DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN TANZANIA

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2025

CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation titled; ***"Determinants of Foreign Direct Investment in Tanzania"***, in partial fulfilment of the requirements for the award of the degree of Master of Art in International Cooperation and Development (MAICD) of the Open University of Tanzania.

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Dr. Felician Mutasa

(Supervisor)

……

Date

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DECLARATION

I**, Mohamed Haruna Ngarama,** declare that, the work presented in this dissertation is original and that it has not been presented and will not be presented to any other University or Institution for a similar or any other degree award. Where other people's works have been used, references have been provided. It is in this regard that I declare this work as originally mine. It is hereby presented in partial fulfilment of the requirement for the Degree of Master of Arts in International Cooperation and Development (MAICD) of the Open University of Tanzania.

……..

Signature

……

Date

DEDICATION

For their unending love, support, and encouragement, I would like to dedicate this entire work to my family.

ACKNOWLEDGEMENT

I am thankful to God for creating the opportunity for me to finish this task. Secondly, I would like to express my gratitude to Dr. Felician Mutasa, who served as my supervisor, for providing me with unflinching direction and insightful feedback throughout the entirety of the process of writing my dissertation. In conclusion, I would like to convey my deepest appreciation to my family for their unflinching support, prayers, and encouragement throughout the entirety of my academic journey.

ABSTRACT

Tanzania has continued to experience relatively low levels of Foreign Direct Investment (FDI) despite various efforts to attract international investors. This study was conducted to investigate the key factors influencing FDI in Tanzania, focusing specifically on the impact of market size, trade openness, and macroeconomic policy. The study. The study employed a descriptive research design and used secondary time-series data spanning from 1990 to 2021. Data were collected from reputable sources including the World Bank and Bank of Tanzania. To analyze the relationship between the selected variables and FDI inflows, correlation analysis and multiple regression techniques were applied. Diagnostic tests, including multicollinearity, heteroscedasticity, and unit root tests, were conducted to ensure the validity and reliability of the model. The findings reveal that both trade openness and macroeconomic policy have a statistically significant positive impact on FDI in Tanzania. Specifically, an increase in trade openness and improvements in macroeconomic policy are associated with increases in FDI inflows. However, market size was found to have an insignificant effect on FDI during the study period. These results suggest that foreign investors place more importance on stable economic policies and access to international trade than on the size of the domestic market. The study concludes that improving macroeconomic stability and enhancing trade openness are crucial strategies for increasing FDI in Tanzania. It recommends that the government adopt policies that promote a favorable investment climate, maintain fiscal and monetary discipline, and remove barriers to international trade in order to attract and sustain foreign investment.

***Keywords**: Foreign Direct Investment, Economics, Market Size, Trade Openness*

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LIST OF ABREVIATIONS

GDP	Gross Domestic Product
MNCs	Multinational Companies
MNE	Multinational Enterprise
OLI	Ownership, Location and Internalization
TNC	Trans National Corporation
WIR	World Investment Report

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Foreign Direct Investment (FDI) is widely regarded as a vital factor in economic growth and development, particularly in emerging economies (). Globally, FDI has been instrumental in promoting technological advancements, job creation, productivity enhancement, and infrastructure improvement (Hoang & Goujon, 2014). For example, China's sustained economic growth in recent decades has been significantly supported by substantial FDI inflows, amounting to approximately $136 billion in 2017 alone (WIR, 2018). Similarly, other developing nations such as Vietnam and India have benefited from consistent foreign investments, enhancing their economic capabilities and global competitiveness. However, according to the World Investment Report (WIR, 2018), global FDI flows experienced a significant reduction of approximately 23% in 2017, posing substantial challenges for economies heavily reliant on such investments. Factors contributing to this decline included geopolitical tensions, shifts in international trade policies, and reduced global economic growth (Alfaro & Chauvin, 2020).

In Africa, the scenario concerning FDI has been complex and varied. The continent witnessed a substantial decrease of 21% in FDI inflows in 2017, dropping to $42 billion (Mamingi & Martin, 2018). This decrease was primarily driven by declining commodity prices, particularly due to reduced global demand for oil and minerals, negatively impacting resource-dependent nations like Nigeria and Angola.

Additionally, political instability and governance challenges in various African countries have further deterred potential investors, exacerbating the reduction in overall FDI flows to the continent (Mwitta, 2022).

Nevertheless, certain African countries with diversified economies and strengthened export capabilities have successfully attracted increased FDI. Ethiopia has become increasingly attractive to foreign investors due to its rapidly growing manufacturing sector, improved infrastructure, and enhanced export performance in textiles and garments (Ashine, 2024). In North Africa, despite an overall slight decline of 4%, totaling $13 billion in 2018, Morocco notably experienced a 23% increase, attracting approximately $2.7 billion in FDI, primarily driven by its thriving automotive industry and progressive economic reforms (El Menyari, 2021). Meanwhile, Egypt maintained its position as the largest FDI recipient in Africa, despite experiencing declining inflows, mainly due to its sizable consumer market and strategic location (WIR, 2018).

Tanzania, specifically, faces unique challenges in attracting significant and sustained levels of FDI (Utouh et al., 2024). Structural limitations such as inadequate infrastructure, limited financial resources, inconsistent policies, and macroeconomic instability have significantly impacted its ability to attract foreign investments (Abdoulaye, 2015). Institutional barriers, including bureaucratic procedures, corruption and complex regulatory frameworks, alongside policy inefficiencies such as frequent policy shifts and unclear investment guidelines, have further restricted Tanzania's capacity to fully benefit from FDI (Kitole & Utouh, 2024). Additionally, limited absorptive capacity, reflecting inadequate workforce skills, insufficient

technological infrastructure and weak mechanisms for technology transfer and integration, has compounded these challenges (Utouh et al., 2024).

The FDI inflow in Tanzania reached its peak in 2010 at 5.66% of GDP but has since declined significantly to only 1.36% in 2021, falling well below the global average of around 3.69% (The Global Economy, 2023; Utouh et al., 2024). This drop in investment inflows has negatively affected crucial economic sectors, notably manufacturing, which heavily relies on foreign capital for technological advancements, equipment upgrades and increased production capacity (Utouh et al., 2024). The resulting stagnation in manufacturing has hindered overall economic growth, limited employment creation, and reduced opportunities for local businesses and entrepreneurs, emphasizing the urgency for Tanzania to improve its investment climate and attract sustained FDI inflows exceeding the critical benchmark of 7% of GDP (Byaro et al., 2022).

Given this context, clearly identifying and understanding the determinants of FDI inflows to Tanzania has become critically important. Previous research highlights macroeconomic policy, market size, and trade openness as pivotal determinants influencing foreign investors' decisions (Al Mustofa et al., 2021; Lim, 2001). These factors are chosen for their proven theoretical and empirical relevance and their direct applicability to Tanzania’s economic situation.

Macroeconomic policies in Tanzania, including fiscal responsibility, monetary policy effectiveness and governance quality, play a vital role in creating a stable investment climate (Kitole & Utoh, 2024). For instance, consistent and predictable fiscal policies,

such as prudent management of public expenditures and sustainable debt levels, can significantly influence investor confidence (ibid). Market size, influenced by demographic growth and economic expansion, is crucial in determining investment attractiveness. Tanzania's growing population and increasing urbanization present significant market opportunities for investors, especially in consumer goods and services sectors (Byaro et al., 2022). Moreover, Tanzania's openness to trade, evidenced by its involvement in regional and international trade agreements such as the East African Community (EAC) Customs Union and the African Continental Free Trade Area (AfCFTA), significantly impacts foreign investor perceptions and investment decisions (Mwitta, 2022). These agreements facilitate trade, reduce barriers, and enhance market access, making Tanzania a more attractive investment destination.

Despite the established importance of these factors, research findings remain mixed and sometimes conflicting. For instance, Al Mustofa et al. (2021) highlighted a positive correlation between trade openness and FDI, whereas Utouh et al. (2024) found no significant relationship in certain contexts. Similarly, Kitole & Utoh (2024) have indicated macroeconomic stability as crucial for attracting investments, while others emphasize market size as a more influential determinant. These conflicting results underscore the need for comprehensive, context-specific studies. Therefore, this study aims to clarify how macroeconomic policy, market size and trade openness individually and collectively influence FDI in Tanzania, providing insights to assist policymakers and stakeholders in enhancing the country's investment climate and fostering sustainable economic development.

1.2 Statement of the Research Problem

Tanzania faces a persistent challenge in attracting sufficient volumes of Foreign Direct Investment (FDI), despite repeated policy efforts such as investment incentives, establishment of special economic zones and trade liberalization initiatives (Mwitta, 2022). While these dynamics have been described in the background, the core issue remains: FDI inflows are too low to meet the country's development needs. With levels falling to just 1.36% of GDP in 2021 far below the 7% considered ideal the country is not leveraging FDI effectively as a growth engine (Byaro et al., 2022). This insufficiency hampers the development of critical sectors like manufacturing and infrastructure, limiting job creation and technological advancement.

Several empirical studies have examined the determinants of FDI in Tanzania, but the results vary in emphasis and methodological approach. Kingu (2016) identified GDP growth, trade openness, and inflation as key influences on FDI between 1970 and 2012. Mfinanga (2018), covering 1990 to 2015, emphasized market size, trade openness, inflation, and the exchange rate highlighting the latter as particularly impactful, as fluctuations in the exchange rate can affect investor confidence, influence the cost of capital, and alter the relative value of returns on investment. More recently, Mwigeka (2023) used econometric models like ARDL and ECM, which are useful for analyzing dynamic relationships and capturing both long-term equilibrium and short-term adjustments, to explore both long- and short-term determinants. His findings suggest real GDP and trade openness are important in the long run, while short-term FDI dynamics are shaped more by domestic investment trends and monetary policy.

Although these studies offer valuable insights, they differ in focus, methods and

variables for example, while Kingu (2016) prioritized macroeconomic indicators such as GDP and inflation, Mfinanga (2018) placed greater emphasis on exchange rates and trade openness. Coupled with changes in Tanzania's macroeconomic environment, this underscores the need for an updated study that reflects current realities. Notably, there is still no consensus on which variables most reliably influence FDI in Tanzania. This study addresses that gap by analyzing the determinants of FDI in Tanzania from 1990 to 2021, focusing on macroeconomic policy, market size and trade openness. These factors were selected for their theoretical and empirical significance and relevance to Tanzania's policy context. The goal is to provide evidence-based insights to help policymakers enhance Tanzania's FDI attractiveness through targeted decisions such as improving tax incentives, streamlining investment procedures, and strengthening trade policy, ultimately supporting broader economic development.

1.3 Research Objectives

1.3.1 General Research Objective

The main objective of this study is to examine the determinants of Foreign Direct Investment in Tanzania.

