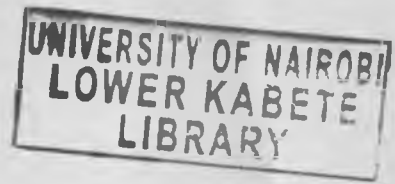


**RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT,  
FINANCIAL MARKET DEVELOPMENT AND ECONOMIC  
GROWTH IN KENYA**

**BY**

**PHILBERT AGALLO OKELLO**

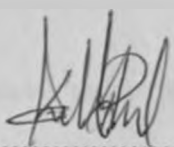



**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,  
UNIVERSITY OF NAIROBI**

**NOVEMBER 2012**

## DECLARATION

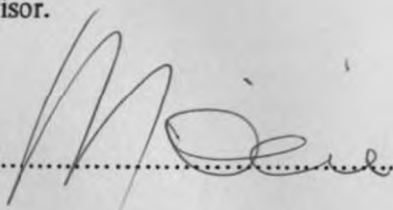
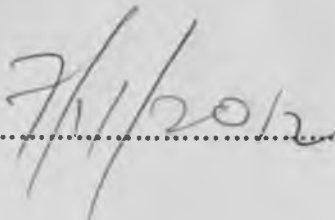
This Research Project is my original work and has not been submitted for a degree in any other university.

Signed.......... Date..........

**PHILBERT AGALLO OKELLO**

**D61/P/8654/2005**

This Research Project has been submitted with my approval as the University Supervisor.

Signed.......... Date..........

**MR. MIRIE MWANGI**

**DEPARTMENT OF FINANCE & ACCOUNTING**

**UNIVERSITY OF NAIROBI**

## **ACKNOWLEDGEMENT**

I thank God for giving me the wisdom and courage and for guiding me throughout my life for without Him I would not have come this far. I would also like to acknowledge the following for their contributions which facilitated the completion of this project.

Secondly, special thanks go to my supervisor Mr Mirie Mwangi, for providing unlimited, invaluable and active guidance throughout the study. His immense command and knowledge of the subject matter enabled me to shape this research project to the product that it is now.

Thirdly, I also thank my family for letting me steal their valuable time to work on this project. It is my hope that their sacrifice has finally paid off.

Finally, I owe my gratitude to a number of people who in one way or another contributed towards completion of this project especially my fellow colleagues at work and students.

## **DEDICATION**

**This work is dedicated to my family**

## ABSTRACT

The contribution of foreign direct investment (FDI) to economic growth has been debated quite extensively in the literature. This debate has focused on the channels through which FDI may help to raise growth in recipient countries. In particular, it has been discussed to what extent FDI may enhance technological change through spill over effects of knowledge and new capital goods. This study sought to achieve two objectives: examine the trend of FDI, financial market development, and economic growth in Kenya and to establish the relationship between FDI, financial market development, and economic growth in Kenya.

The study used inferential research design to find out the relationship between independent variables and dependent variables of the study. Secondary data was used in this study. The data was analysed using descriptive analysis and multiple regression analysis.

The study found that market capitalization had a positive and significant impact on GDP growth (0.098). The results also show that FDI had a positive but insignificant impact on GDP growth. The study concludes that financial markets influence the economic growth of Kenya. The study also concludes that economic growth in Kenya is not significantly influenced by the level of FDI inflows. The study recommends that Kenya needs to improve further the stock market development especially by crafting policies that will boost the performance of the stock market through the market capitalization. The study also recommends that the Government needs to put up measures that will help attract the foreign direct investment inflows as the levels are still very low and this has not led to any significant contribution to the country's economic growth.

## TABLE OF CONTENT

<b>DECLARATION</b> .....	<b>i</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>ii</b>
<b>DEDICATION</b> .....	<b>iii</b>
<b>ABSTRACT</b> .....	<b>iv</b>
<b>LIST OF TABLES</b> .....	<b>vii</b>
<b>LIST OF FIGURES</b> .....	<b>viii</b>
<b>ABBREVIATIONS AND ACRONYMS</b> .....	<b>ix</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the Study .....	1
1.2 Statement of the Problem .....	7
1.3 Objective of the Study .....	8
1.4 Value of the Study .....	9
<b>CHAPTER TWO</b> .....	<b>10</b>
<b>LITERATURE REVIEW</b> .....	<b>10</b>
2.1 Introduction .....	10
2.2 Theoretical Literature .....	10
2.3 Empirical Review of Global Studies .....	13
2.4 Empirical Review of Local Specific Studies .....	17
2.5 Summary .....	20
<b>CHAPTER THREE</b> .....	<b>21</b>
<b>RESEARCH METHODOLOGY</b> .....	<b>21</b>
3.1 Introduction .....	21
3.2 Research Design .....	21
3.3 Data Collection .....	21
3.4 Data Analysis .....	22

<b>CHAPTER FOUR</b> .....	<b>23</b>
<b>DATA ANALYSIS, RESULTS AND DISCUSSION</b> .....	<b>23</b>
4.1 Introduction.....	23
4.2 Descriptive Statistics .....	23
4.3 The Impact of FDI and Financial Markets on Growth .....	26
4.4 Discussion of Findings .....	27
<b>CHAPTER FIVE</b> .....	<b>29</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS</b> .....	<b>29</b>
5.1 Introduction.....	29
5.2 Summary.....	29
5.3 Conclusion .....	30
5.4 Recommendations for Policy.....	30
5.5 Limitations of the Study .....	30
5.6 Suggestions for Further Research .....	31
<b>REFERENCES</b> .....	<b>33</b>
<b>APPENDICES</b> .....	<b>37</b>
Appendix 1: Research Panel Data.....	37

## LIST OF TABLES

Table 1.1:	Comparison of Performance in 2002 and 2010 .....	7
Table 4.2:	Descriptive Statistics .....	23
Table 4.3:	Pearson Correlation Matrix .....	25
Table 4.4:	Impact of FDI & Financial Markets on Growth – Model Summary ....	26
Table 4.5:	Impact of FDI & Financial Markets on Growth – ANOVA .....	26
Table 4.6:	Impact of FDI & Financial Markets on Growth – Coefficients.....	27



## LIST OF FIGURES

Figure 4.1: Trend of GDP Growth from 1997 – 2010 .....	24
Figure 4.2: Trend of Market Capitalisation from 1997 – 2010 .....	24
Figure 4.3: Trend of FDI Inflows from 1997 – 2010.....	25

