THE IMPACT OF FOREIGN DIRECT INVESTMENT (FDI) AND ITS DETERMINANTS ON ECONOMIC GROWTH OF TANZANIA (2000-2014)

MUSSA SALIM AHMED

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF THE OPEN UNIVERSITY OF TANZANIA

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CERTIFICATION

The undersigned here by certifies that he has read and hereby recommends for acceptance by the Open University, a dissertation entitled: ***Impact of FDI and its determinants on economic development of Tanzania (2000-2014),*** in partial fulfillment of the requirements for award of the degree of Master of Business Administration (MBA)-Finance of Open University

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Dr. Salum Mohamed

(Signature)

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Date

DECLARATION

I, **Mussa Salim Ahmed** do hereby declare that this dissertation is my own original work. It has not been submitted and will not be submitted to any other university of higher learning for a similar or any other degree award.

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DEDICATION

This work is dedicated to my lovely wife Amina Moh'd Salim and my Employer, the Controller and Auditor General (CAG) for allowing me prepare and submit this reports. and the whole of my family for their encouragement, love and emotional support to my endeavors.

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ABSTRACT

By bridging the gap between domestic savings and investment and bringing the latest technology and management know-how from developed countries, foreign direct investment (FDI) can play important role in achieving rapid economic growth in the developing countries. The fact is that FDI mostly flows towards the developed countries and only a small portion of FDI flows to a limited number of developing countries. It is found that countries with larger GDP and high GDP growth rate and maintain business friendly environment with abundant modern infrastructural facilities, such as internet can successfully attract FDI and FDI on the other hand, significantly affect economic growth of a country. The finding prove that the FDI, trade openness, infrastructures, inflation (economic stability) has a positive impact to the economic growth in Tanzania. However, FDI is contributing lower to economic development in Tanzania this is because most of the poor trade facilities and institutional environment. On the other hand, trade had a positive and significant effect on economic development There must be present for the investor's concrete benefits and opportunities in order for the FDI to have an impact on the economy. Without these, any investment made would be unable to yield the results that were desired. Here we must understand that it is the responsibility of the local government to devise policies and strategies in such a manner that would support the efforts and investments being made. The study come up with recommendation that, the authorities should positively concentrate on maximum utilization of resources to increase FDI in order to increase GDP growth rate. It needs effective and encouraging policies from the public sector to restore the confidence of the investors.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURE

LIST OF ABBREVIATIONS

BPM	Balance of Payments Manual
CPI	Inflation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
IMF	International Monetary Fund.
INTER	Internet
LBR	Labor Force
MDG	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
TRO	Trade Openness
UNCTAD	United Nations Conference on Trade and Development
URT	United Republic of Tanzania

CHAPTER ONE

INTRODUCTION

1.1 Background to the Problem

Foreign Direct Investment (FDI) provides developing nations much needed capital investments with a view to achieving economic growth and development Saqib et al (2013), Wai-Mun et al (2008), Chakrabarti (2001). Foreign direct investment has taken a leading role in developing countries especially of Africa giving rise to a policy makers that foreign direct investment has enhanced growth and promotes development in developing and low income countries (LICS). Welfure and Nurudeen (2010) put it that foreign direct investment enhances job creation, managerial skills, transfer of technology and contribute to economic growth and development.

In the last two decades, foreign direct investment (FDI) flows have grown rapidly all over the world. This is because many developing countries see FDI as an important element in their strategy for economic development (Ayanwale, 2007). Mergers and acquisitions including private- to-private transactions as well as acquisitions through privatization, which increased significantly in developing countries became an increasingly important vehicle for FDI (Kyaw, 2003). This has led to many countries improving their business climate to attract more FDI. In fact, one of the pillars for launching the new partnership for Africa's development (NEPAD) was to accelerate FDI inflows to the region (Funke and Nsouli, 2003).

Foreign direct investment in developing countries has grown tremendously because of large doses of financial, economic and political transformation sweeping the developing countries and LICS. Because of the importance attached to FDI, most developing countries have tried to ease restrictions on foreign direct investment. They have strengthened macroeconomic stability, privatized state-owned enterprises, instituted economic and financial reforms, political reforms, (that is embarking on democratization), capital account/foreign exchange liberalization and grating of tax incentives

Attention has been turned to FDI, because it is felt that it provides a major source of capital inflows and up to date managerial skill and technology Antwi et al (2013) further observe that "it would be difficult to generate this capital through domestic savings and even if it were not, it would still be difficult to import the necessary technology from abroad, since transfer of technology to firms with no previous experience of using it is difficult, risky and expensive".

In 2006, about 40 African including Tanzania countries introduced 57 new measures affecting FDI, of which 49 encouraged inward FDI (UNCTAD, 2007). The increase in FDI inflows largely reflected relatively high economic growth and strong corporate performance in many parts of the world (UNCTAD, 2008). Reinvested earnings accounted for about 30% of total FDI inflows as a result of increased profits of foreign affiliates, notably in developing countries. In Africa, FDI inflows increased from $18 billion in 2004 to $36 billion in 2006. This was due to increased interest in natural

resources, improved prospects for corporate profits and a more favorable business climate.

FDI inflows to the various regions of the world have grown dramatically in the past 2 decades. The total world FDI inflows, which stood at $59 billion in 1982, grew dramatically to $648 billion in 2004 and reached its peak of $1,833 billion in 2007 (UNCTAD, 2008). In Africa, FDI inflows amounted to $36 billion in 2006, which was 20% higher than the previous record of $30 billion in 2005 and twice the 2004 value of $18 billion and rose to a historic value of $53 billion in 2007 (UNCTAD, 2008)

The surge was in a large part related to investments in extractive industries, though it rose in various service sectors too. Despite, the increase in FDI to Africa, this is still less than 3% of global FDI inflows, the African share in global inflows fell from 3.1% to 2.7% and 2.9% in 2005 and 2007 respectively. It is interesting to note, however, that the rate of return on FDI in Africa has been rising since 2000 and it is currently at about 12%, which is the highest in the developing world.

According to the UNCTAD reports on FDI inflows globally, there has been an increase inflow of foreign direct investment (FDI) to Tanzania of 12million USD in 1992 to unprecedented record of 1095million USD in 2011 while the FDI stock amounted to 388million USD in 1990 compared to 7823million USD in 2011. The World Investment Report published in 2012 shows that Tanzania took the lead in attracting Foreign Direct Investment (FDI) in the East African region during the past 1 year, attracting the record of $1.1 billion Major institutional and legal framework carried by government since mid

1980's resulted into an increase inflow of foreign direct investment 10 equivalent to (TSh1.76 trillion). The same report has highlighted that between June 2011 and June 2012, Tanzania overtook Kenya- the region's biggest economy, indicating the high confidence among foreign investors in Tanzania. The same report has shown that for the past three years, Tanzania has attracted about 47 percent of all FDI flows in the five East African countries.

Recent data from UNCTAD shows, in 2013 Tanzania had USD 12.7 billion in FDI stock, eclipsing both Kenya and Uganda which stood at a low USD 3.4 billion and USD 8.8 billion respectively. UNCTAD statistics also reveal that in 2013, Tanzania attracted USD 1.9 billion in FDI inflows far outstripping Kenya which only received USD 514 million of inflows in the same period. Tanzania is now the top destination for Foreign Direct Investment (FDI) in the East Africa region, according to the United Nations Conference on Trade and Development (UNCTAD).

