Factors Influencing Foreign Direct Investment in Tanzania

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Abstract: *The main objective of the study was to determine effects of trade openness, taxation policy and lagged foreign direct investment on foreign direct investment in Tanzania. The specific research objectives of the study were to determine the effect of trade openness, taxation policy and lagged FDI on the FDI inflows to Tanzania. Relevant empirical and theoretical literature was reviewed to support the objectives of the study and to form a basis for discussion of results. The study employed a quantitative research design. The target population of the study was the development data available from the Tanzania Investment Centre, Tanzania National Bureau of Statistics, the word Bank development indicators and Bank of Tanzania for the period 1963 to 2017. The sample period was the period 2007 to 2016. Diagnostic and model specification tests were done on the data. Some data was treated of the problems of times series data and a suitable model, that would address the problems of untreated data was selected. With the aid of Eviews software the study used least squares regression model to do a regression of the dependent variables on the independent variables. Results were interpreted based on the regression output. On objective one which was to determine the effect of Trade Openness on FDI, the study found that TO have a negative and insignificant effect on FDI in Tanzania. The second objective was to determine the effect of Taxation Policy on FDI. The study found that Taxation Policy had a negative and significant effect on FDI in Tanzania. The third objective was to determine the effect of Lagged FDI on FDI. The study found that Lagged FDI had a positive and insignificant effect on FDI in Tanzania. From the finding the study concludes Trade Openness had a negative and insignificant effect on FDI, Taxation Policy had a negative and significant effect on FDI and Lagged FDI had had a positive and insignificant effect on FDI in Tanzania. From the conclusions the study recommends that with regard to Trade openness, Tanzania should put in place policies that encourage trade openness in order to turn around their effect from being negative to positive and in line with theory and practice. Additionally Tanzania should re-evaluate the current trade openness policies to find out why there effects on FDI are negative. On the second conclusion the study recommends that Tanzania should relook at its Taxation Policy in a view to make it more attractive to potential investors in order to attract more FDI. On the third conclusion the study recommends that policies to increase FDI flows to Tanzania should be enacted.*

Keywords: *FDI inflows, Trade openness, Taxation policy, Lagged FDI.*

I. INTRODUCTION

Foreign direct investment (FDI) stock has acquired an important role in the international economy because it is a source of capital for industrialization process. Most developing countries are now interested in FDI stock because it involves a long-term commitment to the host country and contributes significantly to gross fixed capital formation. Further, it contributes to supplementing domestic savings, integration into the global economy, technology transfer, new management skills, job creation and economic growth (Edgar, 2012).Some writers (Bloningen, 2005; Kariuki, 2015; Mijiyawahave, 2015) identified commodity price index, lagged FDI inflows, trade openness, political stability, market size and potential, exchange rate, labor costs, trade costs, investment costs, trade deficit, human capital, inflation, budget deficit, domestic investment, external debt, government consumption, energy use and the return to investment as some of the main drivers of FDI. The factors affecting FDI inflow in a given country may be different from those of another country.

There are a number of definitions that have been put across to explain Foreign Direct Investment (FDI) for example; William (2015) defines FDI as an investment involving a long term relationship, a lasting interest and control of resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor. According to Sedpha (2010), FDI as the investment made to acquire a lasting management interest, usually at least 10% of voting stock, in an enterprise operating in a country other than that of the investor. Musa (2014) points that FDI is the contribution of foreign capital in the establishment, growth, reorganization of a business venture within the country. Foreign investor can take the form of a natural person not a Tanzanian citizen; a partnership with majority control owned by non-Tanzanian; or a company incorporated under other legal jurisdictions other than Tanzania.

Msafiri (2016) points that FDIs have grown and continue to grow as well as playing a significant role in growth and development of many economies in the world by contributing to the Gross Domestic Products (GDP). The growth of FDI has been synchronous with the shift in emphasis among policy makers in developing countries to attract more FDI especially after the crisis in emerging economies that was mainly attributed to volatility of capitals flows into those markets (McCarthy, 2014). The rationale for increased efforts to attack more FDI results from the belief that FDI has ability to deal with three major obstacles, namely, shortages of financial resources, lack of efficient technology and processes and lack of skills (Brown, 2015).

The determinants of foreign direct investments have become an important topic not only for the government of Tanzania, policy makers but also for the academia (Bodo, 2016). Moreover; the importance of foreign direct investments to the country arises in view of dismal performance of previous policies that emphasized more attraction of foreign direct investments in the country (Kamdanya, 2017).

