The Determinants Of Foreign Direct Investments (Inflows) In Tanzania

Mbugi, Zawadi Isaac * Meili
School of Economics, Shanghai University, 99 Shangda Road, Shanghai
200444, China
* E-mail of the corresponding author: zisaac01@yahoo.com

Abstract: This study is intended to investigate the determinants of foreign direct investments in Tanzania, during the period of 1991-2016. The purpose is to acquire broad understanding of the determinants of FDI in the country. The relationship between foreign direct investment and its determinants has been analysed using the techniques like ordinary least square technique. The result shows that, exchange rate and government expenditure have positive effect on the FDI performance.

Key words: Foreign direct investment (FDI).

1. Introduction

Before 1990’s, Tanzania was a socialist country but starting 1990s, the country began to liberalize its economy and after 1995 the economic reforms were intensified leading to economic stabilization and growth. FDI holds the largest share, of the foreign private capital flows which include, foreign portfolio investment, including long and short term loans. For example in 2001, FDI contributed about 88.6% of the foreign capital stock (Tanzania Investment Report, 2004). In order to attract more FDI in the country, the government of Tanzania set out investment authorities such as Investment Promotion Centre (IPC). Several years later, the country had still not attained much FDIs, which was about USD148.64 million only, this called for more changes and thus IPC was transformed to a more aggressive institution called Tanzania Investment Report (TIC). However, FDI has remained a challenge because same factors may or may not attract a particular investor but another.

Figure a: Foreign direct investment inflows between Tanzania and other selected countries in the year 2012.

Source: World Development Indicators 2015

Since past decades, Tanzania has been experiencing lowest level and high fluctuation of foreign direct investment inflows compared to other emerging economies especially from early years up to 2009. FDI inflows increased to 1,799.600 in 2012 from USD 1,229.380 in 2011, this increase was due to equity and investment fund shares as well as re-investment of earnings which together accounted for 100% of the total inflows of FDI. The activities which attracted more FDI were mining and quarrying, manufacturing, gas and electricity, finance and insurance. Though this increase is still
lower compared to an increase reached in 2010, as a result of recovery from global financial crisis, which coincided with new inflows to the electricity and gas activities. FDI inflows also dropped in the year 2014 to 2016 as compared to the year 2013, mostly because of the fragility of the global economy, the policy uncertainty for investors and the elevated geographical risks; but however, the country is still among the ten biggest recipients of FDI in Africa and is among the preferred destinations for FDI, (World Bank report 2016). In 2016, a large field of helium gas was discovered in Tanzania, and its exploration is expected to start in 2018. In the same year, the construction of a large port in Bagamoyo was launched, at a cost of USD 11 billion. The project is jointly funded by China Merchants Holdings International and Oman Investment Fund, (Doing business, 2017).

In the figure above, it is the comparison between Tanzania and some of the selected countries in the world; we see that, Tanzania is one of the countries that have the lowest level of FDI inflow compared to other selected countries. This could mainly be because of some factors that are more important than others for the stable inflow of FDI in the country, thus a need to examine more of these key factors and identify what they are.

**Objectives of the study**

The objective of the study was to identify and understand more on the key determinants of foreign direct investments inflows to Tanzania.

- Collecting and analyzing data on FDI for a period since 1991 to 2016
- To recommend the appropriate investment strategies that can enhance the growth of investments to Tanzania

**Significance of the study**

The study will increase knowledge on the determinants of Foreign Direct Investment (FDI) in Tanzania, since the study will give highlights on the determinants on FDI in Tanzania.

The study shows where the country should put more effort to attract FDI in the country. Indeed, this study is useful for a country to determine which sector attracts more FDI in the country.

Practically, the study will help investment authorities in Tanzania to review their laws and regulations basing on the study in order to cope with the reality, for example the authorities are in a position to identify which part of sectors should be given more priority in order to attract more Foreign Direct Investments.

