

“A critical review of FDI inflows and economic growth in low-income SADC countries: prospects and challenges”

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SECTION 1. Macroeconomic processes and regional economies management

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A critical review of FDI inflows and economic growth in low-income SADC countries: prospects and challenges

Abstract

This paper examines the dynamics of foreign direct investment (FDI) inflows and economic growth in six low-income SADC economies, namely: the Democratic Republic of Congo (DRC), Madagascar, Malawi, Mozambique, Tanzania and Zimbabwe. Specifically, the paper analyzes the policies and strategies that have been implemented in the studied countries to boost the FDI inflows and economic growth in these countries. The study also highlights some of the challenges and constraints faced by these countries in attracting and retaining FDI inflows. The study finds that during the 1980s and the early 1990s, the FDI inflows in some of these countries were largely subdued due to unfavorable policies, such as import substitution, protectionism, heavy state ownership, as well as state controls and interferences in the markets. In particular, policies such as socialism and centrally planned economies, which were aimed at protecting infant industries against foreign competition, remained rampant in some of these countries. However, following the implementation of economic liberalization, privatization and economic structural adjustment programs (ESAP) in the late 1990s and 2000s, there was a remarkable increase in FDI inflows which resulted in faster economic growth in some of these countries. Notwithstanding a remarkable increase in FDI inflows in recent years in these countries, there are still a number of challenges faced by some of these countries. These include, inter alia, civil wars, social unrest and political strife, which have ravaged some of these economies during the 1990s and 2000s.

Keywords: foreign direct investment, economic growth, low-income SADC countries.

JEL Classification: F21, G18, G28, O11, O40.

Introduction

The Southern African Development Community (SADC)¹ is an inter-governmental organization headquartered in Gaborone, Botswana. Its goal is to further the socio-economic co-operation and integration, as well as political and security co-operation among its 15 Southern African member countries. On inception, the regional bloc's primary focus was the economic integration of the region. However, from 1992, when the organization's name was changed from the Southern African Development Co-ordination Conference (SADCC) to SADC, its aim broadened to include the establishment of an open economy based on equality, mutual benefit and balanced development; the breaking down of tariff barriers; the promotion of trade exchanges and mutual investment; the attainment of free movement of goods, personnel and labor service; the unification of tariffs and currencies gradually in the community; and the establishment of a free trade zone (SADC, 1996 and 2001).

Global foreign direct investment (FDI) flows have grown from US\$50 billion in the early 1980s to US\$1.5 trillion in 2011. Africa and the SADC have also witnessed substantial increase in FDI inflows.

For SADC, FDI inflows have grown by almost fifty times in the last three decades; from a mere US\$372 million in 1980 to US\$17 billion in 2008. Although FDI inflows to SADC decreased to US\$7 billion in 2010, there are signs of recovery as 2011 recorded a 38% increase to US\$10 billion. Among the six SADC low-income countries total FDI inflows grew by almost 100 times from US\$129 million in 1980 to US\$11.6 billion in 2012.

The purpose of this paper is to analyze the policies and strategies aimed at attracting FDI and boosting economic growth in low-income SADC countries. These include the Democratic Republic of Congo (DRC), Madagascar, Malawi, Mozambique, Tanzania and Zimbabwe. Specifically, the paper analyzes the policies and strategies that have been implemented in the studied countries in order to attract FDI inflows and boost economic growth. In addition, the paper highlights some of the challenges and constraints faced by these countries in attracting and retaining FDI inflows. Although the FDI inflows into these countries were somewhat subdued during the 1980s and the early 1990s, the FDI inflows later increased in most of these countries in the late 1990s and 2000s. This was mainly due to the implementation of policies such as the deregularization of the economy; the relaxation of exchange controls; the adoption of 'market-friendly' policies, as well as privatization and trade liberalization. In particular, countries that pursued the privati-

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¹ SADC 15 Member States are Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia, Zimbabwe, South Africa, Seychelles and Madagascar.

zation of state-owned enterprises, such as Mozambique and Tanzania, have attracted substantial amounts of FDI inflows during the last two decades and have seen their economies grow at a faster rate. Overall, the FDI inflows into these countries can be described as resource-seeking, as the greatest proportion of the funds are invested in the extractive sectors.

1. Review of foreign direct investment and economic growth dynamics in low-income SADC countries

1.1. Dynamics of FDI in low-income SADC countries. The table below shows the FDI inflows as a percentage of GDP and economic growth rates for the six low-income SADC countries.

