IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN KENYA

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DECLARATION

This research paper is my original work and has not been presented for a degree or any other award in any other university.

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May God bless you.

DEDICATION

I dedicate this work to my parents Mr. and Mrs. Nyerere, my sisters, brother, teammates, and friends who became family. Without their constant support, encouragement and advice this achievement would not have been possible.

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LIST OF ABBREVIATIONS AND ACRONYMS

GDP – Gross Domestic Product

UoN – University of Nairobi

OECD – Organization for Economic Co-operation and Development

UNFPA – United Nations Population Fund

IBRD – International Bank for Reconstruction and Development

FDI – Foreign Direct Investments

UNCTAD – United Nations Conference on Trade and Development

IMF – International Monetary Fund

UK – United Kingdom

US – United States of America

KPMG – Klynveld Peat Marwick Goerdeler

EPZ – Export Processing Zone

USD – United States Dollar

UNCAT – United Nations Convention Against Torture

MNC – Multinational Corporation

TNC – Transnational Corporation

ABSTRACT

The impact of FDI has been studied by many scholars and most of them have come out with differing results. The proponents tend to believe that based on the studies that they have, Foreign Direct Investments boost a country's growth as it boosts productivity and at the same time savings and revenue is created in an easier way. On the other hand, the opponents believe that Foreign Direct Investments expose a growing economy to external factors such as volatility in markets and at the same time undermines the macroeconomic factors which in turn creates some instability.

The Kenyan government in the efforts to grow the economy as well as ensure it performs to the best of its ability it has always encouraged many investors to bring in funds and invest in the country. As from 2007 all the way to 2019, the Foreign Direct Investments that were made in the country have been growing gradually. The study found out that the FDIs have a positive impact towards the growth of the Kenyan economy. This is because most of the funds have been directed towards human capital capacity building which makes employees more valuable. Apart from this, the production industry has also been improved meaning that the Kenyan economy that is in the infrastructure and manufacturing sectors has been boosted in the period of the study. however, it is good to recognize that is not only FDIs that impact economic growth but there are other factors that aid it in making the observed impact.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Africa is recognized as a third world continent because most of the countries do face most similar challenges ranging from; low incomes resulting to high levels of poverty, high mortality rates, high birth rates, high unemployment rates which in turn raises the dependency ratios, food insecurity thus unsustainability, crime and violence and low economic growth rates (OECD). When such drawbacks hit the countries as much, the African countries usually have to focus more on feeding her people and ensuring their wellbeing. This often results in little or no funds left for investment. Majorly, investments are the fuel to economic growth because of the opportunities they bring with them, such as employment, which in return raises the living standards and consequentially affecting all the other factors of the economy positively (Chowdhury & Mavrotas, 2003).

According to the United Nations Population Fund (UNFPA), the African continent has roughly about 1.337 billion people as of May 2020. Most of the population is made up of young people; thus, consumption rates are higher, and because there is more workforce, most youths end up being unemployed, and it's up to the governments to take care of their essential needs like healthcare. Since most money is invested in the public system, this leaves no funds that can be used for investment. Even though Africa has been fighting poverty since the 1990s, the rates have been taking a positive turn from 54 percent in 1990 to 41 percent in 2015, which is a remarkable change. As these exceptional results happen, the population also grows at 2.6 percent per year, resulting in almost half of the poor people living in Africa alone (IBRD, World Bank Group).

In an Act enacted by the Parliament of Kenya, (Investment Promotion Act, 2004), A foreign investor is a natural person who is not a citizen of Kenya; or a partnership in which the controlling interest is owned by a person or persons who are not citizens of Kenya; or a company or other body corporate incorporated under the laws of a country other than Kenya. The relationship between FDI inflows and economic development has been overly explored and there has been differing opinions. The proponents argue that FDI through the free market efficiency has been able to fill in the gaps in savings, foreign exchange, revenue and management (O'Connell, et al., 2010). It has also promoted the sharing of credit risk across borders bringing with it superior technology, promoting skills, creating more employment opportunities which have risen the levels innovation and in turn all these factors have led to the economic growth. FDI has been observed as a positive force on profit maximization and an increase in productivity in domestic private companies through the investment by foreign companies by bringing in of new technology, management efficiency and financial resources (Mwega, 2009). FDI also augments upgrades of the existing technology, develops basic skills in the domestic labor as well as improving the managerial capacities (Abala, 2014).

