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THE IMPACT OF FOREIGN DIRECT INVESTMENT ON EMPLOYEMENT CREATION IN TANZANIA

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ABSRTACT

As an engine of economic development for developing countries, foreign direct investment (FD) inflows have contributed for creation of employment, technology transfer to local firms, and managerial know-how; have had positive effects on exports and access to external markets. This study tries to analyze the impact foreign direct investment (FDI) inflows on employment generation/creation of Tanzania. It specifically estimates the effect of FDI on employment creation in Tanzania for the period of 1990 to 2008. The study adopted a case study design with a quantitative research approach and it represents an econometric analysis using statistical package for social sciences (SPSS). The results show that there is strong (positive) relationship between the variables. This means that foreign direct investments (FDI) have a big significant impact on the pattern of employment opportunities. Then from above analysis we may conclude that Tanzania's employment creation especially, does depend upon foreign direct investment inflows.

KEYWORDS: Employment creation, economic growth, and FDI.

1. INTRODUCTION

Employment creation is arguably one of the main challenges for Tanzanian government. Improvements in human welfare that have a broad basis are difficult to achieve without a substantial increase in modern sector employment. Without such employment, people will continue to seek a meagre existence in agriculture or other informal sectors. For the past two decades Tanzania has been conceiving several efforts to attract foreign direct investment (FDI). It was hoped that among other factors, FDI would create more jobs and thus alleviate poverty and eventually promote economic growth.

The future and prosperity of Tanzania depends on the number of persons in employment and how productive they at work. To confront the consequences of unemployment the fourth phase government, under the leadership of President Jakaya Mrisho Kikwete since 2005, has placed employment creation at the centre of their national economic and social recovery policies. A decent work country profile for Tanzania mainland ILO (2010) indicates that the share of the working-age population in employment has grown slightly between 2000/01 and 2006 and unemployment fell marginally.

Since mid-1980s a great deal of rules and regulations and institutions have been made or created to govern the proper functioning of private sector led market economy in the country. These efforts have resulted into an increase in foreign private investment (FPI) in Tanzania, particularly foreign direct investment (BOT, TIC, NBS, and ZIPA, 2006). FDI may be said to have a direct and indirect, as well as quantitative and qualitative effects on employment. In terms of quantitative effects of FDI on the volume of employment, new jobs could be created directly through the establishment of foreign subsidiaries or even existing the ones (ILO report, 1984). Employment could also be generated indirectly through forward and backward linkages or through distributors and suppliers (Golejewska, 2002).

The role of FDI has been widely recognized as growth-enhancing factor in the developing countries. Driven by this, government of Tanzania has attempted to attract FDI in the 1990s and have offered generous incentives to achieve this target. Despite its high empirical and policy relevance, the contribution of FDI to employment in Tanzania has been little explored. The Tanzania government's goal of attracting FDI was particularly motivated by low domestic savings rates accompanied by inefficient financial intermediation, which hampered their strategies to finance growth. The other motivation behind Tanzania FDI was the opportunity to benefit from the direct and indirect effects of FDI on increasing demand for labour. This is especially important given a chronic unemployment that the Tanzania suffers from.

The level of unemployment in any country has economic and social implications. From the economic point of view, the overall unemployment rate remains one of the key measures of an economy's performance. However, unemployment rate is not only of economic significance but also of social significance as well since it is also a key variable in alleviating poverty. For instance, the Tanzania's National Bureau of Statistics (2007) indicates that the overall unemployment rate in Tanzania was 11.0 for the population aged 10 years and above. The current problem of youth unemployment in Tanzania has been addressed by establishing foreign production facilities, which engage youths in the values creation. It was expected that foreign firms that use labour intensive production methods would absorb many of the youths, through either direct employments or indirect employments.