Table 1. FDI as a percentage of GDP (1980-2012)

Year	DRC	Madagascar	Malawi	Mozambique	Tanzania	Zimbabwe
1980	1.11	-0.02	0.56	0.09	0.06	0.02
1985	1.46	-0.01	0.03	0.01	0.16	0.04
1990	-0.15	0.73	0.97	0.31	0.00	0.10
1995	-0.40	0.31	0.30	1.96	2.47	1.23
2000	1.37	2.14	1.65	3.23	2.71	0.31
2005	3.71	1.71	5.07	1.64	6.46	1.65
2006	2.90	5.34	1.14	2.17	2.73	0.66
2007	18.03	10.53	3.41	5.32	3.36	1.14
2008	14.47	12.42	4.63	5.98	6.48	0.94
2009	5.95	12.47	0.99	9.23	4.32	1.71
2010	22.28	9.25	1.82	11.05	7.69	2.23
2011	10.50	8.23	2.16	20.77	5.04	4.37
2012	18.49	8.94	2.72	35.02	5.93	4.13

Source: Compilation from UNCTAD and WDIs databases.

As illustrated in Table 1, FDI inflows into the six low-income SADC countries were very low in the 1980s and 1990s; averaging at 0.26% of individual country's GDP. Madagascar and DRC were experiencing net FDI outflows during this period. FDI inflows in all the six countries, except Zimbabwe started peaking up in the late 2000s. Recently, the biggest recipients of FDI are DRC and Mozambique which are rich in minerals and oil & gas reserves respectively. The main investing countries in the DRC are the United States, Germany, Belgium, France and South Africa while Brazil, South Africa and Mauritius account for the bulk of FDI flows to Mozambique in recent years (UNCTAD, 2012). The country dynamics are discussed using a case study approach in the next subsection.

1.2. Democratic Republic of Congo. The Democratic Republic of Congo (DRC) is home to one of the world's largest reserves of untapped natural resources, including copper, cobalt, diamonds, platinum, gold, wood products, coffee, oil and gas (Jansson, Burke & Jiang, 2009, p. 24). According to the World Bank (2012), the DRC is a low-income country with a Heavily Indebted Poor Countries (HIPC) status. Since 2001, the country has been recovering from a series of conflicts that broke out in the 1990s. The country's total GDP was US\$17.9 billion in 2012, up from US\$11.2 billion in 2009 (World Bank, 2013a).

1.2.1. Policies aimed at attracting FDI inflows and boosting economic growth in the DRC. According to

the World Bank (2013a), the DRC government has, since 2001, been implementing macro-economic reforms aimed at stabilizing the macro-economic situation and promoting economic growth. These reforms include the liberalization of petroleum prices and exchange rates, and the adoption of disciplined fiscal and monetary policies. As shown in the figure below, they have been successful, as proven by the acceleration of economic growth since 2002 and a reduction in inflation from over 501% in 2001 to approximately 15% in 2011.

In July 2006, the DRC government adopted the Growth and Poverty Reduction Strategy Paper (GPRSP), whose guidelines formed the basis of Government's program for 2007-2011. The PRGSP was supported by key international development partners such as the ADB, the World Bank, and the European Union, among others (ADB, 2009, p. 4). Two of the five PRGSP strategic pillars include the promotion of good governance and peace consolidation, and the consolidation of macroeconomic stabilization and growth.

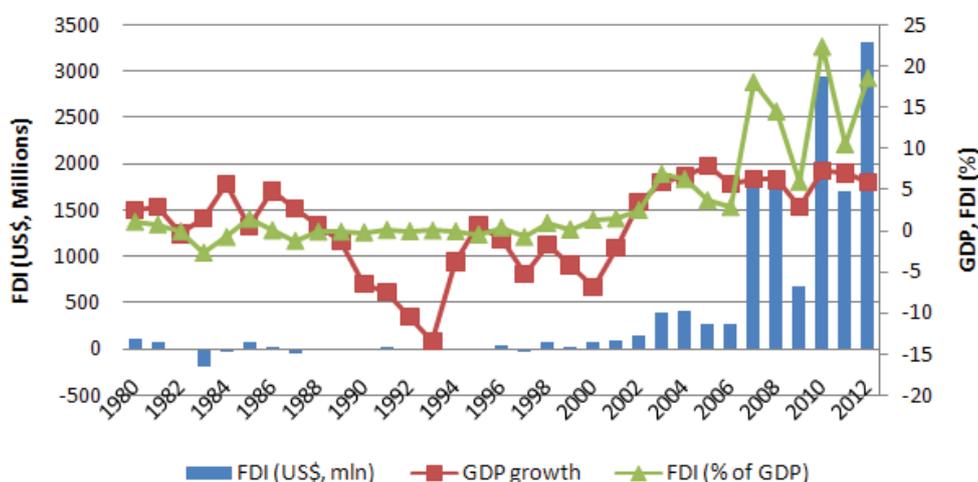
In order to attract both domestic and foreign investment, the DRC government initiated legal reforms aimed at improving the country's business climate in 2002. These included the drafting of the Investment Code, which provides for a more liberalized, enabling framework and increased incentives. At the same time, the National Agency for the Promotion of Investment (ANAPI)¹ was estab-

lished and mandated to facilitate and regulate both domestic and international investment projects (FAO, 2012, p. 6).

