THE ROLE OF FOREIGN INVESTMENT IN PROMOTING EXPORTS IN ZIMBABWE

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ABSTRACT

This paper seeks to examine the level of FDI in Zimbabwe in relation to the exports over the period 2016-2020, with the intention to explain the low levels of FDI resulting in subdued levels of exports. In order to establish the impact of foreign investment on exports, the data sets for Zimbabwe and South Africa's FDI inflows and value of exports, over the same period, were reviewed. The study concludes that the lack of significant FDI in Zimbabwe, has contributed to the lack of growth in its exports. Given the need to grow the economy of Zimbabwe, there is therefore, greater need to take its exports to new levels. This study contributes to the on-going discussion on FDI being associated with growth of exports in low income economies.

INTRODUCTION

Foreign Direct Investment (FDI) has long been claimed to play an important role in supporting an economy's exports and economic growth. It is argued that FDI promotes the host countries' exports by growing the host country's production and productive potential through increasing the capital stock, transferring technology, managing skills and enhancing the local workforce's skills.

Much of the debate about export strategy is related to better trade policies and institutions, more efficient physical infrastructure and the availability of skilled manpower. However, the debate goes beyond domestic issues. The export sector is dependent on the performance of product and factor markets, both at home and abroad. The Republic of Zimbabwe is yet to meet its exports potential, which has been historically hampered by several domestic distortions and multiple barriers, resulting in a weak export performance and a modest regional and global integration. The links between export and foreign direct investments are strong (Logun, 2020). Given the need to grow the economy of Zimbabwe, there is therefore, greater need to take Zimbabwe's exports to new levels. Foreign direct investment has an important role to play in the development of Zimbabwe's exports.

RESEARCH OBJECTIVES

To better understand the links between foreign investment and exports in Zimbabwe, the study focused on the following objectives: -

(a) to establish the linkages between exports and foreign direct investment in Zimbabwe;
(b) to identify the channels through which foreign direct investment can improve export performance; and
(c) to compare the levels of FDI and exports for Zimbabwe and South Africa.

THE ROLE OF FDI IN THE PROMOTION OF EXPORTS

FDI plays an important role in the promotion of exports of host countries. It promotes exports by facilitating access to customers on global, regional and domestic markets. In addition, host countries sometimes also benefit from lobbying activities by Multi-National Corporations (MNC in their home countries for favourable treatment of exports from their affiliates.

FDI also helps to improve the productivity of the workforce by providing training to the local workforce and by enhancing technical and managerial skills. These activities benefit the country's exports by improving the productivity of the workforce. This is especially true for export-oriented investment in advanced technological capabilities.

FDI has both a direct and an indirect effect on the exports of the host country. The direct effect refers to exports by foreign affiliates themselves. The indirect effect includes the spill over effect of MNCs on the export activities of local firms [United Nations Conference on Trade and Development (UNCTAD), 2018].

The export activity of a country is directly affected by FDI in following ways: -

(a) *Exports through processing and assembling*: Many of the developing countries increase their exports of labour intensive and technology intensive products by assembling and processing of intermediate and unfinished products imported from home country. For example, China has become a dominant exporter of labour-intensive products (toys, shoes, clothing and sports goods) and certain technology-intensive products (machinery and equipment, including electronic circuits, automatic data processing machines and mobile phones) (UNCTAD, 2018). Generally, such exports are organized by MNCs within the vertically integrated international production network (Zhang & Markusen, 1999);

(b) *Exports through converting import-substituting industries*: In many of the import substituting products like home appliances and automobiles products, FDI combines its advanced technology with the available cheap labour of the developing countries and produces export products at internationally competitive prices;

(c) *Exports of new labour-intensive final products*: by linking to final purchasers in different countries, including the home country, FDI helps to increase exports of labour-intensive and technologically intensive final products to the host countries (Zhang, 2006);

(d) *Exports of locally processed raw materials*: as a result of business contacts abroad, marketing skills and superior technology, both in products and processes, and greater general know-how, MNCs may have a better export potential than indigenous companies in the processing and export of locally produced raw materials. This is especially true in the early stage of development when the country lacked the assets. (Zhang, 2006).