This study will open up a way for others to conduct further research on the issues related to the determinants of Foreign Direct Investment in Tanzania.

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**2. The review of Relevant Literature**

**The determinants of foreign direct investments**

The determinants of foreign direct investments in developing countries differ across countries. There are many factors that determine FDI inflows into a given geographical or country. These factors give investors’ confidence to invest in a foreign market. Not all determinants are important to every investor, in all locations and at all times, but rather it depends with what the investor desires. Some determinants may be more important to a given investor, at a given location and time than to another investor, (UNCTAD World Investment report, 1998). Developing countries depend differently on some of the following factors of FDI, such as population growth, exchange rates, inflation, availability of good infrastructure, institutional framework, market share (proxies of GDP or RGDP), openness to foreign trade, political and social stability, and country’s natural resource endowments, sources of energy and government expenditure. There are many studies that have analysed on the determinants of FDI, for instance; the studies of Masayuki and Ivohasina (2005), Raggazi (1993), Wafure and Nurudeen (2010) and Moore (1993) have shown the importance of the market size as one the determinant of the inflow of foreign direct investment. The study by Okpara G.C.(2012) employed an Error Correction Model on examining the determinant of Foreign Direct Investment, using evidence from Nigeria for a period of about 39 years and found out that the past investment flows could
significantly stimulate the current investment inflows. The exchange rate and infrastructure were found to be positive and significant factors of FDI in Nigeria and other variables such as fiscal incentives, favorable government policy were also significant. Elijah (2006) in his analysis on FDI included human capital, real exchange rate, annual inflation and openness of the Kenya economy, as part of the determinants for FDI inflows. His results showed that economic openness and human capital positively influence FDI inflows. However, he also found that inflation and the real exchange rate negatively impact FDI in the short-run and in the long-run respectively. His findings was supported by the study of Bajo-Rubia and Sosvilla-Rivero (1994), Yin Yun Yang et al. Nevertheless, there were some researchers who found that, the market size have a negative effect on attracting foreign direct investment such as Micah B. M and Thula S. D (2009) when examining location as one of the determinants of FDI inflows in Swaziland. According to Masayuki and Ivohasina (2005), the exchange rate depreciation of a country usually attracts more FDI while Kathryn et al (1995), in their paper discovered no statistically significant relationship between the exchange rate and FDI. Contrary to other studies Benassy-Quere et al (2001) discovered that the effect of the level of exchange rates on FDI inflows is usually ambiguous. Asiedu L.(2006) focusing on Foreign direct investment in Africa analysed the role of market size, natural resources, Government Policy, institutions and Political instability and found out that, infrastructure development, Market size, natural resources, inflation, legal system are the key determinant that attracts FDI in a country. John H. Dunning, suggested that one of the FDI influences is the growth and the size of the host country market, in terms of population growth. The study by Rusike (2007) on examining the trends and determinants of FDI inflow to South Africa discovers that, openness, exchange rate and financial development are important long run determinants of FDI. Increased openness and financial development attract FDI while an increase in the exchange rate deters FDI to South Africa. Generally, there is discovered wide range of variables that can influence a foreign investors to invest in a certain location while not all of them have equal degree of importance to each foreign investor, therefore it is wise to note that some of these determinants may be more significant to one foreign investor and less to the other at a certain period of time. Therefore, it has always been a challenge in measurements variables basing on the quality and quantity. Few of the variables that could impact FDI inflows into Tanzania were selected basing on its availability and relevance in the country.

