

The Development of FDI in Zimbabwe

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Abstract: This paper conducts a thorough examination of the intricate factors influencing Foreign Direct Investment (FDI) in Zimbabwe, spanning from its post-independence economic surge to the challenging period of 2000-2023. Hyperinflation, currency depreciation, governance challenges, infrastructure deficiencies, fiscal policies, and corruption are scrutinized to comprehend their collective impact on FDI. Through historical context, data points, and pertinent citations, the study highlights the multifaceted challenges faced by Zimbabwe in attracting and sustaining FDI. It underscores the necessity for strategic adjustments, targeted incentives, and robust anti-corruption measures to foster a transparent and conducive environment for sustainable economic development.

Keywords: Foreign Direct Investment (FDI), Corruption and FDI, Zimbabwean Economy, Policy Adjustments, Sustainable Development

Introduction

Background

Foreign Direct Investment (FDI) has played a crucial role in Zimbabwe's economic landscape, predating its independence from British colonial rule in 1980. Post-independence, the nation witnessed a remarkable economic surge, earning the moniker of the Southern African Development Community (SADC) region's breadbasket. This period marked a turning point, attracting international investors and capital to Zimbabwe, propelling the macroeconomic sector's growth. With a notable average economic growth rate of 10.2% to 10.3%, Zimbabwe's favorable conditions prompted increased attention from global investors, fostering international trade relations. Despite the initial economic prosperity, Zimbabwe faced substantial challenges in the aftermath of independence. According to Dailami and Walton (1992), the country struggled with economic sanctions and trade embargoes, leading to the inheritance of costly production plants. The lack of competitiveness against foreign producers strained domestic businesses, resulting in closures and price hikes. Simultaneously, the nation grappled with droughts, escalating internal and external debts, mismanagement of foreign currency and government budgets, and political instability, all contributing to a decline in the country's economic trajectory.

In response to these challenges, the International Monetary Fund (IMF) and the World Bank (WB) intervened in 1990, urging Zimbabwe to adopt new policies. The country embraced the Economic Structural Adjustment Programme (ESAP) in 1991, marking a shift from a command economic system to an open-market structure. ESAP aimed to foster open foreign trade policies, implement monetary measures, offer favorable interest rates for both domestic and FDI businesses, and boost the economy through exports. However, subsequent World Bank research around 1995 revealed significant economic problems, including declining real wages, high-interest rates leading to business closures, and a weakened industrial and agricultural sector due to insufficient government spending. The research also identified a growing national debt, a depreciating local currency (Zimbabwean Dollar), and challenges in purchasing imports with the local currency. This resulted in a negative balance of payments (BOP), while foreign businesses specializing in manufacturing and export relocated outside the country. Another critical finding was the heightened credit risk, making borrowing from external sources prohibitively expensive. These economic issues formed a complex web, posing significant obstacles to the attraction and sustenance of FDI in Zimbabwe. The period from 2000 to 2022 marked a tumultuous era for Zimbabwe, characterized by economic challenges that significantly impacted Foreign Direct Investment (FDI). This section delves into key issues, including inflation, currency depreciation, and governance problems, and examines their repercussions on the FDI landscape.

Zimbabwe faced severe hyperinflation during the 2000s, reaching astronomical levels that surpassed 100% per month at times. The rapid erosion of the currency's value led to a loss of confidence among investors, both domestic and foreign. The volatile economic environment created uncertainty, discouraging long-term investments and undermining the stability required for sustained FDI. The Zimbabwean Dollar witnessed a drastic decline in value, partly attributed to hyperinflation and economic mismanagement. The depreciating currency posed challenges for investors, affecting the real returns on their investments. Foreign businesses faced difficulties in pricing their products competitively, impacting their profitability in the local market. Poor governance, characterized by corruption, political instability, and lack of transparency, emerged as a significant deterrent to FDI. Investors are naturally averse to environments where governance concerns threaten the security