FDIs inflow has been below expectations and at the same time fluctuating from one-time period to another (Rweyemamu, 2016) for example, in 2015, FDI net inflows in Tanzania decreased by 34% to USD 1.5 billion from USD 2.04 billion in 2014 (Tanzania Investment, 2017). Despite continued strong macroeconomic indicators relative to the rest of the East African Community countries, increasing uncertainty in government policies has recently raised questions about the business climate and long-term prospects for investment in Tanzania (Kimanga, 2015). Kalunda (2017) observes that the recently enacted taxation policies in Tanzania places more emphasis on domestic production without due consideration to FDI attraction. Moreover, there is limited empirical evidence showing the effect of taxation policies on FDI inflow in Tanzania. It is against this background that the study seeks to determine the effects of taxation policy on FDI in Tanzania.

Statement of the Problem

Since independence in 1963, Tanzania continues to grapple with various socio-economic challenges namely lack of employment for the youths, low penetration of technology, limited access to clean water and malnutrition, and limited housing amongst others. Failure to address these challenges may hinder the realization of Vision 2020. The inflow of FDIs in Tanzania may inject capital for domestic investment as well as create employment opportunities: help the transfer of managerial skills and technology which have a significant contribution to economic development. Over the years, Tanzanian government has made numerous efforts in attempting to attract FDI for example, the establishment of Tanzania Investment Centre with the aim of creating all in one service center so as to facilitate FDIs inflow in the country (Tanzania Investment Centre, 2017), yet minimal benefits have been realized. Apart from the lagged FDI inflows and trade openness, Msafiri (2016) observes that taxation policy in Tanzania has been one of the major factors determining FDI inflows. The results on the nature of the specific effect of these variables on FDI are mixed. This study seeks to specifically determine the nature of the effect of trade openness, taxation policy and lagged FDI on FDIs inflow in Tanzania.

Objectives of the study

The main objective of the study was to determine the effects of trade openness, taxation policy and lagged FDI on FDIs inflow in Tanzania.

The specific objectives of the study were to;

- Determine the effect of trade openness on the FDI inflows to Tanzania
- Determine the effect of taxation policy on the FDI inflows to Tanzania
- Determine the effect of lagged FDI on the FDI inflows to Tanzania

Significance of the Study

This study may be important for the following:

The government of Tanzania may benefit from this study as it seeks to uncover the effect of trade openness, lagged FDI inflows and taxation policy as the main drivers of FDI in Tanzania as well as review the current foreign direct investment related policies in Tanzania. Another important beneficiary to this study is the international community who are the foreign direct investors. Policy review may be affected based on the findings of this particular study.

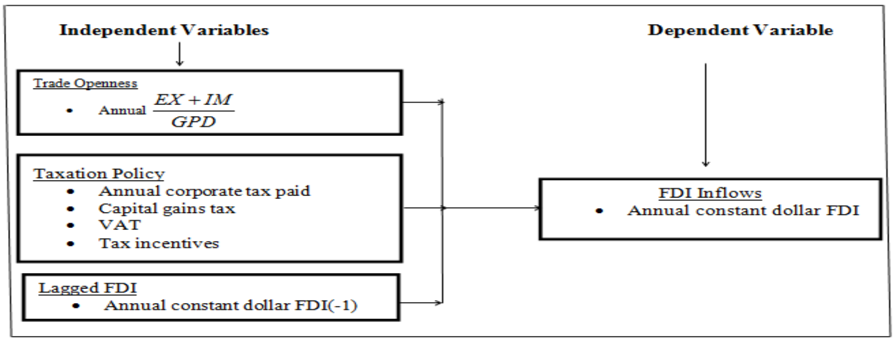
Foreign direct investors may also find this study useful as it intends to examine how macro-economic policy influence FDI in Tanzania, this study may assist investors in decision making with regards to investment in Tanzania. The findings of the study may also contribute to the body of knowledge on the variables under study and Foreign Direct Investments in Tanzania.

Scope and Delimitation

This study investigates the effects of trade openness, lagged FDI inflows and taxation policy and GDP on FDI in Tanzania. Besides the choice of the variables, the study narrows down on a study period of ten years (2007-2016). The ten-year period used for the study is deemed long enough to provide a wide range of observations required to establish the effect of variables under study on FDI in Tanzania.

Conceptual Framework

As shown in the figure this study has three independent variables and one dependent variable.