On the other side, opponents have differing opinions in FDI’s impact into the economy. They argue that foreign investments destabilize the domestic economy because it exposes it to the external environment that is overly volatile. When this happens, it makes the country dependent on the developed nations, widens the gaps that exist in the market and drains the saving of the country in the effort to repair it (O'Connell, et al., 2010). Because of these factors, most nations in the developing world did not harness the importance of

FDIs to their economies because of the many negative effects that befell on their domestic companies such as bankruptcy and the general deterioration of the nation's natural resources.

This study will be based on several theories such as the capital theory, eclectic paradigm theory, product cycle theory, and the internalization theory. The eclectic paradigm theory seeks to explain the evaluation firms undertake to invest in a foreign market in order to gain advantages of being in a foreign country. They seek to have their transactions in-house if the costs of having them in the free market are higher. Mostly they seek to reduce costs because of the location benefits once they invest in the foreign country (Kyrkilis & Moudatsou, 2011). The capital theory explains why foreign countries invest abroad in order to enjoy more returns because of the differences in levels of return (Mundell, 1957).Internalization theory seeks to explain when firms invest their surplus profits in markets that have disparities in relation to skills, technology or financing (Burley & Mark, 1976).Finally, the product life cycle theory seeks to explain the levels of growth of a company and when the firm gets to some stage it needs to expand its options for it to remain in business and that this stage it gets in to a foreign investment (Latorre, 2008).

1.1.1 Foreign Direct Investment

According to (UNCTAD 2016), Foreign Direct Investment (FDI) is defined as an investment involving a long term relationship and reflecting a lasting interest and control by a resident entity in one economy, the foreign direct investor, in an enterprise resident in an economy other than the foreign direct investor's economy. According to (Lipsey, 2002) FDI is a particular form of the flow of capital across international borders from home countries to host countries. This flow gives rise to a specific type of foreign assets for the home countries, precisely the value of entities, typically corporations controlled by a home country resident, or every country resident holds a share of the voting rights. According to the (IMF), and FDI refers to direct investment equity flows in an economy where there is a cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise resident in another economics.

According to (IMF, 2003), the impact of FDI to a country's GDP can be estimated or measured by taking the sum of equity capital, earnings reinvested and other short and long-term investments as in the balance of payments. This calculation shows the FDI net inflows into the economy and it is divided by the GDP. According to (OECD, 2019), the FDIs are measured as a share of the GDP. However, the inward FDIs are measured by comparing the inflows to the investors net investment amounts. Therefore, if the FDI were in form of stocks then it is calculated in terms of the value of the equity in the economy of the reporting resident country.

1.1.2 Economic Growth

Economic growth according to (Collier & Njuguna, 2010) can be defined as the increase in the economy's capacity to produce goods when one period is compared to another whereby the change can be measured in nominal or real terms. (World Bank, IBRD) defines economic growth as an adjustment in terms of increment in the inflation adjusted market value of produced goods and services in an economy over time.

The measurement of economic growth is done statistically by observing the rate of increase in the GDP. The measurements can be done quarterly at an annual rate, year-over-year growth rate or the annual average growth rate (Arouba et al., 2013). Economic growth of any country shows how much the country is developing and doing well as per the set global standards.

Kenya has made significant economic reconstructions, political and governance reforms that have largely contributed to the economic growth of the nation. However, challenges like poverty, a weak private sector and inequality still haunt the process of economic growth. The Kenyan economy, according to the World Bank, IBRD, is one of the fastest growing economies with an average growth of 5.7% in 2019. This has been due to a stable government, stable macroeconomic environment and resilient services sector. Ever since the inauguration of the new constitution in 2010, the Kenyan economy has been hit hard by supply and demand shocks in both domestic and foreign fronts which has interrupted the growth curve. Also the recent locust attack and currently the Corona Virus pandemic have affected many parts of the country that were key to supporting the economy such as the Central and North Eastern parts. Due to this, the economic growth in 2020, is expected to take a dive of about 1% from the previous rating.