3. Methodology of the study

3.1 Model specification

In analyzing the relationship of FDI and its determinants, the model expresses foreign direct investment (FDI) as a function of the GDP growth (GR), rate of inflation (INF), Exchange rate (EXR), and Government consumption expenditure (GCONEXP). Both variables are in natural logarithm (LN) to avoid heteroscedasticity problem in statistics analysis. Our model is thus presented below:

$$\text{LnFDI}_t = \theta_0 + \theta_1 \text{LnGDP}_t + \theta_2 \text{LnINF}_t + \theta_3 \text{LnEXR}_t + \theta_4 \text{LnGCONEXP}_t + \epsilon_t$$  \hspace{1cm} (3.1)

Where LnFDI is the natural log of FDI, LnGDP is the natural log of GDP growth rate, LnINF is the natural log of the inflation rate, LnEXR is the natural log of the Tanzania Shilling US Dollar exchange rate all at time t. the $\theta_i$’s are the corresponding parameters to be estimated which show the relationship between the said variables with the FDI.

We hypothesize the expectation of a positive relationship between FDI and the GDP growth (GR) and Government consumption expenditure (GCONEXP), however the inflow of FDI to Tanzania is expected to be negatively related to inflation rate (INF), while we expect the sign of exchange rate (EXR) to be ambiguous (that is can either be positive or negative). The E-view 7.1 software is used to estimate the model above by employing the ordinary least square (OLS) technique.
3.2 Explanation of the variables:

- Inflation (INF)
The higher the inflation rate the difficulty it will be to attract foreign investors in the country than when the inflation is low.
- The exchange rate (EXR)
Still there is no agreement exists on exchange rate since the increase in exchange rate may cause foreign investors to buy more assets to the host country and in this sense increases the inflow of FDI while the decrease in exchange rate may as well encourage foreign investors due to the increase in profits or earnings. Rusike (2007) and Lim (2001).
- Government consumption expenditure (Gconsexp)
This is whereby, the higher the government spending more so on non development projects may have a negative impact on the inflow of FDI. This is according to Asiedu (2002), while on the other hand, it is possible that high government spending on development projects may as well attract FDI.
- Growth rate (GR)
As the GDP grows higher the easier it is for the multinational companies to invest in such countries, thus attracting more FDI inflows.

3.3 Hypothesis of the study

3.4 Hypothesis testing
Based on the framework, the researcher will develop hypothesis in relation with the dependent variables hence the null Hypothesis will be

\[ H_0: \theta_1 = \theta_2 = \theta_3 = \theta_4 = 0 \]

Against the two sided alternative

\[ H_1: \theta_1 \ldots \theta_4 \neq 0 \]

This test will be performed by the T statistic, which is part of the output the regression through STATA

3.5 The estimation technique of the model and the data source
This study used the secondary time series data covering the period of 1991 to 2016. A researcher chose this period because there is enough data for this FDI analysis. The selection of these variables in this analysis have been based on the fact that it’s possible to include more variables but also adding more variables do not mean that the model will give the best results since it can lead to difficulties in capturing the dynamic relationships of the most important variables from losing its power. In this research, most of these data were collected from the International Financial Statistics Year Book, the Central Bank of Tanzania (BOT), National bureau of statistics (NBS), World Bank indicators, publications and websites.

Same as the previous researchers, the variables were measured as follows;

Foreign direct investment in this study is measured by the total inflows of FDI into Tanzania (FDI). The Exchange rate (EXR) which refers to the rate at which the Tanzanian shillings is converted to the US dollar, the rate of inflation (INF) which refers to the changes in the general price level annually, the gross domestic product growth (GR) which is an annual percentage change in GDP, and Government consumption expenditure (GCONSEXP ) which measures the spending size of the government.

The above used equation is estimated using ordinary least square (OLS) method. This method was chosen because it is simple, convenient and it has also been successfully used by other researchers and gave meaningful results. The parameters estimated using this procedure are both unbiased and valid and give the best results. Ordinary Least Squares (OLS) is said to be one of the simplest methods of linear regression. The goal of OLS is to fit the function with the data. This can be done by minimizing the sum of squared errors from the data.
3.6 Time series properties of the economic variables

Time series data is good to use but the problem is, the independent variables can result to be more significant than they actual are supposed to be, if they have the same underlying trend like the dependent variables. For example; a country with high inflation, when using a nominal variable in this case was resulted to be highly correlated with all other nominal variables because nominal variables are not adjusted for inflation so every nominal variable will have a powerful inflationary component. The inflationary component was always outweighing any underlying relationship and causing the nominal variable to appear to be correlated even when they are not. This problem is an example of a fake correlation or a strong relationship between two or more variables that is not caused by a real underlying causal relationship.