Some of the new laws which were updated or approved include the mining code, the agricultural law, the public finance law, the procurement code and the promulgation of a new customs code, and the implementation of value-added tax (VAT) in January 2012. The government also established a new commercial court with the aim of attracting investment by promising fair and transparent treatment to private business. The country also created an inter-ministerial committee named: the “Steering Committee for Investment and Business Climate Improvement” to encourage reforms that could improve the business climate (ADB, 2009).

A report by COMESA (2012) notes that the DRC government reduced the cost of a building permit from 1% of the estimated construction cost to 0.6% and a time limit was set for issuing building permits. This lowered the administrative costs of obtaining a construction permit, and reduced the property transfer tax by half to 3% of the property value in the 2010/11 financial year.

In Figure 1 below, the DRC recorded its highest FDI inflow to date of US\$3.3 billion in 2012. According to ANAPI (2006), the mining sector dominates in terms of FDI receipts, although telecommunications received a bigger proportion in 2010. The main investing countries in the DRC are the United States, Germany, Belgium, France and South Africa.



Source: Compilation from UNCTAD and WDIs databases.

Fig. 1. DRC GDP and FDI trends (1980-2012)

1.2.2. Challenges faced by the DRC in attracting FDI and boosting economic growth. The major challenge faced by the DRC currently is the building and rehabilitation of infrastructure damaged by the civil war. According to Foster and Benitez (2011, p. 2), the World Bank projects that the DRC needs infrastructural spending of around US\$5.3 billion per year over the next decade in order to catch up with the rest of the developing world. As much as 21% of this amount needs to be dedicated to infrastructural maintenance alone.

The country is yet to build public and private institutions, which could help improve the business-operating environment. The ADB (2009) notes that apart from the under-developed infrastructure, the country still needs to address issues such as the inadequate contract enforcement, limited access to credit, continued insecurity in the eastern part of the country, lack of adequate intellectual property rights

protection, administrative and bureaucratic delay, and the ineffective enforcement of laws and regulations. All these issues continue to constrain private sector development. The UNCTD (2012, p. 80) pointed out that the DRC adopted a law allowing land to be held only by Congolese citizens or by companies that are majority-owned by Congolese nationals. This is projected to have a negative impact on FDI in the agricultural sector.

1.3. Madagascar. According to the World Bank (2013b), Madagascar was one of the wealthiest African countries in the 1960s, with an educated elite, strong institutions, good infrastructure, and a *per capita* income above that of the developing countries' average². But owing to several years of economic slowdown and persistent crises, the annual GDP grew by an average of only 0.5% during the period 1970-1990, as compared with a population growth rate of about 2.8% during the

¹ Agence Nationale pour la Promotion des Investissements.

² <http://www.worldbank.org/en/country/madagascar/overview>.

same period. According to the World Bank (2012), Madagascar is now a low-income country and it falls under the IMF's HIPC status.

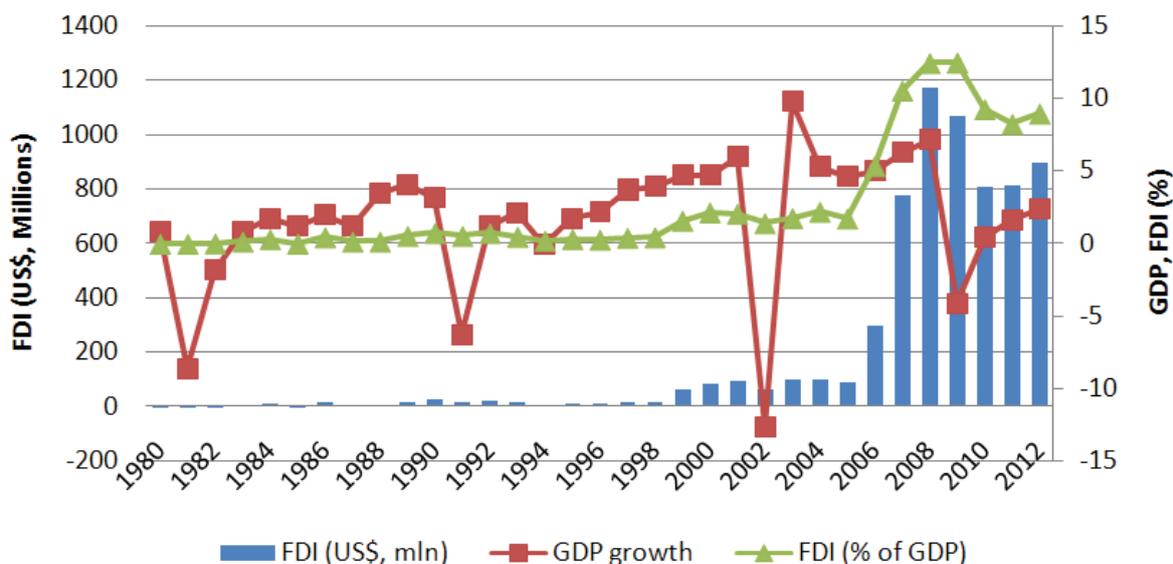
1.3.1. Policies to attract FDI and boost economic growth in Madagascar. Like other developing countries in the early 1980s, Madagascar pursued macroeconomic structural adjustment policies, as advocated by the IMF. The policies were aimed at economic stabilization, liberalization, and economic growth (Dorosh, 1994). The ILO (2010, p. 30) also notes that "The country's macroeconomic policy has been under IMF tutelage on and off for over twenty-five years... without evident signs of sustained success".