of their investments. Zimbabwe's governance challenges created an unfavorable perception, diminishing the attractiveness of the country as an investment destination. The combination of hyperinflation, depreciating currency, and governance issues eroded investor confidence. Foreign investors hesitated to commit capital to a market with unstable economic conditions and a lack of confidence in the regulatory framework. The economic challenges prompted capital flight, with investors withdrawing funds to seek more stable environments. Businesses, both domestic and foreign, faced challenges in sustaining operations amid economic turmoil, leading to divestment and closures. Zimbabwe's economic woes contributed to policy uncertainty, with frequent changes in economic strategies. This uncertainty further deterred foreign investors who sought stability and predictability in policy frameworks. While the period post-2008 witnessed the adoption of a multi-currency system and relative stabilization, the scars of the earlier economic crisis lingered. The reliance on foreign currencies introduced its own set of challenges, and the restoration of investor confidence remained a gradual process. The economic challenges faced by Zimbabwe from 2000 to 2022, characterized by hyperinflation, currency depreciation, and governance issues, had a profound impact on the FDI landscape. The erosion of investor confidence, capital flight, and policy uncertainties collectively contributed to a challenging environment for foreign investors. Moving forward, addressing these economic issues and implementing comprehensive reforms are crucial steps to rebuild trust, attract FDI, and foster sustainable economic growth.

Research Objectives

The objectives of this paper include the following: Examine the Impact of Economic Challenges on FDI, investigate how hyperinflation, currency depreciation, and governance problems from 2000 to 2022 have affected FDI in Zimbabwe. Evaluate the Role of Infrastructure in FDI Attractiveness, assess the influence of transportation, building, energy, and communication infrastructure on FDI trends in Zimbabwe. Analyze Fiscal Policies and Their Impact on FDI, examine historical and current fiscal policies to understand their role in shaping the FDI landscape and propose strategies for improvement. Assess the Role of Governance and Corruption, investigate the impact of governance issues, political instability, and corruption on FDI, exploring potential solutions for enhancing transparency.

Research Questions

- How did economic challenges, including hyperinflation and currency depreciation, impact FDI in Zimbabwe from 2000 to 2023?
- What is the relationship between infrastructure deficiencies, such as transportation bottlenecks and energy shortages, and the decline in FDI in Zimbabwe?
- How have fiscal policies, especially corporate tax rates, influenced FDI trends in Zimbabwe, and what targeted incentives could be implemented to attract strategic industries?
- What is the extent of corruption's impact on FDI in Zimbabwe, and how can anti-corruption measures contribute to restoring investor confidence?

Research Significance

The research holds significance in providing insights into the challenges faced by Zimbabwe in attracting and sustaining FDI. Understanding the nuanced interactions between economic, infrastructural, fiscal, and governance factors is crucial for formulating effective policies to enhance FDI inflows. Addressing these challenges can contribute to sustainable economic growth, job creation, and overall development.

Literature Review

To the hosts country FDI imposes a great deal of positive change for the most part. Most literature promotes the idea that FDI is beneficial to the host country (example Moura 2010). In 2013 at the World Economic Forum, it was noted that the sudden surge in the growth of FDI was in relation to trade and globalization. The more the countries open up their borders for business the more the developed countries are noticing the potential of good business and profits in the less developed or developing nations like Zimbabwe. FDI is very important to Zimbabwe for one major reason amongst many others, it allows the flow of capital from capital intensive nations to Zimbabwe which can then be used to further the Zimbabwean economy for the better. (Berger & Diez 2008), it was noted that besides the transfer of capital from one country to another FDI also allows the transfer of skill labour from one country to another as well which in this case proves very important for the Zimbabwean economy to have superior business knowledge to improve business knowledge and more. If we carefully look at some of the most developed nations in today's world you will clearly find that FDI as one of the economic engine promoting economic development and the same can be implemented in African and developing nations given stable economic and political factors. According to OECD (2003), they highlighted how FDI inflows have increased rapidly over the past quarter of a century. They also highlighted

how at the time that the inflows of FDI were largely concentrated in the Eastern China region particularly in Guangdong province. The OECD stated that FDI played a very important role in China's economic boom for example the stimulation of the trade growth and promoting productivity improvements in the China domestic business. This analysis does not only apply to China alone but many other previously developing nations turning world players on the global economy. The same can be said about the United States, Switzerland, Singapore and many other current first world economies.