4. The Data Analysis, Empirical Results and Interpretation

4.1 Introduction

This chapter presents the empirical fact based on the methods discussed above. Four sections categorize this chapter, first part being the presentation of data findings descriptively (i.e. by the use of tables, charts and graphs), secondly there follows the presentation of regressive analysis findings where by STATA results are explicitly presented and eventually the economic interpretations concerning the statistical findings are precisely portrayed and lastly Discussion of findings.

Figure 4.1: Net Foreign Direct Investment Flows from 1991 to 2016

Figure 4.1 shows FDI in Tanzania increased heavily from a year 1999 and above with a period of rising and falling as result of growing infrastructure and investment opportunities forced external investors to invest in the Tanzania’s economy. The FDI in Tanzania has shown a decline from 2015 as a result of political regime change.

4.2 General Knowledge of Gross Domestic Product

The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory. The figure below shows the performance of GDP from 1991 to 2016.
Figure 4.2: the GDP growth rate from 1991 to 2016

Figure 4.2 shows the gross domestic product keep on increasing as years pass but it was increasing at different rates, during year 1998 the increasing rate gain much momentum due to some economic factors such as development of industries and the development of science and technology which encourage FDI.

4.3 General knowledge of Inflation

Inflation is the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Inflation means rising trends of prices in the market. So as the prices rise of the commodities in the market, people spend more money than before, which will lead to lower savings. Lower savings means less capital with the country. That results in affecting the FDI.

Figure 4.3: Inflation rates (Consumer Prices) from 1991 to 2016

Figure 4.3 the general trend on inflation in Tanzania shows an upward trend form 1990s, to 1995 and downward trend between 1996-2005. Inflation increased to approximately 33% in 1994 - this could be attributed to an expansion in the money supply, contributed by growing budget deficits. The significant decline in inflation rate since 1994 reflects the impact of tight monetary and fiscal policies.
The inflation rate in Tanzania was recorded at 15.7% in July of 2012. Historically from 1999 until 2012 Tanzania Inflation rate averaged 7.51% reaching an all-time high of 19.8% in Dec 2011 and reached low of 3.40% in February 2003.

4.3.1 General knowledge of Government Expenditure

Government spending or government expenditure is classified by economists into three main types. Government final consumption expenditure is government acquisition of goods and services for current use to directly satisfy individual or collective needs of the members of the community is classed. Government acquisition of goods and services intended to create future benefits, such as infrastructure investment or research spending, is classed as government investment (gross fixed capital formation), which usually is the largest part of the government gross capital formation.

Figure 4.4 Government consumption expenditure growth rate from 1991 to 2016

Figure 4.4 shows the graph shows that the rate of the countries saving stared increasing at year 2000, before year 2000 the saving rate was decreasing and not uniform which made the government to seek much debts to cover the expenditures, from year 2000 the saving rate started increasing at an increasing rate.(MOF,2011). The government spending has shown to decrease in 2015 and fallen with increase in subsequent years.

4.3.2 Diagnostic testing:

4.3.3 Stationarity tests

Data on the natural logarithms of the variables as shown in equation 3.1 went through a series of diagnostic tests so as to ensure their validity in their interpretation. The Augmented Dickey Fuller (ADF) Test was conducted to test for stationarity and the following tables show their results.