1.2 Statement of the Research Problem

Despite the fact that Tanzania is now receiving large FDI inflows in East Africa, yet its economic performance is not satisfactory . Tanzania is still among the Heavy indebted country, according to the UNCTAD data base and World Bank Reports (2012). Tanzania economy is still faced with various setbacks such as wider spread poverty, budget deficit and government debts is still increasing.

 In light of expected benefits of FDI Inflows in Tanzania yet its seems there is inadequate resource to finance long-term investment. This lack of investible funds is a

big setback to economic growth and this is making it increasingly difficult to achieve the millennium development goals (MDGs) by 2015 as set by the United Nations.

Foreign direct investment is seen as a major source of getting the required funds for investments hence most African countries offer incentives to encourage FDI (United Nations, 2005: 2).

Apart from making investible funds available, FDI inflow to developing countries is assumed to produce externalities through technology transfer and spill-over effect (Carkovic and Levine, 2002), which have a last longing effect on the economy. Due to this perceived importance to economic growth (especially in developing countries), for the best of authors knowledge there is no previous studies that has been conducted to investigate the role of FDI and its determinants, FDI should be studied and extensive research work should be done on it so as to have clear understanding of what is the determinants of FDI and what its contribution to the economic growth in Tanzania.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of this study is to investigate the Foreign Direct Investment and its determinants in contribution of economic growth of Tanzania.

1.3.2 Specific Objectives

1) To Investigate the contribution of Foreign Direct Investment to the economic growth in Tanzania

2) To determine the Impact of Infrastructure to the economic growth

3) To find out whether the economic stability has positive impact on Economic growth

4) To assess the effect of Trade openness (international trade) to economic growth.

1.4 Research Questions

The study was guided by the following questions

1) What are the contribution of Foreign Direct Investment in Tanzania to economic growth in Tanzania?

2) What are the impacts of Infrastructure to the economic growth?

3) Does the economic stability have positive impact on economic growth?

4) What are the Impacts of Trade openness (international trade) to economic growth?

1.5 Significance of the Study

One among requirement of 0pen University to graduate in MBA is to write dissertation, so the researcher has write Research for the award of Master in Finance.

Available literature reveals does not examine the determinants and role of FDI in economic growth especially in Tanzania. This study therefore goes to enrich empirical literature in this area of FDI. The study will hopefully, benefit the government by providing more information in making appropriate policies to encourage inflow of FDI in the country.

1.6 Scope of the Study

The study focus on the impact of Foreign Direct Investment and its determinant to the economic growth of Tanzania and secondary data obtained from different sources mainly from World Bank Official Website were used in order to accomplish the target of the study.

1.7 Organization of the Study

This study has five chapters each chapter covering different elements for the purpose of making sure that the objective of the thesis will be achieved.

Chapter one of this study covered the introductory part whereby under this area more details concerning with the statement of the problem, research questions, research objective, scope of the study, significance of the research and organization of the research would be explained.

Chapter two of this study concerned with the literature review regarding the determinants of foreign direct investment and its contribution in Economic Growth of Tanzania. This chapter is divided into operational term which defines the key terms which would be used in this research, theoretical part and empirical part of the determinants of foreign direct investment and its contribution in Economic Growth of Tanzania.

Chapter three of this study dealt with research methodology which covered study area, thesis variables and their measurement research model, sample size, type and source of

data, data analysis methods. Chapter four of this study deal with the presentation of the finding of the this research, chapter five concern with the, summary, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1   Introduction

This section of the study seeks to find out what others have written about the subject matter. The section primarily deals with what other authors have done in regard to this subject matter. And it involves reading of books and journals.

2.2 Conceptual Definitions

2.2.1 Foreign Direct Investment

The World Trade Organization defines FDI as: "FDI occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage the asset. The management dimension is what distinguishes FDI from portfolio investment in foreign stock, bonds and other financial instruments," An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

The Balance of Payments Manual (BPM5) published by the International Monetary Fund (IMF) defines Foreign Direct Investment "as an investment made to acquire lasting

interest in enterprises operating outside of the economy of the investor". FDI in primary products may have negative effects on economic growth while investment in manufacturing and the oil sector in Nigeria is known to have positive effect (Alfaro, 2003).

2.3 Theoretical Literature review

Before diving into the empirical and analytical discussions about the FDI it is important to situate the argument within a theoretical context. This includes Gap thesis theories, Modenazation theories, factor that determine inward flow of FDI, inflow of foreign direct investment theories.

2.3.1 Gap Thesis Theory

The 'Gap Thesis' theory readily comes to mind. According to Todaro (1977) "foreign direct investment is typically seen as a way of filling in gaps between domestically available savings, foreign exchange government revenue, skills and the planned level of resources necessary to achieve development targets. One of the most popular theories of the 'Gap thesis' is the Harrod-Domar Growth Model. The model was developed by Harrod (1948) and Domar (1957) quoted by Todaro. The Model posits that investment is pivotal in the process of economic growth. The belief is based on the fact that investment creates income and accelerates the productive capacity of any economy by increasing Capital Stock. The model states that so long as investment increases, real income and output will increase. The Harrod-Domar Model emphasizes the need for new investments in form additional capital stock – which FDI readily supplies. According to the model, there is a direct relationship between a country's savings rate(s)

and its rate and its rate of output growth (g). Algebraically we state that $g = s/k$ where k means the nation's capital output ratio. s and g are as explained above. Let us illustrate by assuming that Nigeria has a growth rate of 8%p.a, capital-output ratio (k) is 3, then the savings growth rate required is g x k, i.e 8 x 3 = 24%p.a. If Nigeria savings rate is 20%p.a, then there is a gap of 4%. Foreign Direct Investment is required to fill this gap.

2.3.2 Modernization Theory

Saqib N., Masnoon M. and Rafique (2013) quoting Adams (2009) called 'modernization and dependency theories'. Modernization theory says that since economic growth requires capital investment, FDI will serve as the engine of economic growth. Modernization theory highlights that it is knowledge and technological transfers and capital that are scare in developing countries. It is argued by modernization theory that FDI plays a dual role by contributing to capital accumulation and by increasing total factor productivity.

The Dependency theory in the opposite direction argues that if a nation depends on foreign direct investment, its economic growth would face a negative impact. The theory opines that FDI creates monopolies in the industrial sector which results in under-utilization of domestic resources. The corollary is that FDI produces an economy that is dominated by foreigners and the economy does not as a matter of fact does not experience organic growth.