1.3.2 Specific Research Objectives

i) To examine the effect of Macroeconomic policy on Foreign Direct Investment.

ii) To examine the effect of Market size on Foreign Direct Investment.

iii) To examine the effect of Trade openness on Foreign Direct Investment.

1.4 Research Hypothesis

i) Macroeconomic policy has significant effect on Foreign Direct Investment.

ii) Market size has significant effect on Foreign Direct Investment.

iii) Trade openness has significant effect on Foreign Direct Investment.

1.5 Relevance of the Study

The findings of this study on determinants of FDI in Tanzania will be significant to the following parties;

Investors can use the research findings on the determinants of FDI in Tanzania as a reference for identifying key internal parameters to monitor when making investment decisions and addressing issues related to underperformance in investments in the country.

To policymakers: This study on the determinants of Foreign Direct Investment (FDI) in Tanzania will provide valuable insights to policymakers by identifying the variables that significantly influence FDI inflows in the country. The study results can be used as a reference by the Government to formulate monetary and fiscal policies that align with the preferences of direct investors interested in investing in Tanzania. Additionally, these factors can divert policymakers' attention from irrelevant areas, resulting in a misallocation of resources in an attempt to increase Foreign Direct Investment (FDI).

The research results on factors influencing Foreign Direct Investment (FDI) in Tanzania could be advantageous for researchers, academics, and investment experts. It contributes to the current knowledge on FDI and serves as a starting point for future research in this field and related areas within the investment sector.

1.6 Organization of the Study

The research paper is structured into five distinct chapters. The initial segment comprises introductory details, a statement of the research problem, research objectives, a research hypothesis, as well as the study's scope and significance. A literature review comprising conceptual definitions, theoretical literature, empirical studies, and a conceptual framework is presented in Chapter 2. The methodology of the research utilized for the study is described in Chapter 3. The data analysis is detailed in Chapter 4, while the results and recommendations are presented in Chapter 5.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter provides a comprehensive review of relevant literature for the study, including definitions of key terms, theoretical framework, empirical literature, research gaps, and conceptual framework, all detailed in subsequent subsections.

2.2 Conceptual Definitions

2.2.1 Market Size

Market size refers to the total potential sales or number of customers within a specific market. Van Doorn (2003) defines it as the maximum number of sales or clients a company can attract. Similarly, Prince and Vijay (2019) describe it as the number of potential customers or total sales revenue that can be generated over a particular timeframe, typically a year. In this study, market size is used to measure the economic capacity of Tanzania to attract foreign investors. A larger market suggests greater demand and business opportunities, which can positively influence foreign direct investment (FDI) inflows.

2.2.2 Trade Openness

Trade openness reflects the extent to which a country is integrated into the global economy through trade. Choi and Yüce (2016) define trade openness as the degree to which a country's economy is oriented toward external markets. Rodrik (2000) adds that it encompasses reduced trade barriers, tariff reforms, and the liberalization of

import and export activities. In the context of this study, trade openness is assessed as a determinant of FDI in Tanzania by analyzing whether increased openness encourages more investment from foreign firms.

2.2.3 Macroeconomic Policy

Macroeconomic policy involves government strategies aimed at managing the economy's performance. According to Kumari and Sharma (2017), it includes fiscal and monetary policies designed to stabilize and grow the national economy. Le et al. (2019) emphasize that sound macroeconomic policies create an environment conducive to long-term development, employment, and prosperity. This study evaluates how Tanzania's macroeconomic policies such as inflation control, interest rate management, and fiscal discipline affect FDI inflows, under the assumption that economic stability is a key factor for attracting foreign investors.

2.2.4 Foreign Direct Investment

Foreign direct investment (FDI) refers to the acquisition of lasting interest and control in a foreign business by an investor from another country. Umah (2007) defines it as owning a controlling stake in a business abroad, while Asongu et al. (2018) describe it as active participation by foreign enterprises in the management and operations of a host country's firm. In this study, FDI is the dependent variable. The research seeks to determine how it is influenced by macroeconomic policy, market size, and trade openness in Tanzania between 1990 and 2021.

2.3 Theoretical Analysis

A theory is a collection of beliefs held by an individual or a group that aims to elucidate

current circumstances and forecast future events. The theory utilized is presented as follows:

2.3.1 Theory of Economic Geography

The Theory of Economic Geography has its roots in classical economics and was modernized by Paul Krugman in 1991 (Krugman, 1997). It focuses on the spatial distribution of economic activities and explains why certain regions attract more investment (Gaspar, 2022). Early thinkers like von Thünen and Weber introduced ideas on location theory; von Thünen is known for his model of agricultural land use based on distance from markets, while Weber developed a theory explaining industrial location based on minimizing transportation and labor costs (Hidalgo, 2021; Walker, 2022). These foundational ideas paved the way for Krugman's work, which incorporated more complex economic dynamics such as increasing returns to scale and market accessibility, while Krugman built on this by integrating market size, transportation costs, and economies of scale (Walker, 2022).

Krugman (1991) developed the "New Economic Geography," expanding on earlier location theories by incorporating modern economic elements such as scale economies, transportation costs, and market access (Gaspar, 2022). Subsequent scholars have built on Krugman's model by applying it to real-world investment behavior. For instance, Yarbrough and Yarbrough (2002) adapted the theory to explain how infrastructure and market characteristics shape FDI decisions, while Aiello et al. (2009) further emphasized the role of public infrastructure in shaping capital allocation by firms. These studies reinforce Krugman's central idea that economic geography

plays a critical role in investment location choices, which shows that firms choose locations based on a balance between forces that attract them to central areas (such as market access and lower production costs) and forces that push them away (such as congestion and high expenses) (Ramirez & Lizarazo, 2024). Yarbrough and Yarbrough (2002) describe the theory as a model that explains Foreign Direct Investment (FDI) decisions through spatial factors like infrastructure, trade openness and market size. Aiello et al. (2009) support this by showing that public investment in infrastructure influences firms' capital investment decisions.

The theory has been used in East Asia, for instance, it explains high FDI inflows to Vietnam and Malaysia due to their export-friendly environments and infrastructure (Lai & Samers, 2021). In Africa, it highlights why coastal nations like South Africa and other with better trade access attract more FDI than landlocked ones like DRC OR Botswana (Cruz & Rossi-Hansberg, 2024). In this study, the Theory of Economic Geography helps explain how Tanzania's macroeconomic policy, market size and trade openness influence its ability to attract FDI. The theory suggests that investors are more likely to invest in countries with economic stability, growing markets and access to global trade (Pavlínek, 2022).

One of the key strengths of the Theory of Economic Geography is its integration of both geographic and economic dimensions to explain patterns of FDI (Gaspar, 2021). It recognizes that investment decisions are not influenced by economic factors alone, but also by spatial considerations such as proximity to markets, transportation logistics, and regional infrastructure (ibid). This comprehensive approach makes the

theory particularly useful for analyzing investment trends in developing economies like Tanzania, where both location and economic policy are critical to investor decision-making. The theory's ability to highlight the interplay between market size, infrastructure and openness offers a solid foundation for identifying priority areas for policy intervention (Pavlínek, 2022).

Despite its strengths, the theory is not without limitations. One major weakness is its assumption of ideal or near-perfect market conditions, which rarely exist in practice, especially in developing countries (Sarker & Serieux, 2023). Azam et al. (2011) note that the theory overlooks important contextual factors such as institutional weaknesses, political instability, and regulatory uncertainty that often shape investment decisions in low-income economies. These omissions can limit the theory's explanatory power when applied without adaptation to real-world complexities (Pavlínek, 2022).

To overcome these limitations, this study incorporates Tanzania-specific realities such as policy inconsistency, underdeveloped infrastructure and bureaucratic barriers. By doing so, it ensures that the application of the Theory of Economic Geography is grounded in the country's current investment context and remains relevant to actual investor concerns.

In summary, the Theory of Economic Geography is relevant for this study as it supports the investigation of how macroeconomic policy, market size and trade openness influence FDI (Pászto, 2020). These three variables are directly aligned with the theory’s emphasis on economic stability, market accessibility and integration into global trade systems. The theory therefore provides a solid conceptual framework for

analyzing the spatial and economic factors that attract foreign investors to Tanzania, while guiding the development of targeted policy recommendations as it supports the investigation of spatial and economic factors influencing FDI (Redding, 2022). It provides a useful guide for identifying the variables that matter most to foreign investors and supports the study's aim of offering practical recommendations for Tanzania.

2.4 Empirical Analysis of Relevant Studies

2.4.1 The Effect of Macroeconomic Policy on Foreign Direct Investment

Villaverde (2010) in his doctoral dissertation titled "A Macroeconomic Approach of Foreign Direct Investment (FDI) in Post-Castro Cuba," Villaverde explores the potential impact of macroeconomic policies on attracting FDI to a post-Castro Cuba. The study employs a qualitative research design, analyzing historical data and policy frameworks to assess how macroeconomic stability, fiscal policies, and monetary policies could influence FDI inflows. Villaverde concludes that establishing a stable macroeconomic environment is crucial for attracting FDI and recommends comprehensive economic reforms to create an investor-friendly climate. The study implies that macroeconomic stability is a prerequisite for FDI attraction.

Gokmen (2021) in the paper "The Relationship between Foreign Direct Investment and Economic Growth: A Case of Turkey," Gokmen examines the relationship between net FDI inflows and real GDP for Turkey from 1970 to 2019. Employing the Vector Error Correction Model, Granger Causality, Impulse Response Functions, and Variance Decomposition, the study finds a unidirectional significant short-run positive

effect of real GDP on net FDI inflows to Turkey, with no long-run effect detected. The findings recommend that Turkish authorities optimally benefit from the potential positive effect of net incoming FDI on real GDP by allocating it to productive sectoral establishments while effectively maintaining the country's real economic growth to attract further FDI inflows. The study implies that economic growth can lead to increased FDI inflows in the short run.

Adeyeye & Pelser (2017) in their paper "Foreign Direct Investment and Economic Growth in Africa: A Comparative Analysis," Adeyeye and Pelser investigate the effect of FDI on economic growth in selected African economies, including South Africa, Nigeria, Egypt, Kenya, and the Central African Republic, from 1980 to 2014. Utilizing a modified growth model and employing Ordinary Least Squares (OLS) and dynamic panel estimation techniques, the study examines how country-specific macroeconomic factors can explain variations in the growth benefits of FDI. The findings reveal that the impact of FDI on economic growth varies across countries, suggesting that macroeconomic policies play a significant role in mediating FDI effects. The study recommends that African governments implement sound macroeconomic policies to maximize the benefits of FDI. The implication is that tailored macroeconomic policies are essential for optimizing FDI's contribution to economic growth.

