Factors Influencing Foreign Direct Investment Inflow in Tanzania

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Abstract

This research explores the relationship between various variables that my influence the foreign direct investment inflow in Tanzania such as government terms and regulations, technology and infrastructure, and abundant of natural resources. The study also highlighted the significance and factor that lead to foreign direct investment. One of the main aims of this research is to find the predictors of the inflow of foreign direct investment in Tanzania and identify these factors. This study has been conducted based on Tanzania and it will focus on foreign direct investment inflow. Several previous findings were provided in literature review to link with study, which provide different studies from different researchers. However the variable was developed using the variables from Tanzania investment centre (TIC) website. A total of 300 respondents were collected using simple randomly sampling. The results showed that two objectives were achieved whereas one showed there is no significant relationship with dependent variable by conducting the regression coefficient results. ANOVA test were also provided to test the degree to which two or more groups vary or differ in their mean.

Keywords: FDI, government regulations, infrastructure, abundant of natural resources

1. Introduction

FDI plays the significant role as a source of financing to a lot of developing countries (Moosa, 2002). In 1980s to 1990s in East Africa a great economic change took place because of the economic liberalization adoption policies in which these countries with respected governments tried to use the private sector as it is the major economic growth engine. This economic reform changes the government focus towards the need of capital, need of new technology, need of skills to be injected in private sector to make the sector manage the FDI attraction.

As a result, Tanzania Arusha declaration in mid 1980s, force the government to implement and initiate the policies for economic liberalization. This action creates a rise in FDI inflow into Tanzania. For example, FDI increased from 2418 million USD in 1999 to 3776 million USD in 2001. This investment allocated into the manufacturing for about 33%, agriculture 7% as well as mining and quarrying for 28% (Tanzania Investment Report, 2012).

The research conducted faced on the factors that influencing foreign direct investment in Tanzania. According to the World Investment Report (WIR) issued by the United Nations Conference on Trade and Development (UNCTAD), focusing on the past twelve months ending June 2012, shows that for the past three years, Tanzania has attracted about 47 percent of all FDI flows in the five East African countries. The Government goals is to Increase the number of FDI for the financial year 2013 to 2020, the country aiming on investment big project which will provide job opportunities in Tanzania as well as boosting the economic growth (Tanzania Investment Report, 2012).

Despite the increasing figure of FDI inflows yet Tanzania face a number of drawbacks that requires deliberate measures in order to attract and retain more investors. Some of the drawbacks are lack of adequate and reliable power, poor infrastructure especially feeder roads to reach the remoteness areas, lack of designated areas for investment projects, such as farming land, industrial plots, where investors may acquire for investment purposes and negative image of Africa propagated by western media about the continent, these obstacles tend to delay the

rapid movement of investors in Tanzania regarding its expectation.

In response of the above problems, this study proposes to investigate several ways to solve the problem that seems to slow down or act as the delaying factors for FDI in Tanzania. The Tanzanian Investment centre (TIC) supposed to invest more on power industry and oil refinery so as to make sure there availability of power consumption within the country is sustaining the demand of the people, by privatising the government sectors to foreign investors under legal contracts. Improving infrastructures by creating urban construction plans that will limit the random house build in towns or near business centre, this will be done by the supportive Tanzania land Act 1990. Furthermore, The TIC under the government of Tanzania will have to make sure they preserving the large area for the FDI instead of just the promotion and incentives; this will also help to reduce the eviction of local citizen in their legal resident area.

Accordingly, the main aim of this study is focusing on the several objectives which are fundamental in sustaining growth and development in Tanzania following the Impacts of FDI. More specifically, this paper intended:

-To conduct the clear and in-depth investigation whether the government terms and regulations may affect the inflow of foreign direct investment in Tanzania.

-To investigate whether the abundant of natural resources may affect the inflow of foreign direct investment in Tanzania.

-To investigating how the lack of Technology can affect the inflow of foreign direct investment in Tanzania.

Therefore, from above it can be seen that the main contribution of this paper is the inclusion of the natural resources as an important element in attracting FDI.

2. Literature Review

2.1 Foreign Direct Investment

FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used, (OECD, 2013).

The research conducted by Flavianus M. Mahiti (2012) which reviewed the study of FDI in Africa in general, shows that "developing countries are increasingly aware of the role of foreign direct investment as an engine of growth in their economies. Foreign investors can contribute to growth by providing much needed capital and skills, by sharing risks in large projects and by serving as a vehicle for technology transfer. For many developing countries, FDI is a mechanism by which to promote industries in which they have a potential comparative advantage that cannot otherwise be exploited".