Madagascar's current macroeconomic policies and strategies are anchored on the Madagascar Action Plan (MAP, 2004), a five-year development strategy that sets priorities, strategies, goals, and benchmarks for the period. The country is also guided in its macroeconomic policy, the IMF's Poverty Reduction Growth Facility (PRGF) which outlines macroeconomic goals, conditions, and benchmarks that are to be followed by monetary policy, fiscal policy, exchange rate management, and financial regulation.

The MAP identifies eight major development goals, called commitments and some of the specific targets include:

1. Achieving an economic growth rate of 8-10% by 2012.
2. Growing the total economy to US\$12 billion by 2012.
3. Attracting a total of US\$500 million in FDI by 2012.

In an effort to attract FDI, the Economic Development Board of Madagascar (EDBM) was established in 2006; it was tasked to promote and facilitate private investment in the country. EDBM's other duties included formulating and co-ordinating the implementation of the country's private investment policy and strategies, and ensuring that the country's investment laws, regulations, strategies and procedures are conducive to attracting private investments (Government of Madagascar, 2013). The government further crafted a new law in 2008 (Law No. 2007-036) aimed at simplifying access to land for foreign investors (GTZ, 2009). Figure 2 shows the FDI and GDP trends for Madagascar.



Source: Compilation from UNCTAD and WDI's databases

Fig. 2. GDP and FDI trends in Madagascar (1980-2012)

1.3.2. Challenges faced by Madagascar in attracting FDI and boosting economic growth. Figure 2 shows that Madagascar's economy experienced a deep recession in 2001-2002. The ADB (2012) attributes this recession to the 2002 political crisis and the fall of 4% in 2009 to the world economic crisis and the contested presidential elections in 2007. The political crisis persisted into 2011 and it continued to have an impact on the social and economic situation of the country (ADB, 2012, p. 206). The ILO (2010) notes that the macroeconomic policy has been under IMF guidance on and off for over 25 years, without any

clear signs yet of prolonged success. Although the country allows full ownership of land, and most of its economic sectors are open to 100% foreign ownership, without any restrictions on payments or transfers, FDI inflows and economic growth continue to be hampered by adverse weather conditions (such as cyclones) and persistent political crises (ADB, 2012; and ILO, 2010).

1.4. Malawi. Malawi is a low-income country and it falls under the IMF's HIPC's. The country's total GDP was about US\$5.62 billion in 2011 and its GDP

per capita was US\$365 in the same year, up from US\$305 in 2008. According to the World Bank (2013c), the agriculture sector is the country's major source and significant driver of growth through regional exports and import substitution. This sector is estimated to have contributed 28% of the nation's GDP in 2011 compared with the service sector's 33%. The manufacturing and mining sectors are relatively small, contributing 10% and 2% of GDP, respectively. The country's export trade is dominated by tobacco, tea, cotton, coffee, and sugar.

1.4.1. Policies to attract FDI and boost economic growth in Malawi. Chirwa and Zakeyo (2003) categorized the macroeconomic policy actions of the Government of Malawi during the period from 1964 to 2004 under the following three broad phases:

1. *Pre-reform period (1964-1980).* The government was actively involved in economic activities through the Malawi Development Corporation and ADMARC investments. The macroeconomic policy was aimed at economic stability, low and stable inflation and low and stable interest rates. The exchange rate was fixed.
2. *Reform period (1981-1994).* The main economic policies were focused on liberalization, restructuring and privatization. They opened up to FDI through the privatization of state-owned enterprises, the liberalization of entry into manufacturing in 1991, the signing of a bilateral trade agreement with South Africa in 1991, and reductions in tariffs leading to a maximum of 75 percent in 1994.
3. *Post-reform period (1995-2003).* This period is characterised by policy refinements. The emphasis during this period was on growth, with very little emphasis on the distributive nature of such growth. Notable policy actions included, among others:
 - ◆ Continued implementation of the 1996 National Privatization Program until 2001, when it was discontinued due to the lack of tangible results.
 - ◆ The strengthening of regional integration and trade openness within the various regional blocs.
 - ◆ Introduction of the Export Processing Zones (EPZ) schemes in 1995.

