CHAPTER EIGHT
CONCLUSIONS, POLICY RECOMMENDATIONS AND DIRECTIONS FOR FURTHER RESEARCH

8.1 Summary of the study’s empirical findings

We now conclude our analysis by presenting a summary of the empirical findings that were unearthed by the study. These research findings will also address the study’s research objectives which were set in Chapter One. A summary of these empirical results is given below.

First and foremost, our study finds that, in general, FDI-to-GDP ratio has had a positive effect on PCI growth in the two countries, suggesting that globalization (in form of inward FDI) has accelerated the ‘pace of economic growth’ of the above host countries in the post-colonial era. However, the size of the effect of FDI-to-GDP ratio on PCI growth varies markedly in the two host countries. Indeed, an increase in FDI-to-GDP ratio by 1 percentage point leads to an increase in PCI growth by 1.713 percentage points in Malawi and 0.639 percentage points in Zambia, respectively. The result for Malawi is significant at 5 percent level while that for Zambia is significant at 10 percent level. Moreover, standardized coefficients for the effect of FDI-to-GDP ratio on PCI growth in the two countries are 0.870 for Malawi and 0.359 for Zambia. Thus, the results indicate that the effect of the FDI-to-GDP ratio on PCI growth in Malawi has been larger and statistically more significant than that of Zambia during this period. This seems to suggest that inward FDI generates differing growth effects in an agro-based host economy (Malawi) and mining-dependent host economy (Zambia).

The positive effect of the FDI-to-GDP ratio on PCI growth is supported by our direction of causality tests where FDI-to-GDP ratio is found to ‘Granger-cause’ PCI growth in Zambia. From the empirical results, it is clear that a unidirectional causality relationship runs from FDI (as a ratio the GDP) to PCI growth. Thus, we found no evidence of a reverse causality running from PCI growth to FDI-to-GDP ratio in Zambia. This suggests that that ‘FDI-led growth hypothesis’ holds in Zambia and hence inward FDI is a cause but not a consequence of economic growth. On the other hand, our empirical results indicate that both FDI-to-GDP ratio and PCI growth
‘Granger-cause’ each other in Malawi. This suggests that there is a ‘feedback/bi-directional causality relationship’ between inward FDI stock-to-GDP ratio and PCI growth implying that FDI-to-GDP ratio is both a cause and consequence of PCI growth in Malawi. The above results were also supported by cointegration tests which revealed that a long-run equilibrium relationship exists between FDI-to-GDP ratio and PCI growth in both countries. As such, the study’s empirical results appear to be robust to the choice of different estimation techniques.

Furthermore, as a way of linking the growth effects of FDI with the distribution of its benefits to different segments of the society, the study utilized employment creation as its main inclusive-growth transmission mechanism. In both countries, inward FDI is found to have caused employment growth during the post-colonial era. However, when the two countries’ FDI-employment creation effects are compared, Malawi appears to have experienced a higher and more significant effect compared to Zambia. To be exact, a 1 percentage point increase in inward FDI-to-GDP ratio leads to an increase in employment growth of 1.140 percentage points in Malawi and 0.105 percentage points in Zambia. The results for Malawi and Zambia are statistically significant at 5 percent and 10 percent level, respectively. Likewise, standardized coefficients for the effect of FDI-to-GDP ratio on employment growth for the two host counties are 0.604 for Malawi and 0.224 for Zambia, respectively. We argue that the above positive but relatively smaller FDI-induced employment-creation effect experienced in Zambia may have emanated from the ‘enclave character’ of the majority of its inward FDI which largely flows into the mining sector. This seems to render support to pioneering findings on the subject by Nunnenkamp and Spatz (2004); Isham et al. (2005); and Auty (1993) who postulate that resource-seeking inward FDI into the primary sector, more especially mining, has limited forward and backward linkages with labor and factor markets in the host economies. As such, it has a relatively limited job-creation and growth-generating effect on the host economy.

We also examined distributional effects of foreign investment to comprehensively examine the FDI-inclusive growth nexus in Zambia and Malawi. To achieve this, we applied cointegration and causality techniques on the time series in order to assess the long-run effect of inward FDI on income inequality in the two host-countries. The cointegration analysis reveals that inward FDI has had a significant and positive long-run relationship with income inequality. Furthermore, our Granger-causality test results indicate that FDI ‘Granger-causes’ income
inequality in both host countries, thus the causality runs from FDI to income inequality. Moreover, the long-run causality appears to be unidirectional, suggesting that the FDI-induced rising inequality is a consequence but not a cause of inward FDI. In other words, our empirical results suggest that inward FDI has had negative distributional consequences on income levels in both countries during the post-colonial period.

In concurrence with the above empirical findings, impulse response functions (IRFs) illustrated that FDI appears to exert both a short and long-run significant effect on the level income inequality in the aforementioned countries. For instance, in Malawi inward FDI seems to have increased the level of inequality both in the short-run and long-run periods. For Zambia, though the level income inequality seems to marginally decline overtime after an initial increase in response to an expansion in the level of inward FDI, but on the overall the Gini coefficient still appears to be rising. With this, therefore, we deduce that globalization (in form of inward FDI stock-to GDP-ratio) may, on the overall, have had a deleterious effect on different income groups in the two host-economies. These findings suggest that the gains from FDI may have benefited skilled and/or educated workers more than the less-skilled and/or less-educated workers in terms of wages thereby worsening income gaps in the two countries.

Against this background, therefore, we conclude that inward FDI has, on the overall, not led to inclusive growth in the two countries during the post-colonial era since it has only increased the ‘pace of PCI growth’ but worsened the ‘distribution of the resultant growth through its inequality-widening effect. Considering these empirical findings, it may be plausible to conclude that that much as inward FDI may have been beneficial for economic growth and employment creation in Zambia and Malawi, the two host governments need to do more to improve its impact on income distribution and more especially on poor sections that are adversely affected by it. The implication of the above findings is that the governments of Zambia and Malawi may be justified in continuing their FDI-driven growth and employment creation policies since the empirical results appear to confirm the positive role of inward FDI in accelerating the pace of economic growth. However, income distribution reforms may have to be implemented in light of the FDI-driven rising income inequality so that the fruits of the economic growth are equitably shared by the majority of their citizens.