2.3.3 Factors determine inward flow of FDI

Sekkat and Veganzones-Varoudakis (2007) have grouped the factors determining the inward flow of FDI into three categories: basic economic factors, trade and the exchange market policies, and other aspects of the investment climate. The basic economic factors include the difference in the rate of return on capital across countries, portfolio diversification strategy of investors and market size of the host country. Trade and foreign exchange policy considerations relate to trade liberalization and exchange rate movements and their volatility (Froot and Stein,1991).Business climate factors relate to infrastructure (Wheeler and Mody, 1992), labor costs and availability of skilled labor/education, incentive factors, political risk, economic factors (per capital GDP, GDP growth rate, economic integration, importance of transport, commerce and communication), social factors (degree of urbanization), political stability (the number of 11constitutional changes in government leadership), the role of institutions (in terms of commitments to and enforcement of rules) (Root and Ahmed, 1979; Schneider and Frey, 1985), the catalyzing effect of foreign aid (Harms and Lutz, 2006; Kimura and Todo, 2010), and the stability of basic macroeconomic policies (fiscal, monetary, and social) (Baniak et al, 2005).

2.3.4 Inflow of Foreign Direct Investment (FDI) Theory

According to Azam and Lukam (2008), the Foreigner Investor may be attracted to come in the host country to invest their capital. The main objective of the host country is to gain returns on these investment. There is no single theory suggesting explaining the FDI. Numerous researchers put forward a number of variables to explaining the inflow of FDI. They use the Model of their study the linear Regression Model. Many studies

argued that Inflation, economic policy of host country, trade openness, market size are the main determinants of Foreign Direct Inflows (FDI) (Asiedu;2002).

Extensive empirical literature on determinants of inward FDI emphasizes the economic conditions or fundamentals of the host countries relative to the home countries of FDI as determinants of FDI flows. This literature is in line with Dunning's eclectic paradigm (1993), which suggests that it is the locational advantages of the host countries e.g., market size and income levels, skills, infrastructure and political and macroeconomic stability that determines cross-country pattern of FDI.

Following this approach Nishat and Anjum (1998), have estimated that political stability, peaceful law and order situation, level of technical labour force and mineral resources and liberal policies of the government attracted foreign investors in Pakistan. According to Dunning (2002) finds out that FDI from more advanced industrialized countries depends on government policies, transparent governance and supportive infrastructure of the host country.

2. 4 Empirical literature review

We now review some empirical studies done on FDI in some countries and Tanzania.

2.4.1 Empirical literature review world wide

Saqib, Masnoon and Rafique (2013) recently did empirical study on the impact of Foreign Direct Investment on Economic Growth of Pakistan for the period 1981 to 2010. They used six variables where GDP is specified as dependent variable while FDI, Total

debt Service, Gross Domestic Savings, Inflation, as independent variables. The findings indicated a negative and significant relationship between FDI and dependent variable GDP. Also Debt, Inflation and Trade exhibited negative relationship with GDP. In conclusion, they stated that Domestic Investment will be more beneficial and that dependency on FDI should be limited. They recommended that the Government should encourage domestic savings and investment. They suggest further studies to incorporate variables relating to technology transfer and Human Capital. Their view is that some unnamed variables, such as technology transfer and Human capacity, appear to have moderated the relationship between FDI and the host economy.

Wai-Mun H, Kai-Lin, and Kar-Mun (2008) did their own study to establish FDI and Economic Growth Relationship in Malaysia. Employing Augmented Dickey-Fuller (ADF) Unit root tests and Phillips-Peron (PP) test and Ordinary Lest Square (OLS) regression analysis, they come up with the results showing that there is a positive and significant relationship between FDI and economic growth in Malaysia. Government should therefore encourage FDI, but should encourage adoption of policies to encourage domestic producers to adopt the technology brought in through FDI. The government should also try to fight corruption and high inflation and foreign exchange volatility

UNCTAD (1999) revealed that the big inflows of foreign investments in the developing countries led to the development of local investment, however the foreign companies/firms dominate the local firms in the sense that they can provide access to the input that is not available locally, they have good technology and improved management systems and they expand and diversify production and export capacities.

Wai-Mun H, Kai-Lin, and Kar-Mun (2008) did their own study to establish FDI and Economic Growth Relationship in Malaysia. Employing Augmented Dickey-Fuller (ADF) Unit root tests and Phillips-Peron (PP) test and Ordinary Lest Square (OLS) regression analysis, they come up with the results showing that there is a positive and significant relationship between FDI and economic growth in Malaysia. Government should therefore encourage FDI, but should encourage adoption of policies to encourage domestic producers to adopt the technology brought in through FDI. The government should also try to fight corruption and high inflation and foreign exchange volatility.

Andreas (2006), Ndikumana and Verick (2008) and Lumbila C2005) find that FDI has a positive significant effect on economic growth, others suggest either a non significant or a negative effect of FDI on economic growth (Lougani and Razin 2003; Akinlo, 2004; Ayanwale, 2007; De Mello, (1999). It must be mentioned that many studies have been carried out at the firm, industry and country levels, but in this study, we focus on developing country level studies

2.4.2 Empirical literature review in Africa

Antwi, Atta-Mills , Atta-Mills and Zhao (2013) did empirical study on the impact of FDI on economic growth of Ghana. They used simple Ordinary Least Squares (OLS) regressions and concluded that FDI has continued to play a positive significant role in economic growth of Ghana. They advised that government should encourage the inflow of FDI which brings with it capital inflow, technology transfer and creation of employment. Again as in the case of Malaysia there is a negative effect on domestic producers whose market power is adversely affected by monopolistic market created by

foreign investors who brought in FDI. The government should, therefore, adopt policies to encourage locals such as joint ventures between foreigners and locals.

Alfaro (2003) suggests that FDI makes positive contributions to workers in the foreign – owned firms. Tanzania, Kenya and Uganda sample show that foreign firms are more productive, bring new management skills, invest more heavily in infrastructure and in the training and health of their workers, and more connected to the global makers.

In Nigeria, Akinlo (2004) did an empirical study on FDI and growth in Nigeria. Using ADF, PP tests and correlation analysis, he concluded that FDI in Nigeria has a positive effect on growth after a considerable lag. His results suggest that FDI in extractive oil sector might not be growth enhancing as much as the manufacturing sector. His work also shows that export, labour and human capitals are positively related to growth. He advised government to encourage more FDI inflows in productive sectors especially manufacturing. His study also highlighted the need to stem capital flight which has a serious negative impact of FDI on short runs.

Anyanwu and Erhijakpor (2004) indicate that infrastructures economic growth, openness and significantly increase FDI inflows to Africa while credit to the private sector, export processing zones, and capital gains tax have significantly negative effect.

Macaulay (2011) did his own study on FDI and the performance of the Nigerian Economy. His work is mainly discussion of past research works. However, he came to the same view that FDI has positive significant effect of economic growth. Like Akinlo he observed the negative impact of capital flight. He recommended the government

should encourage inflows of FDI but promote policies to stem negative effects such as capital flight and balance of payments disequilibrium.

Onu (2012) also studies the impact of FDI on Economic Growth in Nigeria for the period 1986-2007. He employed multiple regression analysis to determine the impact of FDI on economic growth in Nigeria. He concluded that FDI is "an engine of economic growth". And that "the great potentials of FDI for accelerating the pace of economic progress of Nigeria cannot be over emphasized. Because of the positive and significant impact of FDI on economic growth it should be encouraged. He recommended that as part of encouraging inflow of FDI, the government should overhaul the tax system to curtail widespread tax evasion and corruption.