Figure 4.5: ADF Tests for Stationarity for the Natural Logarithm of FDI

. dfuller lnfdi, lags (2)

Augmented Dickey-Fuller test for unit root

<table>
<thead>
<tr>
<th>Test statistic</th>
<th>1% Critical Value</th>
<th>5% Critical Value</th>
<th>10% Critical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z(t)</td>
<td>-2.925</td>
<td>-3.750</td>
<td>-3.000</td>
</tr>
</tbody>
</table>

Mackinnon approximate p-value for Z(t) = 0.0425

Source: STATA data
From the test above, we see that the 5% critical value is greater than the Test statistic and that the P value for the test Statistic is 0.0425 which is less than 5% we therefore conclude that the Natural Log of FDI is Stationary and has no Unit roots.

**Figure 4.6: ADF Tests for Stationarity for the Natural Logarithm of GDP growth rate**

```
. dfuller lngdp, lags (2)
Augmented Dickey-Fuller test for unit root
Number of obs = 23

<table>
<thead>
<tr>
<th>Test Statistic</th>
<th>1% Critical Value</th>
<th>5% Critical Value</th>
<th>10% Critical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z(t)</td>
<td>-4.410</td>
<td>-3.750</td>
<td>-3.000</td>
</tr>
</tbody>
</table>

Mackinnon approximate p-value for Z(t) = 0.0003

Source: STATA data
```

From the test above, we see that the 5% critical value is greater than the Test statistic and that the P value for the test Statistic is 0.0003 which is less than 5% we therefore conclude that the Natural Log of GDP growth rate is Stationary and has no Unit roots.

**Figure 4.7: ADF Tests for Stationarity for the Natural Logarithm of Exchange rate**

```
. dfuller lnxer
Dickey-Fuller test for unit root
Number of obs = 25

<table>
<thead>
<tr>
<th>Test Statistic</th>
<th>1% Critical Value</th>
<th>5% Critical Value</th>
<th>10% Critical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z(t)</td>
<td>-4.242</td>
<td>-3.750</td>
<td>-3.000</td>
</tr>
</tbody>
</table>

Mackinnon approximate p-value for Z(t) = 0.0006

Source: STATA data
```

From the test above, we see that the 5% critical value is greater than the Test statistic and that the P value for the test Statistic is 0.0006 which is less than 5% we therefore conclude that the Natural Log of GDP growth rate is Stationary and has no Unit roots.

**Figure 4.8: ADF Tests for Stationarity for the Natural Logarithm of the inflation rate**

```
. dfuller lininf
Dickey-Fuller test for unit root
Number of obs = 25

<table>
<thead>
<tr>
<th>Test Statistic</th>
<th>1% Critical Value</th>
<th>5% Critical Value</th>
<th>10% Critical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z(t)</td>
<td>-1.661</td>
<td>-3.750</td>
<td>-3.000</td>
</tr>
</tbody>
</table>

Mackinnon approximate p-value for Z(t) = 0.4513

Source: STATA data
```
From the test above, we see that the 5% critical value is less than the Test statistic and that the P value for the test Statistic is 0.4513 which is greater than 5% we therefore conclude that the Natural Log of inflation rate is Nonstationary and has Unit roots

**Figure 4.9: ADF Tests for Stationarity for the Natural Logarithm of Government consumption expenditure**

```
.dfuller lngconexp, lags (2)
Augmented Dickey-Fuller test for unit root Number of obs = 23
Test Statistic Interpolated Dickey-Fuller
Z(t) -2.001 -3.750 -3.000 -2.630
```

Mackinnon approximate p-value for Z(t) = 0.2861

*Source: STATA data*

From the test above, we see that the 5% critical value is less than the Test statistic and that the P value for the test Statistic is 0.2861 which is greater than 5% we therefore conclude that the Natural Log of government consumption expenditure is nonstationary and has Unit roots