FDI also indirectly enhances the manufacturing exports of developing countries (host countries) through spill over effects on the export activities of local firms. (Zhang, 2006):

(a) *Learning and imitating domestic firms from foreign firms*: local firms benefit by observing, learning and imitating the export activities of foreign affiliates and by making use of transport, communications and financial infrastructure;

(b) *Instilling competition and efficiency*: the other spill over effect involves the impact of FDI on the competitiveness of domestic exports and the diffusion of new technologies. By bringing their advanced product-process technology, management and marketing skills to bear, MNCs can increase competition in the markets and force local firms to adopt more efficient methods; and

(c) *Linkage between foreign and local firms*: this spill over is related to the link between foreign and local firms. If export-oriented foreign subsidiaries increase their purchase of inputs from local firms as the subsidiary matures, the country's exports usually increase (UNCTAD, 2018).

REVIEW OF THE LITERATURE

The relationship between FDI and exports has been examined in the context of international trade and FDI theories. There have been two divergent views on the relationship between FDI and international trade. One sees FDI and exports as substitutes for each other; and

the other treats them as complements. On the basis of the H-O-S (Heckscher-Ohlin-Samuelson) (two countries, two products and two factors) model, Mundell (1957), demonstrated that the difference in comparative advantage is the basis of trade. In the absence of mobility factors, trade between two countries takes place at a level that tends to equalise the price factor in both countries, in both absolute and relative terms. However, once capital is allowed to move freely across countries, i.e. from a country with abundance to where it is scarce, the difference in factor prices decreases, and the difference in comparative costs decreases and eventually disappears. Trade will therefore decline and will be completely replaced by FDI. This view assumes that FDI only applies to those sectors in which the host country has a comparative disadvantage. Such FDIs are intended only to supply the domestic market of the host countries and therefore do not play a role in increasing exports. FDI therefore replaces imports with domestic production.

Despite numerous studies on the relationship between FDI, exports and economic growth, there is no common consensus on this issue among different studies. The absence of a common consensus may be due to the different timeframes, countries as well different econometric methods used in these studies.

The conclusion that both trade in goods and factors act as substitutes is derived from the H-O factor endowment theory based on allocative efficiency in a static framework characterized by perfectly competitive markets, identical constant returns to scale production function and in the absence of transport costs. However, the general nature of this proposal has been questioned in an imperfectly competitive international market, based on economies of scale, imperfect competition and differences in technological change, which explains the possibility of intra-industry trade (Grossman & Helpman, 1991) and is compatible with the explanation of vertical FDI (intra-firm transfers).

A theory that establishes a complementary relationship between FDI and trade is the Flying Geese model, a term that was first coined by Akamatsu in the 1960s. According to this model, in order to reduce the cost of production and maintain its competitiveness, the MNEs are shifting their production location from high labour costs to low labour costs in the host country. Using the abundant factor of the host country, the MNEs increase the export supply capacity of the host country. In addition, the transfer of FDI also brings new technology, capital equipment and managerial expertise to host countries and improves the productivity and competitiveness of indigenous firms, thereby increasing the competitiveness and exports of host countries.

Vernon (1966) in its Product Life Cycle (PLC) theory also explained a positive role of FDI in promoting exports from host countries. He argued that technology goes through four stages of production. Theses stages are innovation, growth, maturity and decline. In the third stage of maturity, MNCs reduce costs and protect themselves from imitating competitors, start production in foreign countries. This leads to increase in export of the host countries.

