10

Foreign Direct Investment in Zimbabwe and Botswana: The Elephant in the Room

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Introduction

Sub-Saharan Africa (SSA) has 54 countries, some experiencing good inflows of foreign direct investment (FDI) and economic expansion, whereas others are shrinking as FDI inflows are weak. Africa's inability to attract significant levels of FDI requires close attention, because FDI is crucial in capital formation and for stimulating sustainable economic development in the region. However, FDI is unevenly distributed among nations and regions (UNCTAD 2015; IMF 2013; Asiedu 2013; Anyanwu

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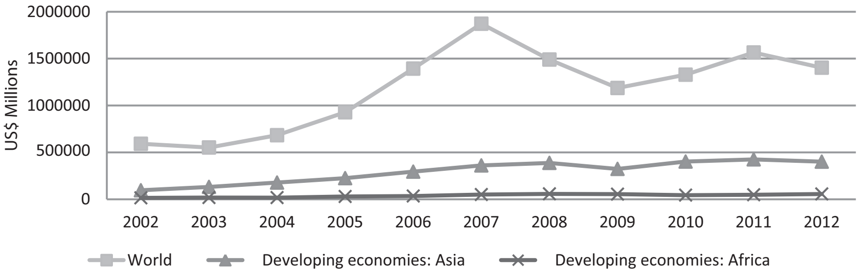


Fig. 10.1 FDI trends in US$ million: World, Asia and Africa, 2002–2012 (*Source*: Adapted from UNCTAD: UNCTADstat)

2011). This chapter examines FDI determinants for the SSA region with particular emphasis on the comparison between Zimbabwe and Botswana.

Africa as a whole has recently gained more prominence as an attractive location for FDI, and the SSA region's FDI inflows are increasing. However, FDI into the African region remains relatively stagnant, as evidenced in Fig. 10.1.

Foreign Direct Investment Defined

FDI is considered a firm internationalisation strategy. The firm establishes a physical presence in the host country by acquiring and transferring resources such as capital, technology, labour, land, plant and equipment, giving investors partial or full ownership, and is long lasting (Cavusgil et al. 2013; IMF 2004).

Foreign Direct Investment: Empirical Determinants

Determinants of FDI generally fall into four categories, as shown in Table 10.1.

These motives will be integrated into the discussion of the variables in relation to Zimbabwe and Botswana.

Table 10.1 FDI categories and objectives

FDI category	Objective
Resource-seeking	MNEs aim to invest in host country in order to benefit from lower-cost resources, such as natural or physical resources, cheap labour, technological and managerial
Market-seeking	MNEs enter foreign countries with the main objective to increase market share and sales growth
Efficiency-seeking	MNEs attempt to rationalise resources and market-seeking by centralising production in host country while servicing multiple markets. The aim is to reduce transaction costs through economies of scale
Strategic-asset-seeking	The long-term internationalisation strategy of a firm's objective through acquisition of host country assets or by forming strategic alliances

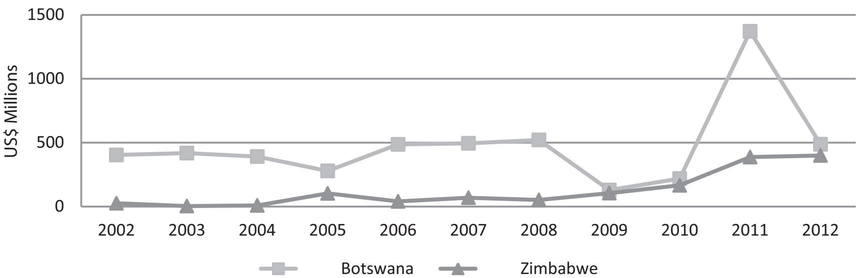


Fig. 10.2 FDI inflows in US$ million: Zimbabwe and Botswana comparison, 2002–2012 (*Source*: Adapted from UNCTAD: UNCTADstat)

The State of FDI in Zimbabwe and Botswana

Zimbabwe and Botswana, with populations of 14.2 and 2.2 million respectively, have received varying amounts of FDI, as shown in Fig. 10.2.

FDI in Zimbabwe is substantially lower than in Botswana (Fig. 10.2). Historically, FDI in Botswana is low (Selelo and Sikwila 2012) but higher than in Zimbabwe. The following section analyses the factors that explain some of these differences in FDI attraction.

Factors Influencing FDI Location Choice

Political Factors

Political Stability

Political risk arises where a host government can change the rules of how businesses operate without notice. The assessment of the political environment by multinational enterprises (MNEs) varies according to location, as the degree of political instability as a determinant could be more profound in some countries than in others (Alcantare and Mitsuhashi 2012). Political risk in the twenty-first century is widespread, with host governments' political institutions (political parties, trade unions and the legal system) being the major sources, as they create, enforce and apply laws that mediate conflict and governmental policies on the economy and social systems. Political instability negatively impacts on FDI inflow as it may interrupt business activities and alter investors' perceptions on location choice, and violence could harm the operations of the firm (Jakobsen 2010; Reiter and Steensma 2010).