2.4.3 Empirical literature review in Tanzania

URT (2001) revealed that underdeveloped infrastructure is often pointed out as one of the key constraints to exploiting Tanzania's Development Potential. The infrastructure network, therefore, needs to be upgraded to facilitate improve accessibility to productive location.

The transport network in Tanzania is geared towards serving an economy dependent on the outside world for output markets and imported inputs. This has left major gaps in terms of creating a relatively more cohesive network that would have fostered the development of a domestic market for the country's economic activities which are distributed partly following the location of nature endowments (World Bank and URT, 2001).

Report on Foreign Private Investment in Zanzibar (2004) examined that FDI factors assessed under infrastructure are inland transport, access to seaport, air transportation, and port operation. Perceptions on all infrastructure factors were favorable except for port operations, which remained unchanged. Although investors' perceptions on inland transport show improvement, there is a need for more improvements particularly on the rural and feeder roads. These improvements were due to Government's efforts in constructing new roads and undertaking roads maintenance and repairs.

The Zanzibar trade Policy (2004) has revealed that the inflows of foreign investments made the Revolutionary Government of Zanzibar see the development of transportation to be crucial for economic prosperity due to its importance of moving goods and services from one point to another. Therefore, a number of programs and projects to develop the transportation network on land, water and air were set up; such programs include the construction of tarmac roads, improving the facilities in the air ports and both on Unguja and Pemba ports. The implementation of those programs and projects started since 1986/87 and is now on progress.

The study examines transport sector and finds that it is very crucial to the development of the state economy. Due to the inflow of a number of foreign investments, the government reviewed the transport policy of 1986 in order to cope with the current environment and provide more attractiveness to foreign investors including home investors (Zanzibar National Transport Policy study, 2004).

Kombo, (2006) did his own study on FDI and the performance of the Tanzania Economy. His work is mainly discussion of past research works. However, he came to the same view that FDI has positive significant effect of economic growth.

2.5 Research Gap

From the above literature reviews for the best of authors knowledge there is few empirical study that investigate the determinants of foreign direct investment and its contribution in Economic Growth of Tanzania. This argument is also insisted by Khedoro and Seeturah (2000) that there are very scarce studies done in Africa related to the determinants of foreign direct investment and its contribution in Economic Growth of Tanzania. Therefore there is no documented research that shows that similar study has been done in the intended area so data from this study will bridge the gap.

2.6 conceptual frame work : FDI and Economic Growth

Independent Variable   **Dependent**
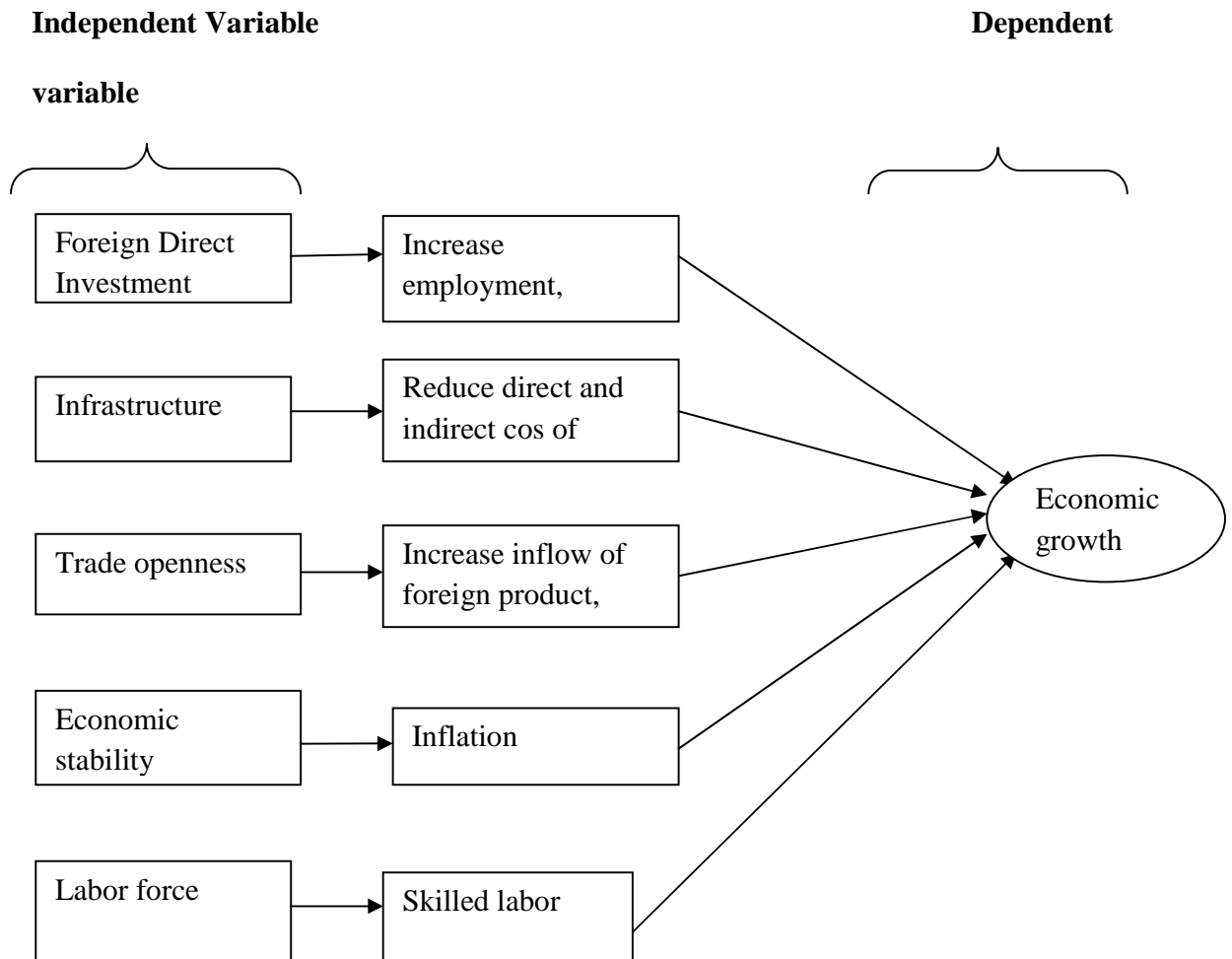
variable

Figure 1.0 : Summary of variable in relation to Economic Growth

2.7 Theoretical framework

a) Foreign Direct Investment (FDI)

The role of FDI to bring economic growth can be justified as it is helpful in bringing

new technologies and funds. The new technologies mean a ways of innovation which

further help in the production process. Many studies has shown that FDI increase

employment opportunities, domestic production, and productivity as results economic

growth (Borenzetein *et al*, 1998, De Mello 1999, Asiedu, 2002), therefore we expect positive relationship between FDI and economic growth.

b) Infrastructural Development Infrastructure

Frequently pointed out in the literature to be a crucial factor of effecting economic growth. Extended infrastructure reduces the direct and indirect cost of production. Hazel and Fan (2002) stressed the importance of infrastructure in enhancing productivity in developing economies. It has been proved in many studies that he public investment on infrastructure in rural area as is playing the role of engine for agricultural productivity growth. Onyeiwu *et al* (2004) and Asiedu (2002, 2004) explained that rural roads appear to be the important determinant. Therefore we expect positive relationship with the economic growth.