This scenario of events from the previous provide a very good relationship between foreign direct investment and robust economic development in the most positive way. With regards to the relationship between foreign direct investment and economic growth many articles were published trying to see just the two influence each other and if it is good idea to tie the countries' hope to success all on FDI projects. Bashir Ahmad Joo and Sana Shawl (2023) highlighted how the BRICS (Brazil, Russia, India, China and South Africa) nations tied a vast majority of their economic dependence to the development of the FDI. In doing so the authors proved how these countries received a majority of the FDI inflow and also how in itself FDI does not promotes economic growth but needs the certain factors such as human capital, financial development, trade openness and many other macroeconomic and macroeconomic factors for it to succeed.

These findings managed to contradict with the widely accepted notion that in itself FDI is a good recipe for success. This situation fully applies to an economy such as Zimbabwe which has been investing a lot of its capital both human and financial to attract FDI in the country but none has come from it. The major reason for this been as noted by Bashir Ahmad Joo and Sana Shawl (2023), for FDI to flourish in the long run there must be a very good structure supporting it which not the case in Zimbabwe despite having a lot of untapped potential in a lot of areas. Many researchers have opined that the flow of FDI could fill the gap between desired investment and domestically mobilized capital (Hayami & Godo, 2005; Todaro & Smith, 2011), and FDI tends to accelerate development through effective strategies and break the vicious cycle of underdevelopment (Hayami & Godo, 2005).

According to Solow (1956), the authors suggested how there are two ways in which FDI is very beneficial to the economy or we can look at the system in which the relationship between foreign direct investment and economic growth can be viewed and these are capital widening and also capital deepening. According Solow (1956) the author proposed a theory about neoclassical growth saying "this growth may not continue in the long run due to the diminishing return to capital, implying that the neoclassical school of thought suggests that the inward FDI flows may promote economic growth in the short run and not importantly in the long run." If ones takes a look at the Zimbabwean economy as a whole its very easy to see how many investors might be interested to come and set shop in the country despite the microeconomics misshapes on a large scale. The major reason for the lack of any development from Zimbabwe in relation to FDI is that the country does not have any facilities to accommodate long term benefits of FDI. This bring us the capital widening theory which proves in the short-run FDI does benefit the country since Zimbabwe will receive a very large pool of capital from interested parties which good but not long term which exactly the situation of Zimbabwe and many other developing nations around the world.

The existence of foreign direct investment in many countries is a sign of good of fortunes economic wise and many will anything to accommodate the arrival of foreign investment. But many authors did many researchers in findings was that developing nations can benefit from FDI just as developed nations have been able to accomplished seemingly easy. In doing so many calculations were formed and at the same time a lag in FDI inflow and GDP growth or economic growth with relation to many factors was realized. Ancharaz (2003) finds a positive effect on FDI inflows with lagged GDP for the full sample of non-Saharan African countries, but an insignificant effect for the Sub-Saharan African sample. A positive and significant influence of GDP on FDI was reported by Gastanaga et al. (1998). Using lag FDI, Athukorola (1995) noted that funding in one period necessitates funding in subsequent periods in order to complete a project, enhance funding, or increase capacity. Extreme limits analysis was used by Moosa and Çardak (2006) on a cross-sectional sample that included information on 138 different countries. They discover that developing nations with sizable economies, high levels of openness, and low levels of country risk typically have greater success drawing foreign direct investment (FDI) than others. FDI and market performance were found to have a statistically significant positive association by Ramirez (2006), Ang (2008), Onyeiwu and Shrestha (2004), and Asiedu (2002).

1. How to Develop FDI in an Economy like Zimbabwe

To develop foreign direct investment in any country will similar solution despite which country you are in for example fiscal policies, economic policies as well labor policies. Regardless of how these factors are handled they can have a good or negative effects on the foreign direct investment in a country which is well known by all economist. The economic conditions of the country (standards of living included) are also a crucial factor in how FDI can be used to develop a nation or ruin it, below are going to be a list of factors that can be

used to develop FDI beneficially to Zimbabwe. Foreign Direct Investment (FDI) is a crucial driver of economic growth, and its success is influenced by a myriad of factors. In the case of Zimbabwe, several elements play a role in shaping the landscape of FDI, ranging from economic policies to the state of key industries. Macroeconomic stability is a foundational factor influencing FDI. The country's ability to maintain low inflation rates, stable exchange rates, and a sound fiscal policy creates an environment conducive to foreign investment (Javorcik, 2004). Political stability is paramount for attracting FDI. Countries with consistent political environments tend to instill confidence in investors. Zimbabwe's history of political instability has, at times, posed challenges in this regard (Asiedu, 2002).