According to the New Trade Theory, the separation of different stages of production in different countries (vertical FDI) would most likely have the effect of creating trade. Helpman (1984) and Helpman and Krugman (1985) argue that if the choice of location of production facilities is based on relative factor prices and resource endowments, then vertical FDI would have an effect on the creation of trade in the form of export of finished products from the related company to parent company and intra firm transfer of services from parent company to related company.

There are also differences of opinion on the relationship between the inflow of FDI and the quantity of exports, and some empirical studies also provide mixed results for different countries. For instance Khan & Leng (1997) did not find any evidence of a causal relationship between

FDI, exports and economic growth for Singapore, Taiwan and South Korea while examining the interactions between inward – FDI and exports. Liu et al., (2002) investigated the causal relationship between inward FDI, trade and economic growth in China using quarterly aggregate data for the period 1981 to 1997 and identified two – a causal relationship between inward FDI and exports. Baliamoune – Lutz (2004) also found similar results for Morocco for the period from 1973 to 1999. Metwally (2004) tests the relationship between FDI, exports and economic growth in three countries, i.e. Egypt, Jordan and Omen, over the period 1981 to 2000, using a simultaneous equation model. The results show that the export of goods and services is strongly influenced by the inward FDI in these three countries.

On the basis of cross-section studies of 186 industries, Zhang (2006), concluded a positive relationship between FDI and export growth in China, and the effect is greater in labour-intensive industries than in capital-intensive industries. He also found that the FDI has more export-promoting effect than domestic capital.

Pacheco–Lopez (2005) demonstrated the causal relationship between inward FDI and export performance in Mexico using the Granger causality test. The result indicates that there is a bi-directional causality between inward FDI and export performance.

Using the causality test, Rahman (2007) established that FDI does not cause Granger export growth in the Kingdom of Saudi Arabia, but Granger export growth causes FDI growth. Alici & Ucal (2003) investigated the causal link between the inward FDI, exports and economic growth of the Turkish economy over the period 1987 to 2002 on a quarterly basis. Linkage of FDI – led export growth is not identified in this Turkey study.

Njong (2008) studied the association between FDI and exports in the case of Cameroon. Using data for the period 1980-2003, the study showed that FDI had a positive effect on exports through increased supply capacity and spill over effects.

Using panel data Granger causality test for nine newly industrialised Asian countries, Won et al., (2008), found bi-directional causality between inward FDI and export growth.

Kalirajan et al., (2009) used the VECM framework to examine the causality between exports, FDI and GDP for six emerging countries (Chile, India, Mexico, Malaysia, Pakistan and Thailand). The results show positive relationship of the three variables and therefore, support the export-led growth (ELG) hypothesis.

Soliman & AbuAL-Foul (2014) examined the role of FDI in promoting exports to four Middle East and North Africa (MENA) countries (Egypt, Tunisia, Morocco and Turkey) between 1970 and 1995. Applying the Gravity Model, a positive relationship was established between FDI inflows and exports; however, an insignificant relationship was established in the case of FDI and the share of manufacturing exports in total exports of goods.

Sultan (2015) looked at the nature of the relationship between exports and FDI in India over the period 1980-2010. Using the Johansen co-integration method, the researcher established a stable long-term balance between FDI and export growth. The result of Granger's causality based on the Vector Error Correction Model (VECM) shows that the causality is from export to the FDI inflow direction and not from the FDI inflow direction.

Bouras & Raggad (2015) studied the relationship between trade and foreign direct investment and concluded that there is a complementary or ripple effect between exports and FDI at the macro level for both the manufacturing and non-manufacturing sectors. Their findings have also been supported by predominant literature, which found positive relations between FDI and exports.

Selimi et al., (2016) analysed the performance of foreign direct investment and exports in Western Balkan countries during the period 1996-2013. Their research also investigates fixed effects and individual heterogeneity across countries and years. Based on panel regression techniques and the Least Square Dummy Variable (LSDV) regression method, the researchers established that FDI has a positive effect on export performance in sample countries under different model specifications.