Nambie (2022) in the article "Foreign Direct Investment and Macroeconomic Stability in Africa: Does Governance Matter," Nambie explores the relationship between FDI and macroeconomic stability in Africa from 2012 to 2021, including the moderating effect of governance quality. Using panel data gathered from the World Bank and a

Generalized Method of Moments (GMM) estimator, the study discovers a substantial correlation between FDI and macroeconomic stability in Africa. Additionally, it shows that governance quality measures have a significant association with FDI and macroeconomic stability. The study implies that fluctuations in inflation, unemployment rate, exchange and interest rates, which make up the macroeconomic stability index, and the quality of governance can considerably impact the growth of FDI in Africa. The study recommends that African governments implement procedures to improve macroeconomic stability and governance quality to encourage significant increases in FDI. The implication is that both macroeconomic stability and governance quality are crucial for attracting FDI.

Irangi (2019) in the dissertation "Macroeconomic Variables and Foreign Direct Investment Inflows in Tanzania: 1990-2017," Irangi analyzes the relationship between macroeconomic variables, such as market size, trade openness, inflation, interest, and exchange rates, and FDI inflows in Tanzania. Employing a multiple regression model on secondary data, the study finds that the exchange rate is a major determinant of FDI inflows, indicating that exchange rate stability significantly influences foreign investors' decisions. The study concludes that maintaining a stable exchange rate is vital for attracting FDI and recommends that policymakers focus on stabilizing macroeconomic indicators to enhance FDI inflows. The study implies that macroeconomic stability, particularly in exchange rates, is critical for FDI attraction in Tanzania.

Bishagazi (2021) in the study "Macroeconomic Policies, Foreign Direct Investment

and Emerging Sectors in Tanzania," Bishagazi examines the relationship between macroeconomic policies and FDI inflows in Tanzania, focusing on emerging sectors. The study employs a quantitative research design, utilizing time series data and econometric modeling to assess the impact of macroeconomic variables on FDI. The findings indicate that macroeconomic stability, particularly in terms of inflation and exchange rates, positively influences FDI inflows into emerging sectors. The study concludes that sound macroeconomic policies are essential for attracting FDI into new and developing industries and recommends that Tanzanian policymakers prioritize macroeconomic stability to foster investment in emerging sectors. The implication is that stable macroeconomic conditions are conducive to attracting FDI into emerging sectors in Tanzania.

2.4.2 The Effect of Market Size on Foreign Direct Investment

Faruq (2023) in the study "The Determinants of Foreign Direct Investment (FDI): A Panel Data Analysis for the Emerging Asian Economies," Faruq examines the economic, institutional, and political factors influencing FDI inflows in 24 emerging Asian economies from 2002 to 2018. Utilizing panel data regression models, the study finds that market size, measured by GDP, significantly affects FDI inflows. The research concludes that larger markets attract more FDI and recommends that emerging economies focus on policies that promote economic growth to increase market size. The implication is that expanding market size through economic growth can enhance FDI attraction.

Khamphengvong et al. (2018) in the article "Inflow Determinants of Foreign Direct

Investment," the authors investigate the factors influencing FDI inflows in selected Asian countries. The study employs panel data analysis and finds that market size, represented by GDP, is a significant determinant of FDI inflows. The research concludes that countries with larger economies are more likely to attract foreign investors and recommends that policymakers implement strategies to boost economic growth to enhance market size. The implication is that a robust and growing economy is essential for attracting FDI.

Adelakun and Ogujiuba (2023) in their paper "A Comparative Analysis of the Determinants of Foreign Direct Investment: The Case of Top Ten Recipients of Foreign Direct Investment in Africa," Adelakun and Ogujiuba analyze factors influencing FDI in Africa's top ten FDI recipients from 1970 to 2021. Using a comparative analysis approach, the study finds that market size, proxied by GDP, is a significant determinant of FDI inflows. The authors conclude that larger markets are more attractive to foreign investors and recommend that African countries implement policies aimed at expanding their economies to enhance market size and attract more FDI. The implication is that economic expansion and increased market size are crucial for FDI inflows.

Adams (2009) in the study "Foreign Direct Investment, Domestic Investment, and Economic Growth in Sub-Saharan Africa: Evidence from Ghana," Adams examines the relationship between FDI and economic growth, considering the role of market size. The research utilizes time-series data and finds that market size positively influences FDI inflows. The study concludes that expanding the domestic market can

lead to increased FDI and recommends policies that stimulate economic growth to enhance market size. The implication is that a larger domestic market is a key factor in attracting foreign investment.

Moshi (2015) in the research "Factors Influencing Foreign Direct Investment Inflow in Tanzania," Moshi explores the relationship between various variables, including market size, and FDI inflow in Tanzania. The study employs a quantitative research design and finds that market size has a positive impact on FDI inflows. The study concludes that expanding Tanzania's market size can attract more FDI and recommends policies aimed at boosting economic growth to increase market size. The implication is that a larger market can serve as a significant incentive for foreign investors.

2.4.3 The Effect of Trade Openness on Foreign Direct Investment

Le et al. (2023) in their study titled "Political Stability and Foreign Direct Investment Inflows in 25 Asia-Pacific Countries: The Moderating Role of Trade Openness," Le et al. analyze the effects of trade openness and political stability on FDI inflows from 1990 to 2020. Employing the dynamic system Generalized Method of Moments (GMM), the study finds that trade openness positively affects FDI, while political stability has a negative effect. Notably, trade openness moderates the relationship between political stability and FDI.

The study concludes that increasing trade openness can enhance FDI inflows, even in less politically stable environments, and recommends policies that promote trade

liberalization to attract foreign investment. The implication is that trade openness is a significant determinant of FDI in the Asia-Pacific region.

Wiredu et al. (2020) in the study "The Relationship between Trade Openness, Foreign Direct Investment and Economic Growth in West Africa: Static Panel Data Model," Wiredu, Nketiah, and Adjei investigate the relationship between trade openness, FDI, and economic growth in four West African countries (Côte d'Ivoire, Ghana, Nigeria, and Senegal) during 1998 to 2017. Employing static panel regression techniques, the study finds that trade openness has a positive and significant impact on economic growth, while FDI shows a negative impact. The study concludes that trade openness contributes to economic growth and recommends policies that enhance trade liberalization. The implication is that trade openness is beneficial for economic growth in West Africa.

Chibalamula et al. (2023) in the paper "The Effect of Foreign Direct Investment and Trade Openness on Economic Growth in Five African Countries," Chibalamula, Evans, and Bamwesigye examine the significance of FDI and trade openness in Ghana, Morocco, Kenya, Uganda, and Zambia from 1994 to 2019. Using panel data analysis, the study finds that both FDI and trade openness positively impact economic growth. The study concludes that FDI and trade openness support economic development and recommends that governments in these countries implement policies to attract FDI and promote trade openness. The implication is that both factors are crucial for economic growth in these African nations.

Yusuf and Omar (2019) in their research "Trade Openness and Economic Growth of Tanzania," Yusuf and Omar examine the impact of trade openness on economic growth in Tanzania for the period 1981 to 2017. Utilizing co-integration and Vector Error Correction Mechanism (VECM) approaches, the study finds a positive long-run relationship between trade openness and economic growth. The study concludes that trade openness positively influences economic growth and recommends that the government encourage the production of domestic products for export by developing more domestic industries and attracting more investors. The implication is that trade openness is beneficial for Tanzania's economic growth.

2.5 Research Gap Identified

Although many studies have explored the factors that influence Foreign Direct Investment (FDI), important gaps remain, especially in the case of Tanzania. These gaps relate to methodology, concepts, context, and evidence.

Methodologically, most existing studies on FDI use cross-country data. For example, Faruq (2023), Le et al. (2023), and Adeyeye and Pelser (2017) used panel data covering multiple countries. While useful for comparisons, such studies do not reflect the unique economic conditions of individual countries like Tanzania. In contrast, studies conducted in Tanzania, such as those by Irangi (2019) and Bishagazi (2021), used basic statistical models that do not examine both short-term and long-term effects. There is a need for a country-specific study that applies advanced time-series techniques over a longer period.

Conceptually, most studies have examined the effect of one or two variables on FDI without linking them under a common theoretical framework. For example, Gokmen (2021) focused on GDP in Turkey, while Khamphengvong et al. (2018) studied market size. In Tanzania, Moshi (2015) included several variables but did not explain their relationship using a theory. None of these studies applied the Theory of Economic Geography, which helps explain investment decisions by combining economic and location-based factors. This creates a gap in how these variables are understood together.

Contextually, few studies have focused entirely on Tanzania, and those that do are now outdated. For instance, Irangi (2019) covered data only up to 2017, and Moshi (2015) used earlier economic data. These studies do not reflect recent changes in Tanzania's policies and economy, especially after 2015. A study covering a longer and more current period is needed to provide updated insights.

Empirically, results from past studies are inconsistent. Faruq (2023) and Adelakun and Ogujiuba (2023) found that market size strongly influences FDI, but Irangi (2019) found it was not significant in Tanzania. Similarly, while Le et al. (2023) and Chibalamula et al. (2023) found that trade openness affects FDI positively, Yusuf and Omar (2019) found weaker results in Tanzania. These mixed findings show the need for a focused study using consistent data and methods.

This study aims to close these gaps by using national data from 1990 to 2021. It examines the impact of macroeconomic policy, market size, and trade openness on

FDI in Tanzania. The study also uses the Theory of Economic Geography to guide its analysis, offering a clear and practical understanding of the factors that influence foreign investment in the country.

2.6 Conceptual Framework

As demonstrated by the conceptual framework, dependent and independent variables are interconnected. Foreign direct investment is the dependent variable, whereas trade openness, market size, and macroeconomic policy are the independent variables.

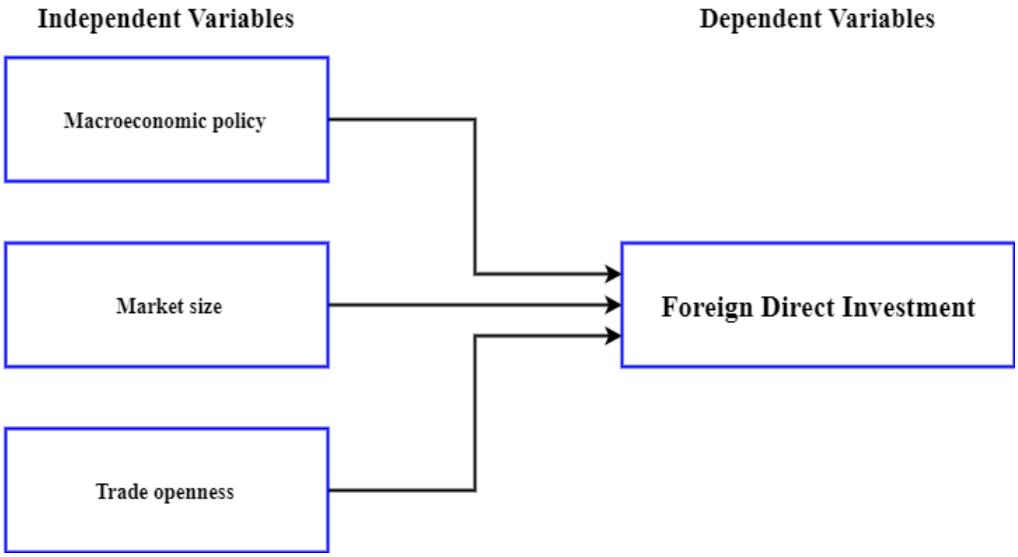

Figure 2.1: Conceptual Framework

Source: From Literature Reviews

Hypotheses

H1: Trade openness positively impacts Foreign Direct Investment in Tanzania. Expected positive relationship with Foreign Direct Investment (FDI), as a more open economy attracts foreign investors seeking access to broader markets.