Legal Framework and Regulations.
A transparent and investor-friendly legal framework is essential. A well-defined set of regulations and protection of property rights contribute to a favorable investment climate (Busse & Hefeker, 2007). Infrastructure, including transport and energy, significantly impacts FDI. A deficient infrastructure can deter investors, while well-developed systems enhance the attractiveness of a nation (Li & Liu, 2005). A skilled workforce is an asset for FDI. A well-educated population provides a competitive advantage. Zimbabwe's investment attractiveness is influenced by the quality of its human capital (Blomström et al., 1994).

1.1 The Energy Industry and FDI:

A Complex Relationship Zimbabwe has faced challenges in the energy sector, impacting its FDI attractiveness. Inconsistent power supply, outdated infrastructure, and an over-reliance on non-renewable sources have hindered industrial growth and discouraged potential investors (Kumar et al., 2013). Zimbabwe's energy instability, characterized by frequent power cuts, raises concerns for investors reliant on a consistent power supply. Industries, particularly those dependent on continuous operations, face hurdles (Munemo, 2010). The outdated nature of Zimbabwe's energy infrastructure limits its capacity and efficiency. Investors may perceive this as a risk, affecting the country's appeal for FDI in industries requiring advanced technological support (Simatele & Simatele, 2013). The over-reliance on non-renewable energy sources poses environmental and economic risks. Sustainable practices are increasingly valued by investors, and Zimbabwe's dependence on traditional energy may deter environmentally conscious investments (Mlambo & Murisa, 2018). Investment in the energy industry can lead to a substantial upgrade in infrastructure. Developing modern, reliable energy sources would address existing challenges, providing a more stable environment for FDI (Twerefou et al., 2016). Embracing renewable energy initiatives can enhance Zimbabwe's FDI attractiveness. Investors inclined towards sustainable practices may find a renewable-focused energy sector appealing, potentially contributing to a more diverse and resilient economy (Chikowore & Zirima, 2020). Understanding the multifaceted nature of factors influencing FDI is essential for Zimbabwe's economic development. While challenges persist, strategic investments in the energy sector can pave the way for a more resilient and appealing environment for foreign investors.

1.2 Infrastructure

Infrastructure plays a crucial role in attracting foreign direct investment (FDI), as demonstrated by numerous case studies in developed nations. Research, such as the work of EDWARD Nketiah Amponsah and Bernard Sarpong in 2019, suggests that specific sectors of infrastructure are directly linked to FDI development in almost every country. Zimbabwe could significantly benefit from allocating government spending to enhance its transport and energy sectors, a strategy proven to attract investors in various nations. Investors often gravitate toward countries with lower business and operating costs. By focusing on the development of transport and energy infrastructure, Zimbabwe can create an environment conducive to foreign investment. In addition to these sectors, attention should be given to communication facilities and office buildings, areas where the country currently faces shortcomings. Lack of proper communication facilities could deter potential investors, making it imperative for Zimbabwe to address this issue to present itself as an attractive investment opportunity.

1.2.1 The Decline of FDI in Zimbabwe due to Infrastructure Deficiencies

Zimbabwe has experienced a significant decline in foreign direct investment (FDI), primarily attributed to its inadequate infrastructure. The country's failure to address key infrastructure challenges has discouraged potential investors and hindered economic development.

Transportation Bottlenecks, one major factor contributing to the decline in FDI is the inadequate transportation infrastructure in Zimbabwe. Poor road networks and outdated logistics systems increase transportation costs for businesses, making it less attractive for investors seeking efficient supply chains. According to the World Bank's "Doing Business" report, Zimbabwe's rank in terms of ease of transportation is significantly lower compared to other nations in the region.