Though political risk is a threat to FDI inflows, opportunities such as higher returns on investment offered in politically unstable environments could support a firm's achievement of its internationalisation strategy (Jime'nez et al. 2014; Rios-Morales et al. 2009). During the period 1998–1999, Angola attracted the highest FDI inflows among SSA countries, even though it was considered politically unstable. The returns in petroleum were huge compared to the risk, thus attracting FDI (Asiedu 2002).

Comparing the political environments of Zimbabwe and Botswana for the period 2002–2012, Zimbabwe's reflected instabilities (Fig. 10.3), with the negative scores largely associated with pre- and post-election periods. Furthermore, controversial political events (Land Acquisition Act 1992; Indigenisation Act 2007) destabilised the business environment, impacting negatively on FDI inflows (Copley et al. 2014; Marawanyika and Latham 2014). However, the introduction of new policies by the

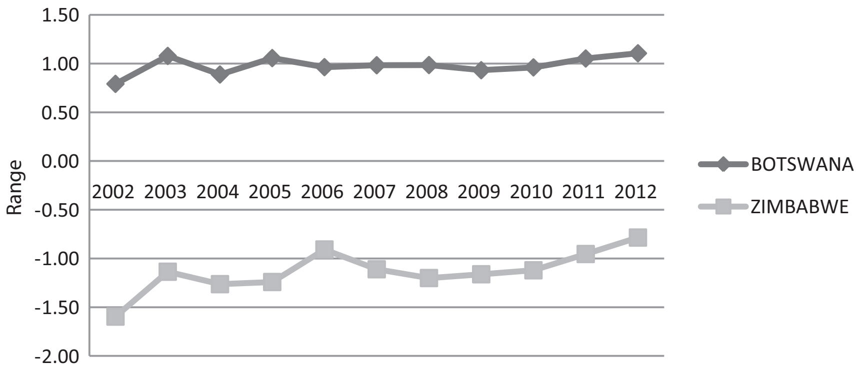


Fig. 10.3 Political stability and absence of violence/terrorism: Zimbabwe and Botswana comparison, 2002–2012 (*Source*: Adapted from World Bank – Worldwide Governance Indicators)

inclusive coalition government (2008–2012) resulted in an improvement in FDI inflows.

By comparison, Botswana, perceived as successful and as a model African country characterised by political stability (Fig. 10.3), with credible, regular, peaceful elections—though the same ruling party has been in power since 1965—attracts constant flows of FDI (Hendricks and Musavengana 2010). Furthermore, there is observance of property rights, correlating with FDI attraction, as ownership advantages (Dunning 2000) are important, as they grant MNEs the right to exercise control of host country subsidiaries (Gwenhamo 2011; Busse and Hefeker 2006; Globerman and Shapiro 2002).

Figure 10.3 compares political stability and absence of violence or terrorism in Zimbabwe and Botswana.

Additionally, FDI is attracted to a host country with the propensity to uphold the rule of law and respect voice accountability. Zimbabwe's tolerance of voice is limited (Fig. 10.4) and internal conflict impacts negatively on FDI. In contrast, Botswana's index is stable and continuously shows signs of improvement, hence it is a favourable location for FDI inflows.

Figure 10.4 illustrates the dimension of these variables.

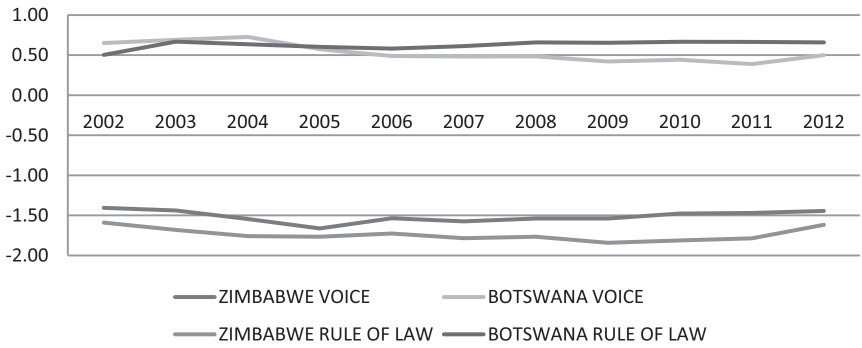


Fig. 10.4 Voice accountability and rule of law: Zimbabwe and Botswana comparison, 2002–2012 (*Source*: Adapted from World Bank – Worldwide Governance Indicators)

Corruption

Corruption is defined as the demanding of bribes from firms in return for the right to operate in a sector, country or location, or the misuse of public power for private benefit (Hill 2014; Rugman and Collinson 2012). It is prevalent in the public sector, and it undermines the decision-making process and retards participants' capabilities (Mudambi et al. 2013; Osei and Gbadamosi 2011). Institutional structures make it difficult to measure corruption; however, as it increases the cost of doing business, it negatively impacts on FDI inflows (Omar and Osei 2015; Al-Sadig 2009; Egger and Winner 2005).