Mitic & Ivic (2016) focused on the effects of foreign direct investment (FDI) on the export of goods and high-tech exports in transition economies including the Balkans region, for the period 1995 to 2015. They used a correlation analysis and including time-lag of one year and concluded that export orientation of multinational companies has a significant impact on transition economies, especially from the Balkans, which are still fragile and exposed to different pressures.

Muzurura et al., (2017) looked at the impact of foreign direct investment on Zimbabwe's export growth from 1980 to 2011. Using the Ordinary Least Squares method, the results showed that FDI and trade openness had a positive impact on export growth. The study recommended that Zimbabwe create an investment climate that encourages export-oriented FDI inflows.

A review of the international trade literature shows that FDI is likely to have a positive impact on the development of exports of the host country, especially in the less developed economies such as Zimbabwe.

DATA AND METHODOLOGY

In the study, the level of FDI in Zimbabwe in relation to exports over the period 2016-2020 has been examined. The data sets cover the period 2016-2020. The data sets used for the empirical investigation were obtained from the obtained from the World Bank Country Profile Reports (2016-2020).

In order to compare the impact of foreign investment on exports, the data sets for South Africa's FDI inflows and value of exports, over the same period, were also reviewed. The data sets used for the empirical investigation were obtained from the World Bank Country Profile Reports (2016-2020).

FINDINGS

In the study, the level of FDI in Zimbabwe in relation to exports over the period 2016-2020 has been examined. The country has very low and insignificant levels of inflows from foreign direct investment. During the period 2016 to 2020, Zimbabwe received an average of USD38 million per year. During the same period, the value of the country's exports was also low, averaging USD4.5 billion per year.

In comparison with other countries in the region such as South Africa, Zimbabwe's FDI inflows and exports are very low. For instance, over the same period, South Africa's FDI inflows were USD3.4 billion per year and the value of its exports was around USD100 billion per year.

Tables 1 and 2 show values of FDI and exports for Zimbabwe and South Africa, respectively. South Africa's FDI inflows and exports are 89 times and 23 times respectively, more than those of Zimbabwe.

Table 1
VALUE OF FOREIGN DIRECT INVESTMENT (FDI) INTO ZIMBABWE COMPARED TO EXPORTS

Variable	2016	2017	2018	2019	2020	Average
Foreign Direct Investment (millions)	34	25	74	28	30	**38**
Exports (millions)	4,100	4,330	4,620	4,566	4,642	**4,452**

Source: World Bank Country Profile Reports (2016-2020)

Table 2
VALUE OF FOREIGN DIRECT INVESTMENT (FDI) INTO SOUTH AFRICA COMPARED TO EXPORTS

Variable	2016	2017	2018	2019	2020	Average
Foreign Direct Investment (millions)	2,220	2,060	5,570	4,620	2,510	**3,396**
Exports (millions)	90,630	1,03,560	1,10,140	1,04,920	93,540	**1,00,558**

Source: World Bank Country Profile Reports (2016-2020)

According to the World Bank Doing Business Report (2020), out of 190 economies, South Africa is ranked 84 and Zimbabwe is ranked 140. In terms of this ranking, South Africa has better foreign investment policies as compared to Zimbabwe.

CONCLUSION

In the study, the level of FDI in Zimbabwe in relation to exports over the period 2016-2020 has been examined. In comparison with the FDI and exports of South Africa, over the same period, Zimbabwe's FDI inflows and exports are very low. South Africa has better investment polices as compared to Zimbabwe, hence its FDI inflows are 89 times more than those of Zimbabwe. The study concludes that the lack of significant FDI in Zimbabwe, has contributed to the lack of growth in its exports. Given the need to grow the economy of Zimbabwe, there is therefore, greater need to take its exports to new levels through improving the ease of doing business. This study contributes to the on-going discussion on FDI being associated with growth of exports in low income economies.

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