Obsolete Building Infrastructure, the lack of modern and well-equipped office buildings further exacerbates the challenges faced by potential investors. Inadequate office spaces with limited facilities hinder

the establishment and operation of businesses. Data from the Zimbabwe National Statistics Agency highlights the shortage of modern office spaces meeting international standards, affecting the country's competitiveness in attracting foreign investment.

Energy Shortages, persistent energy shortages also play a crucial role in the decline of FDI. Inconsistent power supply disrupts business operations, leading to increased operational costs and decreasing the attractiveness of Zimbabwe as an investment destination. Reports from the International Energy Agency underscore the energy challenges faced by Zimbabwe and their impact on the business environment. In addressing these challenges, Zimbabwe can strategically leverage infrastructure development to revive and enhance FDI inflows.

1.2.2 Advancement of FDI in Zimbabwe through Infrastructure Development

To reverse the declining trend in FDI, Zimbabwe must prioritize and invest in the development of its infrastructure, particularly in the transportation and building sectors. Improving these areas can create a more conducive environment for foreign investors.

Enhanced Transportation Infrastructure, road Networks, upgrading and expanding the road networks across the country will significantly reduce transportation costs for businesses. This is supported by studies such as (Author, Year) which emphasize the positive correlation between well-maintained road networks and increased FDI.

Logistics Efficiency, streamlining logistics systems and introducing modern technologies can enhance efficiency in the transportation of goods. The World Bank's Logistics Performance Index (Year) provides insights into how improvements in logistics can positively impact investment attractiveness.

Modern Building Infrastructure, office Spaces, constructing modern and well-equipped office spaces that meet international standards will attract businesses looking for suitable operational environments. Research by highlights the importance of quality office spaces in attracting multinational corporations. Technological Integration, ensuring that these buildings are equipped with modern technology and connectivity infrastructure will further enhance Zimbabwe's appeal to tech-driven industries.

Energy Infrastructure Development, power generation, addressing energy shortages through investments in diversified and reliable power generation sources is crucial. Data from the International Energy Agency suggests that a stable energy supply positively influences investor confidence. Renewable Energy, incorporating renewable energy sources into the energy mix not only ensures sustainability but also aligns with global trends. Studies such as highlight the attractiveness of countries with a commitment to renewable energy in the eyes of environmentally conscious investors. The advancement of FDI through infrastructure development is a multifaceted approach that requires coordinated efforts.

1.2.3 Developing Infrastructure in Zimbabwe and FDI-Promoting Policies

Infrastructure Development Strategies, public-Private Partnerships (PPPs), encouraging PPPs can expedite infrastructure development. Private sector involvement not only brings in expertise but also shares the financial burden. Research by (Author, Year) emphasizes the effectiveness of PPPs in infrastructure projects. Strategic Planning, formulating a comprehensive infrastructure development plan with clear goals and timelines is essential. The plan should prioritize key areas identified for improvement, such as transportation, energy, and building infrastructure. (Source, Year) highlights the significance of strategic planning in attracting investment.

Policy Recommendations for FDI Growth, incentives for Infrastructure Investment, introducing tax incentives and other financial benefits for businesses investing in infrastructure projects can stimulate private sector participation. Studies like (Author, Year) provide insights into the positive impact of incentives on FDI. Streamlined Regulatory Processes, simplifying regulatory processes related to infrastructure development can reduce bureaucratic hurdles, making it easier for investors to initiate and complete projects. The World Bank's "Doing Business" report (Year) emphasizes the importance of streamlined regulations in attracting investment. Political Stability Ensuring political stability is crucial for attracting long-term investments. Investors seek environments with minimal political risks. Research by (Author, Year) highlights the correlation between political stability and FDI inflows.

Capacity Building and Skill Development, investing in Human Capital, building a skilled workforce capable of contributing to infrastructure development is vital. Training programs and educational initiatives can enhance the local workforce's capabilities, making Zimbabwe more appealing to investors. (Source, Year) discusses the importance of a skilled workforce in attracting FDI. Technology Transfer Programs, facilitating the transfer of technology through international collaborations can further enhance Zimbabwe's technological capabilities. Studies by (Author, Year) emphasize the role of technology transfer in attracting high-tech industries.

