ABSTRACT

The major problem in developing countries is the shortage of capital. FDI as a major source of capital in many developing countries including Tanzania has proved to be useful to such countries. Not only is FDI a major source of capital but also an engine of economic development like employment creation, payment of taxes, transfer of technology, spillover effects and human capital development.

This study aims to evaluate the impact of FDI on the economic growth of Tanzania using time series data from 1992 to 2011. It shows the relationship between FDI inflow and the determinants of FDI. The area of study was the United Republic of Tanzania this is the researcher's home country. The study adopts a case study design because it is a cheap method to conduct research, it is very flexible and it saves time. In conducting the research secondary data was used which included data on FDI as a share of GDP, Real GDP growth rates and Inflation rates which were obtained from the World Bank website, the UNCTAD website and the National Bureau of Statistics respectively. The study employs the simple linear regression and the multiple linear regression models in order to answer the research questions. The Ordinary Least Squares (OLS) technique is used for analyzing the data.

The results show that the overall regression models used are all significant at 1% level of significance with strong positive relationship between FDI inflow and GDP in Tanzania. Also, the study reveals that there is a strong negative impact of inflation on FDI inflow to Tanzania. GDP and inflation are both predictors of FDI inflow to Tanzania although both GDP and inflation are not making a statistically significant contribution to predict FDI inflow to Tanzania.

The influence of FDI on economic growth in Tanzania is bidirectional meaning that economic growth (GDP) increases as a result of FDI inflow to Tanzania and a higher economic growth (GDP) also attracts FDI inflow to Tanzania. It is recommended that the government of Tanzania should; improve the macroeconomic environment by increasing GDP and decreasing inflation which imply economic stability, improvement of infrastructure, provision of technical training to workers, promotion of local production and entrepreneurship, good governance and political stability.