Currently, Malawi's macroeconomic policy framework is driven by the Malawi Vision 2020, the Malawi Poverty Reduction Strategy (MPRS), and the Malawi Growth and Development Strategy (MGDS). The Vision 2020 is a policy framework that sets out a long-term development perspective for the country; and it postulates that by 2020,

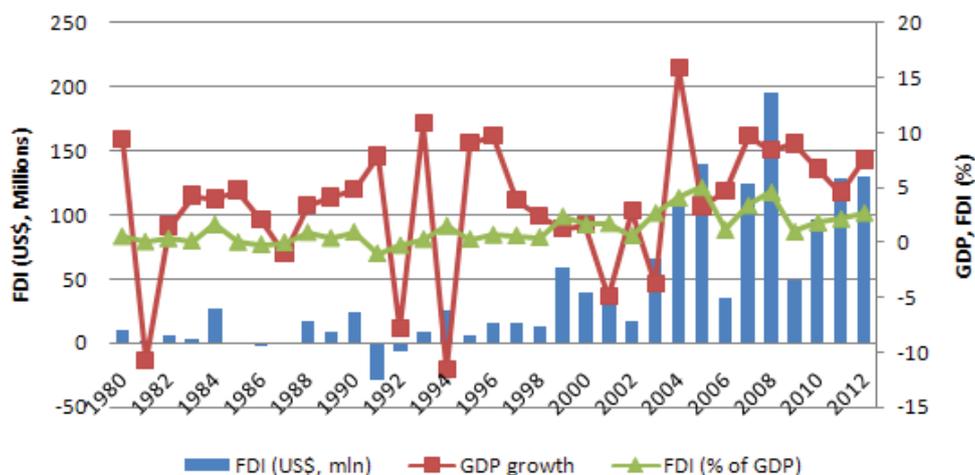
Malawi should be a "technologically driven middle-income economy" (Government of Malawi, 2003).

The MPRS, which was launched in 2002, translates long-term vision into medium-term focused action plans. The MPRS is the overarching medium-term strategy of the government for reducing poverty in the country (Government of Malawi and IMF, 2012). Lastly, the MGDS II, which is now in its second edition after the MGDS I (2006-2011), designed an over-arching operational medium-term strategy for the country, which was aimed at helping the country meet its Millennium Development Goals (MDGs) through eradicating extreme poverty and hunger, economic growth and developing global partnership for continuous development, among others.

Malawi also undertook a number of reforms, including the simplification of the trade regime, and ensuring macroeconomic and political stability – in a bid to attract FDI. Some of the specific initiatives include: the establishment of the Malawi Investment Promotion Agency (MIPA) in 1991; the repeal of the Forfeiture Act in 1992; embracing the market economy system in 1994; signing dual-taxation treaties with Denmark, the Netherlands, France, South Africa, the United Kingdom, Norway, Sweden and Switzerland; joining the International Convention for the Settlement of Investment Disputes (ICSID), and also membership of the Multilateral Investment Guarantee Agency (MIGA), among others. The results of these reforms are briefly discussed in the analysis of GDP and FDI trends below.

As shown in the figure above, before the liberalization of Malawi's economy in 1994, the country's annual FDI inflow was very erratic and averaged at US\$4.7 million per year between 1980 and 1993; and its proportion of GDP was a mere 0.28% average per year over the same period. From 1999 to 2011, the country received an average of US\$64 million per year totally, at US\$829 million and the average FDI proportion of GDP increased to 2%.

According to the MIPA (2008), the major sources of FDI inflows into Malawi are: South Africa, China, France, India, the United Kingdom, Taiwan, the United States of America, Germany, Italy, Kenya, Lebanon, Libya, the United Arab Emirates, and Zimbabwe, in their order of size. UNCTAD (2012) statistics indicate that the greatest proportion of the country's FDI goes into agriculture, manufacturing, services, tourism, and the mining sectors.



Source: Compilation from UNCTAD and WDI's databases.

