

# FOREIGN DIRECT INVESTMENT (FDI) AND ITS IMPACT ON EMPLOYMENT CREATION: THE CASE OF MANUFACTURING SECTOR IN TANZANIA

Harold M.L. Utouh\* and M Koteswara Rao

## Abstract

The purpose of this paper is to provide an analytical insight of Foreign Direct Investment (FDI) on employment creation in Tanzania, centring on manufacturing sector which is held as a conduit for social economic development. It analyses the concerted efforts on the part of the government in attracting conspicuous FDI, and in particular, the relationship between the increase in FDI and employment generation. Tanzania started to adopt economic reforms and open policy in the mid of 1980. However, the speed of the Tanzanian government to establish policy to attract FDI was more felt in 1990s and since then the degree of successful efforts to attract FDI has increased.

**Methodology** - The data used in this study consists of total employment, GDP and inward foreign direct investment (FDI). These annual data covered the period from 1980 to 2012 because it is only in this period that the data is available. The methodology to test the effects of the variables i.e., FDI, GDP and Employment creation has been confined to the least squares technique. The co-integration of the variables has been ascertained via application of Augmented Dickey Fuller Test and is found to hold in the long run.

**Findings** – the findings indicate that FDI has a positive and significant effect on employment generation in Tanzania and GDP is translated to have influenced the economic growth.

**Practical implications** – Conducive business environment, more liberalised economy, institutional restructuring and enhanced private sector-led development will lead to the increase in foreign investment. Local entrepreneurial capacity should be empowered if the country wishes to have a sustainable growth and employment creation.

**Originality** - The paper presents original findings based on research related to FDI and employment creation in the sector of manufacturing industries.

**Key Words:** FDI, employment creation and economic growth

## INTRODUCTION

Foreign Direct Investment in the developing nations are viewed as the core stimulus of growth, a complement to domestic investment and an indispensable source of financing persistent deficits in the current account. (World Bank, 2012) stipulate that FDI from investors in developed areas like the European Union and the U.S provide funding and expertise to help smaller companies in the developing countries to expand and increase international sales. (Kumar and Pardhan 2001), further emphasizes that FDI has emerged as the most important source of external resource flows to developing countries over the 1990s and has been a very influential instrument in economic development by enabling these countries to build up physical capital, create employment opportunities,

develop productive capacity, exports and increased pace of transfer of goods and services and facilitate to integrate the domestic economy with the global one.

A core priority for Tanzania is achieving a high rate of economic growth, which can later be translated into economic development and be able to tackle the fundamental problem of employment. To reach this goal, manufacturing sector development is highly relevant because employment creation is arguably one of the core challenges that Tanzania encounter in her endeavour to transform her social economic stance.

Driven by this, the government of Tanzania started to adopt and implement social economic reforms in the mid 1980s and has vehemently endeavoured to attract FDI's from 1990s and have offered generous incentives to attain this objective.

<sup>1</sup>Department of Economics, Mzumbe University, Main Campus Morogoro, Tanzania

<sup>2</sup>Department of Economics, Acharya Nagarjuna University, Nagarjuna. A.P, India

Correspondence and Reprint Requests: Harold M.L. Utouh

The opening of Tanzanian economy to FDI in mid 1990s led to a rapid increase of FDI inflows from virtually nothing in 1990 to US\$ 653 million in 2011, resulting to an increase of FDI stock in the country to US\$ 6.5 billion

In view of Tanzanian socioeconomic situation, a country which has since 1990s put emphasis on attracting FDI, the major interest would be to exploit their potential role in employment and economic development. Apparently, the linkage between FDI and employment creation in Tanzania has been hardly studied and conclusions on this matter are still mitigated.

