capital inflows results in domestic investment increase

5.3.2 Relationship between foreign direct investment and domestic investment

The findings of the study on the relationship between foreign direct investment and domestic investment revealed that FDI crowds out on domestic investment in the long term. While this study established the crowding out of FDI on domestic investment, this study makes conclusions that the relationship between FDI and domestic investment is bidirectional. As a result of foreign firms investing in a local country, domestic companies are unable to conduct business effectively and be competitive than multinational companies. On the other hand, an increase in capital inflows results in domestic investment increase and concluded that FDI impacts significantly on domestic investment in a positive way. Moreover, FDI crowd in private investment (Ndikumana & Verick, 2008). FDI inflows, on the other hand, encourages local investment through opportunities for cooperation for example, through investment joint ventures between foreign investors and domestic investors. In some cases, domestic investors may supply raw materials and do outwork for FDI enterprises and receive and learn advanced technologies from these enterprises to lower production costs and this exemplifies the crowding-in impact of FDI on private investment (Agosin & Machado, 2005).

On the other side, upward pressure on interest rates will occur in host countries if FDI enterprises use domestic credit to finance their business activities, thereby making domestic enterprises give up potential business opportunities.

5.3.3 Strategies for promoting foreign direct investment that enhances domestic investment in Zimbabwe

The findings revealed that the most significant strategy for attracting FDI is opening markets and allowing for FDI inflows, ease of doing business, transparent and dependable conditions for all firms, allowing backward linkages from FDI into the local economy, as well as providing commercial infrastructure. The study concludes that the use incentives (tax exemptions and subsidies) and enforcing the protection of intellectual property rights, as well as providing good infrastructure and access to credit by reforming domestic financial markets are the most significant strategies for attracting quality FDI. Foreign investors prefer investing in countries where their property rights are protected, where there is good infrastructure to allow the efficient functioning of their productive processes. In addition, friendly policies and promoting a safe operating environment is also important in attracting quality FDI. This means the political stability of a country is crucial in attracting quality FDI. Setting rules and regulations is also important to ensure that foreign direct investment enhances local investment.

5.4 Recommendations

The study recommends that inflation rates and exchange rates needs to be monitored and controlled as these have a negative effect on FDI and domestic investment. It is difficult for Foreign Investors to invest in a country with high inflation, and unstable exchange rates and therefore the RBZ and the Ministry of Finance and the government need to ensure that the macroeconomic environment is stable.

The study also recommends that local companies should adopt the Hymer theory of FDI as a best practice for local firms or domestic investment in order for them to compete with a foreign firm and build a strong position in the business market globally. Thus, as they have a strong position in the business market, for example, they contribute by their great marketing, variety choice of product or go through the

imperfect market (via M&A, joint venture) probably able to protect them from the crowd out effects caused by FDI.

The study also recommends that the government should implement a screening strategy to filter and select the type of FDI that is more beneficial to local firms and DI. For example, a vertical type of FDI may benefit local firms, especially those firms that supply product components that are needed by foreign firms. This type of FDI may be complementary to DI instead of substituting them.

5.5 Theoretical Contributions

The study has provided important insights on foreign direct investment and domestic investment from a Zimbabwean perspective. The study calls for policy makers to devise appropriate strategies for attracting foreign direct investment that enhances local investment. The findings of this research have contributed to the body of literature we have in Zimbabwe on FDI and local investment. This research from a Zimbabwean perspective provides a unique body of knowledge because the issue of attracting foreign direct investment is a core issue in a country with decreasing levels of investment and high unemployment as a result of company closures. Attracting foreign direct investment would help revitalise the economy and create employment.

5.5 Research Limitations

The study had the following limitations:

Delay in getting responses- The study encountered a general delay in setting up some interviews with key government officials as a result of bureaucracy issues. This was also coupled with the Covid-19 restrictions which limited movement and also where some of the respondents were home and the researcher had to schedule and reschedule interviews and conducted interviews through zoom and telephone. This also increased the costs of internet.

Limited data on the phenomenon- There is also limited data and literature on foreign direct investment and domestic investment in Zimbabwe and this represented a challenge in obtaining relevant literature for comparative purposes as the researcher managed to obtain little published academic journals from the Zimbabwean

perspective and thus literature was scanty for comparison purposes. In addition, the study had to rely mainly with World Bank reports which were available readily as compared to local reports from the RBZ and MoF.

5.6 Areas of Further Study

This study has focused on foreign direct investment as a whole, without separation on the types of foreign direct investment. Therefore, further studies should be conducted with a focus on the various types of foreign direct investment inflows, thus requiring a classification or separation of foreign direct investment inflow into types such as greenfield investment and brownfield investment and specifically examine which type of these entry modes of foreign direct investment will crowd in or crowd out domestic investment. This will help both local and foreign investors and the government with insights on the type of foreign direct investment might benefit our local firm as well as how both local firm and foreign firm able to stay strong in the business market globally. Understanding which foreign direct investment fosters domestic capital accumulation would contribute to expand our knowledge of how to better design foreign direct investment attraction policies to maximise the developmental impact of foreign capital in Zimbabwe.