1.1.3 Relationship Between FDI and Economic Growth

FDI have been observed to have low linkages with specific assets associated with R&D, networks and branding (Sumner, 2005). FDI inflows as per Sumner (2005) were observed to have a positive impact and this was through the market access they provided give that they ended up creating employment in the local market. Also, FDIs have been observed to have some impact on the export market platform as the creation of employment and increase of productivity is what translates to good being exported to foreign countries. However, this might have backward linkages to the local economy according to Chang (2003). Where countries provide better and more inappropriate advantages to foreign companies in an aim to attract these FDIs, they make the local firms less competitive and therefore, the subsidies and tax exemptions might turn into being more harmful to the economy.

1.1.4 Foreign Direct Investment and Economic Growth in Kenya

Over the last few years, Foreign Direct Investments in Kenya have been rising steadily since the Chinese showed interest. Albeit, FDIs in Kenya have been relatively weak because our economy is a bit weaker and underdeveloped compared to other countries like the USA and China. Factors such as the strength of and economy, size, political stability, transport and infrastructure and labor skills usually have a direct impact on the level of FDIs in a country. Kenya has one of the best economies in East Africa, and it's one of the highest recipients of FDI both in the region and in Africa at large.

The Kenyan FDI inflows have taken a rise and increased by 27% from 1.2 billion USD in 2017 to 1.6 billion USD (UNCTAD 2016). Most of these investments are usually from China since the Chinese secured themselves to conduct a railway project that links up the entire East and Central African region that was projected to cost 14 USD billion. (UNCTAD, 2019).

Most of the targeted FDI areas in Kenya are mainly the banking sector, ICT, tourism and extraction and mining sectors (Rostow, 1960). Since this is usually viewed as the new scramble for Africa, the investments come from China, the United Kingdom, Netherlands, the United States of America, Belgium and even South Africa. According to the World Bank's: *2020 Doing Business report*, Kenya was ranked 56th globally, marking an improvement from the 2019 description in which it was ranked 61st.

The Kenyan government has tried to make the economy more investor-friendly by making the business environment more advanced and stable, such as reliability on company registration, better tax exemptions and even more investments into the energy sector to make sure there's adequate power supply. The Republic of Kenya passed an Act (The Public-Private Partnerships Act, 2013) that was meant to attract more foreign investments. The government has tried to get more investors into investing in many sectors in the economy, such as tourism, financial and business services and telecommunications. Tour operators are dominated by foreign operators such as United Touring Company (UK), Express Travel (US), Abercrombie and Kent (UK) and Pollman's (Germany). The most significant projects are in the establishment of hotels and lodges for coastal and safari tourism. A number of the major international hotel chains are present, including Hilton, Intercontinental, Serena, Block Hotels and Holiday Inn. New trends have been timeshare holidays and ecotourism.

Kenya has also attracted foreign investors in banking and professional services such as Deloitte Touché Tohmatsu, Ernst and Young and KPMG base their primary East African operations in Kenya. Thirteen of the 43 banks in Kenya are foreign, controlling 51 percent of total banking assets or having a significant stake in the country, Barclays Standard Chartered, Citibank and Stanbic (Kariuki, 2014). Two of these international banks (Barclays and Standard Chartered) dominate commercial banking along with the State-controlled Kenya Commercial Bank. The export processing zones (EPZ) also benefit from various incentives that the government grants to that particular sector.

A look at the graph that shows the FDI inflows, it can be noted that some of the decline like that of 2012 is attributed to the political instability. The fear was that there would be unrest like that which was experienced in the 2007/2008 elections which brought down the

Kenyan economy. The trend is as a result of forces such as corruption, insecurity and the political instability that is associated with those periods.

1.2 Research Problem

Over time, the Kenyan government tried to increase the levels of FDIs coming into the country. This has been done by bringing onboard incentives to attract foreigners to see Kenya as a land of green pastures. Over the past few years, the amounts invested have been increasing: 2016 – 681million USD, 2017 – 1275 mullion USD and 2018 – 1626 million USD (World Bank).