c) Trade Openness of the Economy

"Openness" is generally believed to have a favorable impact on economic growth through increasing productivity of the economy. It is believed that more open economies can grow more rapidly through greater access to cheaper imported intermediate goods, larger markets, and advanced technologies that contribute to 2 TFP growth. In the literature, openness of trade is proxies as export to GDP ratio, or export plus import to GDP ratio, Miller and Upadhay, (2002); Akinlo, (2005); Nachega and Fontaine, (2006) and Njikman et al., (2006)]. The present study used the sum of agricultural exports and imports as a percent of agricultural GDPas a proxy for the openness of agricultural economy.

d) Macroeconomic Stability

Theorists and policy makers sometimes have conflicting views on the impact of inflation on growth and productivity. A positive relationship between inflation and TFP can be expected. On the other hand, inverse relationship between inflation and TFP can also be found. It might be that high and unstable prices create economic uncertainties and discourage investment. Inflation can also encourage capital flight which adversely affect the investment and hence TFP growth. Akinlo (2005) in a study on macroeconomic factors and total factor productivity growth in SubSaharan countries, used inflation as an indicator for macroeconomic stability. The present study used inflation rate (in percent) in the model to capture the instability in the economy, which is considered a necessary player for TFP growth. Ÿ PerCapita Income In Pakistan, non-farm income makes the larger proportion of the per capita income.

e) Labor Force

Human capital plays important role in the economic development of a country as well. If the labor force is skillful then this will help to bring prosperity in the country. The quality of labor force is also important in the country. Mortensen (2004) emphasized the role of labor saying that the reforms improve labor performance and help to reduce unemployment on one hand and it encourages investment in research and development required for long-term growth, on the other.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provided the methodologically to be followed throughout the research. The chapter covered the research design, area of the study, data collection method, data analysis techniques.

3.2 Research Design

The study adopted a quantitative comparative design which is all about quantifying relationships between variables. The aim of quantitative research was to determine the relationship between an independent and a dependent variables outcome in a population. In particular, the study used quantitative research design because it sought to establish what are the determinants of FDI and how it affecting economic growth in Tanzania.

3.3 Area of the Study

This study was conducted in Tanzania as we want to find out the determinants of Foreign Direct Investment and its contribution in Economic Growth.

3.4 Population of the study

The availability of data of FDI, Infrastructure, and economic stability may be obtained from 1964 to 2014. However the study was selected sample size from 2000-2014 (14 years)

3.5 Sample size and sampling Design

3.5.1 Sampling Design

The study employed secondary method to collect data in order to facilitate data collection process. The advantage of the secondary data is that, especially a government agency has collected the data, incredible amounts of time and money went into it. It's probably highly accurate. The secondary data also it save time and less costly in collection therefore, the research has relied on this method.

3.5 2 Sample Size

The study select the sample size from 2000-2014 almost 14 years because they are more current and was specific for our study. Furthermore, due to the few data availability from 1990-2000.

3.6 Data Collection Methods

These studies used secondary data as the data are available from World Bank Website (2013) from 1990-2014 for the Tanzania economy including FDI inflows, Economic growth (GDP), Inflation, Infrastructures and communication , Domestic Investment and other included variables. Thus there is no need to use primary data collection method because sample size is for 14 years which is available from the World bank Website.

The advantage of the secondary data is that, especially a government agency has collected the data, incredible amounts of time and money went into it. It's probably

highly accurate. The secondary data also it save time and less costly in collection therefore, the research has relied on this method.

3.7. Validity Data

The Validity of the data collected of secondary data from World Bank indicators from the World Bank Website (2013) as the official website of the World Bank. We believe that, especially a government agency has collected the data, incredible amounts of time and money went into it. It's probably highly accurate. Furthermore, the validity of the data has been conducted through reading the previous literatures on the same field of our research so as to understand the correctness of the measurement used in the different variables.

3.8. Reliability of the Data

The data has been proved to be reliable through testing the descriptive statistics and correlations analysis, unit root test and co integration test of the all variables before testing the model. Furthermore, the collection of data from the World Bank indicators as the official website of World Bank. The measurement of the data has been taken from the previous studies and experts for examples the following are the indicators of the each variables used in the model

Where,

$LFDI_{it}$ Represents log of net inflow of Foreign Direct Investment in current US$ for country

$LTRO_{it}$ Represents trade openness. The sum of export and import to the ratio of GDP

$LCPI_{it}$ Represents inflation rate annual percentage as proxy of economic stability in country

$LINTER_{it}$ Represents internet, the measurement used is the number of main lines per 1000 people.

$LGCF_{it}$ Represents gross capital formation to the percentage of GDP in each country i at time t.

$LLBR_{it}$ Represents labor force which is measured by the active number of population (+15 years) .

ε_{it} Represents the error term

3.8 Data Analysis Techniques

The study used regression model in econometrics form using the technique of Ordinary Least Squares method (OLS) that help to determine the relationship between independent Variables and dependent variables. The method is very helpful to understand the long run relationship among the variables.

Ordinary Least Square analysis has applied on data because it utilizes the data very efficiently and OLS is easily well understandable and interpretable of statistical values. As OLS is an efficient approach to know the relationship between dependent and independent variables keeping other variables constant and gives the optimize results (Danish and Akram, 2014).

3.9 Model Specifications

The model specifications of our research is derived from the theoretical framework as explained in previous chapters as follows

$$GDP = \beta_0 + \beta_1 FDI + \beta_2 CPI + \beta_3 TRO + \beta_4 INTERS + \beta_5 LAB + \varepsilon_1$$

Where ,

LGDP represent log of per capital income in real US$ for Country

$LFDI_{it}$ Represents log of net inflow of Foreign Direct Investment in current US$ for country

$LTRO_{it}$ Represents trade openness. The sum of export and import to the ratio of GDP

$LCPI_{it}$ Represents inflation rate annual percentage as proxy of economic stability in country

$LINTER_{it}$ Represents internet, the measurement used is the number of main lines per 1000 people.

$LLBR_{it}$ Represents labor force which is measured by the active number of population (+15 years) .

ε_{it} Represents the error term

3.10 Unit root test for stationary of data.

Most of the macro economic data has been suggested that the problem of unit root stationary Therefore we are supposed to test unit root test in order to ensure that   the results derived from the regression models are free from spurious results (Datta and

Kumar, 2011). Before estimating our modified model in the equation. It was very important to test out stochastic properties of the variables to be estimated. The analysis was done using the Agumented Dickey-Fuller (ADF) or more convenient ADF that is Augmented Dickey-Fuller and Phillips-Perron unit root test. The study proceeded with the estimation of the model in equation.

3.11 Co integration

Two variables are said to be co-integrated if they have a long run equilibrium, relationship between them. If two variables, dependent and an independent, are individually non-stationary but their residual (combination) is stationary, the variables are co-integrated on the long run (Gujarati, 2004). Therefore the researchers used the Johansen co-integration test to test co-integration since it is the only test which can estimate more than one co-integration relationship if the data set contains two or more time series as well as gives the maximum rank of co-integration.