### **The concept of FDI**

World Bank 1996 in Ekperiware (2011) and Chen 2000, p 6), refers FDI to “an investment made to acquire a lasting management in which a firm acquires a substantial controlling interest in a foreign firm (above 10 percent share) or sets up a subsidiary in a foreign country”. (Khan and Bamou, 2006), define FDI as an investment made to acquire a lasting interest by an entity resident in one economy in an enterprise resident in another economy. Khan and Bamou, (2006) argued that the investment should allow the investing entity to exert direct control over the management of assets in the invested firm. (Hannon & Reddy, 2012), argue that FDI has many forms, such as “mergers and acquisitions, establishing new amenities, reinvesting profits earned from overseas operations and intracompany loans” (Sullivan et al., 2003, p. 551), further elaborate that FDI differs from portfolio investment, which is a passive investment in the securities of another country. Portfolio investment covers transactions in equity securities and debt securities. “In economics foreign portfolio investment is the entry of funds into a country where foreigners make purchases in the country’s stock and bond markets, sometimes for speculation”

### **The importance of FDI**

Under the impact of globalization, FDI is considered as a vital component for successful economic growth, hence economic development. (Klein et al, 2000), emphasise that the very fundamental nature of economic development requires quick and efficient transfer and adoption of “best practice” from the rest of the world. FDI is particularly well suited to execute this and translate it into broad-based growth for social economic development in Tanzania.

FDI has direct and indirect outcomes on employment; the direct results are based on the FDI contribution to total employment. (Aitken&Harison,1999) argue that

the indirect effects are as a result of the impact that FDI can have on local firms, indirect effects may appear to the extent to which FDI decides to buy local inputs. In this way it increases demand addressed to local firms and it has an indirect stimulating effect on employment levels. This effect disappears if FDI decides to import inputs, because there is no change in the demand for the local suppliers, hence, the crowding-out effect of domestic firms may appear.

There is a growing recognition by Tanzanian government that the distinction between economic growth and economic development is a central one for analysis and policy. Economic development in contemporary world means growth plus progressive transformation in some crucial variables which dictate the well being of the society. Misra and Puri, (2012) argue that there are qualitative dimensions which are conceptually and philosophically sound in the development process that might be omitted in the economic growth presented in GDP form. (Feenstra, 2003) emphasise that economic development is accomplished when an economy has a capable workforce to maintain competitiveness in the local industries. That is to say, in one hand, knowledge and technology transfer are significant in economic development and on the other hand, the establishment of foreign industries locally leads to the development of other enterprises which creates employment indirectly or directly, and by so doing it enables to increase the income of the society and solve to a great extent the problem of unemployment.

(Obstfeld and Rogoff, 1996) stipulate that FDI comes in handy; it supplements the local industries by generating employment for skilled and unskilled labour, thus contributing to economic growth, as people are capable of coping with the increasing cost of living. (Hill and Athukorala 1998) further argue that FDI’s social and distributional impact on the host country has been generally favourable in various developing countries, apart from bringing in a package of highly productive resources into the host economy there have been a visible positive impact on the creation of jobs not only in those sectors attracting FDI inflows but also in the supportive domestic industries. According to (World Bank, 2012), the ability of FDI to deal with two major obstacles, namely, shortages of financial resources and technological skills has made it the centre of attention for policy makers in low income countries.

In some quarters FDIs are considered to speed-up the host countries’ industrialization process by acting as a catalytic factor in the host economies’ shift from

agricultural-based to being manufacturing-based. Misra and Puri (2012) specify that this shift suggests that development means decline in agriculture's share in GNP and corresponding increase in the share of industries and services. Unfortunately the Tanzanian economy is dominated by agriculture, and although its share of the economy is declining, this sector still accounts for 74% of the labour force. And it is also characterized by very low productivity which is why this sector contributes less than a quarter of GDP (UNIDO 2012)

**FDIs inflows in Tanzania**

FDI is welcomed and undeniably sought by virtually all policy makers; the early efforts to attract FDI in Tanzania can be traced from 1963 when Foreign Investment Act was conceded so as to promote FDI's in the newly independent nation (Green, 1992). Nonetheless, such efforts were unsuccessful and ended up to be a sad story. The failure is attributed to the mismanagement of economy after the adoption of socialist oriented policy and economic management resulting from proclamation of Arusha Declaration in 1967 which put all major means of production under the public ownership (WB, 2012). Between 1970 and 1985 there were insignificant FDI activities taking place because most of the investments were made by the State through parastatal organisations. By 1980 there were about 400 public owned corporations and companies in form of State Owned Enterprises (SOEs). The majority of these were owned by the government with 100 per cent shares, (URT, 1997).