Fig. 3. GDP and FDI trends in Malawi (1980-2012)

1.4.2. Challenges faced by Malawi in attracting FDI and boosting economic growth. In spite of the several macroeconomic reforms and restructurings that have been implemented in Malawi (as described above), the efforts have not been matched with improvements in economic growth, as shown in Figure 3. The World Bank (2013c) attributes the economic slumps in the late 1990s and early 2000s to the high-risk environment characterised by high inflation, a volatile exchange rate, some market failures, weak and unreliable public services; thus leading to a shift into the production of low-value subsistence crops by farm households, scaling down manufacturing activities, and increased investments in low-risk assets, such as Treasury Bills. Magalasi (2009) attributes the fall in real GDP growth in the years 1998, 2000, and 2001, to adverse weather conditions (droughts). Magalasi (2009) argues that this heavy dependence on raw agricultural products for exports has made the country susceptible to fluctuations in international commodity prices, over which the country has no control and it has for a long time tied aggregate real GDP growth to variations in weather conditions. The Government of Malawi (2004, p. 1) attributes the country's weak FDI performance prior to 2004 to the poor macroeconomic environment.

1.5. Mozambique. The World Bank (2013d) describes the economic transition from post-conflict to one of Africa's "frontier economies" as 'impressive'. In recent years, the country's economic growth has been spurred on by political stability, firm macroeconomic management, structural reforms and reconstruction, and a huge influx of FDI in the expanding energy and natural resources sectors (World Bank, 2013d). The ADB (2012, p. 2) remarks that "the year 2011 may well be re-

membered as a turning point in Mozambique's economy". The country made the first overseas export of coal; a sure sign of the birth of Mozambique as a world exporter of minerals.

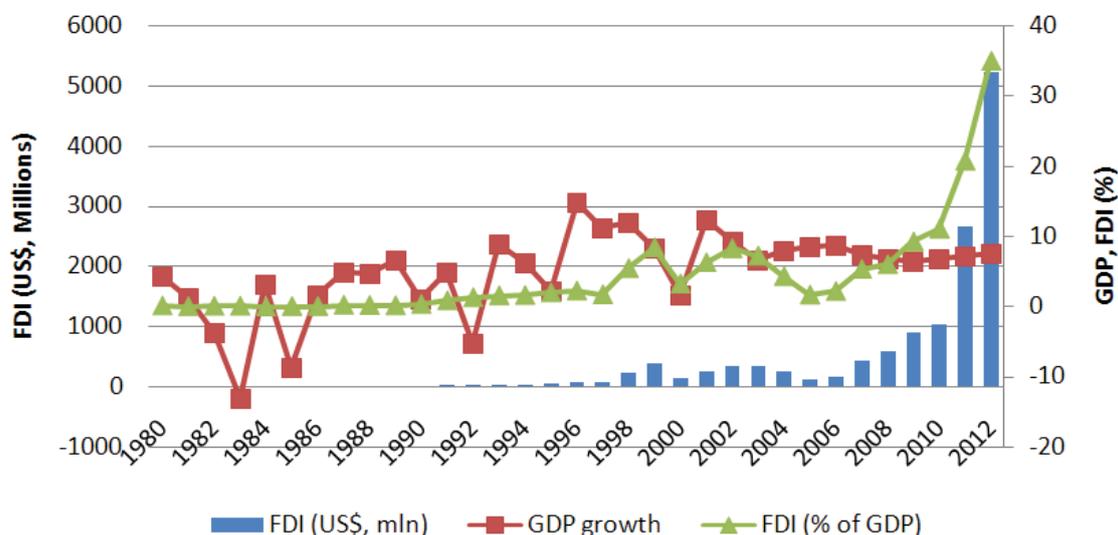
1.5.1. Policies to attract FDI and boost economic growth in Mozambique. Cunguara (2011, p. 1) argues that Mozambique has undergone significant macro-economic structural changes in the last 50 years. These were partly influenced by wars as follows: (1) three decades of war: the 1964-74 liberation war, the 1976-80 Rhodesia war, and the 1981-92 destabilization war (Hanlon, 2010); (2) the implementation of the structural adjustment programme (SAP) in the mid-1980s, which started the transition from a socialist to a free-market economy; (3) the peace agreement signed in 1992, which allowed once again the movement of people between rural and urban areas and encouraged development; and (4) the implementation of the poverty-reduction strategy papers (commonly referred to as The Action Plan for Reducing Poverty – PARPA), which continued the structural transformations. Overall, poverty reduction has always been the government's principal goal.

The PARPA is one of the country's key strategies and it has guided economic policy since the year 2000. Several of its objectives have been incorporated into the central government's five-year plans (UNCTAD, 2012, p. 5). PARPA I (2000-2005) focused on three pillars: governance, human capital and economic development. The second plan, PARPA II (2006-2009) sets out to improve the business climate, in order to encourage domestic and foreign investment as one of its top priorities; especially the removal of "administrative barriers to investment, and to creating a more flexible and competitive labour market". The 2010-2014 five-year plan acknowledges the increasingly important role of

private investment in the economic development of the country and reaffirms that the government's previous policy initiatives of attracting both domestic and foreign investors (UNCTAD, 2012, p. 15).