Empirical studies by both local scholars and international researchers have been conducted in the past have not focused on the impact of FDI but on other factors that are directly related with FDI such as balance of payments. The results that have been observed in the African countries have not been precise as to which direction the FDI impact takes because of the aspect of not really focusing on the FDI specifically. Studies that have concluded that FDI does not lead to economic growth were undertaken by UNCAT (2010), whereas (Blomstrom, Kokko, & Zejan, 2010) does agree that FDIs do positively impact economic growth. (Muhia,2019) found out that all foreign investments aimed at improving the infrastructure sector have borne positive results even though the impact is insignificant. Significant growth due to infrastructure development has been in the manufacturing and agriculture sector.

This study seeks to determine the impact FDIs have had on the Kenyan economy as well as having the exports as a variable considered in the study and also measuring if they are related and how that relations grows the economy. The majority of the previous studies have mostly dwelt on the balance of payments and there are very few studies that focus on exports and FDI relation to economic growth and that is the gap this study desires to fill. By studying the impact on exports, the study will also seek to see how skills, capacity building and technological advancement affect the quality and quantity of the goods the country has been dealing in. In order to bridge this gap, the study seeks to answer the question: What is the impact of Foreign Direct Investments on the Kenyan economy and the role exports play.

In the World Bank report, Kenya's exports have increased over time since the economy is growing better, especially in the agricultural and manufacturing sectors (Pessoa, 2007). This has been because most investments have been encouraged in horticulture, floriculture and the EPZ Act. This study will, therefore, try to find if the increase of FDIs in the country has had any effect on the economy. It shall also cover how exports have been influenced. Since the study covers from the year 2007 to 2018, many events took place in this period politically and shook the economy: (KANU – NARC in 2002 transition and the 2007/2008 post- election violence). They will also enable us to see how the country's stability had an effect on the whole nation and how adverse the outcome was.

Therefore, through all this literature and research the FDIs have been observed to have been increasing over time. However, what impact to they have to the Kenyan economy at this point. The studies that have been conducted have not addressed how FDI inflows into Kenya have impacted the economy considering GPD, exports and the political climate and governance. Therefore, this study seeks to fill in this gap by establishing how these aspects affect the impact of FDIs in Kenya. Many researched have been done globally and it has been established that FDI inflows behave differently in each and every economy

(Blomstrom, Kokko, & Zejan, 2010). However, the local studies that have been undertaken by Muhia (2019) and Chege (2015) suggest that the FDIs inflows into Kenya have had a positive impact. However, this study seeks to use a different approach than that of the previous studies by using GDP and exports as the basis of study.

Therefore, the research gap that this study seeks to fill is that there has not been a study that has been done to test the impact of FDI based on exports compared to the FDI inflows as well as complements of economic growth in this case being measured by GDP. In the conceptual terms, most of the studies have been more focused on the visual presentation by the use of graphs. This study on the other hand uses mathematical presentation to cement the theories that have been used. The methodological gaps that are motivating this study is that the studies that have been done before have not used some analyses like the model summary and they went direct into the calculations. On top of that, the gap that exists in the contextual realm is that the studies have mainly focused on one source meaning there is no diversity in the information that is obtained. This study therefore will use more than one source of information to supplement the data as well as get the right information.

1.3 Research Objective

To examine the relationship between Foreign Direct Investment and economic growth in Kenya

1.4 Value of the Study

The Kenyan government has over time tried to make the investment environment conducive enough to attract investors. This has been through incentives and tax cuts so as to encourage MNCs and other foreign investors to come and invest in the country because of the impact they have to the economy. Over the past few years, the government has tried to reduce the negative forces that push investors away such as political instability and unfavorable trading conditions to attract the investors.

This study is aimed at advising the policy makers in relation to FDI investments in the country. If the investments have a positive impact, then it will enable them to make the country a better place for the investments by ensuring all factors, internal and external, are favorable to the investors. If the results will show that FDI do not have any impact, then the policy makers will need to go back to the drawing board and figure out how the investments can grow the economy. In case the impact is negative, then the policy makers will have to figure out other methods that can grow the economy to the best standards possible. As it is expected, policy makers are supposed to make decisions based on the scholarly work that has been done. Therefore, this study aimed at ensuring they have the best quality work that they can base their decisions upon.