## **ABBREVIATIONS AND ACRONYMS**

<b>ADF</b>	-	<b>Augmented Dickey-Fuller</b>
<b>ARDL</b>	-	<b>Autoregressive Distributed Lag</b>
<b>DC</b>	-	<b>Developed Countries</b>
<b>FDI</b>	-	<b>Foreign Direct Investment</b>
<b>FKE</b>	-	<b>Federation of Kenya Employers</b>
<b>FMD</b>	-	<b>Financial Market Development</b>
<b>GDP</b>	-	<b>Gross Domestic Product</b>
<b>HFUL</b>	-	<b>Heteroscedasticity Robust Version of the Fuller</b>
<b>HLIM</b>	-	<b>Heteroscedasticity Robust Version of the LIML Estimator</b>
<b>IMF</b>	-	<b>International Monetary Fund</b>
<b>JJ</b>	-	<b>Johansen and Juselius</b>
<b>KNBS</b>	-	<b>Kenya National Bureau of Statistics</b>
<b>LDC</b>	-	<b>Least Developed Countries</b>
<b>LILM</b>	-	<b>Limited Information Maximum Likelihood</b>
<b>MNC</b>	-	<b>Multinational Corporation</b>
<b>OECD</b>	-	<b>Organisation for Economic Co-operation and Development</b>
<b>OECD</b>	-	<b>Organisation for Economic Co-operation and Development</b>
<b>R&amp;D</b>	-	<b>Research and Development</b>
<b>R&amp;D</b>	-	<b>Research and Development</b>
<b>SPSS</b>	-	<b>Statistic Package for Social Services</b>
<b>UNCTAD</b>	-	<b>United Nations Conference on Trade and Development</b>
<b>USD</b>	-	<b>United States Dollar</b>

- VEC - Vector Error Correction**
- VECM- Vector Error Correction Model**
- WEF - World Economic Forum**

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

This chapter presents the conceptual as well as the contextual background of the study. The conceptual background discusses the concepts of foreign direct investment (FDI), financial market development (FMD), and economic growth. The conceptual background also discusses the relationships between foreign direct investment, financial market development, and economic growth. The contextual background presents a discussion of the Kenya as regards the FDIs, the FMD, and economic growth.

#### 1.1.1 Foreign Direct Investment

According to Moosa (2002), foreign direct investment is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution, and other activities of a firm in another country (the host country). The International Monetary Fund's (IMF) Balance of Payments Manual defines FDI as an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise.

The United Nations 1999 World Investment Report (UNCTAD, 1999) defines FDI as investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct

investor (FDI enterprise, affiliate enterprise, or foreign affiliate). For statistical purposes, FDI is defined by the United Nations as involving an equity stake of 10% or more in a foreign-based enterprise. Without a sufficiently large equity, it is difficult to exercise management control rights –namely, the right to appoint key managers and establish control mechanisms (Peng, 2009).

### **1.1.2 Financial Market Development**

Financial market development, also referred to as financial sector development, encompasses the growth in the banking sector and capital market sector in terms of the size, access, among other development indicators. Financial development is defined as "the factors, policies, and institutions that lead to effective financial intermediation and markets, and deep and broad access to capital and financial services (WEF, 2009).

The most recent World Bank study updates and expands the financial development database. This database has a select number of financial system indicators (around thirty) including: indicators for the size of the financial system, including liquid liabilities to GDP, currency outside banking system to base money, financial system deposits to GDP, and so forth; banking system indicators for size, structure, and stability; indicators for capital markets and the insurance sector; and indicators for financial globalization, such as international debt to GDP and remittance inflow to GDP.

### **1.1.3 Economic Growth**

Economic growth is the increase in the amount of the goods and services produced by an economy over time (Barro and Sala-i-Martin, 2003). It is conventionally measured as the percent rate of increase in real gross domestic product (GDP), or real GDP.

A number of theories have been put forward to explain economic growth determinants. These include the classical growth theory, the neoclassical growth model, endogenous growth theory, energy and energy efficient theories, theory of cognitive wealth, unified growth theory, the big push theory, Salter cycle, and the Schumpeterian growth theory (Barro and Sala-i-Martin, 2003).

### **1.1.4 FDI and Financial Market Development**

There are several characteristics that may indeed be important to promote the use of absorptive capacity of a country with respect to maximising technology spillovers from foreign firms. One crucial characteristic of the environment in the host country has not been mentioned in the literature, i.e. the development of the domestic financial system. The importance of the domestic financial system as a precondition for the positive growth effects of FDI can be illustrated with a simple model of technological change.

A crucial assumption in the technological change model is that the domestic financial system influences growth through the level of technology. First of all, the financial system influences the allocative efficiency of financial resources over investment projects. Thus, the financial system may contribute to economic growth through two main channels (next to providing and maintaining a generally accepted means of exchange). On the one hand, it mobilises savings; this increases the volume of

resources available to finance investment. On the other hand, it screens and monitors investment projects (i.e. lowering information acquisition costs); this contributes to increasing the efficiency of the projects carried out (Saint-Paul, 1992). The more developed the domestic financial system, the better it will be able to mobilise savings, and screen and monitor investment projects, which will contribute to higher economic growth.

Second, investment related to upgrade existing or adopt new technologies is more risky than other investment projects. The financial system in general, and specific financial institutions in particular, may help to reduce these risks, thereby stimulating domestic entrepreneurs to actually undertake the upgrading of existing technology or to adopt new technologies introduced by foreign firms. Thus, financial institutions positively affect the speed of technological innovation, thereby enhancing economic growth (Huang and Xu, 1999). This argument also holds for technological innovation that results from one or more of the channels of technology spillovers from FDI as described above. The more developed the domestic financial system, the better it will be able to reduce risks associated with investment in upgrading old and/or new technologies.

Third, when we reconsider the different channels through which technology spillover may take place, it becomes clear that in many cases domestic firms will need to invest when upgrading their own technology or adopting new technologies, based either on a demonstration effect, a competition effect, and/or a linkage effect. The same holds in case they aim at upgrading the skills of their employees (the training effect). These investments should be financed, however. The development of the domestic financial system at least partly determines to what extent domestic firms may be able to realise their investment plans in case external finance from banks or stock markets is needed.

Finally, the development of the domestic financial system may also determine to what extent foreign firms will be able to borrow in order to extend their innovative activities in the host country, which would further increase the scope for technological spillovers to domestic firms. FDI as measured by the financial flow data may be only part of the FDI to developing countries, as some of the investment is financed through debt and/or equity raised in financial markets in the host countries (Borensztein et al., 1998). Thus, the availability and quality of domestic financial markets also may influence FDI and its impact on the diffusion of technology in the host country. This diffusion process may be more efficient once financial markets in the host country are better developed, since this allows the subsidiary of a MNC to elaborate on the investment once it has entered the host country. Thus, in conclusion, FDI and domestic financial markets are complementary with respect to enhancing the process of technological diffusion, thereby increasing the rate of economic growth.

### **1.1.5 FDI and Economic Growth**

There is a huge literature emphasising the positive impact FDI may have on economic growth (Barro and Sala-i-Martin, 2003; Findlay, 1978; Kinoshita, 1998). Next to the direct increase of capital formation of the recipient economy, FDI may also help increasing growth by introducing new technologies, such as new production processes and techniques, managerial skills, ideas, and new varieties of capital goods. In the new growth literature the importance of technological change for economic growth has been emphasised (Barro and Sala-i-Martin, 2003). The growth rate of less developed countries (LDCs) is perceived to be highly dependent on the extent to which these countries can adopt and implement new technologies available in



developed countries (DCs). By adapting new technologies and ideas (i.e. technological diffusion) they may catch up to the levels of technology in DCs.

