

IMPACT OF FDI AND DEVELOPMENT POLICIES ON WELFARE IN ZAMBIA

DYY VE KALKINMA POLİTİKALARININ ZAMBİYA'DA REFAH ÜZERİNE ETKİSİ

Joseph PHIRI* 

Abstract

In its quest to realize vision 2030 of middle – income status, the Zambian government instituted several developmental policies. These were enabled in order to accelerate economic growth and improve human development. This paper looked at the Human Development Index (HDI) and its components, Foreign Direct Investment (FDI) and other economic trends. These were analyzed from 1990 to 2017 and also compared with specific countries. Over time there were improvements in the said indicators for Zambia. However, concerns still existed on issues such as insufficient levels of innovation and the slow decline in the poverty levels. The average years of schooling were seven, which also contributed to the country's low Global Innovation ranking. It was noted that Multi-National Corporations (MNCs) when bringing investments mainly focussed on sectors such as mining and manufacturing. Education and health received insignificant attention in this regard. In support of the Endogenous Growth Model, which advocated for investing in human capital, the priorities of MNCs ought to be revisited. This article applied inductive reasoning to descriptive analysis. Policies and economic trends were reviewed. In order to improve from the current economic trends, investment should be directed towards areas which have a direct impact on welfare. The government through the Zambia Development Agency (ZDA) also ought to redirect investment towards social aspects such as education and health. Lastly, for the impact of external investment to be much more realized, the management of institutions needs improvement.

Keywords: HDI, FDI, Developmental Policies, Economic Trends, Zambia

JEL Classifications: O10, I0, A1

Öz

Zambiya hükümeti 2030 orta gelir statüsü vizyonunu gerçekleştirme arayışında, birkaç kalkınma politikası kurdu. Bunlar ekonomik büyümeyi hızlandırmak ve insani gelişmeyi iyileştirmek için mümkün kılındı. Bu tez, İnsani Gelişme endeksi ve bileşenlerine, Doğrudan Yabancı Yatırım'a ve

* Faculty of Economics and Management, Czech University of Life Sciences, Prague Czech Republic; Marmara University, Faculty of Economics, Istanbul Turkey, E-mail: phiri@pef.czu.cz, ORCID: 0000-0002-0284-1693

diğer ekonomik eğilimlere bakmıştır. Bunlar 1990'dan 2017 yılına kadar analiz edilmiş ve ayrıca belirli ülkelerle karşılaştırılmıştır. Zamanla söz konusu göstergelerde Zambiya için iyileşmeler oldu. Ancak, yetersiz inovasyon seviyeleri ve yoksulluk seviyelerinin yavaş düşmesi gibi konularla ilgili endişeler halen mevcuttur. Ortalama eğitim süresi yedi yıl idi ve bu da ülkenin Küresel İnovasyon sıralamasında düşük sıralamada yer almasına katkıda bulundu. Çok uluslu şirketler yatırımlar getirirken esas olarak madencilik ve imalat sektörlerine odaklandığı belirtildi. Eğitim ve sağlığa bu konuda önem verilmedi. Beşeri sermayeye yatırım yapmayı savunan İçsel Büyüme Modelini desteklemek için çok uluslu şirketlerin öncelikleri gözden geçirilmelidir. Bu tez betimleyici analiz için tümavarımlı usavurmaya başvurmuştur. Politikalar ve ekonomik eğilimler gözden geçirildi. Mevcut ekonomik eğilimlerin iyileştirilmesi için yatırımlar refah üzerinde doğrudan etkisi olan alanlara yönlendirilmelidir. Aynı zamanda Zambiya Kalkınma Ajansı aracılığıyla hükümetin, yatırımları eğitim ve sağlık gibi sosyal alanlara yönlendirmesi de gerekiyor. Son olarak, dış yatırımın etkisinin çok daha fazla gerçekleşmesi için kurumların yönetiminin iyileştirilmesi gerekiyor.

Anahtar Kelimeler: İnsani Gelişmişlik Endeksi, Yabancı Doğrudan Yatırım, Kalkınma Politikaları, Ekonomik Eğilimler, Zambiya

JEL Sınıflandırması: O10, I0, A1

I. Introduction

Sustainable economic growth is a global phenomenon that all nations aspire to attain. In order to realize this goal, countries around the world, particularly developing countries attract as much FDI as possible. According to Borensztein et al. (1995), FDI has contributed immensely to economic growth as well as wealth creation in various countries. This is believed to contribute to the improvement of welfare, which will be measured using the Human Development Index (HDI) through the United Nations Development Program (UNDP)'s HD, and economic growth as a proxy. The HDI will also stand as a proxy for human development, which will be used interchangeably with welfare and regarded as a measure of the quality of life. On 23rd October 2018, during the United Nations Conference on Trade and Development (UNCTAD) World Investment Forum, Global Leader's Summit I, Namibian President said, "Globalization has brought enormous benefits to mankind by providing a tremendous opportunity for economic growth which has improved the quality of life around the world. However, globalization has its own challenges. The greatest challenge for Southern Hemisphere countries is the lack of industrial capabilities to take full advantage of the benefits associated with globalization. African countries are even more challenged because of the compounded effect of the advent of the Fourth Industrial Revolution that manifested in characteristics such as 3D printing, the Internet of Things, Big Data Analysis, robotics, cloud computing, and competition between human beings and machines to name but a few." (Geingob, 2018). He also lamented that FDI was amongst the key sources of funding developing countries and cardinal for the realization of the Sustainable Development Goals (SDGs) which involves the attainment of middle – income status for Sub – Saharan African (SSA) countries. This was in his speech with a famous quote, "inclusivity spells peace and harmony, while exclusivity spells discord and conflict", were he and other African leaders including those of Zambia acknowledged that the benefits of globalization need to be more widespread.