Source: Author (2017)

II. LITERATURE REVIEW

Review of Theories

Theories of Trade Openness

Trade openness is about the volume of exports and imports into a country whose values will vary based on the extent of how free the trade is from trade restrictions.

Theory of Comparative Advantage

David Ricardo explained comparative advantage in his 1817 book on *The Principles of Political Economy and Taxatio*n. The law of comparative advantage refers to the ability of a party (an individual, a firm, or a country) to produce a particular good or service at a lower marginal cost and opportunity cost than another party.

According to Deardorff (2003) the comparative advantage theory has two implications namely, one Countries are permitted to trade freely (and actually, even if that trade is restricted), and if they have competitive, undistorted markets, then they will export the good or goods in which they have comparative advantage and import those in which they have comparative disadvantage; and two, Under the same conditions, all countries will gain from trade, in the sense that those individuals who gain from trade within each country will gain enough that they could potentially fully compensate those individuals who lose, within the same country, and still remain better off than in autarky. Schumacher (2013) posits that the theory of comparative advantage underlies the wide-spread support of worldwide trade liberalizations.

The Gravity Model of Bilateral Trade

The gravity model has been the empirical workforce to analyze the determinants of bilateral trade flows. The first authors to apply the gravity model to international trade flows were Tinbergen and Pöyhönen (cited in Ghosh, 2011). This model, in its basic form, assumes that trade between countries can be compared to the gravitational force between two objects: it is directly related to countries size and inversely related to the distance between them. Exports from Tanzania to other countries and vice versa are explained by their economic sizes, their populations, direct geographical distances and a set of dummies incorporating some characteristics common to specific flows.

Trade Liberalization and the Theory of Endogenous Protection

Trade theorists continue to puzzle over their surprisingly small estimates of the impact of trade liberalization on imports (Trefler, 1993). According to Trefler, all explanations of the puzzle treat liberalization as given but the level of trade protection is not exogenous. The theory of Endogenous Protection predicts that higher levels of import penetration will lead to greater protection (Trefler, 1993).According to Holden and Casale (2015), the theory of endogenous protection states that supply and demand factors determine the equilibrium level of protection. The theory further suggests that interest groups, after assessing the costs and benefits of lobbying, demand protection. On the other hand, protection is supplied by politicians acting in their own self-interest (Holden and Casale, 2000).

Theories of Taxation

Theoretical underpinnings of the study will be The Oligopolistic Reaction Theory, The Eclectic Theory and Tax Discrimination Theory as discussed herein.

The Oligopolistic Reaction Theory

An oligopolistic reaction is an economic concept developed by Knickerbocker (cited in Wanjiku, 2010) in an attempt to understand why firms follow rivals into markets. Head,
Mayer and Ries (2000) define oligopolistic reaction theory as "the decision of one firm to invest over-seas raising competing firms' incentives to invest in the same country". Wanjiku (2010) argues that in favorable conditions of growth in an economy, firms are likely to match the investments of competitors into an economy.

This model is also known as the follow-the-leader model. This theory may be used to understand the global flows of foreign direct investments (FDI) and consequently the structure of the world economy. Oligopoly in this case describes a market form in which there are very few sellers or suppliers who tend to control the market for example the mobile telecommunications market in Tanzania is controlled by three major companies that is Vodacom, Airtel, and Tigo.

The Eclectic Paradigm of Dunning

The eclectic theory developed by professor Dunning is a mix of three different theories of foreign direct investments (O-L-I):

"O" from Ownership advantages: These advantages generally denote intangible assets that are, at least for a while exclusive possess of the company and may be transferred within transnational companies at low costs, leading either to higher incomes or reduced costs.

"L" from Location: When the first condition has been accomplished, it is more advantageous for the firm that owns them to utilize them itself as opposed to selling or renting out to foreign firms.

"I" from Internalizations: Even when the first two conditions are met, a profitable benefit must be present for the firm to use them, in combination with some advantages derived from the country of origin. The third and final characteristic in the eclectic paradigm OLI gives framework for assessing the different ways through which the company exploits its advantages from the sale of goods and services to various agreements that might be signed between the companies.

Theories of FDI

There are three main theories of FDI namely, Market imperfections theory, International production theory and Internalization theory.

Market imperfections theory of FDI

The firm's decision to invest overseas is explained as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries. The main proponent of this theory is Hymer (1970) and (Robert, 1997). Imperfect market is characterized by information asymmetry, government intervention, barriers to entry and exit of firms and differentiated products. It involves strategic decision making on the part of individual firms to invest with a risk factor (Mankiw 2009).