The association of natural resources with corruption results in noticeable adverse effects on economic development and governance, thus making the location unattractive to FDI (Asiedu 2013; Mudambi et al. 2013; Sparks 2011; Reiter and Steensma 2010). Companies that perceive corruption as an unfair practice do not invest in environments that appear to promote corruption. Clinton (2014) viewed corruption and a host country's lack of capacity (human capital, technology, level of openness) to absorb FDI as contributory impediments to inward FDI.

Zimbabwe has more negative corruption indicators than does Botswana (Fig. 10.5), with 2002 being the worst year owing to the land invasions. Zimbabwe does experience some FDI inflows—though the amount is

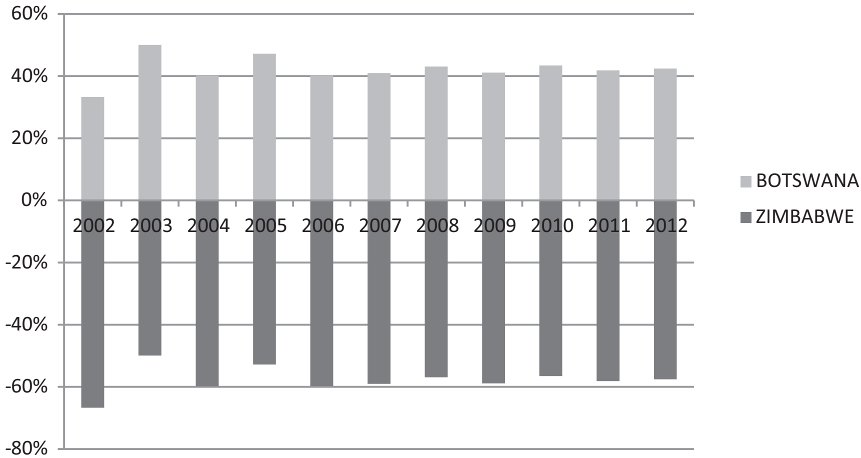


Fig. 10.5 Control of corruption: Zimbabwe and Botswana comparison, 2002–2012 (*Source*: Adapted from World Bank – Worldwide Governance Indicators)

insignificant—because corruption can have a positive impact on FDI, as some MNEs will enter locations shunned by others based on underhanded negotiations by the host government (Egger and Winner 2005).

The Botswana government's active efforts to control corruption have produced positive indicators, with the highest score recorded in 2003. Transparency International ranked it as the least corrupt country in Africa (Njau 2013; Transparency International 2012; van Wyk 2010; Economist Intelligence Unit 2008). Botswana's positive ranking in terms of corruption confirms its attractiveness to FDI.

Taxation Policy

Favourable taxation policy and low tax rates (Suh and Boggs 2011) are incentives for investors and therefore attract larger amounts of FDI inflows (Gondor and Nistor 2012). Countries with small market size normally enact favourable taxation policies to attract FDI, with the Netherlands (Halvorsen 2012) and Botswana falling into this category.

Zimbabwe's tax system is complex, and some aspects are rigid. A change in taxation policy and the introduction of incentives could lure MNEs (Trading Economics 2014; Bloch 2013).

By comparison, Botswana has low taxes with investment incentives (The Heritage Foundation 2014), creating a positive attitude towards investments.

Country Brand and Image

The negative image the world has of Africa may be due to a lack of information about the continent, which consequently affects the ability of individual countries to attract FDI (Osei and Gbadamosi 2011; Cleeve 2008). This is why managing national economic development presents a marketing or business challenge. It requires countries to be managed as brands in order to reap the benefits of full participation on international markets (Magobo and Wakeham 2014; Marundu et al. 2012). Thus the current Zimbabwe brand image, represented in its name, flag and political ideology to portray its functionality, has not yielded the intended benefits. This is due to the period of hyperinflation, the land invasions and, more recently, the indigenisation law, which was perceived as having grabbed assets from firms (Kwinika 2015; Dzirutwe 2014; Maswanganyi and Karombo 2013; Ndlovu 2013; Coomer and Gstraunthaler 2011; Plaut 2011).

On the other hand, Botswana has an exemplary African country brand created through conscious efforts. In 2008, the president of Botswana, Festus Mogae, launched 'Branding Botswana', appointing a company solely to promote and position Brand Botswana on the global map, thus sustaining competitive advantage (Setshogo 2008). In order for Brand Zimbabwe to correct the negative image currently associated with it, substantial effort and participation from country stakeholders and massive promotion internally and externally are crucial.