This was an important realization that FDI is essential for economic growth but most importantly for improving people's living standards in line with the United Nations as well as Africa's post-development agenda. Henceforth, the priorities of FDI should be directed towards improving the quality of life, which is part of human development. FDI refers to direct investment equity flows in a reporting economy and is supposed to boast an increment in export earnings, promotes global best practice and sustainable growth facilitated by capital formation (World Bank, 2018). It should further accelerate technology transfers as well as opportunities in the domestic market. Earlier theories of growth such as the Harrod – Domar and the Solow Growth Model suggested that economic growth can be realized through increasing savings (Harrod, 1939) as well as capital and ideas (Solow, 1956) respectively. The new growth theory attributed to Romer (1986) has a different departure point. Romer (1986) regarded human capital through innovation and education as a catalyst for growth. This underlines the significance of well-directed investment as well as improved levels of human development. Institutional FDI Fitness Theory indicated that FDI determined by hosts institutions and four pillars, government market, educational, and social and cultural fitness (Wilhems, 1998). Several studies have observed relationship and impact of FDI on the HDI in developing countries. This proved to be in support of the arguments in favor of the endogenous growth model. FDI in a pro-poor labor-intensive state is likely to have its greatest effect. Also when the net revenue transfers are positive, it is highly assumed to positively impact economic growth (Soumaré, 2015). Soumaré (2015) further concluded that there is a positive and significant relationship between FDI inflows and welfare improvements in North Africa though with some notable differences as per country scenario. In a similar study on Africa, Gohou and Soumaré (2012) noted similar results as Soumaré (2015) with variations amongst individual countries and observed a greater impact of FDI on the Welfare of Poorer Countries than it does on Wealthier Countries. For example, they found a positive and significant relationship in Central and East Africa, but an insignificant one in Northern and Southern Africa and in the case of West Africa an ambiguous one. They further concluded that prioritization of FDI towards sectors that improve human development is cardinal for the upliftment of welfare. Further, they noted that besides encouraging FDI, government expenditure, the openness of an economy and infrastructure development were extra ingredients though poor institutional quality proved to be a stumbling block. According to Tamer (2013), FDI is amongst the highest sources of funding for external growth in Africa and having a significant effect particularly in the 21st century. Tamer noted significant differences in its impact on a low income, lower middle income, upper middle income, and high-income countries. On the part of the lower middle income, upper middle income, and high-income countries, FDI had a positive and significant effect on the HDI, which suggests that FDI has been instrumental for the development of countries in those income brackets. On the part of the low – income countries, Tamer (2013) concluded that those countries require internal adjustments to their institutional and developmental policies in order to have full realization of the benefits from FDI. Tamer used a similar approach to three different scenarios which were applied to Africa as a whole, lower income countries as well as lower and upper-middle-income countries together with high-income countries. In their findings on the effects of FDI on the Inequality-Adjusted HDI. Cao et al. (2017) noted that the FDI did not

significantly affect HDI from a general perspective at all income bracket levels. Moreover, they observed that FDI contributed to the increment in the levels of inequality from an aggregated perspective though noting that it did help in alleviating inequality in education. In addition, they also discovered that higher institutional quality, such as a stable political environment and laws were cardinal for the upliftment of human welfare. Minhaj et al. (2007) found that FDI is cardinal in affecting the HDI though not the sole determinant. They also observed that FDI plays a key role in both enhancing economic growth and uplifting the welfare of the people. Further, they noted that this development can be accelerated in the presence of technological advancements and skills transfers, which in the long run are cardinal for the improvement of social economic conditions. Assadzadeh and Pourqoly (2013) found that FDI has a positive and significant impact on poverty measured through the HDI. This was by noting how it contributes to skills transfer and job creation through been diversified across other sectors and incorporated with good governance. Sharma and Gani (2004) noted a positive and insignificant effect on both groups of countries. Surprisingly, they observed that government expenditures on military and defense had a positive and significant effect on welfare. When studying this impact in the case of Nigeria, for the disaggregated components of the HDI, Apinran et al. (2018) found a negative and significant relationship between FDI and life expectancy. However, in assessing the impact of FDI on school enrollment as well as GNI per capita, that relationship was both positive and significant. They further noted that this relationship can further be enhanced by prioritizing FDI in areas that are more beneficial to the domestic economy. Looking at the contributions of openness to trade as well FDI on the life expectancy in Pakistan, Alam et al. (2016) found a positive and significant impact in the long – run. In the short – run this effect was insignificant. These observations concluded that this effect can be realized with directing investments towards sectors that are beneficial to the health industry. Also in looking at the impact of FDI on health, Burns et al. (2017) discovered that FDI has beneficial effects on health, particularly life expectancy. They further concluded that this effect was more pronounced in the adult population. In areas where endogeneity was controlled for in their study, this relationship was weaker. Baghirzade (2012) did research on, “The impact of Foreign Direct Investment on Human Development Index in Commonwealth Independent States (CIS)”, where they individually looked at each of the CIS countries. This and the following paragraphs review those findings. In Azerbaijan, Baghirzade noted a positive and insignificant impact of FDI on the disaggregated components of the HDI, namely, school enrollment, GNI per capita, life expectancy as well as expenditure on health. In the case of Armenia, Belarus, and Russia, this impact across all components was both positive and significant. In the case of Kyrgyzstan and Georgia, the impact of FDI on school enrollment as well as life expectancy was positive and insignificant though it proved to be significant in the case of GNI per capita as well as health expenditure. For Moldova, Baghirzade noted that FDI positively and significantly affected school enrollment, GNI per capita and health expenditure with an exception of life expectancy, which is proved insignificant.

In Ukraine, the effect of FDI on school enrollment, GNI per capita and health expenditure was both positive and significant but was insignificant in the case of life expectancy. In Turkmenistan,