One important channel through which adoption and implementation of new technologies and ideas by LDCs may take place is FDI. The new technologies they introduce in these countries may spillover from subsidiaries of multinationals to domestic firms (Findlay, 1978).

The use of new technologies may be important in contributing to higher productivity of capital and labour in the host country. The spillover may take place through demonstration and/or imitation (domestic firms imitate new technologies of foreign firms), competition (entrance of foreign firms leads to pressure on domestic firms to adjust their activities and to introduce new technologies), linkages (spillovers through transactions between multinationals and domestic firms), and/or training (domestic firms upgrade the skills of their employees to enable them to work with the new technologies) (Kinoshita, 1998).

### **1.1.6 FDI, Financial Market and Economic Growth in Kenya**

FDI inflow figures from the World Bank Data indicate that from 2002 to 2010, the net FDI inflows grew by 573%. Thus between 2002 and 2010, FDI inflows to Kenya grew more than five times. Over the same period, GDP grew by 137% (KNBS Data, 2012). The financial market has also grown over the years. As regards the stock market for instance, the number of listed firms on the Nairobi Stock Exchange was 57 in 2002 and 58 in 2010. The stock market capitalisation has risen by 916% over the same period (KNBS Data, 2012). On the banking sector, the net domestic credit rose by 223%. Thus the credit given to non-financial institutions has risen more than twice

over the period between 2002 and 2010 (CBK Data, 2012). It is generally expected that FDI and financial market development positively influence economic growth. Table 1.1 summarises these figures.

**Table 1.1: Comparison of Performance in 2002 and 2010**

Year	FDI (USD '000,000)	GDP (USD '000,000)	Net Domestic Credit (KSH '000,000)	Listed Firms	Stock Market Capitalisation (USD '000,000)
2002	27.6	13.1	1,301	57	1,423
2010	185.7	32.1	403,574	58	14,460

Source: World Bank (2012), KNBS (2012)

**1.2 Statement of the Problem**

The contribution of foreign direct investment (FDI) to economic growth has been debated quite extensively in the literature. This debate has focused on the channels through which FDI may help to raise growth in recipient countries. In particular, it has been discussed to what extent FDI may enhance technological change through spill over effects of knowledge and new capital goods, i.e. the process of technological diffusion. In this discussion, some have argued that the contribution FDI can make is strongly dependent on the circumstances in the recipient countries. However, empirical studies investigating the relationship between FDI and economic growth on the one hand, and the role played by the circumstances FDI is confronted with whenever it enters a recipient country on the other hand, are scarce. Scholars such as Hermes and Lensink (2003) believe that financial market development plays an important role in enhancing the effect of FDI on economic growth.

Kenya has experiencing an increase in FDI inflows over the years with the inflows rising by more than five times between 2002 and 2010. Official figures show that GDP rose by 137% over the same period while net domestic credit rose by 223%. Thus as the FDI inflows have risen over the years, so has the economic growth. Further, the financial market has developed over the years just as the GDP has risen over the years.

Kimotho (2010) and Dinga (2009) studied the relationship between FDIs and economic growth in Kenya and noted that FDIs affect the level of economic growth. Kioi (2003) had also studied the relationship between FDI and economic growth in Kenya, Uganda and Tanzania. Both studies did not however establish the role of financial market development in the relationship between FDIs and economic growth. Ndung'u (2011) and Omoke (2010) studied the relationship between economic growth and stock market development in Kenya. While these studies showed the relationship between these two variables, they differ from the present study as they did not focus on the whole financial market development. Neither did it include FDI inflows in the model. From these studies, there a research gap as far as a study on the relationship between FDI, financial market development and economic growth is concerned. This study seeks to bridge the gap by answering the following research question: what is the relationship between FDI, financial market development, and economic growth in Kenya?

### **1.3 Objective of the Study**

The objective of this study was to establish the relationship between FDI, financial market development, and economic growth in Kenya.

## **1.4 Value of the Study**

This study will add onto the growing body knowledge of foreign direct investment hence being important to the field of international finance. Given that the search for the determinants of economic growth is not yet over, this study will be useful in establishing how FDI and financial market development affect economic growth.

The study will further benefit the government of Kenya as far as ascertaining what influence the level of FDI and financial market development have on economic growth. This will aid the government in enacting policies that would steer growth in FDI inflows.

The study will also benefit various scholars and researchers undertaking studies on FDI, financial market development, and economic growth by appreciating the mediating role of financial market development.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the literature review. Section 2.2 presents the theoretical literature; section 2.3 presents the empirical literature while section 2.4 presents the summary of the chapter.

#### **2.2 Theoretical Literature**

##### **2.2.1 Growth Models with Capital Accumulation**

The primary reference in growth economics is the neoclassical model, developed by Solow (1956). The success of this model owes a lot to its elegance and parsimony: the growth process is described by only two equations: (1) a production function that expresses the current flow of output goods as a function of the current stocks of capital and labor; (2) a law of motion describing how capital accumulation depends positively on investment (equal to aggregate savings) and negatively on capital depreciation. An important assumption is that the production function exhibits decreasing returns with respect to capital (i.e., the more capital has been accumulated, the lower the marginal productivity of an additional unit of capital). In the absence of technical progress (which this model cannot explain), capital accumulation is the only source of growth but it is also a source of growth that tapers off over time precisely because of the decreasing returns of capital in producing final output. These decreasing returns eventually choke off all growth in the long run.

A second class of growth models with capital accumulation are the so-called AK models. In these models, although production functions at the firm level may entail decreasing returns to capital, yet at the aggregate level this may no longer be the case, for example if there are sufficiently large knowledge externalities among firms who accumulate capital. Whenever knowledge externalities exactly offset the decreasing returns to individual capital accumulation, the economy grows at a positive long-run rate which depends positively upon the savings rate (the Harrod-Domar rate). These models have been used in the early 1990s to analyse the effects of taxation and other types of public policy. However, they have not survived the criticism of not predicting convergence. Also, these models emphasize the role of savings rates which does not appear to be paramount, particularly in developed economies, and they neglect the importance of firms' entrepreneurial incentives and of how these incentives are affected by the institutional and policy environment.

More recent models have explicitly modelled firms' innovative investments as key inputs to the growth process. These are referred to as the idea-based models of endogenous growth (Romer (1990) and Aghion and Howitt (1992)). In what follows we concentrate on the Schumpeterian paradigm.

### **2.2.2 The Schumpeterian Growth Paradigm**

The Schumpeterian paradigm, developed by Aghion and Howitt (1992) and subsequently elaborated in Aghion and Howitt (1992), grew out of modern industrial organization theory and put firms and entrepreneurs at the heart of the growth process. The paradigm relies on three underlying ideas.

First idea: long-run growth relies on innovations. These can be process innovations, namely to increase the productivity of production factors (e.g. labor or capital); or product innovations (introducing new products); or organizational innovations (to make the combination of production factors more efficient).

Second idea: innovations result from investments like research and development (R&D), firms' investments in skills, search for new markets that are motivated by the prospect of monopoly rents for successful innovators.