Also, this study is meant for the government in that all the policies and guidelines that are used to bring in the FDIs are developed by them. Once the study shows what the government and the people at large are expected to gain, it might prompt them to come up with better strategies that will be aimed at bringing in more investors. As much as this is on a country's context, scholars also get to gain more knowledge that had not been discovered before. It can be argued that knowledge has no end nor boundaries and therefore, this study will aim at expanding the knowledge base that already exists and all this is to ensure that the issue regarding FDIs and the role they play towards economic growth are addressed comprehensively. Since more studies are done at all times, scholars and academicians get to understand what has already been done and what knowledge they hold. This therefore means that when the academicians and scholars conduct further knowledge they already have some information that can either act as support or act as basis for more research. Also, this research study can be used a reference point when analyzing other variables in the Kenyan economy that are used analyze how FDI impacts the Kenyan economy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives a brief chronology of the theories that attempt to explain and support the involvement of Foreign Direct Investments in an economy. It also brings out the results and conclusions of studies that have been undertaken by local and international researchers on the sense of FDI impact in the economy. From this chapter, the direction FDI takes when it comes to an economy can be seen but not fully determined until the analysis of the data from this study is made and a direction observed.

2.2 Theoretical review

This segment brings about the theories that have been developed to explain the reasons as to why Foreign Direct Investments come to be. The theories assess the different aspects that are available in the study of the FDIs in the economy.

2.2.1 The Eclectic Paradigm Theory of Dunning

The Eclectic Paradigm or O-L-I model was developed by Dunning. It sook to try and explain why TNCs (Trans-National Corporations) invest in foreign countries. It also tries to explain that organizations will always opt to have in-house transactions rather than have them in the open market because of the charges that will accrue. These trans-national corporations need to gain three advantages over other foreign companies. They include; location advantage. This is where the host country must grant some location advantage such as placing the corporation in a very good geographical area. This would make the firm have advantages such as closeness to raw materials, cheap labor and qualified enough as well as providing some incentives. On this, there should be some political and economic benefits such as the market size (Kyrkilis & Moudatsou, 2011).

Secondly, a foreign investor would need some ownership advantage. This would help them get possession of some resources which would make them have some advantage over other foreign companies. To overcome the liability of foreignness, the company would need to have some strength such as a strong brand, some technological advantages or a great reputation. Lastly, the internalization advantage. It is usually more appropriate and attractive to perform all activities of an FDI in-house (Kyrkilis and Moudatsu, 2011). Outsourcing can be recommended if it is cheaper, the firm that is being tasked knows the local market better or when the FDI's management wants to focus on other projects. The theory will be valuable for this study as it will assist on knowing why foreign companies decide to invest in the country and set up firms for their operations. The theory further more tries to show the effect of FDIs towards the positive growth of an economy when it illustrates the reasons as to why investors come into the foreign market.

The relevance of this theory to the study is that the country normally offers some attractive deals to the TNCs and MNCs that want to join the market such as good land. At the same time, these companies also look for the same deals (Alfaro et al, 2004). In this case, the country tries to attract the FDIs and the investor also tries to get a good deal which is the case for the Kenyan market. However, the criticism of the theory is that the theory does not account for the role of managers effectively in the MNCs meaning that they are not assigned any specific tasks or roles. Furthermore, the theory does not explain on how the dynamic evolution of MNCs in the foreign market is handled. This possess many questions as to what extent the theory explains the movement of firms into new markets.