The government of Tanzania started to embark itself in adopting social economic reforms and opening policy in the mid 1980s and has vehemently endeavoured to attract FDI from 1990s by starting to establish policy to attract FDI and since then have offered generous incentives to attain this objective and the scale of successful efforts to attract FDI has increased.

The opening of Tanzanian economy to FDI in mid 1990s led to a rapid increase of FDI inflows from virtually nothing in 1990 to US\$ 653 million in 2011, resulting to an increase of FDI stock in the country to US\$ 6.5 billion, (UNCTAD 2012).

Between 1990 and 2000 a total of 854 FDI projects were approved, (Tanzania investment Report, BoT, NBS and TIC, 2009: vii) informs that the stock of FDI increased persistently from USD 4,438.7 million in 2005 to USD 6,239.9 million in 2008. This is an increase of 40.6% during the period under consideration. According to IMF report of 2011 the

value of FDI in Tanzania (net, current US\$) was \$433, 441, 900. <sup>1</sup>

Though Africa registered a decline of FDIs since the global economic crisis, Tanzania had recorded an 8.5% increase of FDIs in 2010. The inflow of the FDI's in Tanzania increased from \$645 million in 2009 to \$700 million in 2010<sup>2</sup>. FDIs have been flowing to virtually all sectors of the economy and in many geographical locations since mid 1980s. The stock of FDIs by sector (in million UDS) for the period 2005 – 2008 were 4,438.7 for 2005 while for 2006 it was 4,827 for 2007 and 2008 the stock was 5,950 and 6,239.9 respectively.<sup>3</sup>

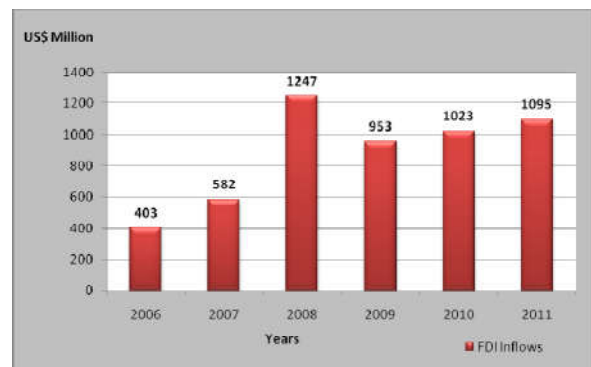
Tanzania's share in Africa FDI inflows improved to 3.4 percent in 2012 from 2.5 percent recorded in 2011, while that of global inflows remained at 0.1 percent.

FDI Inflows, 2008 – 2012	2008	2009	2010	2011	2012
Global (billions of USD)	1,816.3	1,216.5	1,408.5	1,651.5	1,350.9
Africa (billions of USD)	58.9	52.9	43.6	47.6	50.0
Tanzania (billions of USD)	1.3	0.9	1.8	1.2	1.7
Tanzania's share in Africa (%)	2.2	1.7	4.1	2.5	3.4

Source: World Investment Report 2013 and Tanzania Investment Report 2012

FDI in Tanzania is mainly concentrated in three sectors namely mining, manufacturing, trading (wholesale and retail trade), which formed about 83.1% of the total stock of FDI in 2005 (TIR, 2008). The report shows that prior to 2002, the manufacturing sector had the largest share of stock of FDI but since 2003 the sector was overtaken by the mining sector due to heavy investments made in that sector in the late 1990s, (Mpanju, 2012).