In conclusion, a concerted effort to develop infrastructure in Zimbabwe, coupled with well-designed policies and strategic planning, can pave the way for increased FDI. By addressing deficiencies in transportation, building, and energy infrastructure, Zimbabwe can create an environment that is not only attractive to investors but also conducive to sustainable economic growth.

1.3 Communication

Communication infrastructure plays a pivotal role in shaping the investment landscape, especially in the realm of foreign direct investment (FDI). In the case of Zimbabwe, the current state of communication infrastructure has been identified as a significant impediment to attracting FDI. Addressing this issue is imperative for the country's economic development and global competitiveness. One of the foremost challenges facing Zimbabwe is the suboptimal quality of its communication infrastructure. The existing facilities fall short in supporting the level of development required to attract substantial FDI. The inadequacies manifest in the poor quality and instability of the network, posing substantial risks to businesses. In a dynamic business environment where opportunities arise and dissipate swiftly, the importance of timely access to data and information cannot be overstated. Furthermore, the lack of reliable and uninterrupted connectivity contributes to the relatively high costs of communication services for individuals, households, and businesses alike. These challenges collectively deter potential investors, as efficient and cost-effective communication is paramount for successful business operations.

Studies conducted in diverse economies, including Nigeria, Indonesia, and Iran, underscore the critical role of Information Communication Technology (ICT) infrastructure in fostering economic development and attracting FDI. Wangpeizhi and Gul Rukh's research revealed that nations with soft, fast, and technologically advanced ICT infrastructure tend to attract significant capital, thereby promoting FDI inflow. To address the challenges faced by Zimbabwe's communication infrastructure and unlock the potential for increased FDI, strategic policy changes are essential. Investment in Technological Advancements, prioritize investments in upgrading and modernizing communication technologies to ensure they meet international standards. This includes improvements in network reliability and stability.

Public-Private Partnerships, encourage PPPs to leverage private sector expertise and resources in developing and maintaining communication infrastructure. Collaboration with telecommunications companies can expedite the deployment of advanced technologies. Regulatory Reforms, streamline regulatory processes to reduce bureaucratic obstacles and foster a more favorable environment for telecom companies. Clear and efficient regulations can encourage infrastructure development and attract foreign investors. Financial Incentives, introduce financial incentives for businesses investing in communication infrastructure projects. Tax breaks and other incentives can stimulate private sector involvement and accelerate the pace of development. Education and Skill Development, invest in educational programs to develop a skilled workforce capable of supporting advancements in communication technologies. A proficient workforce is essential for maintaining and expanding sophisticated infrastructure.

In conclusion, addressing the challenges within Zimbabwe's communication infrastructure is pivotal for revitalizing FDI inflows. By adopting strategic policies that prioritize technological advancements, encourage private sector participation, streamline regulations, provide financial incentives, and invest in education, Zimbabwe can position itself as an attractive destination for foreign investors. A robust communication infrastructure not only facilitates efficient business operations but also signals to the global market that Zimbabwe is committed to fostering innovation and economic growth.

1.4 Fiscal Policies

Zimbabwe's historical experience with fiscal policies reveals a complex relationship with Foreign Direct Investment (FDI). The impact of fiscal policies on FDI in the past has been characterized by both positive and negative aspects, shaping the investment landscape in the country. In the past, Zimbabwe's fiscal policies have faced criticism for being less conducive to FDI. High corporate tax rates and inconsistent tax structures have deterred potential investors. For instance, during the period of economic instability, the country witnessed a surge in corporate tax rates, reaching levels that surpassed regional competitors. This discouraged capital holders, as evident in the decline of FDI during that period.

Analyzing the present fiscal policy landscape in Zimbabwe, there have been commendable changes. The corporate tax rate, standing at 24.72%, is now relatively competitive in the SADC region. However, challenges persist, particularly regarding government revenue needs and controlled expenditure. The impending bill set to be effective on January 1, 2024, reflects the government's emphasis on revenue generation and fiscal discipline. While the current corporate tax rate is competitive, the overall fiscal environment demands careful consideration. The need for increased government revenue and controlled expenditure might inadvertently

impact FDI. Long-term investments, a prerequisite for attracting FDI, may face hurdles in a fiscally constrained environment.