3.12 Serial correlation test

To ensure that our results are free from autocorrelation we have tested the serial correlation using LM test (Lagrange multiple test) as has been used in previous studies. The LM test is particularly useful because it is not only suitable for testing for autocorrelation of any order, but also suitable for models with or without lagged dependent variables.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter of the research on the impact of FDI and its determinants on economic

growth of Tanzania covers the finding obtained out of the research work.

4.2 Descriptive Statistics

This are used to describe the basic features of the data in a study. They provide simple

summaries about the sample and the measures. They form the basis of virtually every

quantitative analysis of data

Table 4.1 : Descriptive analysis

	LNGDP	LNFDI	LNLBR	LNTO	INTER	CPI
Mean	9.788722	6.660844	9.935236	8.478303	1.683984	7.920912
Median	9.758391	6.851122	9.948756	8.554163	1.300000	7.025514
Maximum	10.41121	7.554555	10.12007	9.301905	4.400000	16.00109
Minimum	9.251848	5.674766	9.723728	7.441614	0.117194	4.735801
Std. Dev.	0.406727	0.713755	0.134526	0.671056	1.445615	3.374455
Skewness	0.103201	-0.053813	-0.139411	-0.192821	0.586228	1.148864
Kurtosis	1.590748	1.391803	1.661748	1.588319	2.052807	3.233682
Jarque-Bera	1.267871	1.623676	1.167912	1.338477	1.419892	3.333849
Probability	0.530500	0.444041	0.557688	0.512098	0.491671	0.188827
Sum	146.8308	99.91266	149.0285	127.1745	25.25976	118.8137
Sum Sq. Dev.	2.315972	7.132242	0.253363	6.304420	29.25725	159.4172
Observations	15	15	15	15	15	15

Sources : World Bank Report

Table 4.1 presents the descriptive statistics of the variables under study. The Jarque-Bera test statistics fails to reject the null hypothesis of normal distribution of each variable because range from 1.1 to 3, which confirms that the series are Knormally distributed. Besides, the numeric of kurtosis for each variable is found below 3, which indicates the normality of distribution which range from 1.5 to 3. The figure for skewness for GDP, INTER and CPI is found to be mild and positively skewed , for the FDI, LBR TRO is negatively skewed . The standard deviation of the series is found low when it is compared to the mean, which indicates a small coefficient of variation. In addition, the range of deviation between the maximum and minimum of each individual series is found to be reasonable in comparison to the mean. Finally, the mean over median ratio for each series is seen to be approximately one, which represents normality of distribution.

4.3 Correlation analysis

Table 4.2 : Correlation Analysis

	LNGDP	LNFDI	LNLBR	LNTRO	INTER	CPI
LNGDP	1	0.92	0.98	0.98	0.96	0.71
LNFDI	0.92	1	0.89	0.90	0.87	0.66
LNLBR	0.98	0.89	1	0.99	0.95	0.65
LNTRO	0.98	0.90	0.99	1	0.93	0.62
INTER	0.96	0.87	0.95	0.93	1	0.68
CPI	0.71	0.66	0.65	0.62	0.68	1

There is high correlation among the included variable because all variable are show positively relation which are from 0.6 to 0.9. Example the correlation between FDI and GDP is positive relation 0.92 and there is is positive relation between FDI and CPI(inflation) by 0.71, also there is positive relation between trade and GDP by 0.98, also correlation between infrastructure and GDP is positive relation 0,96

4.4 Unit root test

Most of the macro economic data has been suggested that the problem of unit root stationary Therefore we are supposed to test unit root test in order to ensure that the results derived from the regression models are free from spurious results (Datta and Kumar, 2011).

Table 4.3 : ADF Unit Root Test for Stationarity.

	Level				First difference			
	intercept	probability	Intercept plus trend	Probability	Intercept	probability	Intercept plus trend	probability
GDP	-0.20153	0.9177	-3.283807	0.1126	-3.81932*	0.0165	-3.31113**	0.1119
FDI	-0.08218	0.9308	-4.446334	0.0176	-5.01754*	0.0024	-4.77892*	0.0136
LBR	-1.56275	0.4741	-0.0765	0.9887	-1.70658	0.4054	-1.93414*	0.0580
CPI	0.030723	0.9421	-2.579024	0.2935	-6.37788*	0.0003	-2.47031	0.3324
TOP	-1.15861	0.6603	-1.322999	0.837	-3.61515*	0.0215	-3.1796	0.1343
INTER	3.925077	1	-1.46717	0.7911	-1.64728	0.4304	-3.38075**	0.1058

Notes:

Asteriks* and ** implies a significant level at five percentage (5%) and ten percentage (10%). ADF implies Augmented Dickey Fuller [13].unit root test

The results of unit root tests are presented in Tables 4.3. The results are presented in two different forms, of intercept and trend and intercept. The critical value statistics are given in response of MacKinnon values. Special attention has been given in the process of lag length selection, so as to ensure the disturbance terms are white noise. In this consideration, we use the Schwarz Criterion method is used to select the appropriate lag length which is selected automatically using Eviews 7.

For example the standard test of ADF fails to detect the structural break that is common in time series moving average. From this fact, we assume that variables are not stationary at level or my (0), once it is accepted for all three tests in both with intercept and intercept with the trend. Otherwise, for any conflicting results we assume that variables is not stationary at levels I (0), hence we continue with first difference "*The same reasons has been given to justify that variables are stationary after first difference by several studies and used Johansen and Juselius co integration method (See, Das and Choudhary, Malik)*".

In any conflicting results, we also assume that, variables are not stationary at levels, because most of the macroeconomic variables were found to have a unit root problem at their level form. The results in Tables 4.3 present the results of unit root test in level form. After considering THE ADF test in both conditions of intercept with and without trend, it is concluded that, all variables are not stationary in level form and stationary after first difference.

Table 4.4 :   Results of Johansen and Juselius Multivariate Co integration Test

B.TANZANIA (1)	Maximum Eigen value	95% critical value	Trace test	95% critical value
r=0	102.1959*	40.07757	194.2869*	98.75366
r≤1	31.69821	34.87687	90.09098*	69.81889
r≤2	27.54956	27.58434	58.39278*	47.85613
r≤3	17.24917	21.13162	30.84322*	29.79707
r≤4	10.14534	14.26460	13.59404	15.49471
r≤5	3.448704	3.841466	3.448704	3.841466

4.5 Co integration Test

On other hand, from table 4.4, the results of co integration indicate that, max Eigen test indicate that there is one co integration relationship among the variables. However, for the case of Trace test, indicate that there are 4 co integrating equations that tied all variables together in the long run. This implies that LFDI, LINFL, LBR, LTRO, LINTER, and LCPI has long run impact to the GDP per capita in Tanzania. All variables are important in affecting the economic growth. Any poor policies to one among these variables would have long run effect to the economic growth of Tanzania.

4.6 Diagnostic test with Serial Correlation

The LM test (Lagrange multiple test) is particularly useful because it is not only suitable for testing for autocorrelation of any order, but also suitable for models with or without lagged dependent variables. The following output is obtained and there is strong evidence for the presence of a serious serial correlation of order 15 based on the following output.