Economic Factors

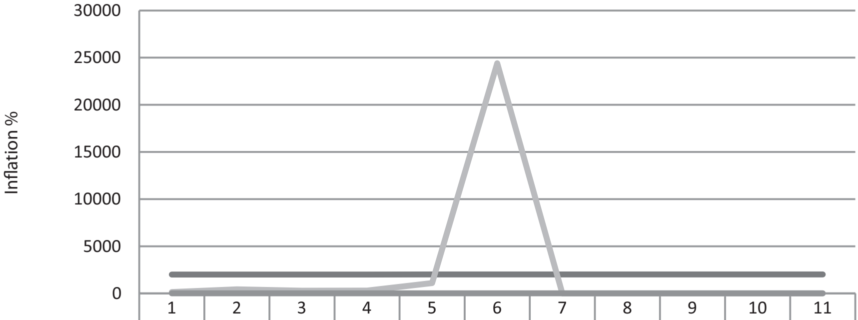
Macroeconomic factors (inflation, exchange rates, GDP, unemployment rate, disposable income, consumer confidence and labour costs) and host government policies affect where companies invest. Thus weak institutions often lead to poor macroeconomic policy implementation and negatively affect consumer confidence (Ahmed and van Hulten 2014; Inekwe, 2013; Cleeve 2008; IFC and FIAS 1997). Hence, host countries experience growth from FDI when they have liberalised trade policies, an educated workforce and where the macroeconomic environment is stable (Adams 2011).

Inflation

High inflation rates deter international investors as they have a negative impact on business profitability and could signal poor economic conditions. Inflation rate is also an indicator of monetary and macroeconomic stability that determines a country's economic growth prospects, an important consideration for market-seeking FDI (Suh and Boggs 2011).

The hyperinflation era in Zimbabwe, triggered by the land redistribution programme, reached a peak in 2007, resulting in the Zimbabwean dollar losing value. The government relied on money printing to finance activities, resulting in further weakening of the economy and leading to its total collapse (Coomer and Gstraunthaler 2011). However, the Zimbabwe dollar was abandoned in 2008 and a multi-currency regime was introduced in 2009, leading to stabilisation of the inflation rate. The resultant stability of inflation confirms the effect of inflation on location attractiveness, as in 2009 FDI inflows marginally increased.

Botswana's inflation rate (Fig. 10.6) is relatively stable and fluctuated within normal limits from 2002 to 2012. Botswana's highest rate of inflation was 12.7 % (2008), which, combined with the global financial crisis,



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Zimbabwe	140.06	431.7	282.38	302.117	1096.68	24411	0	0	0	0	0
Botswana	8.0328	9.1899	6.9457	8.61023	11.5552	7.081	12.7022	8.0273	6.94888	8.45817	7.54028

Fig. 10.6 Inflation: Zimbabwe and Botswana comparison, 2002–2012 (*Source*: UNCTAD, UNCTADstat (data is not available from 2008 to 2012 for Zimbabwe))

impacted negatively on FDI inflows. However, the overall stability in Botswana's inflation could make it a more attractive location for FDI (Suh and Boggs 2011).

Exchange Rates

Flexibility in exchange rate policy, with an absence of unfavourable exchange controls, has a positive impact on investors' location decisions. In an imperfect market firms tend to invest in a host country experiencing a devaluation of currency, as borrowing in the host country becomes cheaper (Owusu-Antwi et al. 2013; Basu and Srinivasan 2002). The depreciation of the currency increases location attractiveness to FDI as exports increase (Schmidt and Udo 2009). The volatility of the exchange rate can attract or discourage FDI (Owusu-Antwi et al. 2013).

In Zimbabwe, the use of the multi-currency regime introduced in 2009 has stabilised the economy. The exchange rates follow international markets and hence there is no domestic exchange risk.

Botswana's official currency is the pula. Exchange controls were abolished in 1999, increasing the country's attractiveness to FDI. The pula is pegged against major currencies and is convertible with them.

Gross Domestic Product (GDP) Per Capita

The GDP per capita is considered a determinant for FDI as it is a good indicator of the purchasing power of a country (Vinesh et al. 2014; Bayraktar 2013).

Zimbabwe's GDP tends to fluctuate. In 2002, it was higher than Botswana's, but the deteriorating economic and political environment resulted in a subsequent fall as companies closed down. Low GDP indicates uncertain purchasing power, thus market-seeking FDI could consider the location unattractive. Zimbabwe's income base is distorted owing to high levels of unemployment, with many people working in the informal sector where GDP cannot formally be accounted for. GDP could be important when analysing the purchasing power of a country and useful when firms are considering market-seeking FDI (Vinesh et al. 2014), thus making Zimbabwe unattractive to market-seeking FDI.

Botswana's GDP shows an upward trend, with a high level of economic activity positively impacting on FDI inflows. About 57 % of its population are formally employed as compared to Zimbabwe's 5 %. The purchasing power of the country is improving with the rise of middle-income earners. Botswana's highest contributor to GDP (99.78 %) in 2012 was exports of its commodities from the mining sector.

Figure 10.7 shows a comparison of GDP per capita purchasing power parity (PPP) between Zimbabwe and Botswana for the period 2002–2012.