The Mozambique Investment Promotion Center (CPI) is the overarching board, which manages investments in the country. However, since 2007, the registration and authorization of investments in special economic zones (SEZs) and in the industrial free zones (IFZs) have been managed by the Special Economic Zones Office (GAZEDA). The CPI and GAZEDA act as evaluators and prepare proposals for approval by the competent authorities which could be provincial governors, director generals, minister of planning and development, or the council of ministers, depending on the nature and size of the investment (UNCTAD, 2012, p. 37).

UNCTAD (2012) argues that the country's structural reforms, which the new government embarked on soon after the multi-party elections in 1994, have managed to establish an open market-oriented economy. This has led to two decades of strong growth and has raised GDP *per capita* from US\$138 in 1992 to US\$428 in 2009. FDI inflows were fairly low in the early 2000s before a massive increase from US\$427 million in 2007 to a staggering US\$5.2 billion in 2012; a 12-fold growth in five years. UNCTAD (2012) attributes this impressive increase in FDI inflows to large-scale investments in the industrial sector and extractive industries known as mega-projects. The major recipients of FDI have been mining, manufacturing, and to a lesser extent, the infrastructural and construction sectors (UNCTAD, 2012). See Figure 4 below.



Source: Compilation from UNCTAD and WDI's databases.

Fig. 4. GDP and FDI trends in Tanzania (1980-2011)

1.5.2. Challenges faced by Tanzania in attracting FDI and boosting economic growth. The World Bank (2013e) noted that although the country's economy has been high and relatively stable over the past decades, its sources of growth are confined to a few sectors, and the growth was turning out to be increasingly reliant on government spending, instead of on private investment. The World Bank (2013e) further projected that the country could become a major producer of natural gas in a decade, which could be a major attraction for FDI. However, the bank cautioned that an increase in FDI would only be possible if the country invested in its infrastructure and energy, and also undertook structural reforms, especially aimed at improving the overall business environment. In its Tanzania Policy Review Report, UNCTAD (2002, p. 1) recommended that Tanzania should replace its 1997 Investment Act – given the current environments, both inside and outside the country. The report also suggested reviews of the

country's commercial and contract laws, labor laws, competition law, and the updating of policies in sectors, such as fishing, mining and tourism.

1.6. Zimbabwe. The World Bank (2013f) estimated the country's nominal GDP at US\$10.8 billion in 2012 up from US\$9.9 billion in the previous year. The World Bank data also show that Zimbabwe's GDP *per capita* (current prices), which has been decreasing since its independence in 1980, has now started to increase. In 1980, Zimbabwe's GDP *per capita* was US\$916 but it fell to US\$840 in 1990, and then further to US\$535 in 2000. It has now started to increase, since the formation of the Government of National Unity (GNU) in 2009; and it stood at US\$723 by 2011. Zimbabwe is currently classified as a low-income country by the World Bank (2012). It is currently the only SADC country, which uses the United States of America dollar as its official currency, after the introduction of a

multicurrency regime¹ into the economy in 2009 (Government of Zimbabwe, 2009).

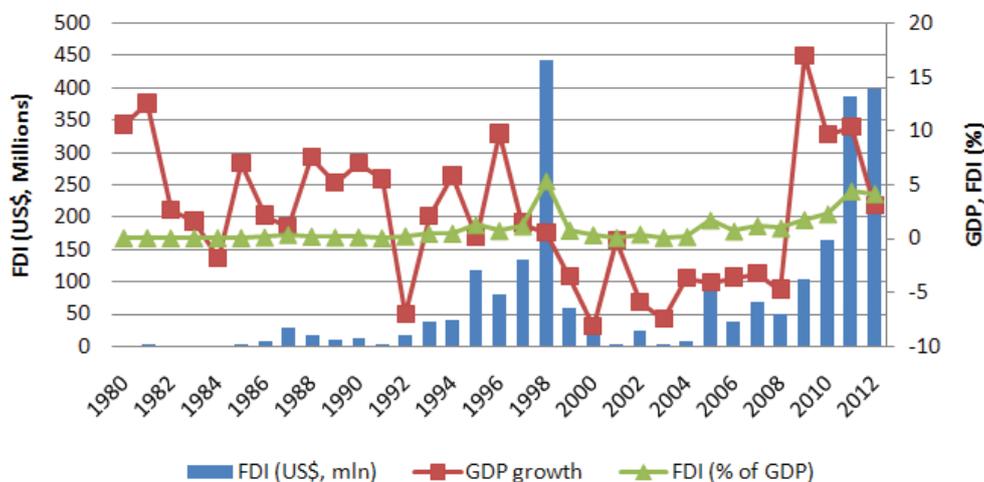
1.6.1. Policies to attract FDI and boost economic growth in Zimbabwe. Like many SADC countries described above, Zimbabwe’s FDI and growth policies are shaped by various policy regimes. For example, at impendence in 1980, the new Zimbabwean government adopted a highly regulated and inward-looking economy and they continued with interventionist economic policies taken over from the colonial government. Appraisals and approvals of foreign investment proposals involved long processes, as the firms were obliged to get authorization from the Foreign Investment Center for the development of any new enterprises in the country. As a result of these bureaucratic administrative processes, the FDI was very low in the 1980s (Gwenhamo, 2009).