H2: Market Size has a significant positive impact on Foreign Direct Investment in Tanzania. Anticipated positive relationship with FDI, as a market size provides more significant opportunities for sales and profit generation.

H3: Macroeconomic Policy has a significant positive influence on Foreign Direct Investment in Tanzania. Expected positive relationship with FDI, as sound macroeconomic policies create a stable and attractive investment climate.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

The present chapter is devoted to the methodology framework, which comprises the following: The study includes research approach, research philosophy, research design, area of the study, data collection and data analysis.

3.2 Research Approach

This study adopted a quantitative research approach. The choice of this approach was guided by its suitability for analyzing numerical data and testing statistical relationships among variables. Specifically, the study examined secondary data related to the impact of macroeconomic policy, market size and trade openness on Foreign Direct Investment (FDI) in Tanzania. A quantitative approach allows for the use of mathematical, statistical, and econometric tools to analyze secondary time series data, making it ideal for identifying patterns and trends in FDI inflows (Saris & Gallhofer, 2014). Furthermore, this approach enables the generalization of findings, which is important for informing policy decisions at the national level (Creswell, 2014). Given the nature of the research objectives and the focus on quantifiable economic indicators, the quantitative method provides a structured and objective framework for evaluating the determinants of FDI in the Tanzanian (Kothari, 2019).

3.3 Research Philosophy

A research philosophy is a belief about the way in which data about a phenomenon should be gathered, analyzed and used. The term epistemology (what is known to be

true) as opposed to doxology (what is believed to be true) encompasses the various philosophies of research approach (Kumar, 2019). This study applied Positivisms research philosophy because it is quantitative study. Since, this study was limited to data collection and interpretation in to objective way, hence the findings was quantified and analyzed. Positivisms states that reality is stable and can be observed and described from an objective viewpoint without interfering with the phenomenon being studied (Levin, 1988). The positivist paradigm is a research philosophy that emphasizes objectivity, empirical evidence, and the use of quantifiable data to uncover universal truths or laws. Rooted in the natural sciences, it assumes that reality is objective, measurable, and independent of human perceptions (Kumar, 2019).

3.4 Research Design

A descriptive research design was used for the study. Saunders et al. (2007) state that in a descriptive research design, a researcher's primary focus is on providing a detailed description of the circumstance or case being studied. The study utilized a descriptive research design to provide quantitative methodologies specific to this topic. This is a theory-driven design approach that involves collecting, analyzing, and presenting data to help researchers gain insights into the underlying reasons and methods of research, allowing for the generalization of findings (Kothari, 2019).

3.5 Area of the Study

The study focuses on the Tanzanian economy, specifically examining the factors influencing Foreign Direct Investment (FDI). Tanzania was selected due to its continued struggle to attract significant FDI despite past policy efforts. The analysis is

based on annual national data covering four variables: macroeconomic policy, market size, trade openness and FDI. The study period spans from 1990 to 2021, chosen to capture long-term trends, policy shifts, and major economic developments affecting FDI inflows.

3.6 Methods of Data Collection

The data focused on four key variables: Foreign Direct Investment (FDI), macroeconomic policy indicators (such as inflation and interest rates), market size (measured by GDP), and trade openness (measured by the ratio of exports and imports to GDP). These data were obtained from financial stability reports and economic publications issued by the Bank of Tanzania (BOT), the World Bank, the International Monetary Fund (IMF), and the National Bureau of Statistics of Tanzania. Utilizing multiple sources ensured triangulation and validation of the data. According to Kombo and Silverman (2006), secondary data consists of information that has been collected from primary sources in the past and is readily available for researchers to incorporate into their own investigations. As required by the study objectives, secondary data was crucial to the development of the study by providing a solid foundation and bolstering the literature review.

3.7 Data Processing and Analysis

The data was sorted, classified, coded, and organized into tables for analysis. The collected data was analyzed using inferential statistics. The analysis was conducted using SPSS version 23 software due to its user-friendly interface. Descriptive, correlational, and regression analyses were utilized in order to examine the data. The

study utilized time series data to analyze, interpret, and draw conclusions. The researcher utilized correlation and multiple regression in inferential statistics to establish the connection between independent variables and dependent variables.

To determine the relative significance of each of the explanatory variables, a multiple regression model was applied as follow.

$FDI = \beta_0 + \beta_1 TO + \beta_2 MS + \beta_3 MP + \epsilon$

Where;

TO= Trade openness

MS= Market size

FDI = Foreign direct investment

MP= Macroeconomic policy

β_0 = Co-efficient (Intercept) of the model

$\beta_1 - \beta_3$ = Beta Co-efficients of Determinants

ϵ = Stochastic Error Term

3.8 Statistical Assumption/Test

Before applying regression model for data analysis, the study ensured validity by conducting of statistical test such as multicollinearity and unit root.

3.8.1 Multicollinearity Test

Multicollinearity was assessed using the Variance Inflation Factor (VIF). The variance inflation factor, also known as the VIF, is a statistical measure that quantifies the degree to which multicollinearity increases the variance of a regression coefficient in

a model. A VIF over 10 indicates the presence of multicollinearity, and vice versa.

3.8.2 Unit Root Test

In this part of the procedure, the Augmented Dickey-Fuller test (ADF) was utilized in order to investigate whether or not the data were stationary. Non-stationary data is characterized by the absence of a consistent mean variance and auto-covariance at various time lags in a given data series (Gujarati, 2003). Assuming a p-value below 0.05, the variables are deemed stationary.

3.8.3 Heteroskedasticity

The research employed a heteroscedasticity test. In this inquiry, the Breusch-Pagan or Cook-Weisberg test was applied. When the p-value attains significance with a 95% confidence level, it indicates that the data are heteroscedastic. If the p-value is greater than 0.05, on the other hand, the data do not exhibit heteroscedasticity.

3.9 Hypothesis Testing

If the p-value is less than 0.05, then the hypothesis is supported; on the other hand, if the p-value is significantly higher than 0.05, then the hypothesis is refuted. Both the forecasting of the dependent variable by taking into account the independent variables and the determination of whether or not the independent variables contribute to the dependent variable in a manner that is statistically significant were accomplished through the utilization of this methodology. In the event that the p-value is less than 0.05, it indicates that the effect that was observed is statistically significant.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Overview

This chapter presents the analysis and findings of the study as set out in the research objective. The study findings have presented the determinants of Foreign Direct Investment in Tanzania. Data were analyzed descriptively and in inferential ways.

4.2 Correlation Analysis

Correlation is a statistical analysis that quantifies the degree of the linear connection between two variables and the nature of the relationship. Gogtay and Thatte (2017) utilized Pearson(r) correlation as the primary correlation statistic to quantify the strength of the association between linearly associated variables in this investigation. Analyzing the correlation matrix provides valuable insights into the quantity and strength of correlations present.

The results indicate a positive correlation between trade openness and other variables. There is a positive correlation between trade openness and multiple other variables. The findings suggest that there is a positive correlation between the size of the market and one or more other variables. There is a positive correlation between the size of the market and other variables. There appears to be a positive correlation between macroeconomic policy and other variables, as indicated by the findings. This suggests that macroeconomic policy is positively associated with other variables. Table 4.2 displays the results of the correlation analysis.

Table 4.1: Correlations

	Foreign direct investment	Trade openness	Market size	Macroeconomic policy
Foreign direct investment	1.000			
Trade openness	0.5403	1.000		
Market size	0.2431	0.2677	1.0000	
Macroeconomic policy	0.4779	0.4549	0.5772	1.0000

Source: Researcher, (2023).

4.3 Tests for Statistical Assumptions

Various tests were conducted to prepare the data for analysis and ensure the research yielded dependable results. The tests were conducted to verify if the Regression Model assumptions hold true when the explanatory factors are regressed against the dependent variables. The next sub-section presents tests.

4.3.1 Multicollinearity Test

To evaluate multicollinearity, the Variance Inflation Factor (VIF) was utilized. According to conventional wisdom, the existence of multicollinearity is denoted by a VIF coefficient greater than 10. All of the centered VIF values in Table 4.3 are less than 10, which indicates that multicollinearity does not exist among the model's independent variables.

Table 4.2: Multicollinearity

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
Trade openness	0.012	49.525	1.234
Market size	0.011	21.869	1.292
Macroeconomic policy	0.013	26.259	1.170
C	0.000	156.354	NA

Source: Researcher, (2023).

4.3.2 Unit Root Test Results

Unit root test is used to assess the stationarity of variables using various test methodologies. It is crucial to conduct this test to prevent spurious regression, a common issue that arises when fitting a regression line to data that exhibits a time trend in its generation process. The Augmented Dickey–Fuller test (ADF) was utilized in this part to assess the stationarity of the data. Through the examination of the null hypothesis, the tests intend to ascertain whether or not a unit root is present in a sample of a time series. Depending on the test version, the alternative hypothesis often focuses on either stationarity or trend-stationarity. However, this can vary depending on the test version.

Hypothesis

Ho: There is a unit root for series

H1: There is no unit root for series

Table 4.3: Unit Root Test Statistic of Variables at Levels

Variable	Coefficient	p-value	Max lag	Remarks
Trade openness	-6.078	0.0000	2	Stationary
Market size	-5.829	0.0000	2	Stationary
Macroeconomic policy	-5.113	0.0002	2	Stationary

Source: Researcher, (2023).

At lag 2, the results of variables are examined for stationarity. Augmented Dickey-Fuller demonstrated the stationarity of all variables. This indicates that the level of confidence does not contain a unit root. Furthermore, this indicates that the p-value is

not equal to zero, the first difference is stationary, and the variable is integrated with respect to order one, denoted as I (1). Additionally, the results suggest that macroeconomic policy, market size, and trade openness have all contributed positively to foreign direct investment.

4.3.3 Heteroskedasticity

The assumption underlying heteroscedasticity is that the variance of dependent variables varies inconsistently with respect to the range of independent variables. The White test and the Breush-Pagan test were employed to evaluate homoscedasticity. The findings indicate that the null hypothesis remains unrefuted, as the p-values for both tests surpass 0.05 by a significant margin. As evidenced by the absence of heteroscedasticity in the results, no further adjustments to the sample are required.