Unemployment

While recognising the importance of FDI in job creation through technological spillovers (Adams 2011), FDI has also been linked to the destabilisation of domestic employment, degradation of working conditions and exclusion of host country nationals from high-paying positions (Mucuk and Demirsel 2013). The ratio of jobs created as compared to the amount of FDI is small, which could be attributed to the capital-intensive production and labour-saving techniques used by MNEs in host countries.

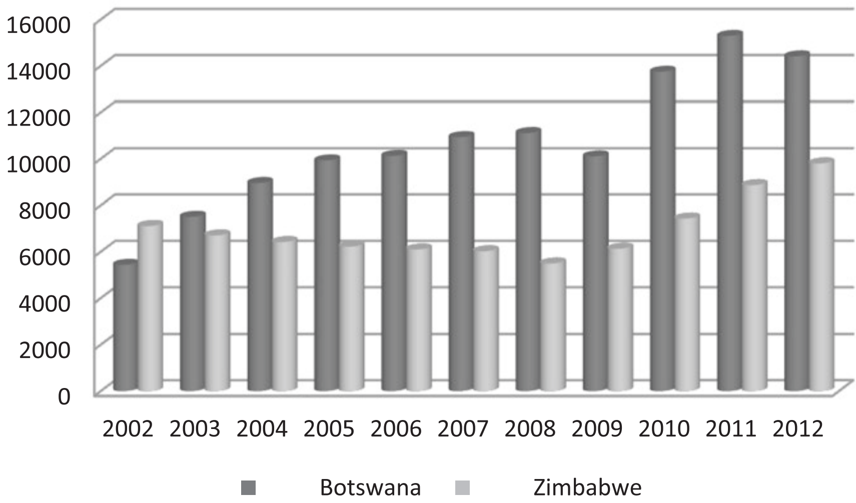


Fig. 10.7 Zimbabwe and Botswana GDP per capita PPP, 2002–2012 (*Source*: Adapted from UNCTAD, UNCTADstat)

Ideally, the number of jobs created by FDI inflows should exceed those lost in the host country through FDI-related activities such as job lay-offs resulting from mergers and acquisitions and closure of local firms (Gohou and Soumare 2011) for FDI to be beneficial to a host country.

While Zimbabwe's unemployment rate is increasing, Botswana's is declining (Fig. 10.8). In Zimbabwe, resource-seeking FDI in the mining sector initially reduced unemployment as mining workers were recruited. However, due to the depletion of alluvial diamonds and the limited capacity of current MNEs in deeper minerals extraction expertise and technology, workers were laid off, worsening the unemployment situation. Thus, resource-seeking FDI has a negative impact on employment (Gohou and Soumare 2011).

Botswana's unemployment rate is 7.5 % (Fig. 10.8). Government is the single largest employer with 47 %, others being mining (3.5 %), agriculture (2 %), and self-employed and informal (35 %) (Botswana Country Profile 2014). The government actively funds programmes that create jobs and reduce unemployment and continues to stimulate economic growth (Bakwena 2012). Although FDI is concentrated in Botswana's mining sector, with 3.5 % of the labour force, it does not seem to play

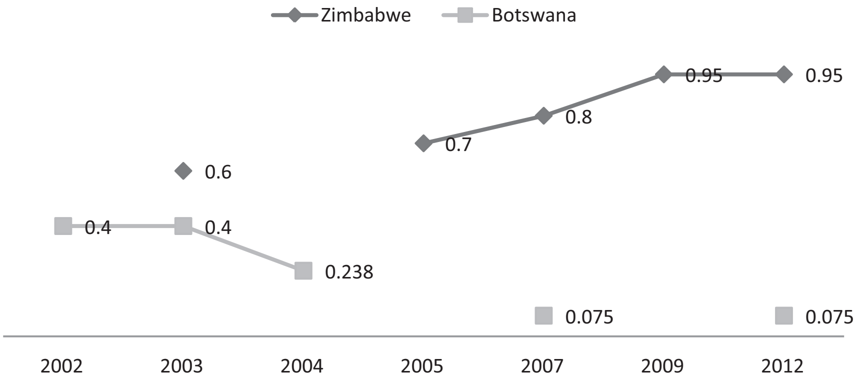


Fig. 10.8 Unemployment rate: Zimbabwe and Botswana comparison, 2002–2012 (*Source*: Adapted from Indexmundi 2014)

a major role in employment creation (World Bank 2011; Alter 1994). Thus, Clinton (2014) mentioned that poverty reduction is the responsibility of the government.

Labour Costs

Labour costs could be linked to the quality of labour, with labour-intensive industries attracting low labour costs as compared to capital-intensive industries (Chan et al. 2013). A firm's major objective is profitability. Thus a location where profit realisation is linked to low production costs such as low wages influences FDI, particularly in resource-seeking FDI (Halvorsen 2012; Kurtish-Kastrati 2013). In contrast, Demirhan and Musca (2008) found no clear link between wages and FDI. However, when labour costs are insignificant, the skills of the labour force can have an impact on FDI location.