International production theory of FDI

The propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country. The main proponents of this theory are Dunning (1980) and Fayer weather (1982) (Robert, 1997). This theory is argues that the choice of international production and management is essentially a dynamic issue bas on the factors of production.

Internationalization theory of FDI

Internationalization concerns extending the direct operations of the firm and bringing under common ownership and control the activities conducted by intermediate markets
that link the firm to customers. Firms will gain in creating their own internal market such that transactions can be carried out at a lower cost within the firm.

Empirical Review

Trade Openness and FDI Inflows

In most literature (Edwards, 1998; Frankel and Romer, 1999; Asiedu 2002) the ratio of trade (sum of imports and exports) to GDP is often used as a measure of openness of an economy. The ratio is often interpreted as a measure of trade restrictions. The impact of openness on FDI depends on the type of investment (Asiedu 2002). Asiedu argues that when investments are market-seeking, trade restrictions can have a positive impact on FDI. He note that the reason stems from the ``tariff jumping" hypothesis, which argues that foreign firms that seek to serve local markets may decide to set up subsidiaries in the host country if it is difficult to import their products to the country. However, in contrast, multinational firms engaged in export-oriented investments may prefer to locate in a more open economy since increased imperfections that accompany trade protection generally imply higher transaction costs associated with exporting (Asiedu, 2002).

Taxation Policy and FDI inflows:

Effects of Corporate Income Tax on FDI in Tanzania

Interest in the effects of taxes on FDI has been considerable from both international and public economists. An obvious hypothesis is that higher taxes discourage FDI with the more important question one of magnitude. The effects of taxes on FDI can vary substantially by type of taxes, measurement of FDI activity, and tax treatment in the host and parent countries. Another important issue is that a MNE potentially faces taxes in the host and the home countries. Countries have different ways of addressing this double taxation issue, which further complicates expected effects of taxes on FDI (Bodo, 2015).

A sectoral analysis was done by Stöwhase (2006) demonstrates that tax rates have no impact on FDI in the primary sector, reflecting that investment in this kind of activities is mainly resource driven. However, the same does not hold for the manufacturing and service sectors, where tax rate differentials have a significantly deterrent effect on FDI.

Effects of Capital Gains on FDI

According to CITA (2004), capital gains tax is a tax imposed or levied on gains arising from the disposal of items of capital nature of companies and individuals. In Tanzania, the provisions of capital gain tax, are applicable to transactions effected by companies in the same manner as they apply to transactions effected by individuals. The capital gains tax can be easily avoided. The capital gain or loss is not due until the asset is finally disposed of and can be avoided if the asset is held until death or donated to charity.

Lagged FDI and FDI Inflows:

In economic policy lags play an important in explaining the observed phenomena. Given the permanent importance of lags in policy, the issue seems to be quite neglected with few significant exceptions Asghar and Hussain (2014). Whether a country attracts more FDI in the current year than the previous will be based mainly on the performance of the previous FDI and any changes in the macroeconomic environment. For example Bellak, Leibrecht and Stehrer (2008) show that an increase of R&D expenditures in GDP would result in a substantial increase in FDI.

Knowledge Gap

From the literature reviewed, it is clear that the effect of trade openness, taxation policy and lagged FDI on FDI widely varies from country to country and from one-time period to another. Several studies have reported that host country trade openness, taxation policy and lagged FDI have a significant effect on FDI flows, either negative or positive. The shortcomings of the literature reviewed are that most of the studies are not country specific and instead, they are cross-country meaning they might fail to bring on board unique characteristics in these countries. Besides limited studies on FDI stock has been done in Tanzania. Lack of adequate studies on effect of trade openness, taxation policy and lagged FDI on FDI in Tanzania may imply that local policy may be formulated based on foreign ideas. This poses the risk of not addressing the Tanzanian economic situation adequately. It is therefore imperative to conduct further study to try and close this gap especially doing a country specific study which should bring out the actual FDI related trade openness, taxation policy and lagged FDI issues in Tanzania.

III. RESEARCH METHODOLOGY

The study is quantitative in nature. Longitudinal research design was used. The design was suitable for the study as it permitted analysis of the relationship between independent variable and dependent variable (FDIs inflow) over a period of time (Saunder et al., 2007).

The target population was time series of trade openness, taxation policy, lagged FDI and FDI in Tanzania since independence, that is 1963 to 2017. These data were available from the Tanzania Foreign Investment Centre.

The study sample covered the period between 2007 and 2016, both years inclusive.