the effect of FDI on GNI per capita and on life expectancy was positive and significant though insignificant on health expenditure. In the case of Uzbekistan, the effect of FDI on GNI per capita, life expectancy and health expenditure were both positive and significant. Baghirzade concluded the empirical review by looking at this relationship in Kazakhstan and Tajikistan were the effect of FDI on GNI per capita, life expectancy and health expenditure were both positive and significant but insignificant in the case of school enrollment. Pérez-Segura (2014) looked at how FDI, as well as other factors such as aid, corruption, and governance, affected the HDI as well as its disaggregated components in other countries. FDI had a positive and significant effect on HDI as well as on the GNI per capita. In the context of education and health, He examined a positive insignificant and negative insignificant effect respectively. Looking at the influence of FDI policy and corruption on the HDI, Reiter, and Steensma (2010) noted that FDI flows in the presence of restrictive and discriminative FDI and without corruption has a positive impact on the HDI. The observation was also noted on the impact of FDI on life expectancy. In a survey of 34 countries, for the period 1981 to 2013, Azam et al. (2015) discovered that an increase in FDI has a significant effect on the human development level and school enrollment and that education is promoted resulting from the FDI. With regards to the impact FDI on the HDI, Muhammad et al. (2010) in their study concluded that FDI, though not the only determinant, contributed to improvements of the socio-economic development of a nation in the case of Pakistan. Agusty and Damayanti (2015) who carried out a study on the effects of foreign direct investment and official development assistance on the human development index of developing countries both proved that the two variables have a positive and significant effect on human development in those countries. On the effect of FDI on human development in Sub – Saharan Africa, (Boman, n.d.) did not find a significant relationship between the FDI and the HDI. However, he did observe a positive correlation between FDI and government expenditure on health.

The results by Ökten & Arslan (2013) indicate that there is cointegration relationship from FDI to social economic conditions including the HDI in Turkey suggesting that that Investment is a key ingredient for improving welfare. Sanchez-Loor and Zambrano-Monserrate (2015) did not observe a causal relationship between FDI and HDI in the countries Colombia, Ecuador as well as Mexico. According to Emmanuel (2015), FDI significantly increased HDI, infant mortality rate, life expectancy, mean years of schooling, access to water as well as sanitation indicating that FDI was an important element in improving human welfare in Sub–Saharan Africa. Korwa and Djazuli (2014) who looked at this and other relationships in Papua Province, Indonesia noted that FDI and Business Development are essential elements in supplementing government efforts to improve welfare if well prioritized. Magombeyi and Odhiambo (2017) who carried out a comprehensive review of literature on this relationship noted that most results suggest that FDI helps aid welfare and regarded it as an important component needed to improve human development. In the case of de Groot (2014), the relationship between FDI and HDI was observed to be negative and significant. This boils down to the priorities of foreign investment, where human development has been seen to be of a lesser priority. Rojas (2015), in the case of Peru, observed a positive and insignificant impact from FDI to HDI, though, acknowledging that

foreign funds are cardinal for the uplifting of welfare in the economy. According to Edrees et al. (2015), the effect of FDI on HDI is both positive and significant with a further submission that government policies should be investment driven. Colen et al. (2008) noted that FDI directed towards employment creation in developed countries helps in improving the living standards of the people. According to Tintin (2012) who carried out a study on the effects of FDI amongst various sectors of development observed a positive and significant effect on HDI as well as on education for developed, developing and least developing countries. In the case of its effect on health, the effect was all positive and significant for developed and developing countries but insignificant for least developed countries.

Concerning these investments, the government has an obligation to ensure that the benefits of FDI are realized, especially on improving the social-economic wellbeing of its electorate. According to the World Bank's Africa's Doing Business Report 2018, Zambia has one of the best investment climates, ranked 7 and 85 in Africa and the world respectively. Despite the high economic growth trajectory and a good rating on the World Bank Doing Business Report, the living standards of the majority of Zambians is still a point of great concern. According to the World Food Program 2018, at least 63 percent of the Zambian population is languishing in poverty, and 40 percent of the under 5 populations is stunted (UNICEF, 2019). This raises concerns for policymakers as well as the national electorate. The alarming rates of poverty and the lower HDI ranking, which is paradoxical with the flow of FDI needs to be explored further. This welfare and investment paradox saves the motivation for this article. Much research has been done on human development, FDI and economic growth in various countries. However, concerning there trends, relationships, and how developmental policies have impacted them, that area is untapped from the Zambian perspective. With that in mind, this paper has aspirations of filling that research gap. This paper also grows on the fact that impact of FDI on areas like longevity, literacy and poverty alleviation is not prioritized despite the fact that it believed to be enriching Multi National Corporations (MNCs) at the expense of the domestic economy. In recommendations, it intends on ensuring accelerated economic growth, higher levels of FDI and human development. The objectives of this paper are to address the investment and welfare paradox, first by examining the trends and performance of the HDI as well as its components, FDI, and economic trends in Zambia and compare it with other countries, make policy recommendations on how government development policies can be directed towards escalating the levels of human development, FDI and economic growth. Concerning the methodology and Analysis Approach, this article applied Inductive reasoning to descriptive statistics (Gray, 2019)¹. Much of the paper is narrative and discussion based, where exploratory data analysis visualization was applied in a limited manner. Due to insufficient time series data in line with my study's objectives, an econometrics model could not be used. Instead of only looking at Zambia as an isolated case, its HDI as well economic

1 The inductive process: Through the inductive approach, plans are made for data collection, after which that data are analyzed to see if any patterns emerge that suggests relationships between variables. From these observations it may be possible to construct generalizations, relationships or even theories. (Gray, 2019).

trends were compared with selected countries such as Angola, Malawi, Sub-Saharan Africa including a good example of Botswana. The review of literature helped in drawing effective and workable policy recommendations. This article is divided into four sections. Section two which follows is the economic development trends. This includes an overview of the HDI, economic growth trajectories, FDI inflows as well as FDI by sectors and pledge by amounts and employment creation. Section three covers cover the countries developmental policies and current situation. This includes the National Developmental Plans (NDPs) including the role of the ZDA, as well as the nation's current situation. Section four concludes and makes some policy recommendations.

2. Economic Development Trends (Zambia and Selected Countries)

This section looks at the overview of HDI and its components, GDP growth trends, and FDI inflows in Zambia and makes comparisons with Angola, Malawi, SSA, and the globe. This section also looks at FDI inflows and pledges across different sectors in Zambia.