Third idea: creative destruction. Namely, new innovations tend to make old innovations, old technologies, and old skills, become obsolete. Thus growth involves a conflict between the old and the new: the innovators of yesterday resist new innovations that render their activities obsolete. This also explains why innovation-led growth in OECD countries is associated with a higher rate of firm and labor turnover. This third idea opens up the interesting field of political economy of growth: in particular, how should one design constitutions so as to strike the right balance between preserving innovation rents and at the same time not deterring future entry and innovation?

A fourth idea (Aghion and Howitt (2005) and Acemoglu, Aghion and Zilibotti (2006)) allows us to enrich the analysis of how to design growth policy in different types of countries. Namely, innovations may be either "frontier innovations" which push the frontier technology forward in a particular sector, or "imitations" which allows the firm or sector to catch up with the existing technological frontier. The more technologically advanced a country is, the higher the fraction of sectors that are already close to the existing technology frontier, and therefore require frontier

innovation to develop further. On the other hand, growth in less advanced countries, where most sectors lie farther behind the current frontier, will rely more on imitation.

### **2.3 Empirical Review of Global Studies**

Hermes and Lensink (2003) empirically investigated the role the development of the financial system plays in enhancing the positive relationship between FDI and economic growth. The empirical investigation presented in the study strongly suggests that this is the case. Of the 67 countries in data set, 37 have a sufficiently developed financial system in order to let FDI contribute positively to economic growth. Most of these countries were in Latin America and Asia.

Alfaro et al., (2004) examined the various links among foreign direct investment, financial markets, and economic growth. They explored whether countries with better financial systems can exploit FDI more efficiently. Empirical analysis, using cross-country data between 1975 and 1995, showed that FDI alone plays an ambiguous role in contributing to economic growth. However, the study found that countries with well-developed financial markets gain significantly from FDI. The results were robust to different measures of financial market development, the inclusion of other determinants of economic growth, and consideration of endogeneity.

Kholdy and Sobrabian (2005) investigated various links between financial markets, FDI and the economic growth. The results, using a panel of 25 countries over the period of 1975-2002 and the Granger causality model, revealed bi-directional links between financial markets and economic growth. The study found that initially in countries with low GDP per capita economic growth stimulate financial development; however, the direction of causality reverses for countries with higher GDP per capita.



The study also found bi-directional causality between financial markets and FDI in countries with relatively higher GDP per capita and more developed financial markets. However, the results suggested that FDI cannot induce economic growth.

Ljungwall and Li (2007) studied financial sector development, FDI and economic growth in China. The generalized method of moments system estimation was applied to data for 28 Chinese provinces over the period 1986-2003. The study showed that the interaction between foreign direct investment and indicators measuring the degree of market-oriented financing enhance economic growth.

Hsu and Wu (2009) studied the role of financial intermediations and the effects of foreign direct investment on economic growth using cross-country data between 1975 and 2005. The study applied new statistical techniques to avoid the endogeneity problem and found that weak instruments may lead to bias in estimating the effects of FDI on output through local financial markets. Some fully robust tests were used to re-evaluate this issue. The study considered the limited information maximum likelihood (LIML) and the Fuller methods to provide more reliable point estimates and inferences under weak instruments. Two robust estimators, HLIM and HFUL, were also used to control for heteroskedasticity. The empirical results showed that economies with better-developed financial markets were not necessary to benefit more from FDI to accelerate their economic growth.

Alfaro et al., (2010) studied whether FDI promotes growth. The study formalised a mechanism that emphasizes the role of local financial markets in enabling foreign direct investment to promote growth through backward linkages. Using realistic parameter values, the study quantified the response of growth to FDI and showed that

an increase in the share of FDI leads to higher additional growth in financially developed economies relative to financially under-developed ones.

Asman-Saini et al., (2010) studied the role of financial markets in the relationship between FDI and economic growth. This study used a threshold regression model and found new evidence that the positive impact of FDI on growth kicks in only after financial market development exceeds a threshold level. Until then, the benefit of FDI is non-existent.

Nwosa et al., (2011) examined the causal relationships among financial development, foreign direct investment and economic growth in Nigeria over the period 1970 to 2009. The study utilized the Augmented Dickey-Fuller (ADF) for unit root test and the variables were found to be stationary, though not in their level form but in their first difference. The Johansen and Juselius (JJ) co-integration technique indicated the presence of co-integration among the variables. The tri-variate vector error correction model (VECM) test for the causal relationships showed the presence of causality among financial development, foreign investment and economic growth. The study concluded that financial development and foreign direct investment have a statistically significant causal influence on economic growth.

Oseni and Enilolobo (2011) investigated the impact of FDI and stock market development on growth in Nigeria, for the period 1980-2009. The study employed econometric techniques such as Unit Root test, Cointegration and Error Correction Mechanism. The results showed that both foreign direct investment, its lagged and lagged stock market development have small, and a statistically significant effect on economic growth. The results seem to support the argument that extractive FDI and

stock market development were growth enhancing. But the trends results show that both FDI and stock market development have cyclical movement.

Shahbaz and Rahman (2011) investigated the effect of financial development, imports and foreign direct investment (FDI) on output in case of Pakistan over the period of 1990-2008 using quarterly data set. ARDL bounds testing approach was applied to examine the long run relationship and the direction of causality is investigated by using VECM framework. The findings confirm the existence of cointegration, showing long run relation between financial development, imports, FDI and real GDP. Financial development, imports and FDI have positive and significant effect on the output of the country. Causality analysis reveals bidirectional relation among the variables but strong causality is also running from financial development, economic growth and FDI to real imports.

Zadeh and Madani (2012) studied the role financial market developments play in mediating the impact of FDI on economic growth. The results indicate that the effect of FDI on economic growth is non-linear in nature. FDI has a negative effect on economic growth when financial development is low level but FDI has a positive effect on economic growth when financial development exceeds a threshold level. Threshold variable is the ratio of private creditors in GDP. The study found threshold value about 0.005 in GDP.

Bhunia and Das (2012) examined the causal relationship between economic growth and financial development in India for the period from 1980 to 2011 using annual data. The paper used Johansen approach to cointegration to examine the existence of a long-run relationship among economic growth and financial development for India, tests for Granger causality within the Vector Error Correction Model (VECM) and

examined the stability of the parameters over time. The findings indicate one co-integrating vector and one direction Granger causality running from financial development to economic growth.

Adeniyi et al., (2012) examined the causal linkage between foreign direct investment (FDI) and economic growth - in Cote' d'Ivoire, Gambia, Ghana, Nigeria and Sierra Leone - with financial development accounted for over the period 1970-2005 within a trivariate framework which applies Granger causality tests in a vector error correction (VEC) setting. The results supported the view that the extent of financial sophistication matters for the benefits of foreign direct investment to register on economic growth in Ghana, Gambia and Sierra Leone depending on the financial indicator used. Nigeria, on the other hand, displayed no evidence of any short- or long-run causal flow from FDI to growth with financial deepening accompanying.