FDI inflows to Tanzania increased by 46.4 percent to USD 1,799.6 million in 2012 from USD 1,229.4 million recorded in 2011. The increase was mainly on account of equity and investment fund shares as well as reinvestment of earnings which together accounted for about 100 percent of the total inflows of FDI.



Source: UNCTAD World Investment Report - 2012

<sup>1</sup> IMF Balance of Payment Statistics Year Boos 2011, online at <http://www.indexmundi.com/facts/tanzania/foreign-direct-investment>  
<sup>2</sup> Available at <http://thecitizen.co.tz/news/51-other-news/13184-fdi-inflows-into-tanzania-increase-85pc-to-hit-700m.html> (retrieved on 16th March 2012)  
<sup>3</sup> More details can be accessed in the reports of BoT, NBS and TIC (2009:21)

The activities which attracted more inflows were mining and quarrying, manufacturing, gas and electricity; and finance and insurance.

### **Manufacturing Sector in Tanzania**

The manufacturing sector in Tanzania which is held as a conduit for social economic development and a source of employment creation is still small and weak, at 9%, manufacturing is more or less at the same level as in 2001 and below that of other comparable Sub Saharan African countries (UNIDO, 2012). As a strategy of increasing higher and faster economic growth, rapid industrialization especially the growth and development of the manufacturing sector was expected to contribute to reduction of poverty through the creation of many employment opportunities, higher productivity and higher real earnings, UNDP (2002)

The manufacturing sector in Tanzania consists of SMEs and a handful of very large conglomerates. The SMEs are involved in food processing (such as milk, meat and fruit processing), textiles and garments, leather and plastics. The large diversified conglomerates are involved in activities such as grain milling, cement, brewing, steel and aluminium and are often spin-offs from trading companies (Sutton, 2012).

Structural reforms in Tanzania were expected to induce a strong entrepreneurial response –which would materialize in new investments, technological modernization and productivity increases- and improvements in welfare and resource allocation efficiency due to trade liberalization and increase employment opportunities.

(Wagner, 2011), argues that the emphasis of the structural adjustment and poverty reduction among other things is on enhanced private sector role in development that includes small and large firms and a market-led economy, with the aim of increasing productivity generally and strengthening the industrialisation process in particular.

Tanzania had only 729 large industrial establishments, the majority of which were manufacturing firms according to 2008 Annual Survey of Industry Production and Performance (URT 2010). Specifically, the general industrial structure of Tanzania includes: processing industries (43 per cent); manufacturing industries (53 per cent) and the remainder as assembling industries (4 per cent). Nonetheless, compared to its major trading partners, Tanzania has a small manufacturing sector that is heavily dependent on agriculture.

However, the manufacturing sector attracted a large number of investors with 183 projects and a number of potential employment opportunities. From 1995 to 2008, the sector received a total of USD 1,380.84 in the form of FDI, equivalent to 28.9% of all FDI received in Tanzania. According to the Economic Survey 2010, the sector growth rate was 7.9% compared to 8% in 2009. It contributed to 9.0% of the gross domestic product (GDP) compared to 8.6% in 2009. Looking to other sectors, agriculture sector grew at 4.2% in 2010 from 3.2% in 2009 and contributed to 24.1% of the GDP from 24.6% in 2009. Likewise, mining sector grew at 2.7% from 1.2% and contributed to 3.3% to the GDP for both years. URT (2011)

(Semboja, 2010), argues that industrial sector is vital as an employing sector in the formal Tanzania's labour market. It remains the most reliable source of government revenue in terms of import sales, corporate and income taxes. It accounts for over half of government annual revenue collection. Additionally, it is the industrial sector that offers reliable ground to implement invention, innovation and fostering modern technologies for production and service provision.