2.2.2 The Product Life Cycle Theory of Vernon

This theory was developed by Raymond Vermon in 1966. It meant that a product has four stages; introduction, growth, maturity and decline. The theory postulates that firms invest abroad to enjoy some benefits such as cheap labor, tax incentives and a new market for their products (Latorre, 2008). As time moves, the local market competition grows gradually as the product matures. During the introduction stage then product is brought into the market to create demand and raise awareness about its existence. At this stage the competition is usually low and so are the profits. When it graduates to growth the demand increases, production cost decrease and higher profits are achieved. Once the product hits maturity it already has many customers and the competition is usually very high. The products start declining in price and start to source for innovations. At some point, the market becomes crowded and the goods become unpopular and decline in sales and profit occur (Latorre, 2008). The theory explains why most foreign companies try to seek for markets and invest in other countries. As the theory suggests, at some point their market gets crowded and they have to seek alternatives for them to grow and sustain themselves. This therefore makes them come into the new countries and as they produce they improve the economy as well. In this study, the theory's relevance is that it is used as means of explaining how FDIs come to be. It aids the study gauge the direction of the impact in that when firms find new markets their aim is to grow. The growth means that several determinants of economic growth such as GDP are affected and thus the estimation of the direction becomes easy. However, several scholars have come out with criticisms to the theory and they argue that not all products follow the same trend as they differ in one way or another. The business world is full of rollercoasters and this means that the trend that might be wanted might not actually happen and this possess a valid criticism to the Product Life Cycle Theory of Vernon.

2.2.3 The Internalization Theory

Studies show that foreign investments happen when a firm has had enough and or surplus intangible assets. These assets can be technological know-how, an effective management that can be depended on and excellent marketing ability. (Burley & Mark, 1976) stated that FDIs mostly tend to focus on places that have imperfections that can be sorted by their core strengths or abilities. These imperfections can occur in a market because of discriminatory pricing and imperfect pricing of goods just but to name a few. In these cases, the firms can patent their technology and transfer it to other firms when they see the benefits of the transfer will be more than that of using it themselves. Since one of the main problems in Kenya is capital, this theory assists in explaining why some MNCs invest in the country; because of the imperfections that exist in the economy. Economic growth can be measured by output levels in the economy. The internalization theory therefore comes in handy to show how these factors of production such as skill impact the growth of the economy.

The African market at large has very many weaknesses in which the MNCs can utilize (Adeolu, 2007). Therefore, this theory is relevant to the study as the Kenyan market is behind in terms of technology and capital which means it explains why these foreign firms invest in Kenya. The criticism that comes with this theory is that the firms mainly choose their strengths which they can explore in the new market but do not check on the operating efficiency. Before any company makes it in a foreign market, it should be more than strong and this means that there are many other factors that should be considered other than what best it can offer and what its strengths will be.

2.2.4 Capital Theory

What was observed from empirical observations was that American firms that invested in foreign countries gained more return (Mundell, 1957). This made it clear that investing abroad was better for companies if they needed higher returns. The high profits that are realized are as a result of the difference in levels of return between the two countries. Therefore, FDIs in Kenya are for the parent companies to make more money and with this they improve the local firms present. Since the study attempts to find the effect of FDIs to the economy, the capital theory assists illustrate the growth of the local firm's improvement which then gives the direction of the study depending on the impact that the firms will have in the economy.

The relevance of this theory to the study is that it shows why some of the MNCs and even governments choose to invest in foreign markets. Most organizations are usually yearning for more profits and this can be a viable argument for investment (Ahmed, 2005). However, the theory has received criticism in that for the companies to make the profits, the economy but be strong enough to support their operations. Therefore, the theory does not specify the types of economies that are better for such investments.

2.3 Determinants of Economic Growth

2.3.1 Foreign Direct Investments

FDIs are as a result of MNCs bringing business and funds to a foreign country. In most cases they come with their management styles, technology and know-how. All this is used in the production of products that are later exported opening up the country to the global trade (Mwega, 2009). The international trade opens up the economy thus brings about the transfer of better technology and skills which created more opportunities and opens up the country to more FDIs.

Once foreign investments are done in the country, the foreign firms produce high quality products because they are both for exportation and domestic use. This gives them some competitive advantage over the local firms which pushes them to also invest in the proper technology so that they can earn their place in the market (Kariuki, 2014). This makes these domestic firms upgrade their products so that they do not lose the market that they hold. At most times, the FDIs also come in with new skills that are taught to the local employees to boost their productivity. With this, even when the foreign investor leaves, he leaves enough skill in the country that the local businesses can use to advance their businesses. This also applies to the technology that the foreigner brings with him.