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.238212	Prob. F(2,7)	0.1772
Obs*R-squared	5.850808	Prob. Chi-Square(2)	0.536

Dependent Variable: LNGDP

Method: Least Squares

Date: 07/27/15   Time: 10:46

Sample: 2000 2014

Included observations: 15

HAC standard errors & covariance (Bartlett kernel, Newey-West fixed

    bandwidth = 3.0000)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNFDI	0.048625	0.023993	2.026662	0.0733
LNLBR	0.479280	0.761600	0.629306	0.5448
LNTRO	0.271372	0.136700	1.985157	0.0784
INTER	0.072222	0.020080	3.596708	0.0058
CPI	0.011746	0.002714	4.328228	0.0019
C	2.187650	6.361895	0.343868	0.7388
R-squared	0.995323	Mean dependent var		9.788722
Adjusted R-squared	0.992724	S.D. dependent var		0.406727
S.E. of regression	0.034694	Akaike info criterion		-3.595339
Sum squared resid	0.010833	Schwarz criterion		-3.312119
Log likelihood	32.96504	Hannan-Quinn criter.		-3.598356
F-statistic	383.0224	Durbin-Watson stat		1.633352
Prob(F-statistic)	0.000000	Wald F-statistic		968.4031
Prob(WaldF-statistic)	0.000000			

4.6.1 General Model Interpretation

The study indicates that with coefficient of Determination (R2) at 0.99, one can say variations in GDP can explain 99% of changes in FDI, trade openness, infrastructure, and Inflation Rate for the period of study. The implication is that 1% is explained by other factors not covered in the study. The estimated value of adjusted R2 is 0.99 show the goodness of our model The F-statistics (0.00 < 0.05) shows the significance of our

model, confirm that FDI, trade openness, infrastructure and Inflation respond to changes in GDP. The value of Durbin Watson statistics for dependent variable is 1.65 and if the value lies between 1.5–2.5, it means that there is no autocorrelation exists in the study. In our case it is near to 2.00 which means that there is no autocorrelation exists in our study and the regression model assumes that error deviations are uncorrelated. Furthermore, the test of LM serial correlation test show that the model is free from the problem of autocorrelation as the probability Of obs Chi square is above 0.5 such that 0.5>0.05.

4.6.2 Coefficient interpretation

4.6.2.1 Foreign Direct Investment (FDI)

The coefficients indicate that, increase in FDI by one percentage(units) , would results to increase economic growth by 0.04 percentage(units). The results implies there positive relationship between the FDI and economic growth. The results show that, FDI has a positive and significant impact on economic development at the 4 percent level. One percent increase in FDI inflow in the Tanzania region will result in an increase of 0.04 percent in economic development. The result is consistent with findings of previous studies such as Borenzetein *et al*, (1998), De Mello (1999), Asiedu, (2002) that suggested an increase in FDI will result in an increase in economic development. More recently, Tanzania Economy rely more on FDI inflow since mid of 1990s due to the relatively slower growth of the domestic sector, lower domestic savings and lower per capita income. The lower per capita income results in lower savings rate and investment in the Tanzania economy . Therefore, at this time the country is inevitably have to rely on FDI as one of the sources for economic growth. Hence forth, more attractive policies

to lure investors to Tanzania has to be improved and being more attractive in foreign Investors.

4.6.2.2 Trade (TRO)

Theoretically the relationship between trade and economic development is expected to be positive. However, the estimated results suggest a significant and positive relationship between trade and economic development . This implies that a one percent(unit) increase in trade would results to increase economic development by as much as 0.27 percent(unit).   A reasonable argument for such results is that, the trade openness increase employment opportunities, productivity and foreign earnings. Most of the theoretical and empirical literature on growth found that increase in trade openness support the economic growth. For example,   Akinlo, (2005); Nachega and Fontaine, (2006) and Njikman et al., (2006).

argued that, trade openness leads to transfer of technology, human, physical capital and knowledge through export or import. Yet, Rodriguez and Rodrik (2000) and Edwards (1993) suggest that export policy can stimulate economic. Therefore , the government of Tanzania has to improve the trade environment through reducing taxes and other incentive so that to encourage more trade openness hence to improve the economic growth.

4.6.2.3 Labour Cost (LAB)

This study has found an insignificant relationship between labor and economic growth in Tanzania.   As argued by Solow model, the higher the labour the higher the short run output. However, he did mention that an increase in labour in the long run would not have the same effect especially when the supply of jobs is limited. Furthermore, the economy in this region is rather land and capital intensive. Study by Li and Liu (2004) found an insignificant relationship between labour and economic growth as well.

4.6.2.4 Infrastructure facilities

The results suggesting that an increase in infrastructure by one percentage(unit) would results to increase the economic growth by 0.07 percentage (unit). This implies that, the infrastctures is an importanta inouts to the economic growth of Tanzania. Infrastructure is one of the key factors that enhance the economic growth. A country that is well equipped with airports, water supply, power supply, roads, telephone, and internet would be able to minimize the cost of doing business for its investors and allow them to maximize the rate of return on their investments as resukst to increase economic growth. Some of the studies have used infrastructure index, an index constructed based on energy use, telephone line and power consumption. It was used by Onyeiwu *et al* (2004) and Asiedu (2002, 2004). Due to the unavailability of certain data, the infrastructure index could not be applied. The uses of internet line per 1000 people was used instead in this study as a proxy for infrastructure, as have been used by Onyeiwu *et al* (2004) and Asiedu (2002, 2004).   Thus the government of Tanzania has to improve more infrastructure such as roads, internet, telephone line and ICT development so that to improve the trade and economic growth in Tanzania.

4.6.2.5 Inflation

The results show positive relation between inflation and economic growth of Tanzania as inflation encourage productivity and output level. One percentage(unit) increase in inflation would results to increase the economic growth by 0.01. This implies that, a producer produces more when he saw more reward of his ouput with high profit and in this way country'sGDP increase that is economic growth. Chowdhury (2001) finds long run positive relation between GDP growth rate and inflation in four South Asian countries (Bangladesh, India, Pakistan, Sri Lanka). Therefore it is important to adopt the policy that controlling inflation for promoting economic growth.

4.7 Discussion of the Finding

The finding obtained on this research shows that increase in FDI by one percentage(units) , would results to increase economic growth by 0.04 percentage(units). The results implies there positive relationship between the FDI and economic growth. The results show that, FDI has a positive and significant impact on economic development at the 5 percent level. One percent increase in FDI inflow in the Tanzania region will result in an increase of 0.04 percent in economic development. The result is consistent with findings of previous studies such as Borenzetein *et al*, (1998), De Mello (1999), Lumbila (2005), Herzeer *et al*, (2008) and Samimi *et al*; (2010) that suggested an increase in FDI will result in an increase in economic development. More recently, Tanzania Economy Vu et al. (2006) reached similar conclusions casting doubt on the overall general benefit of FDI inflows. However, in their research, FDI into the manufacturing sector in China and Vietnam was observed to have a large positive effect on economic growth.

The finding obtained on this research shows that increase in trade openness by one percent(unit) would results to increase economic development by as much as 0.27 percent(unit). The results imply there positive relationship between trade and economic growth, Most of the theoretical and empirical literature on growth found that increase in trade openness support the economic growth. For example, Frankel, Romer and Cyrus, (1996) Grossman and Helpman, (1997) Frankel and Romer (1999) argued that, trade openness leads to transfer of technology, human, physical capital and knowledge through export or import. Yet, Rodriguez and Rodrik (2000) and Edwards (1993) suggest that export policy can stimulate economic.