Though Zimbabwe has an educated workforce, the labour market is skewed because of the high rate of unemployment. The economy is unable to absorb most of its highly trained, educated and skilled people, leading to skilled people taking up low-paid employment. Resource-seeking FDI directed towards the manufacturing sector could absorb the unemployed at lower cost (Halvorsen 2012; Kurtish-Kastrati 2013).

Botswana has a sophisticated and educated workforce. It has higher costs of labour, and its public sector offers the highest wages in the SSA region. However, the high labour costs (skilled and unskilled) do not correlate with productivity, and total factor productivity such as transport and Internet connectivity costs place a barrier on the diversification of FDI from the mining sector, because MNEs associate quality and productivity with profitability when considering locations (Chan et al. 2013).

Disposable Income

The income distribution of a host country can negatively or positively impact on FDI location choice (Huifang 2006). Studies suggest that FDI increases production and raises income levels.

Zimbabwe is classified as a low-income economy, with a gross national income per capita (GNI) of US$1,035 or less (The World Bank 2013). The implementation of radical policies saw middle-income earners disappear as foreign companies offering attractive wages closed down. Additionally, the low-income earners' disposable income was reduced further, decreasing the consumption rate of goods and services.

Botswana is ranked as a middle-income economy, with a GNI of US$4,126 to US$12,745 per capita and GDP per capita of US$14,696 in 2012 (The World Bank 2013). The economy is growing and FDI inflows into the mining sector have contributed to the development of the economy and increased disposable income. The potential higher demand for products due to higher employment, increased wages and economic growth as a result of the multiplier effect attracts FDI (Ezeoha and Cattaneo 2012).

Socio-Cultural

A social and cultural atmosphere that is sufficiently flexible to embrace foreign influence can encourage FDI (Suh and Boggs 2011). Though MNEs tend to invest in countries that are culturally close to their own home culture (Omar and Osei 2015), FDI inflows can create social divisions owing to the gaps created by wage differentials (Chintrakarn et al. 2011; Georgieva et al. 2012).

Demographics

Countries with strong demographics could use FDI in labour-intensive manufacturing industries leading to job creation and capital accumulation, thus resulting in increased efficiency and technological capabilities. Demographics could influence FDI inflows as cheap labour could be made available by shifting rural labour into manufacturing, potentially influencing FDI inflows ((Neogi 2013; Research and Markets 2005).

Zimbabwe has a population of 14.2 million, and Botswana 2.2 million. Their population annual growth rates stand at 4.38 % and 1.48 % respectively (World Bank 2012). Zimbabwe's market size is bigger, making its demographics attractive to FDI. However, instability in the economic and political environment prevents the country from benefiting from FDI.

Both countries have the same ability to attract Western FDI based on cultural affinity, since they are both former British colonies. However, they differ in their capacity to attract FDI because Botswana's economic and political atmosphere is more conducive to inflows.

Human Capital

The host country's human capital is of importance in the determination of FDI, due to a direct correlation between workforce skills set and FDI attraction (Choong 2012). Therefore, the success of human development hinges on the involvement, commitment and motivation of the host government in pursuing policies that enhance the skills level of the population and build human resource capabilities (Clinton 2014; Reiter and Steensma 2010). Technology-intensive FDI is directed to countries with a highly educated workforce, consequently further developing human capital, while a host country with a less skilled workforce initially attracts less technology-intensive FDI and the pace of development is slower.

Thus, the educational level of human capital and managerial skills are determining factors for firms to invest in a particular sector in a host country (Bayraktar 2013; Nkechi and Okezie 2013).

Zimbabwe had the highest educated and skilled workforce in Africa prior to the reforms that commenced in 2000, with a literacy rate of 95 %. The land reform programme led to a rise in external debt, a drop in GDP and increased political instability. Furthermore, this prompted the political and economic emigration of skilled Zimbabweans to neighbouring countries, as well as abroad, leaving Zimbabwe with a reduced skilled workforce and a severely depleted pool of available talent, affecting resource capacity (Nkechi and Okezie 2013). Therefore, Zimbabwe's human capital base could be creating a barrier to FDI inflows because of the reduced pool of talent.

Botswana's population was historically mostly rural, with its human capital mostly unskilled. In 1987, the government implemented the World Bank global education promotion programme, offering free primary and junior high school, subsequently elevating its literacy rate to 85 % (Tabulawa 2011). Thus its labour market now is generally educated. In effect, the importance of host country government involvement in the development of human capital to facilitate FDI attraction cannot be overemphasised (Reiter and Steensma 2010; Clinton 2014). However, Botswana has limited human capital with the right skills, and shortages in semi-skilled and skilled manual workers are still experienced as more people opt for white collar jobs in the public sector. Botswana's human capital's limited skills set could be impacting on attracting higher levels of, and more diversified, FDI (Basu and Guaringlia 2007).