Charles (2008) stated that "FDI leads to poor linkages and integration with value-added export activity. The empirical results of his study also suggest that the government should formulate policies and measures, plus the improvement of the existing ones, in order to take advantage of the factors that would boost GDP enhancing export earnings. For instance, the country should enact reforms to the effect that GDP contribution of major economic sectors like mining and manufacturing reflect their FDI size; and that a minimum amount of export earnings say in mining and tourism should be re-invested back in the Tanzanian economy in order to realise its multiplier and spill over effects. This may call for a review, among others, of an investment policy that allows free repatriation of profits and capital gains generated from domestic operations" (Bahrulmazi et al., 2014).

Yasin (2005) identified the linkage between two of the main sources of capital needed to fill the gap in Africa's resources. He used a panel form of 11 SSA countries from 1990-2003. He assumed that the official development assistance (ODA) should be able to remove some of the barriers to FDI flow and improve the economic conditions that can result in FDI attraction.

Asiedu (2006) used the panel form for 22 SSA countries from 1984-2000 to identify the effect of natural resources and, market size, government policy, political instability, and host country's institutions that affect FDI flow in region. They found that countries in SSA have endowment of natural resources and large markets to attract FDI. By the way, small countries or other countries with less/lack in natural resources in SSA can also attract FDI by promoting their policy and institutions. For example the improvement can be in infrastructure, macroeconomic stability, openness to FDI, educated labour force and less corruption.

Dupasquier and Osakwe (2006) provided the reasons of why Africa has a poor record for FDI attraction. Therefore their main objective was to identify the strategies that must be adopted at national, regional, and

international level to increase the FDI into Africa. According to literature, Krugman, Obstfeld, (1997), and Lipsey, Purvis and Courant, (1994) identified that the main characteristics of the FDI is that it involves the resource transferring and control acquisition. In some cases, control is the essential purpose of FDI inflow. This implies the necessity to screen FDI on different root of home economics.

2.2 Government Terms and Regulation

According to (Tanzania Investment Centre, 2012) Tanzania offers a well-balanced and competitive package of fiscal incentives in comparison with other African countries. Aiming at providing competitive fiscal regime on foreign trade, Tanzania has signed double taxation treaties with Denmark, India, Italy, Norway, Sweden, Kenya, Uganda, Zambia and Finland. Countries with which negotiations are continuing include South Africa, Republic of Korea, Zimbabwe, United Arab Emirates, Russia, Seychelles, Mauritius, Egypt, Yugoslavia and Oman.

Investments in Tanzania are guaranteed against nationalisation and expropriation. Tanzania is a signatory of several multilateral and bilateral agreements on protection and promotion of foreign investment. Among other international agreements and membership, Tanzania is a member of Multilateral Investment Guarantee Agency (MIGA) and International Centre for Settlement of Investment Disputes (ICSID) (Tanzania Investment centre, 2012).

Busse and Groizard (2008) stated that as compared to the less regulated countries, the more regulated economies are less able to take advantage of the presence of multinational companies. This result is further evidence of the fact that important host country characteristics can lead to a positive impact of foreign investment inflows on growth rates.

Mudambi, Navarra, and Delios (2013) claims in this paper that they have developed a theoretical model in which the volume of FDI and the level of corruption are jointly determined by the extent of the government regulatory burden. The level of corruption emerges as an outcome of the interaction between multinational firms and government. Governments that have very short time horizons are more likely to choose heavier regulatory burdens since they place less value on future inflows of FDI. In contrast, governments that have longer time horizons choose lighter regulatory systems. Such policies have two self-reinforcing effects.

2.3 Abundant Natural Resources

Natural resources in Tanzania offers a wide range of FDI opportunities, for example, minerals, tourist attractions, and arable lands are possible areas waiting for FDI flow. Tanzania is renowned for wildlife attractions abundance and unexploited mineral reserves. The mining and tourism sector are the main recipient of FDI and are the growth sector of the economy (Tanzania Investment Centre, 2012).

Poelhekke and Ploeg (2010) estimate and suggest that the net effect of resource endowments on total outward FDI quickly become negative and it is positive when inward FDI is the concern, especially for countries that are geographically close to many other big markets. Our results are robust to different measures of resource reserves.