Prior studies have used cross-country data; however, none of the past studies have focused solely on Tanzania. The results of prior studies on the relationship between FDI and employment creation of host country are mixed. Considering the importance of the unemployment problem in Tanzania and the potential impact that FDI can have on employment generation on one hand, and the scarcity of studies covering the subject in Tanzania on the other hand, the present study has utilized data-set from Tanzania to examine the impact of FDI on employment generation/creation. Thus, the present study intends to create a better understanding of the relationship between foreign direct investment inflows and their effects on employment creation in Tanzania.

1.1 TANZANIA'S INTEGRATION WITH THE GLOBAL ECONOMY

The integration of Tanzania into the global economy began in 1980s when the country undergone major economic reforms from a state run economy to market oriented economy, a process that intensified in from 1990 onwards. Until that time, Tanzania had operated as a centrally planned economy with significant inputs of aid from the then Soviet Union.

International trade was managed through agreements with foreign governments, and the overall level of international trade was low. Exports were dominated by agricultural primary commodities, including cotton, sisal, coffee, pyrethrum, cashew-nuts and tea. Peasant agriculture experienced severe setbacks in the 1980. Production of coffee, cotton, and cashew, the major peasant export crops dipped well below the average (Havnevik and Isinika, 2010).

Following the fall of Berlin wall and the disintegration of the Soviet Union, Tanzania became much more integrated with the global economy. There has also been a reorientation of trade, with the Republic of South Africa and EOCD countries becoming the country's major trading partners. The increased integration of the Tanzanian economy into the world economy during the 1990s has accompanied by rapid economic growth and a substantial grow in the exports. However, the export performance was mixed. Whereas total exports of goods grew substantially in the first half of 1990s, they then declined persistently during 1997-99 following the real appreciation of the currency in that period (IMF, 2003).

The increased openness of the Tanzanian economy in the 1990s was partly a reflection of the policies that were introduced to liberalize trade and promote FDI, and the ending of trade embargoes that limited during the 1980s (TIC report, 2004). Trade liberalization began at the end of the 1980s. The main elements included: financial sector reforms; privatization; civil service reforms and enforcing accountability; decentralization; measures against corruption; tax reforms, and mining, tourism, agriculture, SMEs, industry/trade, road infrastructure. The giant step was made in 1990 to radically change the investment environment in Tanzania.

1.2 INFLOWS OF FOREIGN DIRECT INVESTMENT IN TANZANIA

The opening of the Tanzanian economy to FDI in mid-1980s and subsequent measures to liberalize the FDI regime, together with the fast growth of the 1990s, led to a rapid increase in FDI inflows from nothing in 1990 to US$ 679 million in 2008, resulting into an increase of FDI stock in the country to US$ 6.6 billion (Table 1). However, the flow remains low as compared to other African countries including Angola, Egypt, South Africa, Nigeria, Libya, Tunisia, Algeria, Morocco, Congo, Democratic Republic of Congo (DRC), Madagascar, Zambia, Uganda, and Namibia. FDI inflows reached a record high of US$679 million in 2008, placing the country among the top 17 recipients of FDI in Africa. Before 1999, Tanzania was not even among top recipients of FDI in Africa. As at 2008, Tanzania had a total FDI stock of US$ 6,621 million comprising of 31.04% of its GDP and it ranks at 128 out of 183 countries.

According to Tanzania Investment Report (2004), when compared to other regional countries in Sub-Sahara Africa (including Zambia, Senegal, Botswana, and Lesotho), in terms of FDI inflows, Tanzania did relatively well with a stock of US$2,351 in 2002. In terms of the inflow of FDI in 2002, Tanzania performed relatively well slightly lower than Uganda but relatively higher than Zambia, Senegal, Botswana, and Lesotho. However, in terms of FDI inflow as a percentage of gross fixed capital formation (GFC) Tanzania with 14.5% is relatively lower than Zambia (25.85) and Uganda (245). As a percentage of FDP, Tanzania's inflow of FDI in 2002 was only 25%, which is also lower than most of other countries SSA. Thus, it can be said that the contribution of FDI to Tanzanian economy is still too low.