This study employed secondary data that was obtained from the Tanzania Foreign Investment Centre, National Bureau of Statistics, World Bank data bank and International Monetary Fund's international data and statistics. Specifically, information regarding the study variables (or variables that were constructed to obtain the study variables) of trade openness, taxation policy, lagged FDI and FDI inflows in Tanzania were collected. The data collection template in Appendix 1 was used to collect the data.

A Multiple Regression Model was fitted to the data set and an analysis was carried out to examine the effect of trade openness, taxation policy and lagged FDI on FDI inflow in Tanzania. This study used regression analysis model in which the dependent variable was annual TSH FDI inflows to Tanzania. The independent variables were trade openness, taxation policy and lagged FDI.

Diagnostic and Specification tests

Normality Test

The least-squares fit is based on the conditional mean. The mean is not a good measure of center for either a highly skewed distribution or a multi-modal distribution. Non-Normality does not produce bias in the coefficient estimates, but it does have two important consequences: it poses problems for efficiency that is, the OLS standard errors are no longer the smallest, standard errors can be biased i.e., confidence intervals and significance test may lead to wrong conclusions (Andersen, 2012).

Stationarity Test

Stationarity is a property of an underlying stochastic process and not the observed data such the joint distribution of a set of n consecutive random variables, in a series, is the same, regardless of where in the series it is chosen (Kendall and Stuart, 1983). A stationary series is one with a mean value which will not vary with the sampling period. In contrast, non-stationarity can simply be defined as processes that are not stationary and that have statistical properties that are deterministic functions of time (Kendall and Stuart, 1983).

Multicollinearity Test

"Multicollinearity is a statistical phenomenon in which there exists a perfect or exact relationship between the predictor variables. When there is a perfect or exact relationship between the predictor variables, it is difficult to come up with reliable estimates of their individual coefficients.

Heteroscedasticity Test

When the variance of the error terms is not constant then there is heteroscedasticity. In the presence of heteroscedasticity the unbiased estimators obtained by the OLS do not provide the estimate with the smallest variance which leads to bias in test statistics and confidence intervals, particularly if the heteroscedasticity is severe rather than "marked". Depending on the nature of the heteroscedasticity, significance tests can be too high or too low (Williams, 2015).

Serial Correlation Test

Serial correlation is often observed in time series and in panel data. The causes of serial correlation include intrinsic serial correlation and model misspecification. In the presence of serial correlation the OLS estimates are no longer BLUE and the OLS standard errors
And test statistics are no longer valid (Wooldridge, 2015).

IV. RESULTS AND DISCUSSION OF FINDINGS

From the descriptive statistics it can be seen that the data was suitable for parametric testing and the tests such as the t and F tests would be applied on the data. From the diagnostic and specification tests any problems that were found were treated. The following analytical model was specified for analysis.

$$FDI_t \wedge (1/2) = C_0 + C_1 D(TO_t) + C_2 D(TI_t) + C_3 (TAXR_t) \wedge (-2) + C_4 (FDI_t(-1)) \wedge (1/3) + \varepsilon_t$$

Regression Output

Dependent Variable: FDI^(1/2)
Method: Least Squares
Date: 10/01/17 Time: 21:28
Sample (adjusted): 2008 2016
Included observations: 9 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1718.546	639.4940	2.687353	0.0548
D(TO)	-292.5994	568.6989	-0.514507	0.6340
D(TI)	-1318.919	288.6418	-4.569398	0.0103
TAXR^(-2)	-2.50E+15	7.47E+14	-3.351788	0.0285
FDI(-1)^(1/3)	1.881844	4.157801	0.452606	0.6743

R-squared	0.962538	Mean dependent var	1616.884
Adjusted R-squared	0.925076	S.D. dependent var	305.3072
S.E. of regression	83.56968	Akaike info criterion	11.98942
Sum squared resid	27935.57	Schwarz criterion	12.09899
Log likelihood	-48.95239	Hannan-Quinn criter.	11.75297
F-statistic	25.69356	Durbin-Watson stat	2.041044
Prob(F-statistic)	0.004105		

Effect of Trade Openness on the FDI Inflows to Tanzania

Trade Openness had a negative coefficient of -292.5994 and a t-statistic of -0.514507. These values were insignificant because they had a p-value of 0.6340 which was much larger than all the significance levels. This led to the conclusion that Trade Openness had a negative and insignificant effect on FDI inflows to Tanzania during the period under study. These results partially agree with those of Asiedu(2002) but disagree with those of Kandiero and Chitiga (2006) and Liargovas and Skandalis (2012)