Infrastructure

Infrastructure is categorised as soft (transparent institutions and wider reforms) and hard (highways, rail and airports) (Glass 2009). Generally, good infrastructure is linked to the promotion of productivity and reduction of production costs, while poor infrastructure is considered a major constraint in low-income countries (Vinesh et al. 2014; Behman 2012). However, underdeveloped infrastructure could attract FDI in construction and telecommunications (Marr 1997). But where infrastructure is under government control, there appear to be inefficiencies in service delivery (Suh and Boggs 2011; Glass 2009; Kessides 2004).

Hard Infrastructure

Most of Zimbabwe's hard infrastructure is in desperate need of rehabilitation. Roads, railway, hospitals, schools, water and sewage, and power have deteriorated as the government has little capacity or financial resources to restore them. The state of hard infrastructure could be an incentive for MNEs to invest in this sector (Marr 1997). However, the continuous interruptions of power and water supplies affect normal business operations and result in MNEs incurring additional costs in doing business, making the country unattractive to FDI.

In comparison, Botswana has developed its location advantages (Dunning 2000) in a number of ways. The government has played a significant part in improving its infrastructure (road networks, dams and coal mining), with further plans to invest in railway and information and communication technology. With the increase in middle-class income earners and growth in GDP per capita, the demand on infrastructure for water supplies and utilities is expected to grow, thus creating an opportunity for FDI (Behman 2012).

Soft Infrastructure

Zimbabwe's soft infrastructure is complex, inconsistent and lacks clarity as government policies, the banking system and other organisations lag behind world standards. There is ambiguity and conflicting legislation, making the legal framework uncoordinated. According to Ezeoha and Cattaneo (2012), all aspects of soft infrastructure are important when evaluating location attractiveness.

Botswana has effective state institutions in place, making the legal and regulatory framework environment transparent. Processes and procedures are enforced, making FDI applications and approvals efficient, thus encouraging FDI inflows.

Natural Resources

A host country's comparative advantage in the natural resource sector attracts resource-seeking FDI. Most FDI to Africa, particularly the SSA region, and Zimbabwe and Botswana is targeted towards natural resources, especially the extractive industry (Ezeoha and Cattaneo 2012).

Zimbabwe and Botswana are both rich in natural resources. In Zimbabwe most of the vertical FDI in the extractive industry originates from China. There has been no noticeable improvement in economic growth, unemployment or poverty reduction from realised mineral revenues. Thus, natural resources have no significant impact on economic development, but increase corruption tendencies (Mudambi et al. 2013; Sparks 2011; Jenkins and Edwards, 2006).

Botswana is the second-largest diamond producer in the world by volume and the largest producer in terms of output value (UNCTAD 2003), contributing 40 % to GDP. Consequently, mining sector FDI has transformed its economy. The availability of natural resources in some cases makes a location attractive (Asiedu 2006), as seen in Botswana.

Legal and Regulatory Framework

The state of the legal regulatory framework influences MNEs in location choice. Protective and restrictive trade policies might prohibit international competition, as they protect the domestic market while suppressing firms' options for managing operations (Ahmed and van Hulten 2014; Dewit et al. 2009). Therefore good governance, in the form of legal and regulatory frameworks, constitutes one of the determinants of FDI (Buss and Hefeker 2006; Globerman and Shapiro, 2003; 2002).

Employment Law

Locations with more labour union involvement deter FDI, as firms are reluctant to move production facilities to those locations (Floyd 2003).

Zimbabwe's trade union movements are closely monitored by the government, which interferes in most aspects of the law and economy, and is detrimental to FDI inflows. In Botswana, the size of the population and its small market led to noticeable shortages in skilled human resource. However, the country made favourable changes to its policies, making it easier to employ foreign workers, in order to close the gap in human capital and make the labour market flexible (Suh and Boggs 2011).

Company Law and Business Regulation

Locations that display weaknesses in institutional structures may beshunned. Evidence has shown that some countries within the SSA regionfall into this category (Marr 1997). In order to mitigate this drawback, most foreign investors use joint ventures and merger as mode of entry. A weak legal and regulatory framework in the host country also facilitates easier exit for MNEs (Georgieva et al. 2012).

The laws and business regulation frameworks in Zimbabwe can be changed arbitrarily (Land Acquisition 1992; Indigenisation and Empowerment Act 2007), without weighing the impact on society and the economy, and negatively impacting on FDI (Jenkins and Edwards, 2006).

In comparison, in Botswana the regulatory framework is adhered to, as the government respects company laws and business regulations, which are viewed as a necessity for doing business. The stability in the legal and regulatory framework prompted De Beers Diamond Trading Company to relocate from London to Botswana in 2013 (Kariuki et al. 2014; van Wyk 2010), a favourable FDI indicator.

Openness to Trade and Bilateral Agreements

Openness to trade is described as the ease and cost by which goods and services, factors of production (capital, labour and skills) and technology can flow in and out of a country freely (Anderson 2005). Countries that have active membership with various trading partners often attract FDI, as there are benefits that accrue from being a member that are beneficial to investors. Minimal government interference in the economy leads to FDI inflows (Brafu-Insaidoo and Biekpe 2014; Globerman and Shapiro, 2003).