**4.3.4 Heteroscedasticity and Autocorrelation tests**

One of the assumptions of OLS methodologies is that the variance of the error terms is constant and the error terms are uncorrelated. The violation of either of this results to heteroscedasticity and Autocorrelation respectively and in their presence, the estimators will not be efficient or unbiased. To test for this, the researcher used the Breusch-Godfrey test for autocorrelation and the Breusch-Pagan/Cock-Weisberg test for heteroscedasticity which are both based on the $\chi^2$ test. The result are shown in Figure 4.10 below

**Figure 4.10: Heteroscedasticity and Autocorrelation tests**

```
.bgodfrey
Breusch-Godfrey LM test for autocorrelation

<table>
<thead>
<tr>
<th>lags(p)</th>
<th>chi2</th>
<th>df</th>
<th>Prob &gt; chi2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.528</td>
<td>1</td>
<td>0.2164</td>
</tr>
</tbody>
</table>
```

H0: no serial correlation

```
.hetest
Breusch-Pagan / Cook-weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of lnfdi

<table>
<thead>
<tr>
<th>chi2(1)</th>
<th>Prob &gt; chi2</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.69</td>
<td>0.0006</td>
</tr>
</tbody>
</table>
```

*Source: STATA data*

From figure 4.10 above, the test Breusch-Godfrey test for Autocorrelation has the $\chi^2$ of 1.528 and a P-value of 0.2164 which is greater than 5% confidence interval. Therefore we do not reject the
Null Hypothesis $H_0$: No Autocorrelation and conclude that there is no Autocorrelation in the error terms of the sample.

The Breusch-Pagan/Cock-Weisberg test for Heteroscedasticity shows to have a $\chi^2$ of 11.16 with a P value of 0.0006. therefore we reject the Null Hypothesis $H_0$: Constant Variance and conclude that there is heteroscedasticity in the model. This still make the estimators to be unbiased but not efficient. To remedy this problem, the researcher has used robust standard errors.

### 4.3.5 Regression results

To obtain the determinants of FDI the researcher regressed the model given in equation (3.1) which has been modified to suppress the constant parameter and thus

$$\text{LnFDI}_t = \theta_1 \text{LnGDP}_t + \theta_2 \text{LnINF}_t + \theta_3 \text{LnEXR}_t + \theta_4 \text{LnGCONEXP}_t + \epsilon_t$$  \hspace{1cm} (4.1)

And the results are summarized in Figure 4.11 below

**Figure 4.11: OLS Regression results of the determinants of FDI**

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>9959.91691</td>
<td>4</td>
<td>2489.97923</td>
</tr>
<tr>
<td>Residual</td>
<td>29.4210465</td>
<td>22</td>
<td>1.3373203</td>
</tr>
<tr>
<td>Total</td>
<td>9989.33795</td>
<td>26</td>
<td>384.205306</td>
</tr>
</tbody>
</table>

| lnfdi     | coef. | std. Err. | t    | P>|t| | [95% Conf. Interval] |
|-----------|-------|-----------|------|------|---------------------|
| lnexr     | 3.19814 | .289529  | 11.05 | 0.000 | 2.597694 - 3.798586 |
| lngdp     | .1230221 | .6824103 | 0.18 | 0.859 | -1.29221 - 1.538234 |
| lninf     | -.7973437 | .4639887 | -1.72 | 0.100 | -1.759597 - .1649099 |
| lngconexp | -.5630369 | .1989088 | -2.83 | 0.010 | -.9755485 - .1505253 |

*Source: STATA data*

From the results in Figure 4.11, the regression equation (3.1) can be rewritten as

$$\text{LnFDI}_t = 0.123\text{LnGDP}_t - 0.797\text{LnINF}_t + 3.198\text{LnEXR}_t - 0.543\text{LnGCONEXP}_t + \epsilon_t$$  \hspace{1cm} (4.2)

From the regression results in (4.2), we see a positive relationship between the FDI and GDP growth rate. If the GDP Increases by 1%, FDI increases by 12.3% other factors remaining constant.

FDI is negatively related to inflation. A 1% increases in inflation leads to a 79% decrease in FDI other factors remaining constant.