Table 4.4: Heteroskedasticity Result

Ho: Constant variance
Obs*R-squared = 0.4341
Prob. Chi-Square = 0.353

Source: Researcher, (2022).

4.4 Regression Analysis

Regression analysis was performed to evaluate the correlation between independent and dependent variables. Regression analysis assesses the model's fit, statistical significance, and estimated coefficients to help researchers predict dependent variables based on independent variables and determine if independent variables have a statistical impact on the model.

According to the findings of the study, the R-Square value was 0.4438. With this value, it can be deduced that the independent variables, which include trade openness, market size, and macroeconomic policy, are capable of explaining 44.38 percent of the variance in the dependent variable, which is foreign direct investment. Following that, the research discovered that the model had an adjusted R2 value of 0.3842. Therefore, linear regression is responsible for explaining 38.42% of the variance that is present in the data.

A p-value that is less than 0.05 indicates that the results are statistically significant. Therefore, the results show that the probability of F being greater than 0.0008 is less than 0.05. According to statistical principles, a p-value that is lower than 0.05 indicates that the researcher is able to reject the null hypothesis, which asserts that none of the independent variables have an effect on the variable that is being studied (the dependent variable). On the other hand, the findings indicate that at least one of the independent variables (trade openness, market size, and macroeconomic policy) has an effect that is statistically significant on the dependent variable (foreign direct investment).

The positive sign of the coefficient indicates that the regression results indicated a positive relationship between trade openness and foreign direct investment (FDI) based on the independent variables. This was demonstrated by the fact that the coefficient was positive. There is a correlation between an increase of one unit in trade openness and a predicted increase of 0.1772737 units in foreign direct investment. The positive correlation supports the concept that higher trade openness leads to greater

foreign direct investment, as suggested by Liargovas and Skandalis (2012). Compared to the standard significance threshold of 0.05, the p-value of 0.035 is significantly lower. This lends credence to the notion that the estimated coefficient for trade openness possesses statistical significance. Given that the p-value indicates that the null hypothesis is rejected at a significance level of 5%, it can be concluded that trade openness does, in fact, have a statistically significant effect on foreign direct investment in Tanzania.

The findings also indicate that the size of the market had no significant impact on the amount of foreign direct investment. There is a positive correlation between the market size and the estimated coefficient of market size, which was.000669. Therefore, it can be deduced that a one-unit increase in the size of the market would result in a one-unit increase in the amount of foreign direct investment. Also, the estimated p-value is 430 is greater than 5%. Thus, at a 5% level of significance, study conclude that, market size has no significance. This implies that market size, has a statistically insignificant contribution to foreign direct investment.

The findings indicate that macroeconomic policy has a significant influence on the total amount of direct investment from overseas. An estimated coefficient of 0.0257827 for macroeconomic policy indicates that there is a positive relationship between the two variables. The conclusion that can be drawn from this is that an increase of one unit in macroeconomic policy is associated with an estimated increase of 0.0257827 units increase in foreign direct investment. A conventional significance level of 0.05 is exceeded by the associated p-value of 0.013, which is lower than the

conventional level. As a result, the research comes to the conclusion that there is a statistically significant connection between macroeconomic policy and foreign direct investment at a level of significance of 5%.

FDI= 4.277725 + .1772737TO + .000669MS+ .0257827MP +ϵ

The summary of the results of regression is shown below

Table 4. 5: Regression Results

Foreign direct investment	Coef.	Std. Err.	T	p>|t|
Trade openness	.1772737	.0800105	2.22	0.035
Market size	.000669	.0008346	0.80	0.430
Macroeconomic policy	.0257827	.0096629	2.67	0.013
_cons	4.277725	2.397049	1.78	0.085
Prob> F = 0.0008				
R-squared = 0.4438				
Adjusted R-squared = 0.3842				

Source: Researcher, (2023).

4.5 Discussion of Findings

The previous sections provide an overview of the study's findings. This section thoroughly examines the analysis of the results for each explanatory variable. Furthermore, the discussions examine the statistical results of the investigation regarding the prior empirical evidence. The following topics will illustrate the link between variables.

4.5.1 Impact of Trade Openness on the Foreign Direct Investment

An investigation into the relationship between Tanzania's trade openness and the amount of foreign direct investment is being carried out. According to the findings of the study, Tanzania's trade openness has a significant and favorable impact on the

country's level of foreign direct investment. According to the results of the regression analysis, there is a significant connection between trade openness and direct investment from different countries. In terms of trade openness, the estimated coefficient was 0.1772737, which indicates that there is a positive relationship. by multiplying the coefficient by an exponent. In this way, the multiplicative factor is calculated for each one-unit increase in the independent variable. For instance, the coefficient is equal to 0.1772737, ln (1.01) * 0.1772737 ≈ 0.00176.

Trade openness is the independent variable, and for every one percent increase in that variable, our dependent variable (Foreign direct investment) increases by a factor of about 0.00176. The estimated p-value of 0.035 is less than 5%, indicating that the computed coefficient is statistically significant. Consequently, the findings of the study indicate that there is a significant relationship between trade openness and Foreign Direct Investment (FDI) at a level of significance of three percent. The results are consistent with the investigation conducted by Tran et al. (2020) regarding the determinants of foreign direct investment in Tay Ninh Province.

International Direct Investment (FDI) is influenced by financial development, market size, economic growth, infrastructure, trade openness, a depreciated currency, and the corporate tax rate, according to the study. The combined influence of market size, macroeconomic policy, and economic growth is frequently recognized as a significant determinant for foreign direct investment (FDI) that targets specific markets. Given the substantial positive correlation between trade openness and foreign direct investment (FDI), it follows that policies designed to expand trade openness may play

a pivotal role in attracting such investments. Enhancing international trade relations has the potential to attract foreign direct investment to Tanzania, making a significant contribution to the growth and development of the country's economy as a result.

4.5.2 Impact of Market Size on the Foreign Direct Investment

The study examined the impact of market size on foreign direct investment in Tanzania. Additionally, the research experiment hypothesized that the size of the market does not have a significant influence on the amount of foreign direct investment in Tanzania. The results of the regression showed that there is a significant relationship between the size of the market and foreign direct investment. The market size was estimated to have a coefficient of 0.000669, which indicates that there is a positive relationship.

$\ln(1.01) * 0.000669 \approx 0.00000665$

This implies that a 1% increase in market size would lead to an increase the foreign direct investment by about 0.00000665. Also, the estimated p-value is 430 is greater than 5%. Thus, at a 5% level of significance, study conclude that, market size has no significance. This implies that market size, has a statistically insignificant contribution to foreign direct investment. The findings are in accordance with Researching the determinants of FDI inflows in developed economies, Dellis et al. (2017) demonstrated that market size had no appreciable effect on FDI. Nguyen (2016), on the other hand, investigated the factors that determined foreign direct investment (FDI) in Vietnam from 2008 to 2012 by employing both fixed effect and random effect research methods.

The effectiveness of macroeconomic policy, market potential, labour cost, labour quality, and infrastructure are all factors that have a significant impact on foreign direct investment (FDI) in Vietnam, according to the empirical evidence that supports the notion that these factors all have a significant impact. Moreover, the wage rate and the potential size of the market are both statistically proven to have an impact on the scale of foreign direct investment projects. Taking into consideration Tanzania, the findings indicate that there is no statistically significant connection between the size of the market and the country's capacity to attract foreign direct investment. This suggests that other factors may have a more substantial influence on FDI inflows in Tanzania. Policymakers in Tanzania may need to focus on other determinants, such as macroeconomic policies, infrastructure, or labor quality, that could have a more meaningful impact on attracting foreign direct investment.

4.5.3 Impact of Macroeconomic Policy on the Foreign Direct Investment

The purpose of this study was to investigate the influence that Tanzania's macroeconomic policy has on the country's foreign direct investment. In addition, the research made the hypothesis that Tanzania's macroeconomic policy has a significant influence on the amount of foreign direct investment that the country receives. There is a significant relationship between macroeconomic policy and foreign direct investment, as demonstrated by the results of the regression analysis. The estimated coefficient of macroeconomic policy was .0257827 which shows a positive relation.

$$\ln (1.01) * 0.0257827 \approx 0.0002565$$

This implies that a 1% increase in macroeconomic policy would increase the foreign direct investment by about 0.0002565. Furthermore, the calculated p-value of 0.013 is

below the threshold of 0.05, which indicates that accepting the estimated coefficient holds statistical significance. Therefore, the study concludes, with a significance level of 5%, that there is a significant relationship between macroeconomic policy and foreign direct investment. The results of the study were further corroborated by Lulu et al. (2018), who identified the determinants of foreign direct investment. The investigation utilized a quantitative methodology. The period under consideration spanned from 2007 to 2016. On the data, diagnostic and model specification tests were conducted. Lagged macroeconomic policy had a positive and significant impact on FDI, according to the study.

The statistical significance of the positive correlation between macroeconomic policy and FDI indicates that the maintenance and improvement of favorable macroeconomic conditions may play a pivotal role in Tanzania's ability to attract foreign direct investment. The country's policymakers may consider continuing efforts to implement sound macroeconomic policies to foster a conducive environment for foreign investors. These policies typically include fiscal policy, monetary policy, Economic Stability Measures, Investment Promotion Initiatives and exchange rate policy.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview

This chapter provides study summary, conclusion of the study, recommendation and area for further study.

5.2 Study Summary

The purpose of the research was to investigate the factors that influence the level of Foreign Direct Investment in Tanzania. To be more specific, investigate the influence that the size of the market has on foreign direct investment, investigate the influence that trade openness has on foreign direct investment, and investigate the influence that Tanzania's macroeconomic policy has on foreign direct investment. The research study employed a causal effect design. The research employed secondary sources of information and spanned the years 1990 to 2021. For data analysis, correlation and multiple regression were utilized. A statistical assumptions test was utilized to ascertain whether the variables of interest exhibit any stable long-run relationships.

The findings indicate that trade openness is a significant factor that contributes to the success of foreign direct investment operations. The findings also suggest that macroeconomic policy has a significant influence on the amount of foreign direct investment that is made. The findings also suggest that the size of the market does not have a significant impact on the amount of foreign direct investment.

5.3 Conclusions

The objective of this study was to investigate the factors that have an effect on the

amount of foreign direct investment present in Tanzania. According to the findings of the study, Foreign Direct Investment (FDI) is a significant factor in facilitating the transfer of technology. This is especially true in the form of new types of capital inputs that are not attainable through financial investments or trade in goods and services. This is particularly significant for the economy. Foreign Direct Investment (FDI) has the potential to enhance local input market competitiveness.