2.4 Technological and Infrastructure Factor

Technology and innovation are the paramount driving force for socio-economic development of human civilization. They have become major force towards gaining competitive advantages in many societies, Tanzania being one of them. Technological development and the application of information and communication development (ICT) as well as the use of energy source have created great opportunities for socio-economic development (Msolla, 2009). In spite of the essence of some achievement on technology an innovation but yet the lack of inadequate technology in Tanzania has become a vital challenge in development of different sectors in the country that paving the way to Foreign direct investment (FDI) inflow in Tanzania. MNCs transferring new technology into the country whereby international organisation subsidiaries would be able to relocate in the host country and hence attaining the succession of FDI inflow. Technology transformed the agriculture and mining economy in Tanzania by 75% percent of production by the application of automating machine which also minimize time and reducing the cost of production which also increasing the country revenue (Tanzania Investment Centre, 2012).

Despite of Tanzania's infrastructure performs fairly well compared to its African peers, but quality is still too poor and has a negative impact on the economy's productive capacity. Infrastructure in Tanzania has witnessed impressive investment in recent years and there is more to come. Transport and utilities infrastructure projects worth $19 billion are in the pipeline.

Infrastructure projects in Africa currently take an average of seven years from project preparation to development. The AfDB recently launched the Africa Infrastructure Fund, which aims to raise $500 million by

the first half of 2014 to help shorten the project period to less than three years. Dar es Salaam port, which provides vital access to world markets for six landlocked countries, is now constrained by inadequate space to store and process containers (Ihucha, 2014). Both seaport and railway networks serve a large market, which includes the country's hinterland and the landlocked countries of Burundi, Rwanda, DR Congo, Uganda, Zambia and Malawi. Recent economic indicators for this region show that it has about 168 million people, a combined GDP of $83 billion and an annual volume of trade exceeding $27 billion. Tanzania is expected to become one of the fastest-growing economies in the world. Key drivers will be recent natural gas discoveries, regional integration supported by an extension of transport infrastructure networks and long-term stable democracy (Smith, 2013).

3. Research Design and Sampling Methodology

This research is a quantitative research and in terms of its application it is an empirical study on the factors influencing foreign direct investment in Tanzania. For sample selection, this study had employed probability sampling via random sampling method by controlling gender cell, and age group cells factors. The reason for choosing randomly is that the target group is the citizens and foreigners and therefore they are assumed that they have the idea about FDI and hence they selected randomly. A total of 300 respondents in the group of 19-55 above will be selected which represents category of male and female, divided into age group category. Following diagram shows the research framework for this paper.
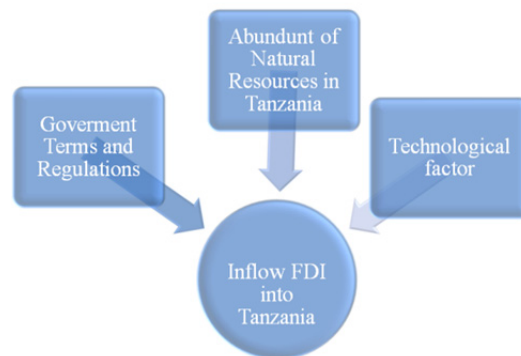

Figure 1. Research framework

3.1 Research Approach

This research is intended to demonstrate the factors that influencing FDI inflow in Tanzania as a host country, which will touch most important sectors in the country such domestic economy, Mining, Power projects, Tourism and other main area of Tanzania patentability. For further investigation of FDI in the environment of Tanzania, researcher will discuss the primary research which includes the quantitative.

3.2 Questionnaire

The target group on this research will consist of Tanzanian and foreign citizens who will be provided the questionnaires individually in the year 2014 June. Data was collected personally and will be utilised to make the evaluation of our research so as to come up with the research outcomes. The questionnaire uses will be of multiple choice type (closed questions) that gives confidence to the respondents during answering the question.

3.3 Data Analysis Method

The data collected will be analysed to test the objectives by using the IMB's SPSS (Statistical Package for the social science) software (version 19). The researcher will input the data collected from the questionnaires into the SPSS software, and run several tests which will help the researcher to obtain accurate results such as; reliability using Cronbach's alpha coefficient test and Pearson correlation as well as regression test.

4. Findings and Results

4.1 Descriptive Statistics

Following table provides the descriptive statistics of the independent and dependent variables which contain minimum, maximum, mean, and standard deviation.

Table 1. Descriptive statistics

Variables	No	Minimum	Maximum	Mean	Std. Deviation
FDI Inflow	300	1.00	4.00	2.4233	.72452
Gov. Regulations	300	1.00	4.25	2.4850	.74351
Technology	300	1.25	4.25	2.6075	.66596
Natural Res.	300	1.00	4.25	2.6683	.60984
Valid N	300				

4.2 Reliability Test

In order to further test the internal consistency of the variables, Cronbach's alpha has been used as illustrated in Table 2. Cronbach's alpha is defined as a coefficient of reliability. For a reliability to be valid the value of Cronbach's alpha should be 0.6 or higher. The reliability conducted on 4 variables presented in Table 2 yielded a Cronbach's alpha of 0.654 higher the recommended minimum figure of 0.6. Thus, it can be concluded that there is a high level of reliability or internal constituency.