2.3.2 Exports

Countries normally invest in ensuring they produce the goods and products that they know assist in the growth of their economy as well as lead to a rise in the living standards of their people. Kenya particularly has been known to be very good in horticulture and agriculture in generals. Therefore, it means that the Kenyan economy perceives these production areas to be the most economically viable as well as profitable (Saddimbah, 2014). When the produce is exported to other countries, the nation earns in terms of foreign exchange which on the other hand means that more job opportunities are created and leads to a developed economy. Therefore, the more exports a country is able to produce, the more gains it makes and the more the economy is expected to grow. Also, it is very important to notice that this increase in exports might also be rewarded by a n upgrade of the technology which might also increase the competitive advantage of the products that the country produces.

2.3.3 Inflation

The economic growth of any country is determined by many factors that range from human resources, natural resources, capital formation all the way to technology. The Kenyan economy being one of the fastest growing economies in East and Central Africa is greatly influenced by factors that encourage production and trade (Saddimbah, 2014). In as much as there is an increase in the level of FDI in the country for the past few years, the rate of inflation is also a very important aspect. Kenya for instance requires a certain level of inflation so that the economy can work. The best way an economy can work is when the inflation rate is maintained as being as low as possible. Therefore, as much as FDI inflows might affect the exports and GDP, it also is possible for them to affect inflation rate which is a very important aspect in economic growth.

2.4 Empirical Review

The impact of FDI impact on the Kenyan economy has been studied by (Sharma & Satinderpal, 2016) who note that they observed that there was a positive impact on GDP as wages and salaries went up as well as the FDI inflows. The study used correlation and regression analysis to measure and determine the impact. The observation that supported the positive correlation in the two variables was that there was a change whenever the FDI inflows rose by one percent. The study however only focused on the wage rates leaving a huge gap on the FDI impact on other aspects of the economy such as exports. The observations done were also similar to those of (Makki & Somwaru, 2004). The correlation and regression analysis tools were used for the study and there was a negative elasticity in the coefficient between the FDI inflows and balance of payment as a decrease on the balance of payment caused a reduction in the FDI inflows. The studies however, were more focused on the balance of payments and how they affected the economic growth. Also, the information that was used for the study was for a very short period of time meaning the research could have failed to capture the real effect of FDIs in the country.

Chege, (2015) Did a study to test for the impact of FDI inflows in Kenya and to ascertain if they had any positive impact. He carried the study by using 30 observations so that he could get a comprehensive answer and he found out that the coefficient of variation stood at 72% which meant it explained 72% of changes in the variation of the changes that happened in the dependent variable (Chege, 2015). The f statistic was 0.0485 making it less than 5% which made it significant meaning the explanatory variables had an impact on the dependent variable. The study that was carried out by Chege (2015) did not factor in the other aspects that can also play part in assisting the FDIs make the impact he found. In any research it is important to consider all the external and internal factors that might have played part. The study that this research proposal intends to undertake will ensure that all factors are comprehensively identified and explained.

George, (2014) did an analysis on the impact of FDIs in Kenya to assess their impact on GDP and balance of payments. He sought to identify the effects on these two variables for a period of thirteen years from 2002-2015. The data analysis was using correlation, regression and the SPSS software for analysis methods which ascertained that the FDI inflows resulted to Economic growth since the GDP rose over the time of the increased inflows. A descriptive research design was employed to get the impact on balance of payments and it was found to be positive (George, 2014). This study did not comprehensively study on the FDI impact on export and that provided the gap for my study. also, the study only used one analysis tool. In such a research, it is always recommended to use various analysis methods as the they bring about more clarity.

To estimate the effects of FDI inflows to the real GDP in Kenya, (Wanjiru, 2016) used data from 1985-2015 and analyzed it using ordinary least squares. The finding was that 73.84% of the country's economic growth was due to infrastructure development, inflation, capital stock and financial development. However, these factors had to be jerked off by the inflow of FDIs for the economy to grow. The results were as a result of analysis of the time series data obtained. The study however did not also study on exports and changed in GDP as a result of FDI and that created the gap for my study.