Specifically, the research investigated the connection between Tanzania's openness to trade and the country's attractiveness to foreign direct investment. According to the findings of the study, Tanzania's level of trade openness has a noticeable and favorable impact on the country's level of foreign direct investment. A positive correlation would exist between the degree of openness to trade and the amount of direct investment from overseas. The author's findings suggest that increasing trade openness will lead to sustained and growing inflows of foreign direct investment (FDI), which will ultimately contribute to the improvement of society. This is the conclusion that can be drawn from the findings.

According to the findings of the research, the potential size of the Tanzanian market does not appear to have any discernible influence on the amount of foreign direct investment. When taken into consideration in an interactive manner, the influence of market size on foreign direct investment is essentially nonexistent. The research investigated the correlation between macroeconomic policy and foreign direct investment in Tanzania. Macroeconomic policy has a substantial effect on foreign direct investment in Tanzania, according to the findings of the study. As a

consequence, macroeconomic policy transitions its focus towards demand management, predicated on the notion that increased levels of investment yield advantageous outcomes. This study suggests that advantageous macroeconomic policies significantly influence the appeal of foreign direct investment (FDI) inflows. Poor macroeconomic policy conditions have an adverse effect on FDI.

5.4 Recommendations

Trade openness should be taken into consideration since Trade openness has positive and significant effect on FDI inflow in Tanzania. The trade openness should be emphasized since the more trade is liberalized in the region, the more the benefits that accrued to country. Therefore, government should put in place policies that encourage trade openness in order increase FDI.

Also, macroeconomic policy should be taken into consideration since, Good macroeconomic policy attracts FDI. According to the findings of this study, poor economic policy continues to have a detrimental impact on foreign direct investment (FDI) inflows. Therefore, the improvement of macroeconomic policies create climate conducive to saving and investment, in ensuring that capital is efficiently utilized, and in keeping reliance on external resources within manageable bounds.

The results of this study can provide policymakers, such as the government and the Bank of Tanzania, with valuable insights and direction as they devise strategies to augment foreign direct investment in Tanzania. Foreign direct investment inflows are of paramount importance in stimulating the economy of a nation. Furthermore, this

research aids professionals in the field, including entrepreneurs and investors, in facilitating and directing decision-making processes concerning expanding markets or investment trajectories. Policymakers in developing countries can obtain guidance on how to optimize development via foreign investments by consulting empirical studies.

5.5 Area for Further Study

This study aimed to find out determinants of Foreign Direct Investment in Tanzania. This includes Trade openness, market size and macroeconomic policy. Other variables influence foreign direct investment exist apart from those considered in this study, therefore should be included.

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APPENDICES

Appendix 1: Research Clearance to World Bank

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

THE OPEN UNIVERSITY OF TANZANIA

Ref. No OUT/PG202085702 **28th June, 2024**

Tanzania Country Director World Bank(WB),

P.O. Box 2054,

DAR-ES-SALAAMI.

Dear Director,

RE: RESEARCH CLEARANCE FOR MR. MOHAMED HARUNA NGARAMO REG NO: PG202085702

2. The Open University of Tanzania was established by an Act of Parliament No. 17 of 1992, which became operational on the 1st March 1993 by public notice No.55 in the official Gazette. The Act was however replaced by the Open University of Tanzania Charter of 2005, which became operational on 1st January 2007.In line with the Charter, the Open University of Tanzania mission is to generate and apply knowledge through research.

3. To facilitate and to simplify research process therefore, the act empowers the Vice Chancellor of the Open University of Tanzania to issue research clearance, on behalf of the Government of Tanzania and Tanzania Commission for Science and Technology, to both its staff and students who are doing research in Tanzania. With this brief background, the purpose of this letter is to introduce to you **Mr. Mohamed Haruna Ngaramo, Reg.No:PG202085702),** pursuing **Masters of Arts in International Cooperation and Development. (MICD)**We here by grant this clearance to conduct a

research titled **" Determinants of Foreign Direct Investment in Tanzania ".** He will collect his data at your office from July 1st , 2024 to 31st July 2024.

4. In case you need any further information, kindly do not hesitate to contact the Deputy Vice Chancellor (Academic) of the Open University of Tanzania, P.O.Box 23409, Dar es Salaam. Tel: 022-2-2668820.We lastly thank you in advance for your assumed cooperation and facilitation of this research academic activity.

Yours sincerely,

THE OPEN UNIVERSITY OF TANZANIA

Prof.Gwahula Raphael Kimamala

For: VICE CHANCELLOR

Kinondoni Biafra, Kawawa Road; P.O 23409; Dar es Salaam; Tel: +255 22 2668 445;
E-Mail:vc@out.ac.tz|| Website:www.out.ac.tz

Appendix 2: Research Clearance to NBS

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

THE OPEN UNIVERSITY OF TANZANIA

Ref. No OUT/PG202085702 **28th June, 2024**

The Direct General National Beaural (NBS),

P.O. Box 11992,

DAR-ES-SALAAMI.

Dear Director,

RE: RESEARCH CLEARANCE FOR MR. MOHAMED HARUNA NGARAMO REG NO: PG202085702

2. The Open University of Tanzania was established by an Act of Parliament No. 17 of 1992, which became operational on the 1stMarch 1993 by public notice No.55 in the official Gazette. The Act was however replaced by the Open University of Tanzania Charter of 2005, which became operational on 1stJanuary 2007.In line with the Charter, the Open University of Tanzania mission is to generate and apply knowledge through research.

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Yours sincerely,

THE OPEN UNIVERSITY OF TANZANIA

Prof.Gwahula Raphael Kimamala

For: VICE CHANCELLOR

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E-Mail:vc@out.ac.tz|| Website:www.out.ac.tz

Appendix 3: Research Clearance to IMF

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

THE OPEN UNIVERSITY OF TANZANIA

Ref. No OUT/PG202085702 **28th June, 2024**

Director General Chief For Tanzania Momentary Fund(IMF),

P.O. Box 1171,

DAR-ES-SALAAMI.

Dear Director,

RE: RESEARCH CLEARANCE FOR MR. MOHAMED HARUNA NGARAMO REG NO: PG202085702

2. The Open University of Tanzania was established by an Act of Parliament No. 17 of 1992, which became operational on the 1st March 1993 by public notice No.55 in the official Gazette. The Act was however replaced by the Open University of Tanzania Charter of 2005, which became operational on 1st January 2007.In line with the Charter, the Open University of Tanzania mission is to generate and apply knowledge through research.

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research titled " **Determinants of Foreign Direct Investment in Tanzania ".** He will collect his data at your office from July 1st , 2024 to 31st July 2024.

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Yours sincerely,

THE OPEN UNIVERSITY OF TANZANIA

Prof.Gwahula Raphael Kimamala

For: VICE CHANCELLOR

Kinondoni Biafra, Kawawa Road; P.O 23409; Dar es Salaam; Tel: +255 22 2668 445;
E-Mail:vc@out.ac.tz|| Website:www.out.ac.tz

Appendix 4: Research Clearance to Banking Finance

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

THE OPEN UNIVERSITY OF TANZANIA

Ref. No OUT/PG202085702 **28th June, 2024**

Director of Banking Finance,

P.O. Box 2939,

DAR-ES-SALAAMI.

Dear Director,

RE: RESEARCH CLEARANCE FOR MR. MOHAMED HARUNA NGARAMO REG NO: PG202085702

2. The Open University of Tanzania was established by an Act of Parliament No. 17 of 1992, which became operational on the 1st March 1993 by public notice No.55 in the official Gazette. The Act was however replaced by the Open University of Tanzania Charter of 2005, which became operational on 1st January 2007.In line with the Charter, the Open University of Tanzania mission is to generate and apply knowledge through research.

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research titled " **Determinants of Foreign Direct Investment in Tanzania ".** He will collect his data at your office from July 1st , 2024 to 31st July 2024.

4. In case you need any further information, kindly do not hesitate to contact the Deputy Vice Chancellor (Academic) of the Open University of Tanzania, P.O.Box 23409, Dar es Salaam. Tel: 022-2-2668820.We lastly thank you in advance for your assumed cooperation and facilitation of this research academic activity.

Yours sincerely,

THE OPEN UNIVERSITY OF TANZANIA

Prof.Gwahula Raphael Kimamala

For: VICE CHANCELLOR

Kinondoni Biafra, Kawawa Road; P.O 23409; Dar es Salaam; Tel: +255 22 2668 445;
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Appendix 5: Manuscript

DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN TANZANIA

Mohamed Ngarama[1], Dr. Felician Mutasa[2]
[1] MAICD Candidate, The Open University of Tanzania
[2] Senior Lecturer, The Open University of Tanzania

ABSTRACT
Tanzania continues to experience low levels of Foreign Direct Investment (FDI) despite various policy efforts. This study examined the factors influencing FDI in Tanzania, specifically focusing on the impact of market size, trade openness, and macroeconomic policy. The study adopted a descriptive research design and was guided by the Theory of Economic Geography, which explains how economic and spatial factors influence investment flows. A positivist research philosophy was used, allowing for objective analysis through statistical methods. Secondary data covering the period from 1990 to 2021 were obtained from the World Bank, Bank of Tanzania, and other reliable sources. Correlation and multiple regression analysis were used to test the relationships between the variables. Diagnostic tests, including multicollinearity, heteroscedasticity, and unit root tests, were conducted to ensure the validity of results. Findings show that trade openness and macroeconomic policy have a significant positive effect on FDI, while market size was found to have no significant impact. The study concludes that improving macroeconomic stability and expanding trade openness are essential for increasing FDI inflows. It recommends that the government adopt policies that promote a stable economic environment and support international trade.

Keywords: *Foreign Direct Investment, Economics, Market Size, Trade Openness.*

1.0 INTRODUCTION

Foreign Direct Investment (FDI) is widely acknowledged as a critical engine for economic growth and development, particularly in developing and emerging economies. It supports industrial expansion, employment creation, technological transfer, and productivity enhancement (Hoang & Goujon, 2014; Alfaro & Chauvin, 2020). Globally, FDI has been a cornerstone of growth strategies in countries such as China, India, and Vietnam. For instance, China alone received over USD 136 billion in FDI in 2017, significantly contributing to its transformation into a global manufacturing hub (WIR, 2018). However, the global FDI landscape has faced setbacks in recent years. The World Investment Report (2018) recorded a 23% decline in global FDI flows in 2017, attributed to geopolitical uncertainties, trade tensions, and slower global economic growth. This trend presented significant challenges for countries dependent on foreign investment to support national development.

In Africa, FDI performance has been uneven. While the continent recorded a 21% decline in inflows in 2017; falling to USD 42 billion; some countries demonstrated resilience. For example, Ethiopia attracted growing levels of FDI due to its manufacturing drive and improved infrastructure (Ashine, 2024), while Morocco recorded a 23% increase in inflows, driven by its growing automotive sector and

economic reforms (El Menyari, 2021). Egypt remained the continent's largest FDI recipient, primarily due to its sizable market and strategic trade position (WIR, 2018). Yet for most African countries, especially those dependent on natural resources like Nigeria and Angola, falling commodity prices and political instability contributed to declining investor confidence (Mamingi & Martin, 2018; Mwitta, 2022).