2.1. Overview of HDI in Zambia

As of 2017, Zambia's HDI value was 0.588, which is in the medium category, and ranked at number 144 of the total ranked nations. Over the time period 1990 to 2017, the country's HDI increased from 0.401 to 0.588, which was a 46.7 percent increment. During the same period, the life expectancy at birth increased by 17.3 years up to 62.3 years by the year 2017. There was a 5-year increment in expected years of schooling from 7.5 years in 1990 to 12.5 years in 2017. In the same time period, the mean years increased from 4.7 years to 7.0 years, which was an increment of 2.3 years. Between 1990 to 2017, Zambia's GNI per capita increased by 17.3 percent from \$2 076 to \$3 557 in purchasing power parity dollars. In the prescribed period, 1990, 1995, 2000, 2005, 2010, 2015, 2016 and 2017, the values of the HDI were, 0.401, 0.412, 0.432, 0.480, 0.544, 0.583, 0.566 and 0.588 respectively. Tables 1 and 2 elaborate the country's trends in the HDI as well as other components of the HDI over the above prescribed period. As indicated in the table 2, Zambia's performance in the HDI, as well as the disaggregated components of the HDI, namely, life expectancy, mean and expected years of schooling as well as per capita Gross National Income (GNI), performed better than Angola, Malawi as well as the rest of Sub-Saharan Africa for the year 2017.

Table 1: Zambia's HDI Trends Based on Consistent Time Series Data and New Goalposts

| Year | Life Expectancy at birth | Expected years of schooling | Mean years of schooling | GNI per capita (2011 PPP\$) | HDI Value |
|------|--------------------------|-----------------------------|-------------------------|-----------------------------|-----------|
| 1990 | 45.0 | 7.5 | 4.7 | 2 076 | 0.401 |
| 1995 | 43.2 | 8.7 | 6.0 | 1 900 | 0.412 |
| 2000 | 44.7 | 9.8 | 5.9 | 2 102 | 0.432 |
| 2005 | 49.6 | 10.9 | 6.3 | 2 294 | 0.480 |
| 2010 | 56.6 | 12.0 | 6.6 | 3 059 | 0.544 |
| 2015 | 61.4 | 12.5 | 6.9 | 3 568 | 0.583 |
| 2016 | 61.9 | 12.5 | 7.0 | 3 522 | 0.586 |
| 2017 | 62.3 | 12.5 | 7.0 | 3 557 | 0.588 |

Source: UNDP (2018)

Table 2: Zambia's HDI and Component Indicators for 2017 Relative to Selected Countries and Groups
HDI Values

| Country/ Region | HDI Value | HDI Rank | Life expectancy at birth | Expected years of schooling | Mean years of schooling | GNI per capita (PPPUS\$) |
|----------------------|-----------|----------|--------------------------|-----------------------------|-------------------------|--------------------------|
| Zambia | 0.588 | 144 | 62.3 | 12.5 | 7.0 | 3 557 |
| Angola | 0.581 | 147 | 61.8 | 11.8 | 5.1 | 5 790 |
| Malawi | 0.477 | 171 | 63.7 | 10.8 | 4.5 | 1 064 |
| Sub – Saharan Africa | 0.537 | - | 60.7 | 10.1 | 5.6 | 3 399 |
| Global medim | 0.645 | - | 69.1 | 12.0 | 6.7 | 6 849 |

Source: UNDP (2018)

2.2. GDP Growth Trajectory Of Zambia Relative to Other Selected Countries

Zambia's Gross Domestic Product (GDP) growth trajectory was compared with other selected countries and regions namely Angola, Malawi, Sub – Saharan Africa (SSA), and the world. Just as in the comparison years for HDI in table 2, the years of comparison were 1990, 1995, 2000, 2010, 2015, 2016 as well as 2017. Figure 1 shows the economic growth trajectory of all the selected countries between 1990 and 2017.

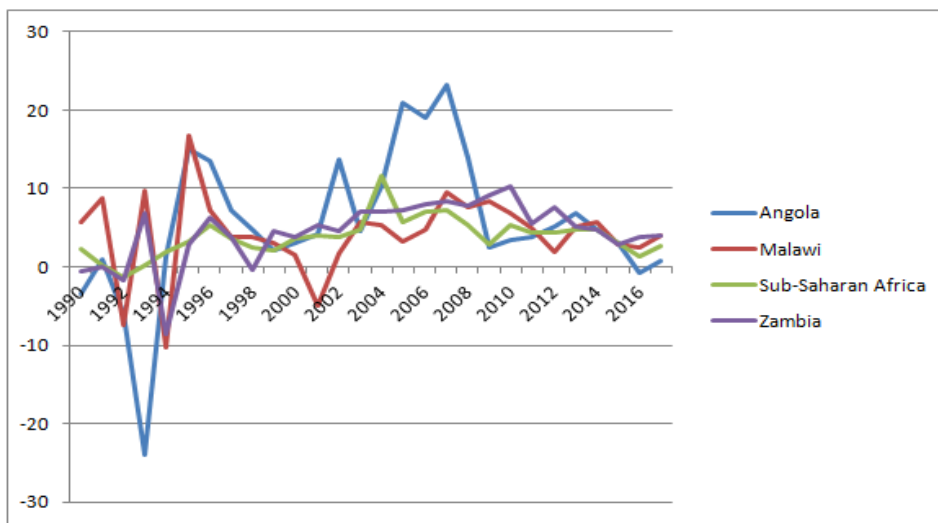


Figure 1: GDP Growth Trajectory (Annual %): Zambia Relative to Selected Countries and Region
Source: World Bank (2018).

In 1990, the GDP growth rates for Zambia, Angola, Malawi, and SSA were -0.48 , -3.45 , 5.69 , and 2.28 respectively. In 1995, these countries GDP growth rates rose by 2.90 , 15 , 16.73 , and 3.3 for Zambia, Angola, Malawi, and the SSA respectively. By 2000, Zambia, Angola, Malawi, and SSA had respective GDP growth rates of 3.90 , 3.05 , 1.58 , and 3.59 . As of 2005, this escalating growth trajectory continued to 7.24 , 20.91 , 3.29 , and 5.63 for the same countries in their respective order as before. In 2010, Zambia, Angola, Malawi, and the SSA respectively recorded GDP growths of 10.30 , 3.45 , 6.87 , and 5.40 . The start of the 2015 Post – Development Agenda saw Zambia, Angola, Malawi, and the SSA respectively record 2.92 , 3.00 , 2.80 , and 3.11 growth rates. The years 2016 and 2017 saw Zambia growth rates of 3.75 and 4.08 respectively. In the same periods, Angola recorded -0.81 and 0.72 respectively, while Malawi recorded 2.48 and 4 percentages respectively. During these last two focus periods 2016 and 2017, the SSA region recorded average GDP growth rates of 1.33 and 2.61 respectively.