### **FDI and Employment Creation in Tanzania**

Improvement in human welfare that is broad based is difficult to achieve without a substantial augment in modern sector employment such as manufacturing industries and service sector. Tanzania has enjoyed an economic growth average rate of 6.8% to 7% from 2000 to 2012 comparing with the rate of 3.3 from 1990 to 1999, (URT 2010, URT 2011, URT 2013, and WDI, 2014), unfortunately the trickle down effects of growth is not felt by the majority of Tanzanian. The population growth has usually been high, estimated between 2.8 and 3% per annum (WDI 2014), this high rate of population growth has led to a large labour force with few opportunities for work in formal sectors, and this is because there are few local industries to provide employment. By and large, Tanzania still ranks among the poorest countries in the world in human development terms, with very high levels of unemployment currently estimated to be in the region of 13% for the working age population aged 15 years and above (ILFS 2015).

(Diyamett, Ngowi and Mutambala, 2011) revealed that 70.4% of FDIs in Tanzania are Greenfield investments and 29.6% are Merger and Acquisition investments. Generally, Greenfield investments are those who generate a supplement of jobs, as they create new jobs which did not exist before, the

impact of this contribution is more meaningful in labour intensive investments. However, In the case of privatizations, a reorganization of firms is expected, followed by a job loss. According to ILFS (2007) the unemployment rate stood at 11.7% in 2006 compared to 12.9% in 2001, the situation was mostly contributed by lay off workers, change of technology and decline in demand of good undulating business cycles and an increase in labour force.<sup>4</sup>

The economic survey (2012) indicate that agricultural, forestry and fisheries provide a major source of employment almost more than 66% of the total active labour force and contributes about 28% to GDP while other sectors employ 30% . Manufacturing sector provide less than 5% of the total employment in Tanzania, this implies that the manufacturing sector is still in a nascent stage which needs deliberate efforts to boost it. (Mpanju 2012) argue that despite of foreign capital inflow in Tanzania since 1990s and the significant contribution of foreign affiliates to output during this period, people who are directly employed by such affiliates is still relatively low. The expansion of FDI in telecommunication, banking and transportation in Tanzania has had a number of positive impacts on the economy, but these sectors make a relatively insignificant direct contribution to employment creation. In total, these sectors employ less than 1% of Tanzania’s workforce, while agricultural including fisheries and manufacturing sectors account for more than 80% of formal and informal employment. (World Bank 2012).

In 2010 the country labour force was estimated to 22.7 million people (Urt –tes, 2010) which rose to 21 million people in 2006 and 17.5 million people in 2002 ( population census 20002; Ilfs, 2005/6) out of them 88% are employed and 12% are not employed.

(Mpanju 2012) reveals that direct employment increased by 131.52 percent to 125,231 employees in 2008 from 54,091 in 2004. Increased FDI has led to creation of jobs particularly in manufacturing (28.9 percent, transport, communication and storage (25.6 percent) and agriculture, fishing, forestry and hunting (14.1 percent). The mining sector, despite of receiving a lion’s share of FDI, created few jobs (1.4 percent) because it is traditionally capital intensive. This findings concur with Ozughalu and Ogwumike (2013), who argued that FDI can reduce unemployment because all other things remaining constant, if the real gross domestic product increases, unemployment will fall, implying that significant employment opportunities will be generated.

<sup>4</sup> Integrated labour force survey 2007

**METHODOLOGY**

The data used in this study consists of total employment, GDP and inward foreign direct investment (FDI). These annual data covered the period from 1980 to 2012 because it is only in this period that the data is available. Data was collected from Bank of Tanzania (BOT), UNCTAD and TIC. The methodology to test the effects of the variables i.e., FDI, GDP and Employment creation has been confined to the least squares technique. The co-integration of the variables has been ascertained via application of Augmented Dickey Fuller Test.