Tanzania's experience with FDI reflects both potential and persistent limitations. While endowed with strategic location, abundant natural resources, and a growing population, Tanzania continues to attract modest and inconsistent levels of FDI. In 2010, FDI reached 5.66% of GDP, but by 2021 it had declined sharply to 1.36%, below the global average of 3.69% and far short of the 7% benchmark regarded as necessary for structural transformation (The Global Economy, 2023; Byaro et al., 2022). This decline has affected critical sectors such as manufacturing, which heavily depend on foreign capital for industrial upgrading, innovation, and export diversification. The slow growth of these sectors, in turn, undermines job creation, private sector development, and long-term economic resilience.

The barriers to sustained FDI in Tanzania are multifaceted. Structural challenges such as inadequate infrastructure, inconsistent macroeconomic policies, limited technological capacity, and weak regulatory institutions have continued to undermine investor confidence (Abdoulaye, 2015; Kitole & Utouh, 2024). Bureaucratic inefficiencies, frequent shifts in policy direction, and low absorptive capacity; reflected in a shortage of skilled labor and limited technological infrastructure; further constrain Tanzania's capacity to attract and retain foreign investors (Utouh et al., 2024). These factors raise the cost and complexity of doing business in Tanzania and reduce the country's competitiveness relative to its regional peers.

At the same time, opportunities exist to reposition Tanzania as an attractive destination for FDI. Literature identifies three factors as particularly influential in shaping investment decisions: macroeconomic policy, market size, and trade openness (Lim, 2001; Al Mustofa et al., 2021). Sound macroeconomic policy; embodied in fiscal discipline, monetary stability, and transparent governance; helps create a predictable business environment (Kitole & Utouh, 2024). Market size, determined by population growth, income levels, and consumer demand, influences the scale of potential returns for foreign firms (Byaro et al., 2022). Trade openness, supported by regional integration initiatives such as the East African Community (EAC) and the African Continental Free Trade Area (AfCFTA), expands market access and reduces trade-related risks (Mwitta, 2022).

Despite this theoretical grounding, existing empirical studies offer mixed findings on the significance of these factors. For example, Kingu (2016) identified GDP growth, inflation, and trade openness as central to FDI inflows between 1970 and 2012. Mfinanga (2018), analyzing data from 1990 to 2015, found market size and exchange rate fluctuations to be more influential. Mwigeka (2023), using time-series models such as ARDL and ECM, highlighted the long-run importance of real GDP and trade openness, while emphasizing the short-run influence of domestic investment and monetary policy. These variations in findings are partly due to differences in the periods studied, the variables selected, and the econometric methods applied.

Furthermore, the changing nature of Tanzania's macroeconomic landscape; marked by new trade agreements, fiscal reforms, and shifts in global economic conditions; necessitates an updated and comprehensive study. There is still no clear consensus on which factors most reliably drive FDI inflows into Tanzania. Thus, this study seeks to address this research gap by systematically examining how macroeconomic policy, market size, and trade openness have influenced FDI inflows in Tanzania over the period 1990 to 2021. By analyzing long-term trends and using a theory-driven approach, the study aims to provide evidence-based insights for policymakers to improve Tanzania's investment climate.

The main objective of this study is to examine the determinants of Foreign Direct Investment in Tanzania. Specifically, the study aims to examine the effect of macroeconomic policy on Foreign Direct Investment, to assess the influence of market size on Foreign Direct Investment, and to evaluate the impact of trade openness on Foreign Direct Investment. Based on these objectives, the study tests the following hypotheses. Macroeconomic policy has a significant effect on Foreign Direct Investment. Market size has a significant effect on Foreign Direct Investment. Trade openness also has a significant effect on Foreign Direct Investment.

Guided by the Theory of Economic Geography, which explains how spatial and economic factors interact to influence investment flows, this study adopts a positivist research philosophy. This approach supports the use of quantitative data and objective analysis to explore the statistical relationships between macroeconomic policy, market size, trade openness, and FDI inflows. Through this, the study aims to contribute both to academic knowledge and to practical policy reforms that can enhance Tanzania's ability to attract and retain foreign investment.

2.0 LITERATURE REVIEW

2.1 Theoretical Literature Review

The study was guided by The Theory of Economic Geography. The Theory of Economic Geography has its roots in classical economics and was modernized by Paul Krugman in 1991 (Krugman, 1997). It focuses on the spatial distribution of economic activities and explains why certain regions attract more investment (Gaspar, 2022). Early thinkers like von Thünen and Weber introduced ideas on location theory; von Thünen is known for his model of agricultural land use based on distance from markets, while Weber developed a theory explaining industrial location based on minimizing transportation and labor costs (Hidalgo, 2021; Walker, 2022). These foundational ideas paved the way for Krugman's work, which incorporated more complex economic dynamics such as increasing returns to scale and market accessibility, while Krugman built on this by integrating market size, transportation costs, and economies of scale (Walker, 2022).

Krugman (1991) developed the "New Economic Geography," expanding on earlier location theories by incorporating modern economic elements such as scale economies, transportation costs, and market access (Gaspar, 2022). Subsequent scholars have built on Krugman's model by applying it to real-world investment behavior. For instance, Yarbrough and Yarbrough (2002) adapted the theory to explain how infrastructure and market characteristics shape FDI decisions, while Aiello et al.

(2009) further emphasized the role of public infrastructure in shaping capital allocation by firms. These studies reinforce Krugman's central idea that economic geography plays a critical role in investment location choices, which shows that firms choose locations based on a balance between forces that attract them to central areas (such as market access and lower production costs) and forces that push them away (such as congestion and high expenses) (Ramirez & Lizarazo, 2024). Yarbrough and Yarbrough (2002) describe the theory as a model that explains Foreign Direct Investment (FDI) decisions through spatial factors like infrastructure, trade openness and market size. Aiello et al. (2009) support this by showing that public investment in infrastructure influences firms' capital investment decisions.

The theory has been used in East Asia, for instance, it explains high FDI inflows to Vietnam and Malaysia due to their export-friendly environments and infrastructure (Lai & Samers, 2021). In Africa, it highlights why coastal nations like South Africa and other with better trade access attract more FDI than landlocked ones like DRC OR Botswana (Cruz & Rossi-Hansberg, 2024). In this study, the Theory of Economic Geography helps explain how Tanzania's macroeconomic policy, market size and trade openness influence its ability to attract FDI. The theory suggests that investors are more likely to invest in countries with economic stability, growing markets and access to global trade (Pavlínek, 2022).

One of the key strengths of the Theory of Economic Geography is its integration of both geographic and economic dimensions to explain patterns of FDI (Gaspar, 2021). It recognizes that investment decisions are not influenced by economic factors alone, but also by spatial considerations such as proximity to markets, transportation logistics, and regional infrastructure (ibid). This comprehensive approach makes the theory particularly useful for analyzing investment trends in developing economies like Tanzania, where both location and economic policy are critical to investor decision-making. The theory's ability to highlight the interplay between market size, infrastructure and openness offers a solid foundation for identifying priority areas for policy intervention (Pavlínek, 2022).

Despite its strengths, the theory is not without limitations. One major weakness is its assumption of ideal or near-perfect market conditions, which rarely exist in practice, especially in developing countries (Sarker & Serieux, 2023). Azam et al. (2011) note that the theory overlooks important contextual factors such as institutional weaknesses, political instability, and regulatory uncertainty that often shape investment decisions in low-income economies. These omissions can limit the theory's explanatory power when applied without adaptation to real-world complexities (Pavlínek, 2022).

To overcome these limitations, this study incorporates Tanzania-specific realities such as policy inconsistency, underdeveloped infrastructure and bureaucratic barriers. By doing so, it ensures that the application of the Theory of Economic Geography is grounded in the country's current investment context and remains relevant to actual investor concerns.

In summary, the Theory of Economic Geography is relevant for this study as it supports the investigation of how macroeconomic policy, market size and trade

openness influence FDI (Pászto, 2020). These three variables are directly aligned with the theory's emphasis on economic stability, market accessibility and integration into global trade systems. The theory therefore provides a solid conceptual framework for analyzing the spatial and economic factors that attract foreign investors to Tanzania, while guiding the development of targeted policy recommendations as it supports the investigation of spatial and economic factors influencing FDI (Redding, 2022). It provides a useful guide for identifying the variables that matter most to foreign investors and supports the study's aim of offering practical recommendations for Tanzania.

2.2 Conceptual Framework

As demonstrated by the conceptual framework, dependent and independent variables are interconnected. Foreign direct investment is the dependent variable, whereas trade openness, market size, and macroeconomic policy are the independent variables.

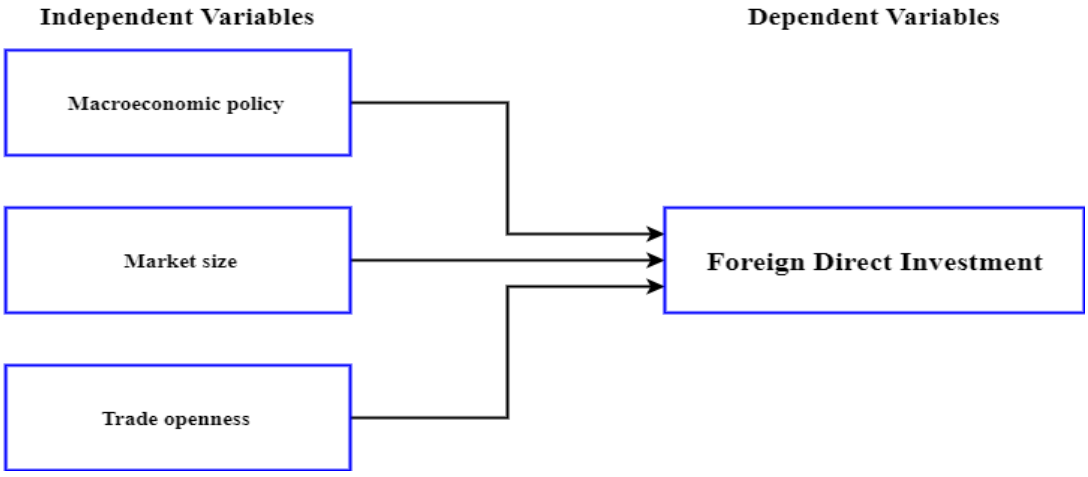

Figure 1: *Conceptual Framework*

3.0 METHODOLOGY

3.1 Sampling and data collection

This study adopted a quantitative research approach, suitable for analyzing numerical data and testing statistical relationships. The research focused on assessing the impact of macroeconomic policy, market size, and trade openness on Foreign Direct Investment (FDI) in Tanzania using secondary time series data. The quantitative approach enabled the application of econometric tools to identify patterns and allowed for generalization of findings to support national policy-making.