Furthermore, Tanzania Investment Report (2004) indicates that the pattern of FDI in Tanzania is usual in that it is dominated European firms; United Kingdom (398) stands as having the largest number of foreign affiliates followed by Kenya (167), India (94) and Canada (86), South Africa (82), China (81), and USA (80). There are a substantial number of investments from Germany (73), Holland (61), Italy (56), Switzerland (29) and Sweden (29). In terms of cumulative disbursements by foreign investors up to 2002 South Africa (23%) stood out as the leading source of FDI into Tanzania followed by the United Kingdom (13%), Canada (11%), Kenya (10%), and Japan (6%). With regard to the FDI flow during the 1999/2001, the OECD countries were dominant averaging 48.0 percent of the total FDI flows while SADC countries accounted for 33.0 percent and rest of Africa (Africa other than SADC and EAC) accounted for 11.0 percent (TIR, 2004).

TABLE 1: FDI INFLOWS AND FDI STOCK TO TANZANIA, 1990-2008 (US DOLLAR)

Year	FDI inflows	FDI stock
1990	0	388,000,000
1991	0	388,000,000
1992	12,000,000	400,000,000
1993	20,000,000	420,000,000
1994	50,000,000	470,000,000
1995	150,000,000	620,000,000
1996	149,000,000	681,000,000
1997	158,000,000	760,000,000
1998	172,000,000	1,715,000,000
1999	497,000,000	1,989,000,000
2000	282,000,000	2,778,000,000
2001	467,000,000	2,960,000,000
2002	388,000,000	3,243,000,000
2003	308,000,000	4,139,000,000
2004	331,000,000	4,759,000,000
2005	494,000,000	4,390,000,000

2006	597,000,000	5,342,000,000
2007	647,000,000	5,942,000,000
2008	679,000,000	6,621,000,000
Total	**5,401,000,000**	**48,005,000,000**

Source: UNCTAD Stat, 2010

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

1.3 FOREIGN DIRECT INVSTMENT AND EMPLOYMENT

The current problem of youth unemployment in Tanzania can be addressed by establishing production facilities that will engage these youths in the value creation process. Multinational firms that use labor intensive production techniques can absorb many of the youths that lie idle. This may take place as a result of being employed by foreign firms directly or indirectly by other suppliers to these foreign firms.

Given the significant role played by FDI in the Tanzanian economy, what can be said about the impact of FDI on employment in Tanzania? Despite the massive inflows of foreign capital in the 1990s and 2000s and the significant contribution of foreign affiliates to output in these periods, the numbers directly employed by such affiliates are still relatively low.

Based on projections made by firms registered at the Tanzania Investment Centre for the period 1990-2003, registered projects were projected to generate 497,539 new jobs in Tanzania. Also in 2004 about 54,091 jobs were created; 2005, 55,694 jobs; 2006, 76,653 jobs, 2007, 103,958 jobs; and 2008, 125,231 jobs (Table 2). Most of jobs came from the economic infrastructure, manufacturing sector and agriculture and livestock sectors (Table 3). The most employment intensive sectors were the infrastructure and agricultural sector while the telecommunication, energy and financial sectors were the least employment intensive.

TABLE 2: GDP, FDI INFLOWS AND EMPLOYMENT CREATION IN TANZANIA, 1990-2008

Year	FDI inflows (US$)	Employment generated	Values	Gross Domestic Product
			(US$)	(US$)
1990-2003	2,653,000,000	497,537	12,009,000,000	113,615,000,000
2004	331,000,000	54,091	1,504,000,000	13,142,000,000
2005	494,000,000	55,694	1,824,200,000	14,492,000,000
2006	597,000,000	76,653	5,985,000,000	14,739,000,000
2007	647,000,000	103,958	5,715,600,000	17,299,000,000
2008	679,000,000	125,231	6,680,100,000	21,328,000,000
	$5,419,000,000	**913,164**	$33,717,900,000	**$194,645,000,000**

Source: Tanzania investment reports and UNCTAD

Table 3 below indicates that direct employment increased by 131.52 percent to 125,231 employees in 2008 from 54,091 in 2004. Increased FPI has led to creation of jobs particularly in manufacturing (28.9 percent); transport, communication and storage (25.6 percent); and agriculture, fishing, forestry, and hunting (14.1 percent). The mining sector, despite of receiving a lion's share of FDI, created few jobs (1.4 percent) because it traditionally capital intensive.