2.3. Zambia's FDI Net Inflows Related to Selected Countries

This article also compared the flow of FDI net inflows related to a few selected countries as those compared with HDI as well as economic growth trajectory. Table 3 shows a summary of some of the information on the net FDI inflow for Zambia summarized for the years 1990, 1995, 2000, 2005, 2010, 2015, 2016, and 2017. This information is compared with the net FDI inflows for the countries Angola and Malawi.

Table 3: Zambia's Fdi Net Inflows (Bop, Current Us\$) Relative to Selected Countries And Years

| YEAR | ZAMBIA | ANGOLA | MALAWI |
|------|---------------|----------------|---------------|
| 1990 | 202 700 000 | -334 800 000 | 23 300 000 |
| 1995 | 97 000 000 | 472 427 000 | 5 643 045.579 |
| 2000 | 121 000 000 | 878 620 000 | 25 999 996.36 |
| 2005 | 356 940 000 | -1 303 836 930 | 139 696 707.4 |
| 2010 | 1 729 300 000 | -3 227 211 182 | 97 010 028.45 |
| 2015 | 1 582 666 667 | 9 282 167 512 | 516 092 796.5 |
| 2016 | 662 813 935.4 | -179 517 618.9 | 325 632 351 |
| 2017 | 865 903 085.2 | -7 397 295 409 | 277 112 167.4 |

Source: World Bank (2018)

As indicated in Table 3 above, the FDI net inflow for Zambia, Angola, and Malawi in 1990 amounted to 202 700 000, – 334 800 000, and 23 300 000 in millions of dollars for the respective countries. In 1995, Zambia's and Malawi's FDI inflow reduced to 97 000 000 and 5 643 045.576 respectively, with Angola's rising to 472 427 000. By 2000, the FDI inflows for Zambia, Angola and Malawi rose to 121 000 000, 878 620 000, and 25 999 996.36 respectively. In 2005, there was a de-escalation in Angola's FDI inflow to – 1 303 836 930, while Zambia and Malawi continued rising to 356 940 000 and 139 696 707.4. Five years later, Angola still recorded of – 3 227 211 182 with Zambia and Malawi recording amounts up to 1 729 300 000 and 97 010 028.45 respectively. In 2015, Zambia, Angola and Malawi recorded 1 582 666 667, 9 282 167 512, and 516 092 796.5 respectively. The year after, Angola recorded a decline to – 179 517 618.9, with Zambia and Malawi also recording reductions to 662 813 935.4 and 325 632 351 respectively. By 2017 Angola and Malawi continued recording reductions in FDI inflows of – 7 397 295 469 and 277 112 167.4 respectively, while Zambia recorded an increment to 863 903 085.2. Overall, Zambia seemed to have outperformed the other two countries in terms of attracting FDI inflows.

2.4. FDI in Zambia by Sector (US\$ Millions)

Table 4 shows the various FDI inflows by sector (million US\$) between 2009 and 2012. During the stipulated period, the highest investment went to the mining industry with 367.2, 1141.2, 955.6 and 933.7 in 2009, 2010, 2011 and 2012 respectively. The manufacturing industry was second recording 285.7, 373.9 and 469.6 in 2009, 2010 and 2012 though it notably recorded – 177.8 in 2011. In the years 2009, 2010, 2011 and 2012, Agriculture, Forestry and Fishing received – 14.1, 13.2, 31.7 and 28.3 respectively. Wholesale and retail trade had 65.0, – 2.2, 76.6 and 38.3 in the years 2009, 2010, 2011 and 2012. In the same respective period, the Construction industry recorded 44.2, 17.4, 39.2 and 54.6. Real Estate activities received an investment of – 0.4, – 4.5, 42.8 and 4.9 in the respective years of 2009, 2010, 2011 and 2012. Tourism had an investment of 40.9, 4.3, 13.6 in the years 2009, 2010, and 2011. Deposit-taking corporations inflows were 71.2 and 184.4 in the years 2011 and 2012 respectively. In the same respective period, Electricity Gas and Steam had an estimated investment of 13.3 and 6.5. In the year 2012, information and

communication, as well as other financial institutions, had – 18.4 and 9.2. The other areas had investments of 0.6, 17.8, 1.0 and 0.8 in the respective years 2009, 2010, 2011 and 2012. The sectors education and health among others had insignificant investment amounts and were under “other expenses” mentioned above, with less than a percentage of the total FDI during the period 2009 and 2012. Unfortunately, data for investment by sector for prolonged time period was unavailable at the time of this article. After several initiatives by the Zambian government through the ZDA to stimulate FDI flows and employment creation, several pledges were made by various MNCs as elaborated in the next section

Table 4: Zambia’s Foreign Direct Investment Inflows by Sector (In US \$ Million)

| | 2009 | 2010 | 2011 | 2012 |
|---------------------------------|-------|---------|---------|---------|
| Mining & Quarrying | 367.2 | 1,141.3 | 955.6 | 933.7 |
| Agriculture, Forestry & Fishing | -14.1 | 13.2 | 31.7 | 28.3 |
| Manufacturing | 285.7 | 373.9 | -177.8 | 469.6 |
| Wholesale and Retail Trade | 65.0 | -2.2 | 76.6 | 38.3 |
| Tourism | 40.9 | 4.3 | 13.6 | 0.0 |
| Transport & Communication | -10.7 | 179.3 | 41.6 | 19.7 |
| Information and Communication | 0.0 | 0.0 | 0.0 | -18.4 |
| Construction | 44.2 | 17.4 | 39.2 | 54.6 |
| Real Estate Activities | -0.4 | -4.5 | 42.8 | 4.9 |
| Finance & Insurance | -83.5 | -11.2 | -0.2 | 0.0 |
| Electricity, Gas and Steam | 0.0 | 0.0 | 13.3 | 6.5 |
| Deposit Taking Corporations | 0.0 | 0.0 | 71.1 | 184.4 |
| Other Financial Institutions | | | | 9.2 |
| Other | 0.6 | 17.8 | 1.0 | 0.8 |
| Total | 694.9 | 1,729.3 | 1,108.5 | 1,731.6 |