The 1990s reforms, which included ESAP and ZIMPREST, were aimed at liberalizing the economy and attracting FDI. As part of this reform, the country established the Zimbabwe Investment Center (ZIC), a ‘one-stop shop’ for investment approvals; it offered enticements, such as tariff and tax exemptions, export-processing zones incentives

in the form of tax holidays and customs free trade (Gwenhamo, 2009). This was all part of the Government’s policy of structural adjustments, privatization and liberalization of the economy.

In a bid to revive the economy and attract FDI after the economic crisis, the Government crafted many policies, which included the Industrial Development Policy (IDP), and The National Trade Policy (NTP). The country also adopted the Indigenization and Economic Empowerment Policy in 2007, which advocated the indigenization of up to 51% of all foreign-owned businesses (UNCTAD, 2011).

Figure 5 shows that the economy of Zimbabwe quickly responded from the formation of the GNU in 2009 and the new government’s policies, as GDP grew from minus 4.74% in 2008 to an impressive 7.21% in 2009. During the Zimbabwean economic crisis of 2000-2008, FDI averaged at US\$37 million per year. However, the establishment of the GNU (which brought some political stability and economic stability), saw an increase in the FDI net inflows of nearly eightfold in four years to US\$387 million in 2011, up from just US\$51.6 million in 2008. The major attraction for FDI in Zimbabwe has been mining, manufacturing, financial services and banking.



Source: Compilation from UNCTAD and WDI’s databases.

Fig. 5. Zimbabwe GDP and FDI trends (1980-2012)

1.6.2. Challenges faced by Zimbabwe in attracting FDI and boosting economic growth. Although the country has shown signs of recovery since the formation of the GNU in 2009, the World Bank (2013f) noted that the economy is still fragile, owing to political uncertainties, debt distress, downside risks in agriculture, low domestic liquidity and high real-interest rates, high wages, the dilapidated infrastructure, and an unreliable power supply (World

Bank, 2013f). The IMF (2013) recommends that the country should consider indigenization and empowerment policies that provide transparent rules, and offer due regard to property rights, which would help in building investor confidence and in attracting the much-needed FDI.

Conclusion

This paper has examined the policies and strategies aimed at boosting economic growth and attracting FDI into the six SADC low-income countries, namely: the DRC, Madagascar, Malawi, Mozambique, Tanzania

¹ Apart from the US dollar, other currencies in circulation in Zimbabwe are the South African Rand and the Botswana Pula.

and Zimbabwe. It has also presented the trends in FDI inflows and economic growth for six countries for the period from 1980 to 2012. The study found that in the 1980s and the early 1990s, the majority of these countries were largely practising policies, such as socialism, central economic planning, State ownership, import substitution, protectionism and strong government regulation, all of which had a somewhat negative effect on FDI inflows. In particular, the governments of some of these countries were very active in the market through State-owned enterprises, especially in 'strategic sectors', such as telecommunication, agriculture and mining. As a result, the FDI inflows were fairly low and subdued during the first two decades. However, during the 1990s and the early 2000s, some of these countries developed strategies and policies that were aimed at attracting FDI inflows. They also established government-funded agencies, whose sole mandate was to attract and promote investment. Some of the policies that

have been implemented in these countries include amongst others, the deregularization of the economy; the relaxation of exchange controls; the adoption of 'market-friendly' policies, as well as privatization and trade liberalization. As a result, the FDI inflows into some of these countries started picking up from the 1990s. In particular, countries that pursued the privatization of state-owned enterprises, such as Mozambique and Tanzania, have attracted substantial amounts of FDI inflows during the last two decades; and have seen their economies grow at a faster rate. Overall, the FDI inflows into these countries can be described as resource-seeking, as the greatest proportion of these funds are invested in the extractive sectors. Notwithstanding a remarkable increase in FDI inflows in recent years in these countries, there are still a number of challenges faced by some of these countries. These include, inter alia, civil wars, social unrest and political strife, which ravaged some of these economies during the 1990s and the early 2000s.

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