**Hypothesis to be tested**

- H1:** FDI relates positively with employment creation in Tanzania
- H0:** FDI do not relate positively with employment creation in Tanzania
- H2:** FDI contributes to economic growth in Tanzania.
- H0:** FDI do not contribute to economic growth in Tanzania

**ECONOMETRIC ANALYSIS AND DISCUSSION**

To test the effects of variables and estimation; simple linear regression models were employed in order to establish the relationship between FDI as an independent variable and employment creation as well as GDP as dependent variables. The model is expressed as:-

$$EMP_i = \beta_0 + \beta_1 FDI_i + \varepsilon_i \dots\dots\dots (eqn 1)$$

$$GDP_i = \beta_0 + \beta_1 FDI_i + \varepsilon_i \dots\dots\dots (eqn 2)$$

Whereas:-

FDI<sub>i</sub> = Foreign direct investment at particular time *i*,  
 EMP<sub>i</sub> = Employment created at particular time *i*, GDP<sub>i</sub> = Gross domestic product at particular time *i*, β<sub>i</sub> = Represent coefficient of regression, β<sub>0</sub> = Represent slope of regression, ε<sub>i</sub> = Represent the error term. The hypothesis are, a) the more the inflows of FDI in Tanzania the more the employment created, b) the more the inflows of FDI the more the employment created and hence increase in revenue generated which leads to economic development.

The ordinary least square (OLS) technique was used for estimation.

The model was expressed as:-  $EMP_i = \alpha_i + \beta_i FDI_i + \varepsilon_i$

**ESTIMATION RESULTS AND DISCUSSIONS**

In order to avoid model misspecification and multicollinearity problem, the variables, FDI and EMP were transformed into logarithm before testing the stationarity as follows;

$$(lnEmployc)_t = \beta_0 + \beta_1 (lnFDI)_t + \mu_t \dots\dots\dots (eqn 3)$$

$$(GDP)_t = \beta_0 + \beta_1 (lnFDI)_t + \mu_t \dots\dots\dots (eqn 4)$$

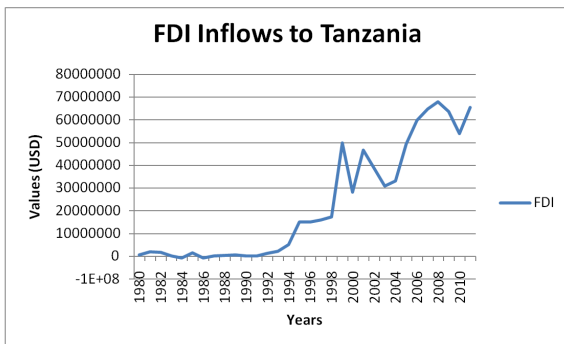
The unit root test was first carried out on the variables before proceeding with estimations in order to avoid the spurious regression problem and to account for the appropriate dynamic specification. Stationarity of the variables was tested using ADF test. This particular test requires a unit root test against a null hypothesis that  $\delta = 0$  if the computed  $\tau$  value is more than critical  $\tau$  value in absolute terms then we reject null hypothesis that  $\delta = 0$ , therefore the time series is stationery (Gujarati, 2007).

The ADF test allow for the rejection of the null hypothesis (HO) of non stationarity for the level of the variable as shown in Table 1a. Results show that FDI is stationery at level that is drift lags (3) since the computed  $\tau$  value (2.624) exceeds (1.796) the DF critical  $\tau$  value at 5% in absolute terms as shown in table 1(a) of ADF test for a unit root, with Time variable: Year 1981 – 2012

**Table 1** dfuller lnFDI, drift lags (3)

Augmented Dickey-Fuller test for unit root		Number of obs = 16		
		has t-distribution		
Test	1% Critical	5% Critical	10% Critical	
Statistic	Value	Value	Value	
Z(t)	-2.624	-2.718	-1.796	-1.363
p-value for Z(t) = 0.0118				