1.4 EMPLOYMENT TRENDS IN TANZANIA

The poverty level remains high with a large disparity between urban and rural settings. Rates of unemployment and under-employment are quite high, particularly for the youth (including the educated youth), who also lack a voice in the decision-making bodies (ILO, 2010).

According to the URT (2007), the total labour force (ages 15 years and above) has increased by 2.8 million people from 17.8 million in 2000/01 to 19.8 million in 2006. This implies that 560,000 new people have been entering the labour market every year. This is an increase of 16.0 percentage point. Also, the survey indicates that the unemployment rate has decreased as GDP has increased from 5.7 percent in 2000/01 to 6.8 percent in 2006. Furthermore, the URT (2007) indicates that households have been diversifying their economic activities; employment-to-population ration increased from 67.0 percent in 2000/01 to 71.0 percent in 2006.

TABLE 3: EMPLOYMENT BY SECTOR: 1990 – 2008 (VALUES IN US$ MILLION)

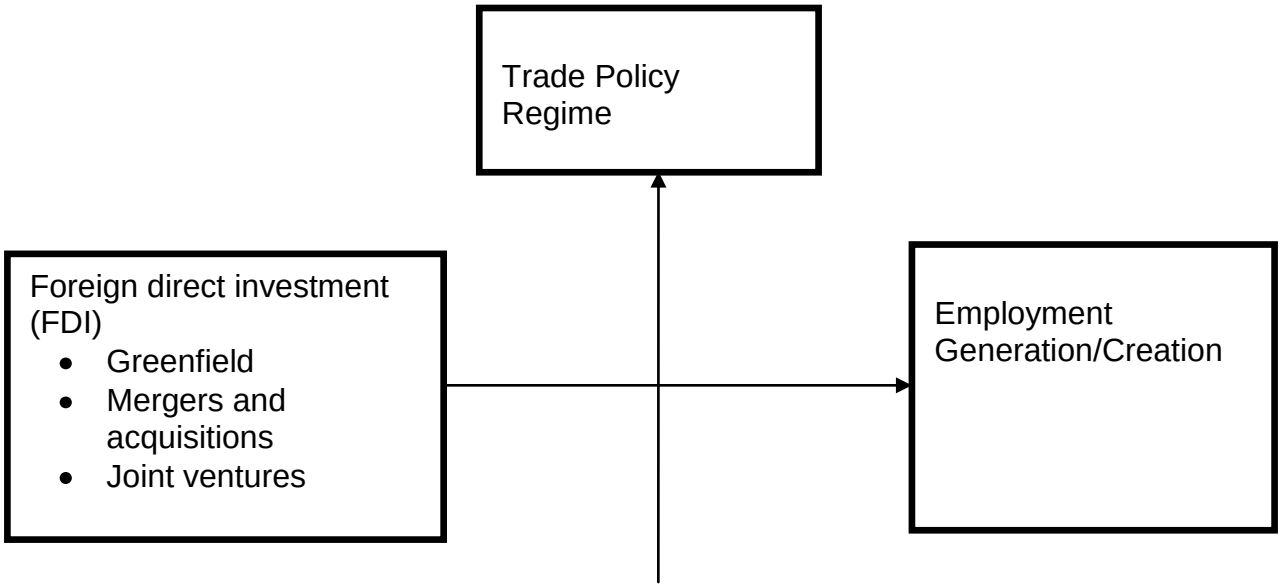
Sector	1990-2003		2004		2005		2006		2007		2008			
	Employment	Values	Employment	Value	Employment	Value	Employment	Value	Employment	Value	Employment	Value	Average employment	% of average
Agriculture, fishing, forestry & hunting	57,411.0	724.0	11,432.0	98.8	18,880.0	487.0	21,065.0	539.0	10,825.0	10.0	9,138.0	172.4	14,306	14.1
Construction	16,074.0	2,464.0	2,239.0	202.5	5,608.0	193.5	2,978.0	259.0	-	-	27,739.0	1,564.4	6,071	6.0
Manufacturing	154,316.0	2,471.0	26,950.0	390.8	15,021.0	468.5	23,071.0	1,248	17,906.0	509.8	26,451.0	1,827.1	29,302	28.9
Mining & quarrying	12,466.0	699.0	162.0	2.7	277.0	13.0	-	-	221.0	39.3	58.0	2.1	1,465	1.4
Finance, insurance, real estate & business services	3,094.0	550.0	1,380.0	140.7	931.0	13.7	5,755.0	1,300.0	31,276.0	455.9	15,008.0	890.4	6,383	6.3
Community, social and personal services	17,164.0	350.0	898.0	63.4	1,660.0	44.8	3,704.0	27.0	1,023.0	28.7	18,370.0	183.7	4,758	4.7
Wholesale, retail & tourism	63,258.0	1,306.0	4,938.0	408.5	7,580.0	272.4	12,329.0	745.0	9,145.0	2,322.1	17,822.0	569.0	12,786	12.6
Transport, communication & storage	173,654.0	3,310.0	5,273.0	173.0	5,737.0	329.5	6,973.0	1,248.0	31,848.0	1,227.9	10,288.0	1,437.6	25,975	25.6
Utilities (water, energy)	100.0	135.0	819.0	23.6	-	-	778.0	618.0	1,714.0	951.9	357.0	33.4	419	0.4
TOTAL	**497,537.0**	**12,009.0**	**54,091.0**	**1,504.0**	**55,694.0**	**1,824.2**	**76,653.0**	**5,985.0**	**103,958.0**	**5,715.6**	**125,231.0**	**6,680.1**	**101,465**	**100.0**