Source: Foreign Private Investment and Investor Perceptions Surveys 2010, 2011, 2012 and 2013

2.5. FDI Pledges and Employment Creation by Category

In the years 2014 and 2015, a substantial amount of recorded investment applications and pledges were diverted towards the manufacturing industry with a prospective employment generation of at least 3039 and 3624 employees in those respective years. The construction industry recorded employment pledges of 8738 and 1531 in 2014 and 2015 respectively. In the same respective period, the Real estate industry pledged 700 and 4137. Tourism investment pledged to employ 1074 and 1057 person in the same periods as above. The mining and quarrying industries pledged 1643 and 545 respectively. The service industry pledged to generate 1097 and 690 jobs in 2014 and 2015 respectively. In the same respective period, the Agriculture, Forestry and Fishing industries pledged to create jobs of up to 1495 and 1288. In 2014 and 2015, the transport sector pledged to generate 196 and 478 respectively. In the same respective period, the information and communications received minimal employment pledges of 49 and 35. Education and Health were yet again on the lower end

of FDI, with the former receiving employment pledges of 0 and 166 in 2014 and 2015 respectively. In the same focus period, the latter received respective pledges of 38 and 69. All the above pledges were inspired by the government through ZDA in their quest to attract across all sectors of the economy. A summary of these pledges is indicated in Table 5 below:

Table 5: Investment and Employment Pledges. January – September 2014 and 2015

| Sector | January – September 2014 | | | January – September 2015 | | |
|-----------------------------------|--------------------------|-----------------------|--------------------|--------------------------|-----------------------|--------------------|
| | Number of Applications | Value US\$ (Millions) | Pledged Employment | Number of Applications | Value US\$ (Millions) | Pledged Employment |
| Agriculture, Forestry and Fishing | 27 | 114.5 | 1495 | 27 | 82 | 1288 |
| Construction | 15 | 3172 | 8738 | 20 | 127.4 | 1531 |
| Education | 0 | 0 | 0 | 5 | 27.2 | 166 |
| Energy | 3 | 26 | 175 | 2 | 1.2 | 43 |
| Finance | 0 | 0 | 0 | 1 | 3.4 | 17 |
| Health | 1 | 1.74 | 38 | 2 | 5.2 | 69 |
| Information and Communication | 2 | 174 | 49 | 3 | 1.3 | 35 |
| Manufacturing | 68 | 231.8 | 3039 | 66 | 496 | 3624 |
| Minning and Quarrying | 15 | 17.8 | 1643 | 8 | 26.4 | 345 |
| Real Estate | 21 | 181.1 | 700 | 40 | 512.9 | 4137 |
| Service | 34 | 94.8 | 1097 | 22 | 38 | 690 |
| Tourism | 21 | 94.5 | 1074 | 26 | 173.2 | 1057 |
| Transport | 9 | 20.6 | 196 | 21 | 26.1 | 478 |
| Total | 216 | 4188 | 18244 | 243 | 1520 | 13680 |

Source: Zambia Development Agency (2015)

The next section looks at government development policies and recent developments.

3. Government Developmental Policies and Current Situation

Government development policies were implemented hand in hand with the Millennium Development Goals (MDGs), Sustainable Development Goals (SDGs) as well as Africa's Agenda 2063 in order to attain middle-income status².

The government set NDPs, which were usually reviewed every five years. Some of the notable NDPs and timeframes included the following:

² Development policies in the context of this article entail policies mainly directed towards three objectives, increasing the level of FDI, accelerating the level of GDP growth as well as improving standards of welfare for the people and the economy at large.

1. Implemented between 2006 and 2010. (*Fifth National Development Plan 2006 – 2010*, 2006)
2. Implemented between 2011 and 2016. (*Sixth National Development Plan*, 2011)
3. Implemented between 2017 up to 2021 (*Seventh National Development Plan 2017 – 2021*)
4. Implemented between 2021 up to 2026, which is the current status quo (*Eighth National Development Plan 2021 – 2026*)

In order to facilitate economic growth and investment creation, the government institutionalized the promotion of investment through the ZDA Act of 2006, which was later amended in 2011. Below is a brief summary of some of the previous National Developments Plans.

3.1. Fifth National Development Plan(FNDP)

The FNDP policy targets included Macroeconomic, Social, Rural, Urban, Structural as well as cross-cutting issues like HIV/AIDS, gender, sanitation, and environment. The objectives of this paper focussed on Macroeconomic, Social, and Structural Policies. Some earlier Macroeconomic policy were related to the Washington consensus and in order to qualify for debt relief. Others enabled Macroeconomic and Social stability. In order to improve the social welfare conditions, increasing the availability of medicines, including health and educational facilities had to take precedence. Recruitment of medical and health personnel, as well as infrastructure development, was a matter of urgency. These challenges still exist until the present day. The FNDP instituted vocational training programs and adult literacy in order to help alleviate the existent illiteracy and education burden. The FNDP also experiences external shocks like crude oil prices, unfavorable weather which had an effect on the FNDP implementation though the effect was not significant³.

3.2. Sixth National Development Plan (SNDP)

The SNDP inherited some external shocks and other problems such as a higher disease burden resultant from shortages of medical logistics and personnel. Despite improvements in immunization from the previous FNDP, the SNDP had other notable disease illnesses such as malaria, HIV/AIDS and Tuberculosis which had an effect on the labor force. In order to improve education, the 1966 Education Act and the 1999 University Act were revised and substituted with a more comprehensive Higher Education Act. The Acts facilitated the establishment, organization, governance, and financing of all educational institutions. There were increased options of education, addition vocational education, adult literacy as well as entrepreneur and innovation training under the revised education act. Concerning health, some strategies included the improvement on laboratory and nutritional services, promotion outreach services, accelerate Public Private Partnerships (PPP) as well the as training personnel in the health and corporate

3 *Fifth National Development Plan 2006 – 2010*. (2006). Ministry of Finance and National Planning.

sectors. And also, more boreholes were constructed to enable accessibility to clean and safe drinking water in both rural and urban areas⁴.