The study was guided by the positivist research philosophy, which emphasizes objectivity, empirical evidence, and the use of measurable data. This philosophy assumes that reality is observable and can be described without researcher bias, aligning with the study's focus on quantifiable economic indicators.

A descriptive research design was used to systematically collect and analyze data, providing an accurate representation of the relationship between the variables under study. This design supports theory-based analysis and contributes to a clearer understanding of the economic factors influencing FDI.

The study was conducted within the Tanzanian economy, selected due to its ongoing struggle to attract adequate FDI despite reform efforts. It focused on the period from 1990 to 2021 to capture historical trends and policy developments.

Secondary data were collected from credible sources including the Bank of Tanzania, World Bank, International Monetary Fund, and the National Bureau of Statistics. The study concentrated on four main variables: FDI, macroeconomic policy indicators (inflation and interest rates), market size (GDP), and trade openness (export-import ratio to GDP). Using multiple data sources ensured accuracy and strengthened the study's validity.

4.0 DATA ANALYSIS

The data was sorted, classified, coded, and organized into tables for analysis. The collected data was analyzed using inferential statistics. The analysis was conducted using SPSS version 23 software due to its user-friendly interface. Descriptive, correlational, and regression analyses were utilized in order to examine the data. The study utilized time series data to analyze, interpret, and draw conclusions. The researcher utilized correlation and multiple regression in inferential statistics to establish the connection between independent variables and dependent variables.
To determine the relative significance of each of the explanatory variables, a multiple regression model was applied as follow.

$$\mathbf{FDI = \beta_0 + \beta_1 TO + \beta_2 MS + \beta_3 MP + \epsilon}$$

Where;
TO= Trade openness
MS= Market size
FDI = Foreign direct investment
MP= Macroeconomic policy
$\beta 0$ = Co-efficient (Intercept) of the model
$\beta 1 - \beta 3$ = Beta Co-efficients of Determinants
ϵ = Stochastic Error Term
3.8 Statistical Assumption/Test
Before applying regression model for data analysis, the study ensured validity by conducting of statistical test such as multicollinearity and unit root.

Multicollinearity was assessed using the Variance Inflation Factor (VIF), a statistical measure used to detect the degree to which independent variables in a regression model are correlated. A VIF value greater than 10 typically indicates the presence of multicollinearity, suggesting that the variance of a regression coefficient is inflated due to collinearity with other predictors.

The unit root test was performed using the Augmented Dickey-Fuller (ADF) test to determine whether the data series were stationary. Non-stationary data exhibit changing mean, variance, or autocovariance over time, which can lead to misleading regression results (Gujarati, 2003). A p-value less than 0.05 in the ADF test indicates stationarity of the variable.

To test for **heteroskedasticity**, the Breusch-Pagan/Cook-Weisberg test was applied. This test checks whether the variance of the errors in the regression model is constant. If the p-value is below 0.05, the null hypothesis of homoscedasticity is rejected, indicating the presence of heteroskedasticity. Conversely, a p-value above 0.05 suggests that the residuals have constant variance.

Hypothesis testing was carried out to determine the statistical significance of the relationship between independent variables and the dependent variable. A p-value less than 0.05 indicates that the null hypothesis can be rejected, confirming that the relationship is statistically significant. This process helped to assess whether the independent variables (macroeconomic policy, market size, and trade openness) significantly influenced Foreign Direct Investment (FDI).

4.1 Correlation Analysis

Correlation analysis was conducted to examine the strength and direction of the linear relationship between Foreign Direct Investment (FDI) and the selected independent variables: trade openness, market size, and macroeconomic policy. This analysis provides preliminary insights into how these variables move together before proceeding to regression analysis.

As shown in Table 4.1, the results indicate a moderate positive correlation between trade openness and FDI (r = 0.5403), suggesting that as trade openness increases, FDI inflows also tend to rise. Macroeconomic policy also shows a moderate positive correlation with FDI (r = 0.4779), implying that stable and effective macroeconomic management may be associated with increased foreign investment. The correlation between market size and FDI is relatively weak (r = 0.2431), indicating a limited linear association.

These findings suggest that both trade openness and macroeconomic policy are more closely related to FDI inflows in Tanzania than market size. However, further analysis through regression is necessary to determine the statistical significance and explanatory power of these relationships.

Table 1: Correlation matrix

	Foreign direct investment	**Trade openness**	**Market size**	**Macroeconomic policy**
Foreign direct investment	1.000			
Trade openness	0.5403	1.000		
Market size	0.2431	0.2677	1.0000	
Macroeconomic policy	0.4779	0.4549	0.5772	1.0000

Tests for Statistical Assumptions

Various tests were conducted to prepare the data for analysis and ensure the research yielded dependable results. The tests were conducted to verify if the Regression Model assumptions hold true when the explanatory factors are regressed against the dependent variables.

Multicollinearity Test

To evaluate multicollinearity, the Variance Inflation Factor (VIF) was utilized. According to conventional wisdom, the existence of multicollinearity is denoted by a VIF coefficient greater than 10. All of the centered VIF values in Table 4.3 are less than 10, which indicates that multicollinearity does not exist among the model's independent variables.

Table 2: Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
Trade openness	0.012	49.525	1.234
Market size	0.011	21.869	1.292
Macroeconomic policy	0.013	26.259	1.170
C	0.000	156.354	NA

Unit Root Test Results

Unit root test is used to assess the stationarity of variables using various test methodologies. It is crucial to conduct this test to prevent spurious regression, a common issue that arises when fitting a regression line to data that exhibits a time trend in its generation process. The Augmented Dickey–Fuller test (ADF) was utilized in this part to assess the stationarity of the data. Through the examination of the null hypothesis, the tests intend to ascertain whether or not a unit root is present in a sample of a time series. Depending on the test version, the alternative hypothesis often focuses on either stationarity or trend-stationarity. However, this can vary depending on the test version. At lag 2, the results of variables are examined for stationarity. Augmented Dickey-Fuller demonstrated the stationarity of all variables. This indicates that the level of confidence does not contain a unit root. Furthermore, this indicates that the p-value is not equal to zero, the first difference is stationary, and the variable is integrated with respect to order one, denoted as I (1). Additionally, the results suggest that macroeconomic policy, market size, and trade openness have all contributed positively to foreign direct investment.

Hypothesis

Ho: There is a unit root for series
H1: There is no unit root for series

Table 3: Unit Root Test

Variable	Coefficient	p-value	Max lag	Remarks
Trade openness	-6.078	0.0000	2	Stationary
Market size	-5.829	0.0000	2	Stationary
Macroeconomic policy	-5.113	0.0002	2	Stationary

Heteroskedasticity

The assumption underlying heteroscedasticity is that the variance of dependent variables varies inconsistently with respect to the range of independent variables. The White test and the Breush-Pagan test were employed to evaluate homoscedasticity. The findings indicate that the null hypothesis remains unrefuted, as the p-values for

both tests surpass 0.05 by a significant margin. As evidenced by the absence of heteroscedasticity in the results, no further adjustments to the sample are required.

Table 4: Heteroskedasticity

Ho: Constant variance
Obs*R-squared = 0.4341
Prob. Chi-Square = 0.353

Regression Analysis

Regression analysis was conducted to determine the effect of trade openness, market size, and macroeconomic policy on Foreign Direct Investment (FDI) in Tanzania. The model's R-squared value of 0.4438 indicates that these variables explain approximately 44.38% of the variation in FDI, while the adjusted R-squared value stands at 0.3842.

The overall model is statistically significant (Prob > F = 0.0008), suggesting that at least one of the independent variables meaningfully predicts FDI.

The results show that trade openness has a positive and statistically significant effect on FDI (coefficient = 0.1773, p = 0.035). This implies that increased openness to trade is associated with higher FDI inflows. Macroeconomic policy also shows a positive and significant relationship (coefficient = 0.0258, p = 0.013), indicating that sound macroeconomic management encourages foreign investment. In contrast, market size has a positive but statistically insignificant effect (coefficient = 0.0007, p = 0.430), suggesting it does not play a major role in attracting FDI during the study period.

These findings highlight the importance of maintaining macroeconomic stability and enhancing trade openness as key strategies to improve FDI inflows in Tanzania.

Table 5: Regression analysis

Foreign direct investment	Coef.	Std. Err.	T	p>|t|
Trade openness	.1772737	.0800105	2.22	0.035
Market size	.000669	.0008346	0.80	0.430
Macroeconomic policy	.0257827	.0096629	2.67	0.013
_cons	4.277725	2.397049	1.78	0.085
Prob> F = 0.0008				
R-squared = 0.4438				
Adjusted R-squared = 0.3842				

4.2 Summary of the Findings

The table below presents a summary of the findings for each hypothesis, showing the direction, significance, and conclusion based on the regression results.

Table 6: Summary of Hypothesis Testing Results

Hypothesis	Variable	Coefficient	P-value	Significance	Conclusion
Macroeconomic policy has a significant effect on Foreign Direct Investment.	Macroeconomic Policy	0.0258	0.013	Significant ($p < 0.05$)	Hypothesis supported
Market size has a significant effect on Foreign Direct Investment.	Market Size	0.0007	0.430	Not significant	Hypothesis not supported
Trade openness has a significant effect on Foreign Direct Investment.	Trade Openness	0.1773	0.035	Significant ($p < 0.05$)	Hypothesis supported

5.0 CONCLUSION

This study aimed to examine the factors influencing Foreign Direct Investment (FDI) in Tanzania, focusing on trade openness, market size, and macroeconomic policy. The results confirm that trade openness and macroeconomic policy both have a positive and significant effect on FDI inflows. In contrast, market size was found to have an insignificant impact. The findings suggest that creating a stable macroeconomic environment and promoting trade openness are essential strategies for attracting foreign investment. On the other hand, relying on market size alone may not be sufficient to drive FDI growth.

6.0 RECOMMENDATIONS

The government should strengthen trade policies that promote openness, as increased trade liberalization is shown to encourage greater FDI inflows. Enhancing regional trade integration and removing trade barriers will improve Tanzania's investment appeal.

Macroeconomic policies must also be improved to ensure economic stability and investor confidence. Policies that control inflation, stabilize interest rates, and ensure fiscal discipline will help create a favorable investment climate.

Additionally, the findings offer useful insights for policymakers, regulatory bodies, and private investors. These stakeholders can use the results to guide decisions and strategies aimed at increasing FDI and fostering sustainable economic development.

6.1 Area for Further Study

This study focused on three key variables: trade openness, market size, and macroeconomic policy. Future research should include additional variables such as political stability, infrastructure development, labor market dynamics, and institutional quality to gain a more comprehensive understanding of the factors influencing FDI in Tanzania.

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