Tax Incentives for Strategic Industries, to attract FDI, Zimbabwe could consider implementing targeted tax incentives for strategic industries. For example, providing tax breaks or reduced rates for sectors crucial to economic development could stimulate investor interest. This approach has proven successful in other emerging economies. Policy Stability and Predictability, enhancing policy stability and predictability is crucial. Frequent changes in tax policies or economic regulations can create uncertainty, deterring potential investors. Implementing clear and consistent fiscal policies can foster a more favorable investment climate. Also Emphasizing PPPs in infrastructure development can alleviate the burden on government expenditure. Collaborations with the private sector can accelerate the improvement of essential infrastructure, making the country more attractive to investors.

In conclusion, Zimbabwe's historical fiscal policies have influenced the direction of FDI, with both positive and negative impacts. While the current fiscal policy has made strides in competitiveness, challenges remain. Strategic adjustments, such as targeted tax incentives, policy stability, and PPPs, can further improve the investment climate. As Zimbabwe navigates its economic landscape, crafting fiscal policies that balance revenue needs with FDI attraction will be pivotal for sustainable economic growth.

1.5 Poor Governance

Zimbabwe has long struggled with achieving proper and beneficial governance, a critical factor highlighted by various economists and foreign nations. This challenge has significantly deterred potential capital, leading to the departure of investments or exclusion of Zimbabwe from the list of favorable nations for investment. Despite the implementation of several policies over the years aimed at attracting Foreign Direct Investment (FDI), the country has seen little significant development in this regard. In fact, the direction of FDI in Zimbabwe appears to be regressing from its intended goals. Some of the policies introduced include tax breaks for foreign businesses or those transacting in foreign currency and the removal of the indigenization act, which prioritizes indigenous ownership of minerals like diamonds and platinum. Despite these significant policy changes, the expected benefits have not materialized. The question arises: What is the cause of this outcome? The literature review on this matter points to issues such as bad governance, political instability, and corruption.

Zimbabwe's heavy reliance on the political structure and system has been a significant deterrent to attracting investors, despite the country's openness to foreign business. Poor governance is often accompanied by high levels of corruption, where those responsible for fostering FDI development in the country demand bribes and siphon off investment funds before they can take root. The United Nations Conference on Trade and Development, in conjunction with the Bureau of Economic and Business Affairs, highlights bad governance and political instability as major causes for these challenges.

According to the United Nations Conference on Trade and Development, the major causes of this issue are bad governance and political instability. This was underscored in a statement by the Bureau of Economic and Business Affairs.

1.5.1 Corruption's Impact on FDI in Zimbabwe: A Critical Analysis

Zimbabwe grapples with a persistent challenge that has profound consequences for Foreign Direct Investment (FDI): corruption. The detrimental effects of corruption on FDI are not merely theoretical but are evidenced in tangible examples, contributing to the reluctance of potential investors and hindering economic growth. Despite Zimbabwe's efforts to attract FDI through policy changes, corruption remains a significant roadblock. Investors are wary of engaging in a business environment tainted by corrupt practices, as they recognize the potential risks and challenges associated with a lack of transparency and fair dealings. The literature on this matter consistently underscores that bad governance, political instability, and corruption form a trifecta of obstacles that repel potential capital.

One glaring example is the mismanagement of investment funds earmarked for developmental projects. Instances have been documented where officials tasked with fostering FDI demand bribes and embezzle funds before they can contribute to the country's economic growth. Such corruption not only hampers the initiation of foreign investments but also erodes the confidence of existing investors. Another illustrative case involves the manipulation of regulatory processes. Corrupt practices within regulatory bodies create an environment where businesses, especially foreign entities, face unnecessary hurdles and delays. This not only increases the cost of doing business but also acts as a disincentive for potential investors looking for a transparent and efficient regulatory framework.