3.3. The Role of The Zambia Development Agency (ZDA)

Amongst the functions of the ZDA related to FDI includes the following:

Increase employment in Zambia, formulate investment promotion strategies, facilitate government policies on investment in Zambia, undertake economic and sector studies to preview investment prospects as well as plan, manage, implement and control the privatization of state-owned enterprises and monitor its progress.

Some strategies it applied to attract FDI included the following:

- Tax incentives and land provision.
- Extra incentives, exemptions, and promotions for high-cost investments.
- Accelerated immigration assistance including provision of legal guidance and assistance
- Assistance with the quick provision of utility services such as water, electricity, and communication.

3.4. Discussion and Current Situation

From the 1990s up to the period before the commencement of the NDPs, the country's HDI and its components were below the medium range category. By 2017, there were some notable improvements in the HDI value, life expectancy as well as the per capita GNI. However, concerns still exist in the level of literacy, with the mean years of schooling still at seven. Compared with other countries such as Angola, Malawi, and the SSA region as well as the global medium, the 2017 performance of the HDI and its components outperformed the other countries except for that of the global average. This could be attributed to developmental planning and government priorities particularly after the NDPs era. Tables 1 and 2 as alluded to in earlier sections showed those developments. The story of Zambia's economic growth rate isn't as vivid as that of the HDI and its components. Between 1990 and 2017, Zambia's economic growth trajectory was better than that of Malawi and the SSA region. Over the last decade, it has also outperformed Angola. These GDP growth rates comparisons were illustrated in Figure 2. Judging the country's development policies by comparing the country's economic trends against other countries. So far, it is safe to conclude that the nation is on the right development trajectory and that the NDPs have played a key role in that regard.

Over the last centuries including times of crisis, developing countries have received an increment in FDI as compared to segments such as Portfolio Investments and loans (Lougani and Razin,

4 *Sixth National Development Plan*. (2011). Ministry of Finance and National Planning.

2001). Zambia also attracted more FDI inflows than Malawi and Angola. The terms of its own FDI inflows, the mining and manufacturing industries received the lions share, while education, health, and other areas directly related to human development had insignificant inflows of FDI. The same can be said about pledges coming from external investments as Tables 4 and 5 earlier demonstrated. Concerning development planning, the previous NDPs faced challenges such as:

- Delays in the release of funds for implementation of developmental projects
- A mismatch between the programs and budgeting (Prioritization failure)
- The failure of the decentralization policy at all levels
- Continued inequality and the existence of corruption

The state under the implementation of the Seventh National Development Plan (SENDP) ran from 2017 to 2021⁵. Within the objectives of the SENDP, the government wants to spearhead the attainment of vision 2030 as well as the African Union's Agenda 2063⁶. The SENDP has an ambitious quest of creating 1 million productive employment opportunities, accelerating economic growth as well as improving the living standards of the people. The SENDP also intends on addressing the lack of innovation amongst the citizens as well as the problem of the existence of corruption⁷. In view of the challenges of the previous NDPs as well as the desire of the government to accelerate development, the state instigated an Integrated Development Approach (IDA). The priority areas, as well as the policy objectives of the IDA, are summarized in figure 2 below.

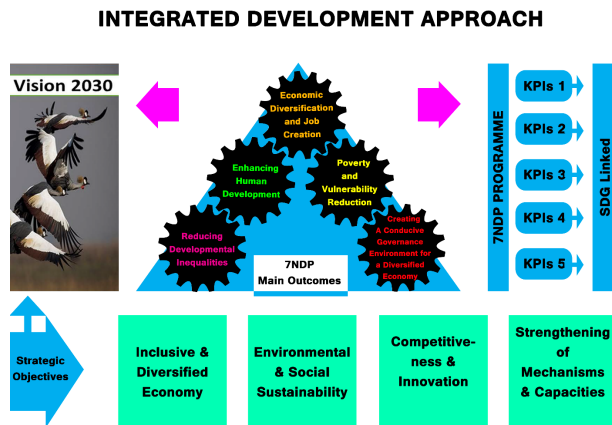


Figure 2: Integrated Development Approach

Source: Ministry of National Development Planning (2017)

⁵ *Seventh National Development Plan 2017 – 2021*. (2017). Ministry of National Development Planning.

⁶ What is Agenda 2063? "It is a strategic framework for the socio – economic transformations of the continent over the next 50 years. It builds on and seeks to accelerate the implementation of past and existing continental initiatives for growth and sustainable development". Its objectives work hand in hand with those of the SDGs.

⁷ For the 2016 Corruption Perception Index, Zambia ranked 87 out of 178 countries. Concerning the Global Innovation Index for the same year, the country ranked 125 out of 128 countries. (Dutta et al., 2016).

As elaborated above, human development is a key ingredient for the acceleration of the economic and social development of a nation. Sadly, the role of FDI is not elaborate in the IDA. As we discuss how the country can improve its welfare and the level of FDI, it is important to derive lessons from other countries. Specific countries in the SSA region namely Botswana, South Africa, and Morocco have improved in the both their HDI and the level of FDI net inflows. Botswana's HDI rose from 0.581 in 1990 to 0.717 in 2017 and is currently ranked fourth in the SSA region (UNDP, 2018). Botswana has specific policies beneficial for improving welfare and escalating the level of FDI. These policies will serve as a practical example for Zambia.

Concerning FDI, Botswana introduced zero foreign exchange controls and also had a much more double tax avoidance policy with strategic countries such as South Africa, United Kingdom, Sweden, France, Mauritius, Namibia, Zimbabwe as well as Russia (Nordeatrade, 2019). The stability of its institutions and governance including its accessibility to regional markets such as the Southern African Development Community (SADC) stimulated its competitive advantage in attracting FDI (Nordeatrade, 2019).

Concerning welfare, the Botswana government ensured that developmental policies helped in improving the country's level of education and health. The government ensured proper planning and the involvement of the state, civil society, and all the relevant stakeholders in the provision of education including curriculum review so as to meet international standards (Meyer et al, 1993). The recruitment of expatriates in order to modernize the education system and train domestic staff was also instituted, and now the economy has a highly educated workforce (Meyer et al, 1993). Currently, the educated workforce and including the English speaking literate is at least 82 percent (Nordeatrade, 2019).