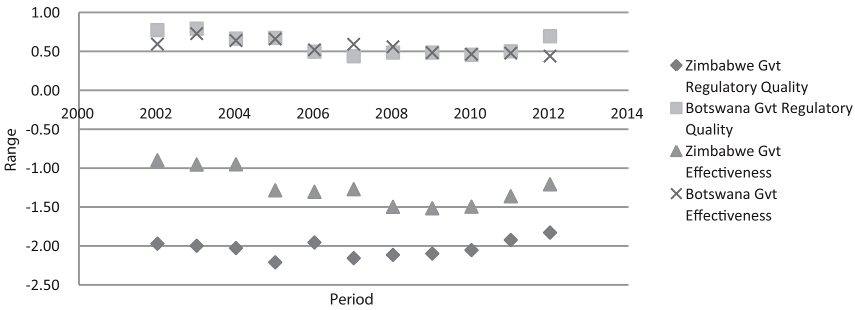


Fig. 10.9 Regulatory quality and government effectiveness: Zimbabwe and Botswana comparison, 2002–2012 (*Source*: Adapted from World Bank – Worldwide Governance Indicators)

Zimbabwe is a member of various trading organisations, and has bilateral trade agreements with neighbouring countries, such as the Trade Agreement Group. All the arrangements provide frameworks for further liberalisation of trade. Botswana's openness to trade facilitated the placement of its commodities on the global market. The country's 2014 economic freedom score was 72, and it was ranked the 27th freest economy out of 178 countries in 2014, taking second place in the sub-Saharan African region of 54 countries (Van Wyk and Lal, 2010).

Figure 10.9 shows a comparison of the two countries.

Conclusions

This chapter has addressed foreign direct investment in SSA, with particular emphasis on the comparison between Zimbabwe and Botswana. It is clear that FDI inflows differ significantly between Zimbabwe and Botswana. FDI is an important topic that has received a great deal of attention from researchers. However, this particular research is unique, as the study concentrates on an area that has not been explored before. This chapter brings into sharp focus the crucial determinants of FDI in these neighbouring countries with contrasting fortunes in FDI attraction. Essentially, the fortunes of these countries hinge largely on how their location variables have been managed. In addition, the significance of FDI determinants may vary from country to country.

Specifically, the results from the research showed key determinants that affect location attractiveness for Zimbabwe and Botswana. Political stability, economic, socio-cultural, technology and legal factors are key considerations when MNEs consider investing in a host country. However, the evidence from this study shows that these key determinants are not universally applicable as FDI determinants, as economies differ geographically, in addition to the factors listed above. Caution should be applied when analysing and applying these determinants. The FDI location attractiveness in relation to Zimbabwe and Botswana is generally in line with the theories of foreign direct investment, albeit with different experiences and results, depending on implementation.

With a bigger market than Botswana, and a larger human capital base, Zimbabwe could create favourable conditions for MNEs to provide FDI. Dependence on advantages from risky FDI considerations alone is not enough to pull Zimbabwe into a favourable FDI position, as all the other determinants are more critical and provide a wider and bigger attraction rating for FDI.

In accordance with FDI theories and key determinants findings, this chapter concludes that Botswana has systematically and consistently improved its political and economic environment for the period under study (2002–2012), in an effort to be an attractive country for FDI. The political environment is stable, corruption is not tolerated, taxation is low, GDP is high, legal and regulatory frameworks are favourable, and so is the highly educated human capital—all key determinants for attracting FDI. The recognition of and adherence to the principles that govern FDI inflows have been observed for the benefit of the economy, resulting in higher inflows of FDI as compared to neighbouring Zimbabwe. During the same period, Zimbabwe was experiencing political instability due to the implementation of unfavourable policies (land seizures, controversial elections and indigenisation) and high taxation rates were announced. All this culminated in a falling GDP, high unemployment and poverty, a depleted workforce and rampant corruption. Though Zimbabwe has the capability to recognise the key factors for attracting FDI, it has not been consistent in its policy application, causing confusion in both the political and economic environment, creating an unfavourable environment that does not attract meaningful FDI to redress the political and economic woes.

Political stability is one of the key determinants making Botswana an attractive place to do business. Zimbabwe and Botswana are similar politically in that their ruling parties have been in government since independence. However, Botswana has a stable political environment that respects democracy, shuns corruption, allows voice and upholds the rule of law. Zimbabwe seems to be the opposite in all these factors.

It is interesting that two neighbouring countries with similar colonial backgrounds can have paradoxically different results in their economies, as the result of a conscious but different application of and attitude towards similar policies that have a direct bearing on attracting FDI. The results, over the period in consideration, clearly show that one country prefers to reap the benefits from positive and consistent implementation of beneficial policies, while the other appears to wilfully ignore international norms and theories, and haphazardly carries out policies that are both detrimental and counterproductive to FDI attraction, leading to dire economic consequences.

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