Source: Tanzania Investment Reports, 2001; 2004 & 2008 and East African Community

1.5 THE THEORETICAL/CONCEPTUAL MODEL

The conceptual framework (figure 1) is based on research contributions by earlier researchers (including Asiedu, 2003; Abor and Harvey, 2008; Waldkirch, Nunnenkamp, and Bremont 2009; Lipsey, Sjoholm, and Sun, 2010; Craigwell, 2006; Mahmoud, 2010; and Karlsson, Lundin, Sjoholm, and He, 2009). This model is composed of one independent variable namely foreign direct investments (FDI). To be more specific, we took into account one important measurement of economic development as the dependent variable: employment generation/creation. We also used one moderating variable for this research, i.e. trade policy regimes.

FIGURE 1: CONCEPTUAL MODEL OF THE STUDY



2. RESEARCH METHODOLOGY

2.1 RESEARCH DESIGN

The study adopted a case study design with a quantitative research approach. Case studies can be exploratory, explanatory, and descriptive. The type that was used is descriptive. The study based on 6 pairs observations of FDI inflows from developed and emerging economies, employment generation, unemployment rate, and GDP growth over a period 1990 to 2008.

2.2 SOURCES OF DATA

For this study secondary data from public sources were used. For FDI inflows data were obtained from the World Investment Reports of UNCTAD, EAC official publications and reports, Bank of Tanzania (BOT) and National Bureau of Statistics (NBS) publications for the period 1990-2008. These sources are published every year and gives information related to FDI firms that includes the origin of firm, location of firm, sector of investment, value of investment, firm's initiate year, and the share of foreign ownership

For employment generation data were obtained from Tanzania investment centre (TIC), for the period 1990-2008. They give information related to employment generated by FDI for each sector of investment, value of investment, and number of employment created for each sector. The other data that were used were obtained from the Labour Survey Reports issued by ILO and Fact and Figures Reports and Economic Reports issued by the East African Community.