#### **2.4 Empirical Review of Local Specific Studies**

Recent studies on foreign investment in East Africa paint a gloomy picture for Kenya, compared to Tanzania and Uganda. A study by the Federation of Kenya Employers (FKE) (2002) indicates that Kenya began to lose out to its two neighbours from around 1991 (Kim, 2011). The FKE study indicates that FDI investment to Kenya dropped from \$79m in 1980 to \$57m in 1990. Foreign direct investment in Kenya dropped further in 1991 to just \$19m, then to \$6m in 1992 and a further drop to \$2m in the following year. The situation, according to FKE's figures, became worse as time went on. Kenya only received \$4m FDI in 1994, similarly, while Kenya's foreign investment was worth only \$42m in 1999, it was relatively low compared to other East African countries. In the last 8 years, Kenya has seen major shifts in the size and

composition of cross-border capital flows into the economy. Net debt flows have become less and less important. Portfolio flows have not become firmly established. Foreign direct investment has come to swamp all other financial flows and has faced a lot of shifts and instability.

Both the flow of foreign aid and FDI do influence Kenya's GDP growth rate with a small margin. This indicates that most of the foreign aid financial support is not fully used in development projects and this raises issues of corruption or misappropriation of funds. It also justifies why donor governments are becoming more intransigent on the usage of their assistance. The low levels of FDI presence may be linked to declining levels of ODA, this is because FDI's are mostly from donor countries and wouldn't like to be viewed negatively if their governments are not contributing financial support and they may lose the risk of being awarded contracts. For example, in Iraq today, companies whose governments did not participate directly during the war in Iraq could not be awarded any contracts during the ongoing reconstruction process. Net interest for servicing loans borrowed affects the economy positively, however, if the government is to pay those interests on the loans it will have a negative influence on the growth process (Lemi, 2005).

New trends have reinforced the importance of private investment for many developing countries (Kingangi, 2003). As a result of the move towards neo-liberal policies, the role of the Kenyan government has shifted from an active economic player with productive activities to a provider of an environment of doing business and the social risk insurance. Private investment, both domestic and foreign, is viewed as the driving force of the Kenyan economy (Kingangi, 2003). However, he noted that recent work also points to the following potential risks: it can be reversed through financial transactions; it can be excessive owing to adverse selection and fire sales; its

benefits can be limited by leverage; and a high share of FDI in a country's total capital inflows may reflect its institutions' weakness rather than their strength. It implies that policy recommendations for Kenya should focus on improving the investment climate for all kinds of capital, domestic as well as foreign. Issues affecting FDI are taxation, investment incentives, laws on privatization, legal reforms, land law, the strength of the judiciary and the state of corruption, bureaucracy and cross border issues in the two countries.

The main factors influencing investment decisions in third world countries include political risk, economic freedom, business freedom, fiscal incentives, trade freedom, government expenditure, inflation, corruption, property rights, state of financial system and labour regulations (Kayonga, 2008). His study point out that policy framework of a country is the most important aspect – these are rules and regulations governing the country and operations of foreign investors. Africa was found to be unstable because of war, military interventions in politics, religious and ethnic conflicts. Further, the liberalization of national FDI frameworks in developing economies has been substantially successful in attracting FDIs in those countries. Nevertheless the benefits thereof are debatable. According to a 2007 index of economic freedom assessment, economies that are more open have a better investment environment than liberalized economies.

Nyamwange (2009) sought to examine the determinants of foreign direct investments in Kenya. The study used an OLS model. The data was sourced from the Kenya National Bureau of Statistics (KNBS), The World Bank's World Development Indicators, and own calculations. The period covered by the study is 1980 – 2006. The data were tested on regression analysis by use of the Statistical Package for Social Services (SPSS). The study found that economic growth accounted for 23% of the

variance in FDI. The study concluded that economic growth statistically influenced FDI.

Kim (2011) studied the relationship between foreign direct investments and economic growth in Kenya using data that spans from 2000 to 2009 and establishing through causal study if changes in one variable cause changes in the other. The results showed that foreign direct investments significantly contribute to the current level of economic growth. The findings imply that Kenya could enhance its economic growth by effectively managing funds from aid and by strategically strengthening investment plans.

## **2.5 Summary**

As can be noted from the literature review, there are a number of studies that have been carried out on the relationship between economic growth and DFI and also between economic growth and financial market development. From the review, it is clear that there is still no consensus on the relationships between the variables hence need for further research to establish the same. Further, research on the same in Kenya is lacking.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the research methodology that was used to carry out the study. It starts with research design in section 3.2, data collection in section 3.3 and data analysis in section 3.4.

#### **3.2 Research Design**

The study used inferential research design to find out the relationship between independent variables and dependent variables of the study. Inferential research design is used in quantitative research which is used for quantifying relationships between variables (Freedman and David, 2009). This design is used to test the relationship between independent variables and dependent variables in order to come up with conclusions of the relationships between the variables.

#### **3.3 Data Collection**

Secondary data was used in this study. This was drawn from the World Bank's World Development Indicators and the IMF's International Financial Statistics Yearbook, the Central Bank of Kenya, and the Kenya National Bureau of Statistics. The study covered the period from 1997 to 2010.



### 3.4 Data Analysis

The following model was adopted from the study by Zadeh and Madani (2012) for analysis:

$$GDP = b_0 + b_1 FDI + b_2 MKT + u \dots\dots\dots (1)$$

Where:

**GDP** this was measured as the growth rate of GDP which is used as a proxy for economic growth as the dependent variable

**MKT** was measured as the market capitalisation as a proportion of GDP to proxy stock market development

**FDI** was measured as the growth rate of FDI

The data was entered into the SPSS version 20 and analysed using descriptive analysis and multiple regression analysis. Descriptive analysis was used to determine the mean values of the variables in the model and to show the trend analysis. Multiple regression analysis was used to estimate the model in the study. Pearson correlation coefficients were interpreted for their effect and significance on the dependent variables. The models were tested for their significance using the ANOVA at 5% level of confidence. The strength of the relationships was tested using t-statistics. A discussion of the results based on the literature reviewed was made in the same chapter and the conclusions and recommendations for policy and research is made in chapter five.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the results of the study. The chapter is organized as follows. Section 4.2 presents the descriptive results. Section 4.3 presents the results on the relationship between FDI, financial market development and growth.

#### 4.2 Descriptive Statistics

The analysis begins by looking at the distribution of data. Table 4.1 reports the results of the descriptive statistics.