Health is another area which has improved immensely over the years. The government of Botswana ensured the availability of health facilities in all parts of the country. The included referral hospitals, district hospitals, primary hospitals, maternity clinics, health posts, mobile hospitals, private hospitals, and private medical clinics (AHO, 2019). Besides the initial planning, which was implemented sometime back, the Botswana government has always been a good example for the SSA countries in the area of policy implementation.

Unlike other countries compared with Zambia in earlier aspects of this article, Botswana outperformed Zambia in almost every regard including making the economy investment friendly through infrastructure development. In that regard, the two states were compared in aspects that involve information communication technology as well as the service industry. This was through the measurements of citizens' accessibility to internet and usage of mobile subscription. Concerning access to internet services, the percentage of Botswana citizens with such a privilege was 0.06, 3.26, and 39.36 percentages in the years 1995, 2005, and 2016 respectively. This was much better than Zambia, which was 0.008, 2.28, and 25.5 percentages for the same respective period. Mobile subscription per 100 persons was also more for Botswana being 30.38 and 146.16 in 2005 and 2016 respectively. For the same respective period, that of Zambia was 7.879, and

72.429. The underpins the significance of infrastructure development in order to attract FDI and improve welfare (Gohou and Soumaré, 2012; Soumaré, 2015; Minhaj et al., 2007). This information comparing selected sections of infrastructure variations between Botswana and Zambia is summarized in table 6 below:

Table 6: Botswana and Zambia Selected Infrastructure Indexes Comparisons

| VARIABLE | COUNTRY | 1995 | 2005 | 2016 |
|--|----------|-------|-------|--------|
| Internet Users/ Percetange of Population | Botswana | 0.06 | 3.26 | 39.36 |
| | Zambia | 0.008 | 2.28 | 25.50 |
| Mobile Subscription (per 100 persons) | Botswana | - | 30.38 | 146.16 |
| | Zambia | 0.02 | 7.88 | 72.43 |

Source: World Bank (2018)

With this in mind, we can safely conclude that the level of infrastructure development played a key role in attracting FDI and enhancing human development for Botswana compared to Zambia. This confirms the fact that both physical development as well as effective development policies are key in attracting FDI as well as improving the level of HDI in an economy

4. Conclusion and Policy Recommendations

The Endogenous Growth Model was a strong motivation for this paper. This is because for development to be realized, capital, both physical and human are cardinal. Having compared Zambia's HDI and its components, GDP growth rate, and the inflow of FDI, it observed that Zambia outperformed Angola, Malawi, and the SSA region. Over the years, there were some improvements in Zambia's HDI levels. However, the pledges of MNCs towards Zambia showed that FDI did not make a significant contribution to education and health.

Despite affirmative developments, the nation still had challenges. Amongst the challenges noted were corruption, lack of innovation, and delays in the release of funds which were meant for the implementation of the NDPs and necessary for the improvements of welfare as well as accelerating FDI inflows.

The review of the literature showed some notable recommendations which are beneficial for developing countries including Zambia based on its similar challenges as earlier alluded to. Concerning the allocation of the proceeds from FDI, Alam et al. (2016), Apinran et al. (2018), Bezuidenhout (2009), de Groot (2014), Edrees et al. (2015) and Soumaré (2015) concluded that the HDI can only be improved if resources are allocated rightfully and towards the sectors which have a direct impact on the HDI. Against the background of this recommendation, Zambia can advocate for policies which advocate for the redirection of FDI towards sectors related to the HDI such as education and health. Further, Asiedu, (2004); Blonigen, (2005); Mukherjee & Chakraborty, (2010) acknowledged the role of the Endogenous Growth Model in their findings and noted that

investors have to support the government in its quest to improve human development and skills. This policy recommendation does not exempt Zambia as all countries have similar economic characteristics. In a similar regard, Assadzadeh and Pourqoly, (2013); Borensztein et al., (1995) urged developing countries to consider directing FDI towards areas of Teaching Vocational and Entrepreneurship Training (TEVET) and Information Communication Technology (ICT). This will help Zambia on improving skills and resultantly its Global Innovation ranking which is not desirable. Improving the performance of the country's institutions will make the impact of FDI on the HDI to be more pronounced. One way is by fighting the rising levels of corruption as Tamer (2013) concluded on his research on African states. Some studies have concluded that adequate infrastructure development will help increase FDI and improve welfare in an economy (Gohou and Soumaré, 2012; Soumaré, 2015; Minhaj et al., 2007).

There have been improvements in the levels of HDI and its components, an increase in FDI inflows, and a reduction in poverty levels down the years. However, there is more to be desired. With the country's Doing Business Ranking on the continent, concerns of inequality, corruption, and lack of innovation shouldn't be prevalent.

As discussed in the previous chapter, Botswana is an ideal example of how FDI and development policies can be used to improve welfare and national output. Concerning FDI, zero exchange rate controls and also effective double taxation avoidance policies are good for acceleration the flow of investment from outside. Also, the quality of institutions and governance plays a key role. In order to succeed like in the case of Botswana, the state needs to deescalate the rising levels of corruption as earlier alluded to by Tamer (2015). Concerning education, incorporating expatriates into the reviewing of our education system so as to reach global standards will go a long way. As far as health is concerned, the example of Botswana has also taught us that it would be more beneficial to spread all health facilities across the entire nation instead of only urban areas. In that regard, the Zambian government needs to address the failure of the Decentralization policies, the NDPs, and also establish a better way forward.

In addition to the example of Botswana and by way of conclusion, four policy recommendations are cardinal. These are:

1. Directing FDI towards areas that have a positive bearing on the HDI. These could include TEVET, ICT, and other areas of education as well as the delivery of services in the health sector.
2. Compelling foreign investors to also support education and health, by providing them with investment incentives as well giving them social responsibility in that regard.
3. Improving on the nation's level of innovations as well as the quality of its governance and institutions.
4. Improve the country's infrastructure to attract more FDI and to improve the domestic economy's HDI.

FDI supported by proper planning, implementation, and directed development policies will put the country on the right trajectory towards the realization of vision 2030 as well as Africa's Agenda 2063.

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