

Relationship between foreign direct investment, exports and economic growth in Tanzania: A time series analysis

Bomani, Bertha Alfred

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Foreign Direct Investment (FDI) and exports play a significant role in promoting economic growth in many countries. However, empirical studies have not found consistent results, with some literature indicating that FDI and export have adverse impacts to the economy. This study examined long run and causality relationships between FDI, exports and economic growth for Tanzania. The study used time series data for 30 years (1980- 2010) which were obtained from TIC and UNCTAD. By using Johansen test of cointegration, Vector Autoregression model and Granger causality test the study found that there was a single cointegrating vector. The equation was relating FDI and exports (as independent variables) to Economic growth, the dependent variable. Furthermore, there was unidirectional causality relationship with the direction from FDI and exports to GDP growth rate (economic growth). There was also a unidirectional causality with the direction from FDI to exports. Therefore, FDI Granger caused GDP growth rate and exports, while exports Granger caused GDP growth rate only. This further implied that, FDI have a direct and indirect causality to GDP growth rate. This observation necessitated the special consideration for making FDI working for growth. Likewise for total exports which had positive and significant relationship to economic growth. The findings in this study support the export-led growth hypothesis and FDI as the engine for economic growth. For export and FDI to effectively promote growth, the study recommends that policy frameworks and incentive packages should be competitive and vigorous enough.

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Economic Growth, Foreign Direct Investment and Total Exports