**Table 4.1: Descriptive Statistics**

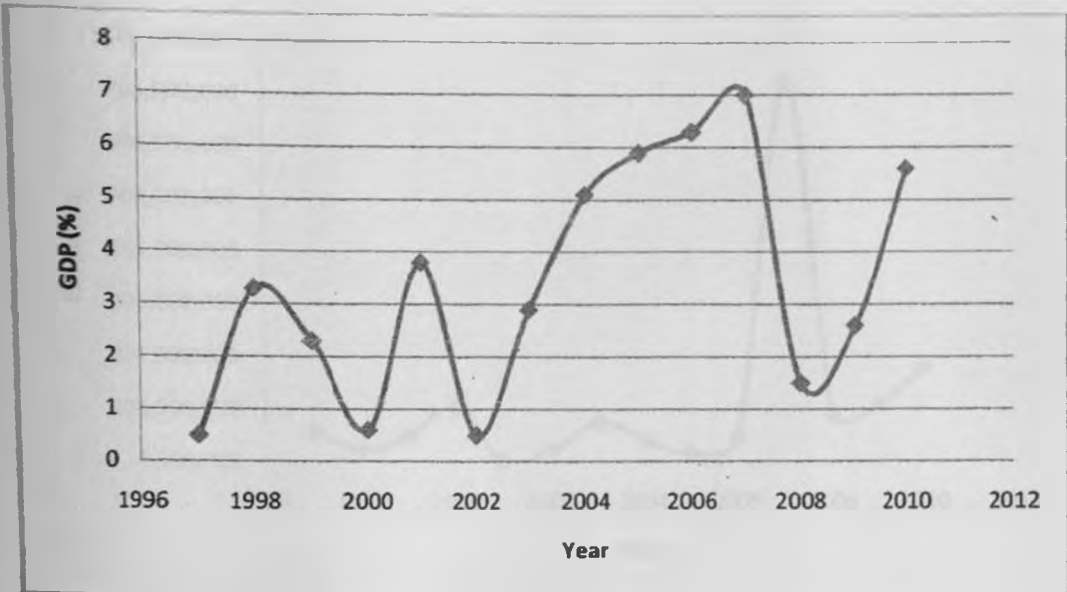
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
GDP	14	0.50	7.00	3.4214	2.25121
MKT	14	8.10	50.60	26.4357	15.34248
FDI	14	5,302,623	729,044,146	115,056,667	183,033,415

**Source: Author (2012)**

The results indicate that net FDI inflow and market capitalization show the most fluctuations in the dataset, since their standard deviations compared to their respective means are the largest. The lowest and the highest net FDI inflow during the period under study were 5,302,623 and 729,044,146 respectively. The highest market capitalization during the period was 50.6% while the lowest was 8.1%. The lowest GDP growth rate during the period was 0.5% while the highest was 7%.

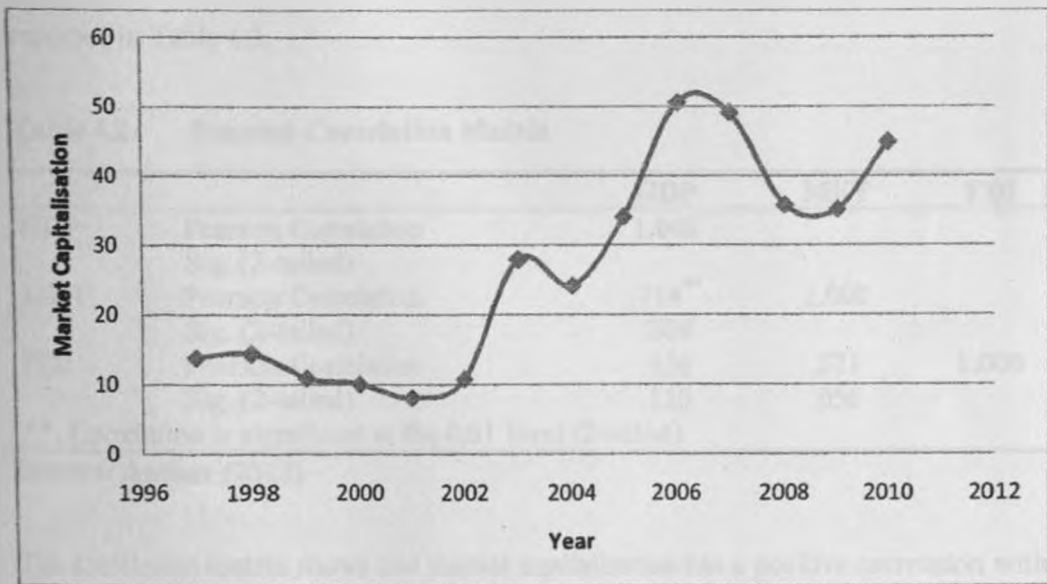
Trend analysis results are shown in Figures 4.1 – 4.3 and the results show a general rise in GDP growth, net FDI inflows, and market capitalization over the period under study. FDI inflows rose sharply in 2007 as this was the highest level of FDI before falling back to the normal levels.

**Figure 4.1: Trend of GDP Growth from 1997 – 2010**



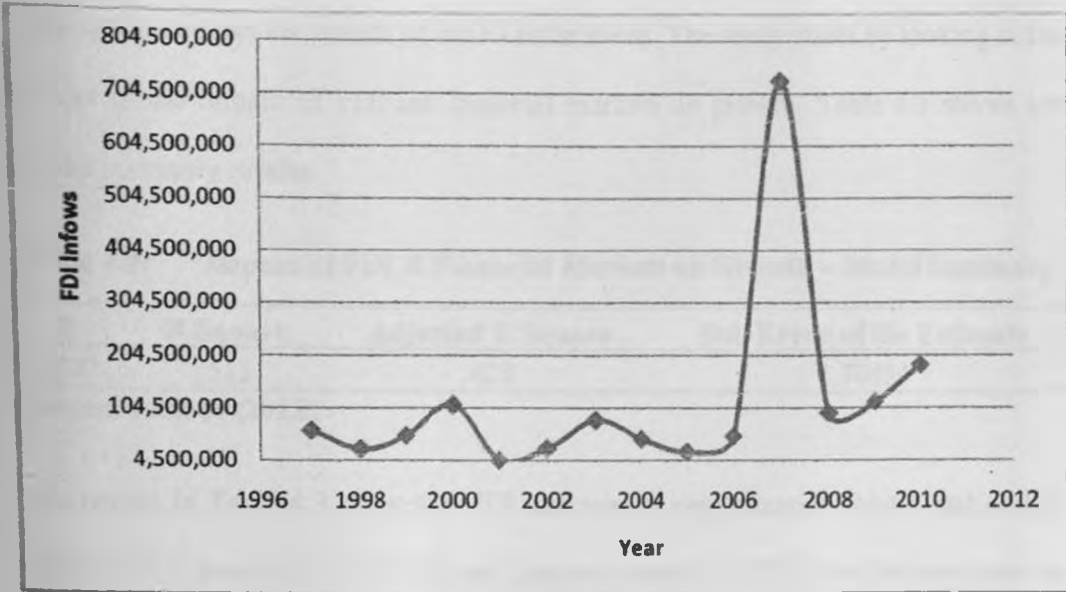
Source: Author (2012)

**Figure 4.2: Trend of Market Capitalisation from 1997 – 2010**



Source: Author (2012)

**Figure 4.3: Trend of FDI Inflows from 1997 – 2010**



Source: Author (2012)

Moreover, the study also conducted a correlation test on the data. The results are reported in Table 4.2.