Table 2. Reliability statistics

Cronbach's Alpha	No of Items
0.654	4

4.3 ANOVA Analysis

ANOVA test has been implemented for each independent variable and dependent variable to identify whether there is any significant difference in the variable's mean.

Table 3. ANOVA for government regulations and FDI

	Sum of Squares	df	Mean Square	F-stat.	Sig.
Between Groups	10.561	12	.880	1.849	.05
Within Groups	41.407	87	.476		
Total	51.968	99			

ANOVA refers to analysis of variance and is a statistical procedure used to test the degree to which two or more groups vary or differ in an experiment finding from the research. Table 3 shows the significant level is 0.05 (p = .05), which is equal to 0.05, therefore it shows there is no statistically significant difference between the mean of dependent variable and independent variables. That to say there is no significant different between Government term and regulation and the Inflow of Foreign direct Investment in Tanzania.

Table 4. ANOVA analysis for technology and infrastructure with FDI

	Sum of Squares	df	Mean Square	F-stat.	Sig.
Between Groups	11.172	12	.931	1.985	.035
Within Groups	40.796	87	.469		
Total	51.968	99			

Table 4 shows the ANOVA analysis has given the significant value of 0.035 (P= .035), which also is below the constant average of ANOVA 0.05. This result interpreting that there is no statistically significant difference between independent variable and dependent variable. That to say based on test it shows that there is no significant difference between the mean of Technology and Infrastructure and Inflow of Foreign direct investment in Tanzania.

Table 5. ANOVA analysis for abundant of natural resources and FDI

	Sum of Squares	df	Mean Square	F-stat.	Sig.
Between Groups	16.671	13	1.282	3.125	.001
Within Groups	35.297	86	.410		
Total	51.968	99			

Based on the Table 5 the ANOVA analysis conducted gave us the significant value of 0.001, (p= .001), whereby it is below the critical ANOVA value of 0.5. The interpretation show that there no statistically significant different between the mean of the abundant of natural resource and the inflow foreign direct investment in Tanzania.

4.4 Correlation Result

Following table provides the result of Pearson correlation test that shows how the dependent variable is correlated to independent variables.

Table 6. Correlation result

		FDI	Gov. Reg.	Technology	Natural Res.
FDI	Pearson Corr.	1	.278	.306	.343
	Sig.		.005	.002	.000
	N	300	300	300	300

The result from Table 6 implies that the correlation value of 0.278 and significance value of IVA is 0.005, (p= .005). This implies that there is a modest correlation between Gov. regulations and FDI. Hence interpreting that there is a positive correlation between the Inflow FDI and government terms and regulation, that if the Tanzania Government provide more tariff incentive to investors the more inflow of FDI will increase viseversa.

Moreover, the correlation value of technology is 0.306, (p= .002), which shows that there is moderate correlation between technology and FDI inflow. This correlation is positive. In addition, the correlation value for natural resources is 0.343 with the significant value of .000, (p= .000), which shows there is a moderate correlation between the Inward of FDI in Tanzania and the abundant of natural resource as a factor influencing the inflow of FDI. This correlation is also positive.

4.5 Regression Result

Since the Pearson correlation just provides the relationship between two variables and not all variables together, therefore it may not be very reliable in interpretation of the relationship among dependent variable and independent variables. To overcome this issue, the regression analysis has been done and results are presented in Table 7.

Table 7. Regression result

Model	Unstandardized Coefficients		Standardized Coefficients	t-stat	Sig.
	Beta	Std. Error	Beta		
(Constant)	.864	.357		2.417	.018
Gov. Regulations	.146	.098	.150	1.489	.140
Technology	.189	.112	.174	1.691**	.094
Natural Res.	.263	.125	.222	2.112*	.037

Dependent Variable: FDI, and ** denotes sig at 10% and * at 5%.

The provided regression in Table 7 shows overall coefficients generated from the leaner regression analysis. The results of the table will be further explained in the research findings and summary bellow.

4.6 Regression Findings and Government Regulations

According to the data analysed and per Table 7 above it can be found that government terms and regulation such as tariff incentives, taxes, quotas, and interest rate level are considered to be not supportive to foreign direct

investment inflow in Tanzania by most respondent. However, previous research conducted by (Flavianus, 2012) postulated that Tanzania good investment policies attract FDI.