Other public documents including information from the internet on GOT website and the EAC facts and figures were also analyzed. The rationale for collecting secondary data in this study was to try to save time and to use this information in triangulating the findings from the study.

2.3 DATA ANALYSIS TECHNIQUES

Gathered data were analyzed with quantitative techniques. The quantitative component entails collecting and analyzing data from relevant research reports and data bases, such as World Bank indicators, annual World Investment Reports and data bases by UNCTAD, (ILO), and IMF. Additional information was gathered from government and other sources.

2.4 ANALYTICAL FRAMEWORK AND METHODOLOGY

The data used in this study is aggregate annual time series at constant prices for total net inflows for foreign direct investment, FDI as a percentage of GDP (FDI ratio), and employment generated by FDI covering the period of 1990-2008 in 6 pairs of observations. All of the data except employment generation is taken from UNCTAD statistics. The employment generated data is taken from the Tanzania Investment Centre (TIC). Regression methods are used for empirical work.

In this study one method is used, namely the ordinary least squares (OLS). The OLS test was run using statistical package for social sciences (SPSS) with EMPGR as dependent variable while FDI as an independent variable. The calculated F value is then compared to the critical value or level of significance. If the calculated F value is greater than the critical F value at a chosen level of significance, the null hypothesis is rejected; otherwise accepted.

Running ordinary least squares, we assumed the hypothesis that there is no relationship between foreign direct investment and employment creation (EMP). To confirm our hypothesis, let us consider one linear regression equation:

$$EMP_i = \alpha_i + \beta_i FDI_i + \varepsilon_i \quad \text{.....(1)}$$

Where, EMP_i and FDI_i show the employment generated and foreign direct investment at a particular time i, respectively while ε_i represents an error term; α_i and β_i represent the slope and coefficient of regression. The coefficient of regression, β_i, indicates how a unit change in the independent variable, FDI affects the dependent variable (employment generation). The error, ε_i, is incorporated in the equation to cater for other factors that may influence employment generation. The validity or strength of the ordinary least squares method depends on the accuracy of assumptions. In this study, the Gauss-Markov assumptions are used and they include: that the dependent and independent variables (EMP and FDI) are nearly co-related, the estimators (α and

β) are unbiased with an expected value of zero i.e. $E(\varepsilon_i) = 0$, which implies that on average the errors cancel out each other. The procedure involves specifying the dependent and independent variables; in this case, EMP is a dependent variable while FDI is an independent variable.

But it depends on the assumptions and that the results of the methods can be adversely affected by outliers. In addition, whereas the ordinary least squares regression analysis can establish the dependence of either EMP on FDI or vice versa, this does not necessarily imply direction of causation.

3. FINDINGS AND DATA ANALYSIS

3.1 DATA ANALYSIS AND DISCUSSION

Based on the stated sample, the relationship between variables can be estimated by one simple linear regression model of the form $EMP_i = \alpha_i + \beta_i FDI_i + \varepsilon_i$, where EMP_i and FDI_i show the employments generated and foreign direct investment at a particular time i, respectively while ε_i represents an error term; α_i and β_i represent the slope and coefficient of regression.

Therefore the variables considered are:-

- Foreign direct investment (FDI): independent variable,
- Employment created (EMP): dependent variable

Pearson correlation coefficient ρ = 0.997 (Correlations table) which shows that correlation between FDI and employment creation in Tanzania is positive, direct and strong; the coefficient is very close to 1 (which corresponds to a perfect correlation). However, we cannot make any other conclusions about this relationship, based on this number.

CORRELATIONS

		Employment	FDI
Pearson Correlation	Employment	1.000	.997
	FDI	.997	1.000
Sig. (1-tailed)	Employment	.	.000
	FDI	.000	.
N	Employment	6	6
	FDI	6	6

For testing the significance of the correlation coefficient, we use the t-test (Correlations table). The properly significance value is (sig = 0.000) < (α = 0.01) highlights that we obtained a significant correlation coefficient to a threshold of 0.000, so are less than 1% chance of error if we say that between the two variables it is a significant correlation (i.e. there is a significant difference between the means of the two variables). This means that increases or decreases in FDI do significantly relate to increases or decrease in the number of employment created.