**Table 4.2: Pearson Correlation Matrix**

		GDP	MKT	FDI
GDP	Pearson Correlation	1.000		
	Sig. (2-tailed)			
MKT	Pearson Correlation	.714**	1.000	
	Sig. (2-tailed)	.004		
FDI	Pearson Correlation	.436	.521	1.000
	Sig. (2-tailed)	.120	.056	

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Author (2012)

The correlation matrix shows that market capitalization has a positive correlation with GDP growth (0.714). This correlation is significant at 1% level of confidence. Market capitalization and FDI do highly correlate and therefore it can be concluded that there is no serial correlation between the variables. The estimation of the model is carried out in the next section.

### 4.3 The Impact of FDI and Financial Markets on Growth

This section covers the results of model estimations. The study starts by looking at the results of the impact of FDI and financial markets on growth. Table 4.3 shows the model summary results.

**Table 4.3: Impact of FDI & Financial Markets on Growth – Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.718 <sup>a</sup>	.515	.427	1.70454

Source: Author (2012)

The results in Table 4.3 show that FDI and market capitalization jointly had a high impact GDP growth ( $R = 0.718$ ) and they accounted for 51.5% of the variance in GDP growth ( $R^2 = 0.515$ ). Table 4.4 shows the model fit.

**Table 4.4: Impact of FDI & Financial Markets on Growth – ANOVA**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	33.924	2	16.962	5.838	.019 <sup>b</sup>
Residual	31.960	11	2.905		
Total	65.884	13			

Source: Author (2012)

As shown in table 4.4, the study found that the F statistic of 5.838 was significant at 5% level of confidence. This means that the model used was fit to explain the impact of FDI and market capitalization on GDP growth in Kenya. Table 4.5 presents the coefficients of the variables.

**Table 4.5: Impact of FDI & Financial Markets on Growth – Coefficients**

	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	.706	.945		.747	.471
MKT	.098	.036	.668	2.715	.020
FDI	1.072E-009	.000	.087	.354	.730

**Source: Author (2012)**

As shown in Table 4.5, the study found that market capitalization had a positive impact on GDP growth (0.098). This impact was statistically significant at 5% level of confidence. This means that growth was significantly influenced by financial markets. Higher market capitalization translates to higher GDP growth. The results also show that FDI had a positive impact on GDP growth (1.072E-009) but the impact was not statistically significant at 5% level of confidence. This means therefore that growth is not influenced by FDI net inflows in Kenya.

#### **4.4 Discussion of Findings**

The study found that market capitalization had a positive effect on GDP growth. From these results, it is clear that high stock market capitalization leads to higher GDP growth of Kenya. Since these results were significant, the results therefore mean that Kenya's economic growth is significantly influenced by financial market development. This is consistent with previous studies such as Oseni and Enilolobo (2011) in Nigeria who found small but statistically significant effect of market development on growth.

The study also found that foreign direct investment had a positive influence on GDP growth. This means that higher FDI inflows to Kenya led to higher economic growth in terms of GDP growth. These results were insignificant suggesting that Kenya's

**economic growth** is not significantly influenced by the level of net FDI inflows. These **results are inconsistent** with a number of empirical studies such as Nwosa et al (2011) **in Nigeria** who found a statistically significant effect of FDI on economic growth of **Nigeria**.

The trend analysis results also show a general upward trend in FDI, GDP growth and stock market development. A closer look reveals a cyclical movement in all these variables. This suggests that FDI, GDP and stock market development in Kenya are cyclical. The results as far as the movement of FDI and stock market development are concerned are consistent with the findings of Oseni and Enololobo (2011) who did a study in Nigeria and found that both FDI and stock market development had a cyclical movement over the study period.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents the summary of the study in section 5.2, conclusion in section 5.3, recommendations for policy in section 5.4, limitations of the study in section 5.5 and suggestions for further research in section 5.6.

#### 5.2 Summary

This study sought to achieve two objectives: examine the trend of FDI, financial market development, and economic growth in Kenya and to establish the relationship between FDI, financial market development, and economic growth in Kenya. The study used inferential research design to find out the relationship between independent variables and dependent variables of the study. Secondary data was used in this study. The data was analysed using descriptive analysis and multiple regression analysis.

The trend analysis showed a general rise in GDP growth, net FDI inflows, and market capitalization over the period under study. The trends further reveal that they had a cyclical movement over the period of study. FDI and market capitalization jointly had a high impact on GDP growth ( $R = 0.718$ ) and they accounted for 51.5% of the variance in GDP growth ( $R^2 = 0.515$ ). The F statistic was significant at 5% level of confidence. The study found that market capitalization had a positive and significant impact on GDP growth (0.098). The results also show that FDI had a positive but insignificant impact on GDP growth.



### **5.3 Conclusion**

The study concludes that financial markets influence the economic growth of Kenya. As the results show, higher stock market capitalization leads to high economic growth. Thus economic growth is positively influenced by the level of stock market capitalization and by extension the level of financial market development.

The study also concludes that economic growth in Kenya is not significantly influenced by the level of FDI inflows. As it may appear that there was a positive effect of FDI on GDP, this was insignificant. Therefore, be that it may that higher FDI inflows lead to higher economic development, the effect is not significant.

### **5.4 Recommendations for Policy**

The study recommends that Kenya needs to improve further the stock market development especially by crafting policies that will boost the performance of the stock market through the market capitalization. This will lead to better economic growth.

The study also recommends that the Government needs to put up measures that will help attract the foreign direct investment inflows as the levels are still very low and this has not led to any significant contribution to the country's economic growth.

### **5.5 Limitations of the Study**

This study was done on Kenya. Thus the results are limited to Kenya and may not be generalized to all African or East African countries. This is because Kenya has a unique operating environment and therefore the results from Kenya may not be applicable in other countries.

The study also covered the period 1997 – 2010. This may seem a long period but is not long enough to cover the fluctuations due to major economic events in Kenya and therefore the study suffers from the shorter period covered by the study.

The study also focused on three variables – FDI inflows, market capitalization, and GDP. The model was therefore constrained to these three variables and the results are therefore applicable to the variables in this study.

Further, this study assumed a linear relationship between the variables in the study and also assumed a one-directional effect from FDI and stock market development to GDP growth. It may have been important first to establish the causality hence the results are limited by this study assumption.

## **5.6 Suggestions for Further Research**

The study suggests that this study be replicated for East African countries in order to determine the impact of these factors on economic growth. This will help initiate policies that will help in the growth of East African Community.

The study also recommends that another comprehensive study be done on Kenya that it shall include more control variables in the model and also lengthen the period of study. Such a study will give a better picture of the situation in Kenya.

There is also need to perform a causality study in order to establish the direction of relationship between FDI, stock market development and GDP growth in Kenya. This

will help provide a clear result on whether these variables lead to economic growth or not.

Lastly, the study suggests that a study be done to determine the effect of financial market development by expanding the meaning in order to include both the stock market development and the credit market development as both are important sectors in Kenya and may be instrumental in economic growth of Kenya.