Furthermore, they added that availability of incentives for investment in Tanzania by investment Act (1997) has the more investment opportunity compare to its neighbouring countries. The hypothesis being tested for this variable is as follows:

H0 = There is no significant relationship between government terms and regulations and inflow of foreign direct investment in Tanzania.

Based on the hypothesis test on Table 7 since p-value (0.140) is greater than 10% ($p = 0.10$), proving that null hypothesis was accepted indicating there is no significant relationship between government terms and regulations and foreign investment inflow in Tanzania.

4.7 Regression Findings and Technology and Infrastructure

It is believed that the shortage of technology and infrastructure is a pulling factor of foreign direct investment in Tanzania. (UNCTAD, 2003) support that the importation of technology and infrastructure in Tanzania has been influencing the inflow of FDI, also the telecommunication system influencing the FDI by simplify the means of communication. Which also is fact supported by (Anuja, 2006), based on his topic fostering innovation, productivity and technological change. Therefore, it is necessary to test the hypothesis of Technology and infrastructure in this study to find out if it coincides with this study. The hypothesis being tested for this variable is as follows:

H0 = There is no significant relationship between technology and infrastructure and foreign direct investment in Tanzania.

Based on the hypothesis testing in Table 7, since p-value (0.094) is less than the critical value (p = 0.10), proving that null hypothesis is rejected indicating that there is a significant relationship between the technology and infrastructure and the foreign direct investment in Tanzania. Previous studies conducted earlier by (Flavianus, 2012), supporting the study by proving that Foreign investors contribute Tanzania economic growth by providing much needed capital and skills, by sharing risks in large projects and by serving as a vehicle for technology transfer.

4.8 Regression Findings and Abundant of Natural Resources

Researchers like Asiedu (2006) applied the panel form data for 22 SSA countries from 1984-200 to identify the effect of natural resources , government policy, market size, political instability, towards FDI inflow into a region. He identify that SSA countries are having endowment in natural resources as well as a large market size to attract more FDI. This finding coincide with the study carried out by (Lars Buur, Ole Therkildsen, Michael Hansen, & Mette Kjær, 2013) that endowment factor of African countries the vast land with abundant natural resource has been a major pulling factors to FDI inflow in Africa. Therefore, it is necessary to test the hypothesis of abundant natural resource in this study to find out if it coincides with this study. The hypothesis being tested for this variable is as follows:

H0 = There is no relationship between abundant of natural resource and foreign direct investment inflow in Tanzania.

Based on the hypothesis testing in Table 7, since p-value (0.037) is less than critical value (p = 0.10), proving that the null hypothesis is rejected indicating that there is a significant relationship between the abundant of natural resource and the FDI inflow in Tanzania. Therefore, is has proved that the abundant of natural resource influencing the inflow of FDI in Tanzania since the country has vast size of land with natural resources such as, Minerals, Oil, Gas and Energy.

5. Conclusion

This study had three major objectives. The first objective was to conduct the clear and in-depth investigation whether the government terms and regulations can affect the inflow of foreign direct investment in Tanzania. Whereby the result of linear regression analyses has showed that there is no relationship between these two variables with a significance of P=.140 thereby there is achieving on the first objective of the study. The second research objective was to investigating how the lack of Technology can affect the inflow of foreign direct investment in Tanzania. Whereby the result of the linear regression analyse has showed that there is a relationship between the two variables. Thereby achieving the second objective of the study by significance P= .094. Hence prove that shortage of technology and infrastructure influencing investors to do business with Tanzania. Third objective of this research was to find out whether the abundant of natural resources can affect

the inflow of foreign direct investment in Tanzania. To find out, the linear regression analysis has been conducted and the result showed the null hypothesis is rejected. Hence there is a relationship between FDI and natural resources by significance p = .037, thereby achieving the third objectives of the study. The theoretical implication of this study falls in the fact that, technology and abundant of natural resources are the most significant variables in attracting FDI into the country. The practical implication of this study can be given for the fact that the government should give a high notation to the lack of technology as a significant variable towards FDI. Besides, natural resources are also playing an important role in attracting FDI; therefore government should enhance the protection of natural resources and also to advertise these elements into the globe to get more FDI.

Future Research: As this study just investigates three factors towards FDI, future research should rely on other factors affecting FDI into the country such as political factors, knowledge…

Limitations: theoretically, this research is limited to three variables only, i.e. other factors that may influence FDI are ignored here. In terms of methodology, this paper utilised the regression analysis directly between the variables, while other techniques may be used that can measure the different dimensions of the variables such as PLS.

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