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APPENDICES

F-statistic	0.944268	Prob. F(2,16)	0.4096
Obs*R-squared	2.005876	Prob. Chi-Square(2)	0.3668
Scaled explained SS	7.20202	Prob. Chi-Square(2)	0.0273

F-statistic	0.995289	Prob. F(2,16)	0.1114
Obs*R-squared	8.139203	Prob. Chi-Square(2)	0.3171
Scaled explained SS	5.429063	Prob. Chi-Square(2)	0.0662

F-statistic	0.274177	Prob. F(2,16)	0.7637
Obs*R-squared	0.629592	Prob. Chi-Square(2)	0.7299
Scaled explained SS	2.998254	Prob. Chi-Square(2)	0.2233

Variables	**Jarque-Bera**	**Probability**	**Comment**
D(1)	1.85145	0.39625	Normally distributed
D(2)	4.05476	0.13168	Normally distributed
D(3)	1.24214	0.53737	Normally distributed
D(5)	3.46745	0.17663	Normally distributed
6	1.51401	0.46907	Normally distributed
D(7)	9.93072	0.23144	Normally distributed

Time Series Data (1990-2019)

YEAR	DI	FDI	RGDP	CPS	M2	TO	IFR	ER	PS
1990	18.20973	0.138958	1829.678	23.03992	446.1332	-1.27291	0.17	0.002454518	-0.77866
1991	20.58536	0.032292	1949.733	26.16616	448.01	-0.94533	0.48	0.003625489	-0.66595
1992	22.36276	0.221432	1777.843	28.77094	353.35	-0.70868	0.4	0.005104267	-0.71357
1993	23.59172	0.425898	1807.226	29.84063	317.9355	-1.27291	0.2	0.006490494	-0.61816
1994	21.37146	0.502837	1986.028	28.40845	349.5893	-0.94533	0.25	0.008160799	-0.61994
1995	24.57726	1.655119	2004.362	33.83775	376.0462	-0.70868	0.28	0.008675219	-0.66595
1996	18.04049	0.945851	2227.061	31.23235	412.4632	-0.31877	0.16	0.010013713	-0.46448
1997	18.04965	1.583901	2303.83	38.59646	393.2323	-0.33431	0.2	0.012125047	-0.73962
1998	20.60148	6.940053	2377.832	34.70909	360.3716	-0.79937	0.48	0.023706013	-1.32291
1999	2.553699	0.860307	2377.128	22.28765	348.1681	-0.90814	0.57	0.03834471	-1.52198
2000	11.79798	0.346788	2344.271	27.11122	276.9782	-1.00667	0.55	0.044468376	-1.08834
2001	12.1178	0.056069	2421.531	34.52131	263.2695	-1.00091	1.12	0.05511466	-1.2075
2002	10.17249	0.408381	2235.361	103.6323	242.985	-0.46448	1.99	0.055098291	-1.27291
2003	13.81376	0.066346	1885.511	57.02995	263.4823	-1.27291	5.99	0.698216071	-0.93296
2004	5.107808	0.149855	1818.105	18.02473	272.7645	-0.94533	1.33	5.074419415	-1.10897
2005	2.000441	1.786206	1759.358	15.79368	296.9686	-0.70868	5.86	22.3890396	-1.21395
2006	2.224682	0.734768	1738.514	1	293.8791	-1.33171	12.81	164.5473565	-1.16715
2007	5.078394	1.301978	1705.901	1	195.5601	-1.22505	662000	9686.77167	-1.10401
2008	3.28591	1.168557	1417.507	1	188.3531	-1.25888	2315000000	6723052073	-0.94533
2009	9.929206	1.086305	1581.162	7.159107	210.4023	-1.52804	6.2	1	-0.77866
2010	17.01173	1.018022	1888.567	13.54363	178.3387	-1.54588	3	1	-0.66595
2011	14.63471	2.441511	2168.11	18.98324	170.108	-1.51199	3.5	1	-0.71357
2012	12.14834	2.044131	2534.542	20.14062	172.0934	-1.3716	3.7	1	-0.61816
2013	9.181371	1.95406	2583.986	18.73191	175.0666	-1.33626	1.6	1	-0.61994
2014	9.609292	2.425173	2648.569	19.21037	199.0452	-1.27751	0.2	1	-0.70868
2015	9.995567	1.999687	2679.58	18.31569	212.3171	-1.2106	2.4	1	-0.70705
2016	9.807839	1.669274	2687.385	17.09856	202.8256	-1.15787	1.6	15	-0.94533
2017	8.099815	1.083538	2825.725	16.30397	237.2898	-1.15835	0.9	20	-0.77866
2018	12.53319	2.402015	3029.793	13.0922	150.7544	-1.18872	10.6	40	-0.66595
2019	12.67785	2.567755	2.05E+10	18.98324	210.4658	-1.19886	255.3	80	-0.71357

APPENDIX 2: INTERVIEW GUIDE

BUSINESS SCHOOL

Dear Respondent

RE: INTERVIEW GUIDE BY TENDAI MUDEHWE

The researcher is a final year MBA student at the Business School of University of Zimbabwe researching on the topic entitled: Promoting Foreign Direct Investment that enhances local investment in Zimbabwe. The topic is important to various stakeholders in Zimbabwe as it seeks to develop strategies for attracting foreign domestic investment that promotes local investment. A summary of the findings will be available at your request.

You are one of the few important people that have been selected to give your opinion on the attached questionnaire. You are kindly requested to devote about 5 minutes of your time to assist in answering the attached questionnaire. Your responses are purely for academic purposes only and will not be disclosed to any third party without your permission, hence you do not have to disclose you name anywhere on the questionnaire.

Your assistance in this matter will be greatly appreciated.

Yours faithfully,

Tendai Mudehwe

Cell: +263 77 367 2533

INTERVIEW QUESTIONS

1. Do you understand Foreign Direct Investment and its flows to Zimbabwe?

2. Do you understand the level of investment by local companies in Zimbabwe?

3. In your view, does Foreign Direct Investment enhances local investment?

4. In you view, has there been growth in local investment as a result of Foreign Companies investing in Zimbabwe?

5. What are the effects of Foreign Direct Investment on the operations of local companies?

6. What strategies can be adopted to attract quality foreign direct investment?

7. Any other comments on FDI in Zimbabwe?.....