**Figure 1**, Relationship between Foreign Direct Investment against years



**Figure 1** shows the trend of FDI inflows in Tanzania from 1980 to 2011 in US\$.

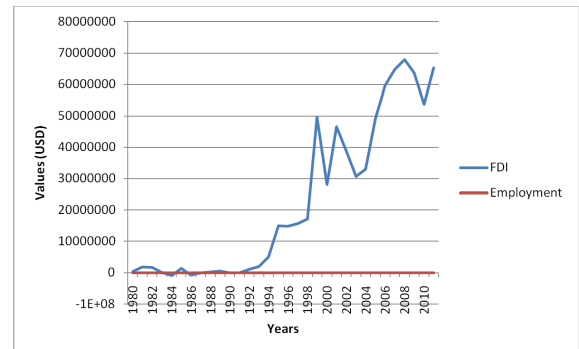
**Table 2** dfuller Employc, noconstant lags (0)

Dickey-Fuller test for unit root		Number of obs = 31		
		Interpolated Dickey-Fuller		
Test	1% Critical	5% Critical	10% Critical	
Statistic	Value	Value	Value	
Z(t)	-2.033	-2.650	-1.950	1.602

The ADF test allows for the rejection of HO of non stationarity for the level of the variable as shown in Table 1 (b). Results show that Employment is stationery at level that is noconstant lags (0) since the computed  $\tau$  value (2.033) exceeds (1.950) the DF

critical  $\tau$  value at 5% in absolute terms. The results are in line with

**Figure 2**; Relationship between FDI against Employment creation.



**Figure 2** shows the relationship between FDI inflows and employment created from 1980 to 2011 in US\$.

The assumption here was that the more the inflows of FDI in Tanzania the more the employment created, as a result this effect will lead to increase in people’s income hence improvement in the welfare of the people. This result is in line with (Mpanju 2012) who revealed that direct employment increased by 131.52 percent to 125,231 employees in 2008 from 54,091 in 2004.

The ADF test allow for the rejection of the null hypothesis of non stationarity for the level of the variable as shown in Table 1(c). Results shows that GDP is stationery at level that is drift lags (0) since the computed  $\tau$  value (1.370) exceeds (1.311) the DF critical  $\tau$  value at 10% in absolute terms.

**Table 3** dfuller GDP, drift lags(0)

Dickey-Fuller test for unit root		Number of obs = 31		
		Z(t) has t-distribution		
Test	1% Critical	5% Critical	10% Critical	
Statistic	Value	Value	Value	
Z(t)	-1.370	-2.462	-1.699	-1.311
p-value for Z(t) = 0.0906				

The assumption here is that the more the FDI inflows in Tanzania the more the growth of GDP, this growth if is fairly distributed national wise, its trickle down effects will lead to economic development in its real sense as defined by (Puri and Misra 2012).

**Table 4** tests for Multicollinearity

		Vif	
Variable	VIF	1/VIF	
GDP	1.02	0.979686	
lnEmployc	1.02	0.979686	
Mean VIF	1.02		

**Test for heteroscedasticity**

Breusch-Pagan/Cook-Weisberg test for heteroskedasticity was performed to determine if the problem existed, the results revealed Prob > chi2 = 0.4952 is with 5% level of significance and so there

was no problem of heteroscedasticity. Heteroscedasticity only holds when the mean value is zero and variance is constant.

**Table 5** Test for heteroscedasticity

Hottest	
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Ho: Constant variance	
Variables: fitted values of lnFDI	
chi2(1)	= 0.47
Prob>chi2	= 0.4952

**Time series regression results**

A multiple regression model as shown above was used to trace the impact of FDI on employment creation in Tanzania. Only 32 observations were used. The estimation results are as shown in Table 6 and fitted in the proposed model as follows.

$$(\ln fdi)_t = 9.363641 + 0.7604711(\ln Employc)_t + 0.617958(GDP)_t$$

Se	(1.328538)	(0.1259851)	(0.628522)
t	(7.05)	(6.04)	(9.72)

