Faculty of Commerce

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IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH OF ZIMBABWE (1980-2015)

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF A BACHELOR OF COMMERCE HONORS DEGREE COMMERCE HONOURS DEGREE IN ECONOMICS AT LUPANE STATE UNIVERSITY

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ABSTRACT

The study explores the impact of foreign direct investment on the Zimbabwean economy using foreign direct investment, net exports, external debt, interest rates and gross domestic product data series from 1980 to 2015. The researcher used Cointegration and Vector Error Correction regression model to determine the association between economic growth and its explanatory variables in the long-run and short-run. To check the validity of the VECM model, we did a few post-estimation diagnostic tests, and found that the residuals of the regressions do not show any auto-correlation. The results showed that some of the variables used in the model were insignificant in explaining the model only one variable which is foreign direct investment was significant. Foreign direct investment has a positive coefficient at all lag lengths and p-value significant at 5% implying a positive impact on economic growth and foreign direct investment. Thus, from the findings it can be concluded that FDI promotes economic growth and suggest that the Zimbabwean government should embrace policies that aim to attract more foreign direct investment. Policies such as ensuring business friendly environment, ensuring political stability, ensuring consistency in policy application and might heighten the desirability of FDI thereby increasing economic growth.