## REFERENCES

- Acemoglu D., Johnson S. and Robinson J. (2002) Reversal of fortune: geography and institutions in the making of the modern world income distribution, *Quarterly Journal of Economics*, 117(4), 1231–94.
- Acemoglu, D, Aghion, P, and F. Zilibotti (2006), Distance to Frontier, Selection, and Economic Growth, *Journal of the European Economic Association*, 37-74
- Adeniyi, O., Omisakin, O., Egwaikhide, F.O., and Oyinlola, A. (2012). Foreign Direct Investment, Economic Growth and Financial Sector Development in Small Open Developing Economies. *Economic Analysis & Policy*, 42 (1), 105 – 127.
- Aghion P. and Howitt P. (1992), A Model of Growth through Creative Destruction, *Econometrica* 60(2), 323-51.
- Alfaro, L., Chanda, A., Kalemli-Ozcan, S., and Sayek, S. (2004). FDI and economic growth: the role of local financial markets. *Journal of International Economics*, 64, 89–112.
- Alfaro, L., Chanda, A., Kalemli-Ozcan, S., and Sayek, S. (2010). Does foreign direct investment promote growth? Exploring the role of financial markets on linkages. *Journal of Development Economics*, 91 (2), 242-256.
- Asman-Saini, W.N.W., Law, S.H., and Ahmad, A.H. (2010). FDI and economic growth: New evidence on the role of financial markets. *Economics Letters*, 107 (2), 211–213.
- Barro, R.J. and Sala-i-Martin, X. (2003). *Economic growth*, 2<sup>nd</sup> edition. The MIT Press: London.
- Bhunia, A., and Das, A. (2012). Association between economic growth and financial development: an econometric analysis. *Journal of Asian Research Consortium*, 2 (6), 27 – 47.
- Dinga, M.O. (2009). A study of the impact of foreign direct investments on economic growth in Kenya. *Unpublished MBA Project*, University of Nairobi.

- Federation of Kenya Employers (2002) in Kim, A.M. (2011). *The impact of foreign direct investment on economic growth and development in Kenya*. Presented at AIBUMA Conference Article, Nairobi.
- Findlay, R. (1978). Relative Backwardness, Direct Foreign Investment and the Transfer of Technology: A Simple Dynamic Model. *Quarterly Journal of Economics*, 92 (1), 1-16.
- Hermes, N., and Lensink, R. (2003). Foreign direct investment, financial development and economic growth. *The Journal of Development Studies, Taylor and Francis Journals*, 40 (1), 142-163.
- Hsu CC., and Wu JY. (2009). FDI and Economic Growth: Revisiting the Role of Financial Market Development, *Far East and South Asia Meeting of the Econometric Society*, Faculty of Economics, University of Tokyo, Japan, August 2009.
- Huang, H., and C. Xu 1999, 'Institutions, Innovations, and Growth', *American Economic Review*, 89 (2), 438-43.
- Kayonga, G.W. (2008). A Comparative study of foreign direct investment policy in Eastern Africa: The case of Rwanda and Tanzania (2000-2006). *Unpublished MA Project*, University of Nairobi.
- Khouldy and Sohrabian (2005). Financial Markets, FDI, and Economic Growth: Granger Causality Tests in Panel Data Model, *Working Paper*, California State Polytechnic University
- Kim, A.M. (2011). The impact of foreign direct investment on economic growth and development in Kenya. *Presented at AIBUMA Conference Article*, Nairobi.
- Kimotho, A.M. (2010). The relationship between foreign direct investments (FDIs) and economic growth in Kenya. *Unpublished MBA Project*, University of Nairobi.
- King'ang'i , P.K. (2003). Private investment and Economic growth in Kenya. An empirical investigation: 1980 -2002. *Unpublished MA Project*, University of Nairobi.

- Kinoshita, Y. (1998). *Technology Spillovers Through Foreign Direct Investment, Unpublished Working Paper*, Prague: CERGE-EI.
- Kioi, P.N. (2003). The relationship between foreign direct investment and economic growth in Kenya, Uganda and Tanzania. *Unpublished MBA Project*, University of Nairobi.
- Lemi, L.W. (2005). Trend analysis of overseas development assistance and foreign direct investment, and their impact on economic growth: The case study of Kenya. *Unpublished MA Project*, University of Nairobi.
- Ljungwall, C., and Li, J. (2007). Financial Sector Development, FDI and Economic Growth in China. *CCER Perking University*, No E2007005.
- Moosa, I.A. (2002). *Foreign direct investment: theory, evidence, and practice*. Palgrave: New York.
- Ndung'u, D.K. (2011). The relationship between economic growth and stock market development: the case of Nairobi Stock Exchange. *Unpublished MBA Project*, University of Nairobi.
- Nwosa, P.I., Agbeluyi, A.M., Saibu, O.M. (2011). Causal Relationships between Financial Development, Foreign Direct Investment and Economic Growth the Case of Nigeria. *International Journal of Business Administration*, 2 (4), 93 – 102.
- Nyamwange, M. (2009). *Foreign direct investment in Kenya*. MPRA Paper No. 34155.
- Omoke, J.M. (2010). The relationship between capital market development and economic growth in Kenya. *Unpublished MBA Project*, University of Nairobi.
- Oseni, I.O., and Enilolobo, O.S. (2011). Effect of Foreign Direct Investment and Stock Market Development on Economic Growth in Nigeria (1980-2009). *European Journal of Business and Management*, 3 (12), 34 – 42.
- Peng, M.W. (2009). *Global business*, South-Western Cengage Learning: Ohio

- Romer P. (1990). Endogenous Technological Change. *Journal of Political Economy* 98(5), S71-S102.
- Saint-Paul, G. (1992). Technological Choice, Financial Markets and Economic Development, *European Economic Review*, 36 (4), 763-81.
- Shahbaz, M., and Rahman, M.M. (2011). The dynamic of financial development, imports, foreign direct investment and economic growth: cointegration and causality analysis in Pakistan. *Global Business Review*, 201-219, Issue: 13. Available [http://mpa.ub.uni-muenchen.de/32181/1/MPRA\\_paper\\_32181.pdf](http://mpa.ub.uni-muenchen.de/32181/1/MPRA_paper_32181.pdf)
- Solow, R.M. (1956). A Contribution to the Theory of Economic Growth. *Quarterly Journal of Economics* (The MIT Press) 70 (1): 65–94.
- UNCTAD (1999). *The United Nations 1999 World Investment Report*, UNCTAD.
- World Economic Forum. (2009). *The Financial Development Report 2009*.
- Zadeh, H.A., and Madani, Y. (2012). Financial Market Development, FDI and Economic Growth in Iran. *Journal of Basic and Applied Scientific Research*, 2 (1), 228-230.

## APPENDICES

### Appendix 1: Research Panel Data

Year	GDP Grwth	Mkt	FDI Grwth
1997	0.5	13.9	62,096,810
1998	3.3	14.4	26,548,246
1999	2.3	10.9	51,953,456
2000	0.6	10.1	110,904,550
2001	3.8	8.1	5,302,623
2002	0.5	10.8	27,618,447
2003	2.9	28	81,738,243
2004	5.1	24.2	46,063,931
2005	5.9	34.1	21,211,685
2006	6.3	50.6	50,674,725
2007	7	49.1	729,044,146
2008	1.5	35.8	95,585,680
2009	2.6	35.2	116,257,609
2010	5.6	44.9	185,793,190