R- squared = 0.8986

Adj R- squared = 0.8867

**Table 6** Regression Analysis (lnFDI, lnemployment, GDP)

Source	SS	df	MS			
Number of obs = 20						
-----+-----						
F( 2, 17) =	75.33					
Model	23.1454546	2	11.5727273			
Prob> F	= 0.0000					
Residual	2.61173039	17	.153631199			
R-squared	= 0.8986					
-----+-----						
R-squared	= 0.8867			Adj		
Total	25.757185	19	1.35564132			
Root MSE	= .39196					
	lnFDI	Coef.	Std. Err.	T	P> t	[95% Conf. Interval]
lnEmployc		.7604711	.1259851	6.04	0.000	.4946658
						1.026276
GDP		.6107958	.0628522	9.72	0.000	.4781892
						.7434024
_cons		9.363641	1.328538	7.05	0.000	6.56067
						12.16661

The R2 value of 0.8986 means that about 99 percent of the variation in FDI is explained by the variables “employment created and GDP”. The high value of R2 indicates that the regression results make sense. As a matter of fact, since computed F value (2916.83) exceeds critical F value from the F table at 5% level of significant which is (2.95) we therefore reject null hypothesis and accept alternative hypothesis that the F value is statistically significant, which means that FDI has an impact on variables (employment created and GDP).

The expectation in our first assumption in this paper was that the co-efficient value of the variable “employment created” to be positive i.e., greater than zero, which indicates the positive relationship between the two variables.

The null hypothesis  $H_0: \beta_1 \leq 0$  was tested against alternative hypothesis  $H_1: \beta_1 > 0$ . Koutsoyiannis (2007) stipulates that if the observed  $t^*$  is greater than  $t_{\alpha/2}$  with (n-k) degree of freedom, we reject null hypothesis and accept alternative. In this case the calculated  $t^*$  (6.04) exceeds the value of  $t$  from the  $t$  distribution table (2.048) with 28 degree of freedom, this implies that calculated  $t^*$  falls within the critical region in the one tail test, therefore we reject the null hypothesis  $H_0: \beta_1 \leq 0$ , and accept alternative  $H_1: \beta_1 > 0$ , that is, the estimate 0.7106289 is statistically significant at 5 percent. At this particular juncture, 0.7604711 is the partial regression co – efficient of the variable employment created, and tells us that, when the influence of the variable GDP is held constant, as FDI increases by one unit on average the employment created will increase by 0.7604711.

In our second assumption we expected that the co-efficient of the variable GDP to be greater than zero, thus null hypothesis  $H_0: \beta_2 \leq 0$  was tested against alternative hypothesis  $H_1: \beta_2 > 0$ . The calculated  $t^*$  values (9.72) was obtained while the  $t$  value from the  $t$  distribution table with 28 degree of freedom is (2.048). This implies that the calculated  $t^*$  falls within the critical region therefore we reject null hypothesis  $H_0: \beta_2 \leq 0$  and accept alternative  $H_1: \beta_2 > 0$  that is, the estimate 0.6107958 is statistically significant at 10 percent.

0.6107958 is the partial regression co – efficient of the variable GDP, and tells us that, when the influence of the variable employment created is held constant, as FDI increases by one unit on average the country’s GDP will increase by 0.6107958.

**CONCLUSION**

The paper aimed at examining the impact of FDI inflows in employment creation in Tanzania, the regression results shows that, FDI have an influence on the employment created and growth of GDP as far as the overall test for significance is concerned (F-test). The results shows that, FDI is positively related to the employment created and it is statistically significant at 5%. This implies that the higher the inflows of FDI the more the employment created. The results also shows that FDI has positive contribution to the growth of GDP though its contribution is very little as indicated by its estimated co-efficient. FDI has a smaller magnitude of change implying that the

contribution of FDI in the national GDP is not significant compared to that of employment created. Figures indicate that Tanzania is still marginalized in terms of the amount or volume of FDI inflows. Nevertheless, the results obtained reveals that as FDI inflows increases employment generated increases also, and that FDI inflow has less impact on GDP growth as compared to employment created.

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