FDI is positively related to exchange rate. A 1% increase in exchange rate leads to a 319% increase in FDI other factors remaining constant.

FDI is negatively related to Government consumption expenditure. A 1% increase in Government consumption expenditure leads to a 54.3% decrease in FDI other factors remaining constant.

The Test of Hypothesis described in Chapter 3.7 is done using the T statistic from the output in Figure 4.11. The Null hypothesis is rejected at a 5% level of significance if the T statistic is greater than 1.96 in absolute value terms. The Null hypothesis will not be rejected at a 5% level of significance if T statistic is less than 1.96 in absolute value terms.

The Null hypothesis for the parameter estimate for the coefficients of GDP growth rate and inflation rate is 0.18 and -1.72 respectively hence we do not reject the Null hypothesis and conclude that the estimates are insignificantly different from zero. However, the coefficient estimates for government consumption expenditure and exchange rate are 11.05 and -2.83 respectively; hence, we
reject the Null Hypothesis and conclude that the estimates are statistically significantly different from zero.

The $R^2$ measures the extent to which the explanatory variables explain the variation in the dependent variable. The $R^2$ in the model is 0.99 meaning 99% of the variations in FDI are explained by the variation in Inflation rate, Government Consumption Expenditure, Exchange rate and GDP growth rate.

5. Conclusion and Recommendations

5.1 Conclusion

From the discussion of findings and analysis it has been found that government expenditure has a significant effect on the performance of FDI since increase by one percent on government expenditure, on average, FDI goes down by 54.3% also FDI has a positive relationship to exchange rate and GDP, thus 1% increase in FDI led to 31.9% or 12.3% increase in FDI while inflation has negative effect on the performance of FDI, thus 1% increase in inflation lead to 79% decrease in FDI.

5.2 Recommendations

This indicates that for Developing countries FDI to grow other factors also have to be stimulated including Investments. Tanzania has to create development projects aiming to increase counties’ investments, including creating environment to attract foreign direct investments and investment in industrialization. In many countries, especially dependable economies economic growth is chaotic and uneven, with repeated and deep absolute falls and booms. Increase in oil prices (except oil producing countries), power shortages (electricity shortage), corruption, political instabilities and wars are a distinctive source of FDI tumbling in developing countries which mostly affect FDI.

The study is not a final judgment about factors that influence the performance of FDI in Tanzania so it is also recommended that similar studies should be carried out by other researchers to fill the knowledge gap in this area.

Reference:


Appendix I
Tabulated data representing mean from 1990 to 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI inflows in T.shs. millions</th>
<th>GDP in annual growth rate</th>
<th>Exchange rate</th>
<th>Government Expenditure growth rate</th>
<th>Inflation rate in Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>10000</td>
<td>2.07198211</td>
<td>219.1574167</td>
<td>15.02536443</td>
<td>35.8</td>
</tr>
<tr>
<td>1991</td>
<td>12169639.33</td>
<td>0.584322134</td>
<td>297.7080833</td>
<td>-1.29591851</td>
<td>28.7</td>
</tr>
<tr>
<td>1992</td>
<td>20457763.54</td>
<td>1.205800809</td>
<td>405.2740167</td>
<td>-11.20156422</td>
<td>21.8</td>
</tr>
<tr>
<td>1993</td>
<td>50000895.26</td>
<td>1.567661766</td>
<td>509.630875</td>
<td>-7.785433814</td>
<td>25.3</td>
</tr>
<tr>
<td>1994</td>
<td>119936653.8</td>
<td>3.569911868</td>
<td>574.7617417</td>
<td>-7.974705383</td>
<td>34.1</td>
</tr>
<tr>
<td>1995</td>
<td>150066382</td>
<td>4.544366802</td>
<td>579.9766667</td>
<td>-32.91139865</td>
<td>27.4</td>
</tr>
<tr>
<td>1996</td>
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*Source: World Bank Data*