The estimated regression equation is EMP = -25,853.143 + 0.000*FDI.....(2)

Coefficient b = 0.000 correspond to a direct (positive) link between the variables considered. A growth of inward FDI with a unit does not determine an increase in the employment created on average with 0.000% in Tanzania. For testing the parameters of the regression model, we use the t-test (Coefficient table). Value (Sig. = 0.000) < (α = 0.05) shows that β (slope) corresponds to a significant link between the two variables. F test (ANOVA table) has a high value (F = 656.720) and the Sig. value properly F statistics is low: (sig = 0.000) < (α = 0.05) which means that the independent variable – FDI explains the variation of dependent variable – EMP.

The coefficient of determination $R^2 = 0.994$ (R square Model Summary table) shows that 99.4 % of the variance in the dependent variable (employment created) can be explained by changes in the independent variable (FDI) value made in Tanzania during 1990-2008.

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.461E11	1	1.461E11	656.720	.000[a]
	Residual	8.897E8	4	2.224E8		
	Total	1.470E11	5			

a. Predictors: (Constant), FDI

b. Dependent Variable: Employment

MODEL SUMMARY[B]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997[a]	.994	.992	14913.808

a. Predictors: (Constant), FDI

b. Dependent Variable: Employment

COEFFICIENTS[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Correlations		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
1 (Constant)	-25853.143	9238.056		-2.799	.049	-51502.098	-204.187			
FDI	.000	.000	.997	25.627	.000	.000	.000	.997	.997	.997

a. Dependent Variable: Employment

4. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY

4.1 SUMMARY AND CONCLUSIONS

Tanzania has experienced uptrend FDI inflows since 1990, as a result of increased openness of the country's economy and introduction of policies that promoted FDI. Despite improvements in inward foreign direct investment flows in 2008 compared to 1990, job creation remained limited. Inward FDI flows improved from nothing in 1990 to US dollars 679 million. Country analysis shows that mining, manufacturing, trading and whole sale sectors are the areas preferred by investors in Tanzania.

The research based on the secondary data. The ordinary least squares method indicates the linkage between foreign direct investment (FDI) and employment generation (EMP).

In terms of economic development, there is a general agreement of the potential benefits of foreign direct investments to Tanzania. We illustrated this point by making an econometric analysis, using a linear regression model. The relationship between employment created (EMP) and the increase of the relationship between FDI and EMP (FDI/EMP (%)) can be clearly established. The estimated regression equation is EMP = -25,853.143 + 0.000*FDI and Pearson correlation coefficient is $\rho = 0.997$.

Also, the coefficient of determination $R^2 = 0.994$ shows that 99.4% of employment (EMP) variation can be explained by foreign direct investment (FDI) values made in Tanzania during 1990-2008.

The empirical analysis on basis of ordinary least squares method suggests that there is strong (positive) relationship between the variables. This means that foreign direct investments (FDI)

have a big significant impact on the pattern of trade in many income-enhancing directions. Then from above analysis we may conclude that Tanzania's employment creation especially, does depend upon foreign direct investments.

4.2 RECOMMENDATIONS

The government of Tanzania replaced the investment policy of 1990 with a new investment law in 1997 with the aim to streamline investment incentives. This has helped the country to achieve significant progress in the much needed FDI. However, there has been low contribution to employment because the major investments, especially construction, mining and banking sectors, have favoured capital-intensive techniques.

Finally and more importantly, it is emphasized that FDI is not a panacea for the development problems facing Tanzania. But if properly utilized can be an effective catalyst for economic growth and hence economic development. The government of Tanzania should think very carefully and critically on the economic environment they provide for the operations of foreign firms including mining, banking and construction companies, in the country.

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