Effect of Taxation Policy on the FDI Inflows to Tanzania

Tax Incentives had a negative coefficient of -1318.919 and a t-statistic of –4.569398. These values were significant at 5% significance level because they had a p-value of 0.0.0103 which was lower than the 5% significance levels. This led to the conclusion that Tax Incentives had a negative and significant effect on FDI inflows to Tanzania during the period under study. These results agree with those of Sweeney (2014) who posits that Tax incentives are not always effective but deviates from Sebastian (2014) who notes that tax incentives alone have little effects on investments and Musyoka (2012) who found no significant improvement in FDI as a result of implementing tax incentives in Kenya

The variable TAXR had a coefficient of -2.50 x 10^{15} with a t-value of -3.351788. These values were significant at 5% significance level because they had a p-value of 0.0285 which was lower than the 5% significance level.

This led to the conclusion that TAXR (Corporate Tax, VAT and Capital Gains Tax) had a negative and significant effect on FDI inflows to Tanzania during the period under study.

Effect of Lagged FDI on the FDI Inflows to Tanzania

Lagged FDI had a positive coefficient of 1.881844 and a t-statistic of 4.157801. These values were insignificant because they had a p-value of 0.6747 which was much larger than all the significance levels. This led to the conclusion that Lagged FDI had a positive and insignificant effect on FDI inflows to Tanzania during the period under study. This finding, although not significant is in line with the proposition that economic policy lags play an important in explaining the observed phenomena and that given the permanent importance of lags in policy, the issue seems to be quite neglected with few significant exceptions (Asghar and Hussain, 2014).

Model Fitness

The model had an adjusted R-Squared of 0.925076 showing that 92.5076 % of the variation in the dependent variable would be explained by the independent variables. This was a very high predictive power by the model. In terms of goodness of fit, the model had an F-statistic of 25.69356. The p-value of the F-statistic was 0.004105 indicating that the F-statistic was significant at all levels. We thus conclude that the model was a good fit for the data. The output had a Durbin-Watson test statistic of 2.041044 (compared with a critical value of 2) indicating that the output didn't suffer from the problems of serial correlations and that the estimates were the best.

Summary

The main objective of the study was to effects of trade openness, taxation policy and lagged foreign direct investment on foreign direct investment in Tanzania. The specific research objectives of the study were to determine the effect of trade openness, taxation policy and lagged FDI on the FDI inflows to Tanzania. Relevant empirical and theoretical literature was reviewed to support the objectives of the study and to form a basis for discussion of results. The study employed a quantitative research design. The target population of the study was the development data available from the Tanzania Investment Centre, Tanzania National Bureau of Statistics, the word Bank development indicators and Bank of Tanzania for the period 1963 to 2017. The sample period was the period 2007 to 2016. Diagnostic and model specification tests were done on the data. Some data was treated of the problems of times series data and a suitable model, that would address the problems of untreated data was selected. With the aid of eviews software the study used least squares regression model to do a regression of the dependent variables on the independent variables.

Results were interpreted based on the regression output. On objective one which was to determine the effect of Trade Openness on FDI, the study found that TO have a negative and insignificant effect on FDI in Tanzania. The second objective was to determine the effect of Taxation Policy on FDI. The study found that Taxation Policy had a negative and significant effect on FDI in Tanzania. The third objective was to determine the effect of Lagged FDI on FDI. The study found that Lagged FDI had a positive and insignificant effect on FDI in Tanzania.

V. CONCLUSIONS

From the finding the study concludes Trade Openness had a negative and insignificant effect on FDI, Taxation Policy had a negative and significant effect on FDI and Lagged FDI had had a positive and insignificant effect on FDI in Tanzania.

Recommendations of the Study

From the conclusions the study recommends that with regard to Trade openness, Tanzania should put in place policies that encourage trade openness in order to turn around their effect from being negative to positive and in line with theory and practice. Additionally Tanzania should re-evaluate the current trade openness policies to find out why there effects on FDI are negative. On the second conclusion the study recommends that Tanzania should relook at its Taxation Policy in a view to make it more attractive to potential investors in order to attract more FDI. On the third conclusion the study recommends that policies to increase FDI flows to Tanzania should be enacted.

Areas for Further Research

Closely related to the current topic of study, the researcher suggests that further research be done on areas such as the effect of domestic social and economic factors on trade openness, a determination of the most effective taxation policy in relation to FDI in Tanzania and the lag factors that affect FDI inflows to Tanzania.

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