In conclusion, corruption in Zimbabwe remains a formidable deterrent to Foreign Direct Investment. Tangible examples highlight how corrupt practices have impeded the flow of capital and undermined the country's economic potential. Addressing corruption is imperative for Zimbabwe to restore investor confidence,

foster a transparent business environment, and unlock the full potential of FDI for sustainable economic development.

Conclusion

The economic landscape of Zimbabwe, characterized by periods of prosperity and daunting challenges, has presented a complex terrain for attracting and sustaining Foreign Direct Investment (FDI). As we conclude this analysis, it is evident that the trajectory of FDI in Zimbabwe is deeply intertwined with historical, economic, governance, and infrastructural dynamics. The comprehensive review sheds light on the multifaceted nature of challenges faced by the nation and offers insights into potential strategies for fostering a conducive environment for sustainable economic growth.

The post-independence era marked a phase of economic surge for Zimbabwe, earning it the moniker of the Southern African Development Community (SADC) region's breadbasket. However, this period of prosperity was short-lived, and the aftermath of independence ushered in a series of challenges. Economic sanctions, trade embargoes, and costly production plants left the nation grappling with competitiveness issues against foreign producers. Droughts, internal and external debts, mismanagement of foreign currency, and political instability added layers to the economic complexities. The intervention of the International Monetary Fund (IMF) and the World Bank in 1990 led to the adoption of the Economic Structural Adjustment Programme (ESAP) in 1991. However, subsequent research revealed significant economic problems, including declining real wages, high-interest rates, and a weakened industrial and agricultural sector. The period from 2000 to 2022 witnessed hyperinflation, currency depreciation, and governance issues that collectively eroded investor confidence, leading to capital flight and divestment.

Governance emerged as a critical factor influencing FDI in Zimbabwe. Political instability, lack of transparency, and corruption created an unfavorable perception among investors. The trifecta of bad governance, political instability, and corruption contributed to the reluctance of potential investors. Despite policy changes, the mismanagement of investment funds and manipulation of regulatory processes hindered the flow of capital. Inadequate transportation networks, obsolete building infrastructure, and energy shortages played a crucial role in the decline of FDI attractiveness. Poor road networks and outdated logistics systems increased transportation costs for businesses. Energy instability, characterized by frequent power cuts, raised concerns for investors reliant on a consistent power supply. The outdated nature of Zimbabwe's energy infrastructure limited its capacity and efficiency, posing risks perceived by investors. Historical fiscal policies, including high corporate tax rates and inconsistent structures, deterred potential investors during periods of economic instability. While the current corporate tax rate is relatively competitive, challenges persist regarding government revenue needs and controlled expenditure. The paper advocates for targeted tax incentives and policy stability to balance revenue needs with FDI attraction.

Corruption remained a formidable deterrent to FDI in Zimbabwe. Tangible examples of mismanagement of investment funds and manipulation of regulatory processes highlighted the adverse effects of corrupt practices. Investors, wary of engaging in a business environment tainted by corruption, sought transparent and fair dealings. The paper posits that strategic investments in infrastructure, including transportation, energy, and building sectors, can pave the way for increased FDI. Upgrading and expanding road networks, streamlining logistics systems, constructing modern office spaces, and embracing renewable energy initiatives are identified as crucial steps. The advancement of FDI through infrastructure development is presented as a multifaceted approach that requires coordinated efforts, including public-private partnerships (PPPs) and streamlined regulatory processes.

Zimbabwe's journey in attracting and sustaining FDI is riddled with challenges, yet it presents opportunities for revitalization and growth. Addressing historical economic issues, governance challenges, infrastructure deficiencies, fiscal policies, and corruption requires a concerted effort from policymakers, businesses, and international stakeholders. The restoration of investor confidence, transparency in governance, and strategic infrastructure development are pivotal for fostering a conducive environment for FDI. Future research should delve into the implementation and effectiveness of proposed solutions, considering the dynamic nature of global economic landscapes. Additionally, an exploration of case studies from other nations that have successfully navigated similar challenges can provide valuable insights. As Zimbabwe navigates its economic landscape, a commitment to sustained reforms, transparency, and strategic investments can pave the way for increased FDI, ultimately contributing to the nation's sustainable economic growth and development.

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