The results show positive relation between inflation and economic growth of Tanzania as inflation encourage productivity and output level. One percentage (unit) increase in inflation would results to increase the economic growth by 0.01. This implies that, a producer produces more when he saw more reward of his output with high profit and in this way country's GDP increase that is economic growth also Chowdhury (2001) finds long run positive relation between GDP growth rateand inflation in four South Asian countries (Bangladesh, India, Pakistan, Sri Lanka).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introductions

This study contains four objectives, namely; to examine the impact of FDI inflows, infrastructure, economic stability and trade openness to the economic growth in Tanzania (2000-2014). This study therefore goes to enrich empirical literature in this area of FDI. The study will hopefully, benefit the government by providing more information in making appropriate policies to encourage inflow of FDI in the country . The study used Ordinary Least Square Method (OLS) were used to estimate the FDI model in order to capture the long run and to check the robustness of the results. The FDI-economic development model included the following variables: Foreign direct investment (FDI), trade (TRD), labour (LAB) and economic stability (Inflation). Ordinary Least Square Method (OLS) was used to analyze the model.

5.2 Summary of the main findings

It was found that the FDI, trade openness, infrastructures, inflation (economic stability) has a positive impact to the economic growth in Tanzania. It was found that a one per cent increase in FDI, trade openness , inflation(economic stability) and infrastructure resulted in 0.07 % , 0.07%, 0.001% , 0.005% increase in economic growth respectively. The findings are consistent with studies such as Asiedu (2002), Onyeiwu *et al* (2004), Ismail (2009) and Ranjan *et al* (2011). Labour cost were found to be insignificant in affecting economic growth.   These are in line with previous studies by Onyeiwu *at el* (2004), Asiedu (2002), Wafure *at el* (2010) and Rajan *et al* (2011).

The result reveals one percent increase in FDI resulted in to 0.04 percent increase in economic growth as well as one percentage increase in trade openness will increase the economic development by 0.07 percent in Tanzania However, FDI is contributing lower to economic development in Tanzania this is because most of the poor trade facilities and institutional environment. On the other hand, trade had a positive and significant effect on economic development. This implies that a one percent(unit) increase in trade would results to increase economic development by as much as 0.27 percent(unit). A reasonable argument for such results is that, the trade openness increase employment opportunities, productivity and foreign earnings. Therefore, at this time the country is inevitably had to rely on FDI as one of the sources for economic growth. Hence forth, more attractive policies to lure investors to Tanzania has to be improved and being more attractive in foreign Investors.

The results suggesting that an increase in infrastructure by one percentage(unit) would results to increase the economic growth by 0.07 percentage (unit). This implies that, the infrastructures is an important inputs to the economic growth of Tanzania. Infrastructure is one of the key factors that enhance the economic growth. A country that is well equipped with airports, water supply, power supply, roads, telephone, and internet would be able to minimize the cost of doing business for its investors and allow them to maximize the rate of return on their investments as result to increase economic growth. Thus the government of Tanzania has to improve more infrastructure such as roads, internet, telephone line and ICT development so that to improve the trade and economic growth in Tanzania.

The results show positive relation between inflation and economic growth of Tanzania as inflation encourage productivity and output level. One percentage (unit) increase in inflation would results to increase the economic growth by 0.01. This implies that, a producer produces more when he saw more reward of his output with high profit and in this way country's GDP increase that is economic growth. However, it is important to adopt the policy that controlling inflation for promoting economic growth. Labour was found to have insignificant relationship with economic growth

5.3 Implications of the Findings

It was found that the FDI, trade openness, infrastructures, inflation (economic stability) has a positive impact to the economic growth in Tanzania. However, FDI is contributing lower to economic development in Tanzania this is because most of the poor trade facilities and institutional environment. On the other hand, trade had a positive and significant effect on economic development. A reasonable argument for such results is that, the trade openness increase employment opportunities, productivity and foreign earnings. Therefore, at this time the country is inevitably had to rely on FDI as one of the sources for economic growth. Hence forth, more attractive policies to lure investors to Tanzania has to be improved and being more attractive in foreign Investors.

On other hand, the increase in infrastructure found that has positive impact to the economic growth. This implies that, the infrastructures are important inputs to the economic growth of Tanzania. Infrastructure is one of the key factors that enhance the economic growth. A country that is well equipped with airports, water supply, power supply, roads, telephone, and internet would be able to minimize the cost of doing

business for its investors and allow them to maximize the rate of return on their investments as result to increase economic growth. Thus the government of Tanzania has to improve more infrastructure such as roads, internet, telephone line and ICT development so that to improve the trade and economic growth in Tanzania.

The results show positive relation between inflation and economic growth of Tanzania as inflation encourage productivity and output level. This implies that, a producer produces more when he saw more reward of his output with high profit and in this way country's GDP increase that is economic growth. However, it is important to adopt the policy that, controlling inflation for promoting economic growth. Labor was found to have insignificant relationship with economic growth.

5.4 Conclusions

Investments play a significant role in the economic growth, increment in assets and infrastructure in any developing country. In an economy, direct investment are indicative of a positive trend of investment with eventually translates in increase in GDP and economic growth of the country. This can also be proved from the aforementioned studies in the literature review. All efforts made in this regard must keep into consideration the economic, political and social situation of the country.

There must be present for the investor's concrete benefits and opportunities in order for the FDI to have an impact on the economy. Without these, any investment made would be unable to yield the results that were desired. Here we must understand that it is the responsibility of the local government to devise policies and strategies in such a manner

that would support the efforts and investments being made. For a country like Tanzania, the need of the hour is to concentrate on infrastructure development, human resource training, encouraging local entrepreneurs to improve on their trade to international, creation of a stable macroeconomic environment and ensuring opportunities that would be conducive for investors and provide momentum to the developmental process.

5.5 Recommendations

Our results are likely to provide an opportunity to frame some policy implications. The regression results confirmed that an increase in FDI and its determinant has positive impact on growth rate of Tanzania. Hence the authorities should positively concentrate on maximum utilization of resources to increase FDI in order to increase GDP growth rate. It needs effective and encouraging policies from the public sector to restore the confidence of the investors. Government should offer Business friendly environment, improve infrastructure and stability of inflation as it provides pace to attract huge FDI hence increase economic growth.

5.6 Limitations of the study

The study on impact of FDI and its determinants to the economic growth of Tanzania was hampered with some problems. Lack of separate enough disaggregate time series data in FDI inflows such as FDI in manufacturing and service sectors.

The second problem confronted by the researcher during the research period was the lack of fund for carrying out the research work. Any research work requires the researcher to have funds for proper implementation of the research work.

5.7 Suggested area for further study

The study was based only on looking the impact of FDI and some of its determinant in economic growth of Tanzania but there are many areas in which further research on FDI's impact on the growth of Tanzania economy is sorely needed. The most important we suggest to investigating whether disaggregated FDI in different sectors such as manufacturing and service sectors can support the Tanzania economy where human resource levels are very low

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