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. Thus, most of the developing nations almost fail to attract a handsome amount of FDI. Using panel data from World Bank website and other sources, this study firstly identifies the influential factors that determine FDI inflow in the developing countries and secondly empirically demonstrates the relationship between economic growth and FDI. 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 comes 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.