In a study done by (Jaffri, Asghar, Ali, & Asjed, 2012)on the impact FDIs had in Pakistan they observed that the investment actually made the current account excluding current transfers. They used an autoregressive distributive lag model to study the impact for a period of twenty-eight years. The observations that were further made was that FDIs did positively impact the building up of capital and created employment opportunities. The difference between their study and mine is that my study will focus on the Kenyan economy and will purposefully seek to measure GDP and exports in relation to FDI inflows.

Sharma & Bandara (2010) Conducted the same research in Australia to evaluate the trend FDIs took and what determined the investment. Their study found out that the countries that necessitate FDIs usually had a large domestic market and when the investments came to be their technology advanced and labor skills grew immensely. Thus the impact of the investments was positive and the economy grew as much as the investments flow continued to come in. their analysis also used the autoregressive lag model to make the analysis and the period of study was twenty-five years. The difference is that Australia has a different economy from that of Kenya in so many perspectives. However, some of the knowledge that was employed can be used to assist in making better conclusions and analysis for this study. My study will therefore be based on studying the Kenyan economy exclusively and it will use some of the principles that (Sharma & Bandara, 2010) used to make good conclusions.

An analysis was made in China, Pakistan and India by (Rizvi & Nishat, 2010) to analyze the impact of direct investments on employment which in turn were an indicator of economic growth. Their study covered a period of 24 years and they found out the GDP shocks explained about 0.75% of the employment. The study left a lot of gaps because it only used one parameter of economic growth and explicitly the data did not seek to differentiate between direct and indirect impact of FDI inflows. Also, the Chinese economy and that of the other two countries cannot be kept on the same bracket. Therefore, my study will be based entirely on one country which is Kenya but it will use some of the techniques that the researchers used to make better reading and analysis.

(Kuso, 2019) undertook a study to test the impact of the foreign investments in Kenya. His study was aimed at measuring the impact on GDP by using the ANOVA and correlation analyses. The correlation co-efficient turned out to be 0.3573 at 5% of significance level. The studies as for ten years and observed that statistically when FDI increases by one point, the GDP also rises by 0.61 point making it a positive relationship correlation. From other 40 empirical studies that had been done previously, the results seemed to be headed to the same direction (Kuso, 2019). The study only focused on one aspect of the economy, GDP, thus the results might not be so vivid. My study aims at filling the gap by introducing export as another economic aspect that can be influenced by FDIs.

An economic growth research based on FDI inflows by (Wijeweera, Villano, & Dollery, 2010) also sought to get a good picture of what direction of impact would be expected. The study period was twenty-five years and the analysis methods that would be employed were regression and correlation analyses. The study sought to check the impact of FDIs on balance of payments and GDP. The correlation coefficient of the study was 0.342 with a significance level of 5% which illustrated that there was a strong positive relationship (Wijeweera, Villano, & Dollery, 2010). The study however provided the gap of analyzing on the exports part of the economy that my study wishes to evaluate. The motivation for my study will be based on the gaps that have been left out by all the above stated researchers. The most under-studies part has been on FDI effects to exports and GDP which will form the base of my study.

The study that was done by Muli et al. (2017) established that most East African countries depend heavily on the FDIs to supplement their economic growth. The study observed that as the FDIs were increasing, the GDP was also going up. This therefore portrays that there is a positive relationship between the FDI and GDP or the economic growth of the countries in the Eastern part of Africa. However, as much as the study shows the positive relationship, it was focused on a wider region. The study adds to the available knowledge and but it is not specific to a certain country which make it provide the gap for this study.

2.5 Summary of empirical review

The empirical review section provides information on the study questions as it was seeking to address how FDI and economic growth are related. The observation was that there have been cases of FDI leading to economic growth in a good number of countries but this observation does differ from country to country. However, there are factors that can drive the FDIs to lead to economic growth and their availability in a country can have a positive impact. The few studies that have been conducted bv other researchers have had many gaps that have been observed which give my study topic a good chance of being studied. This research study is mainly focused in studying how the FDI inflows have been affecting the Kenyan economy over the past few years since they have been increasing gradually. The studies that were done before have been mainly concentrating on several aspects of the economy and some have used only one means of analysis.

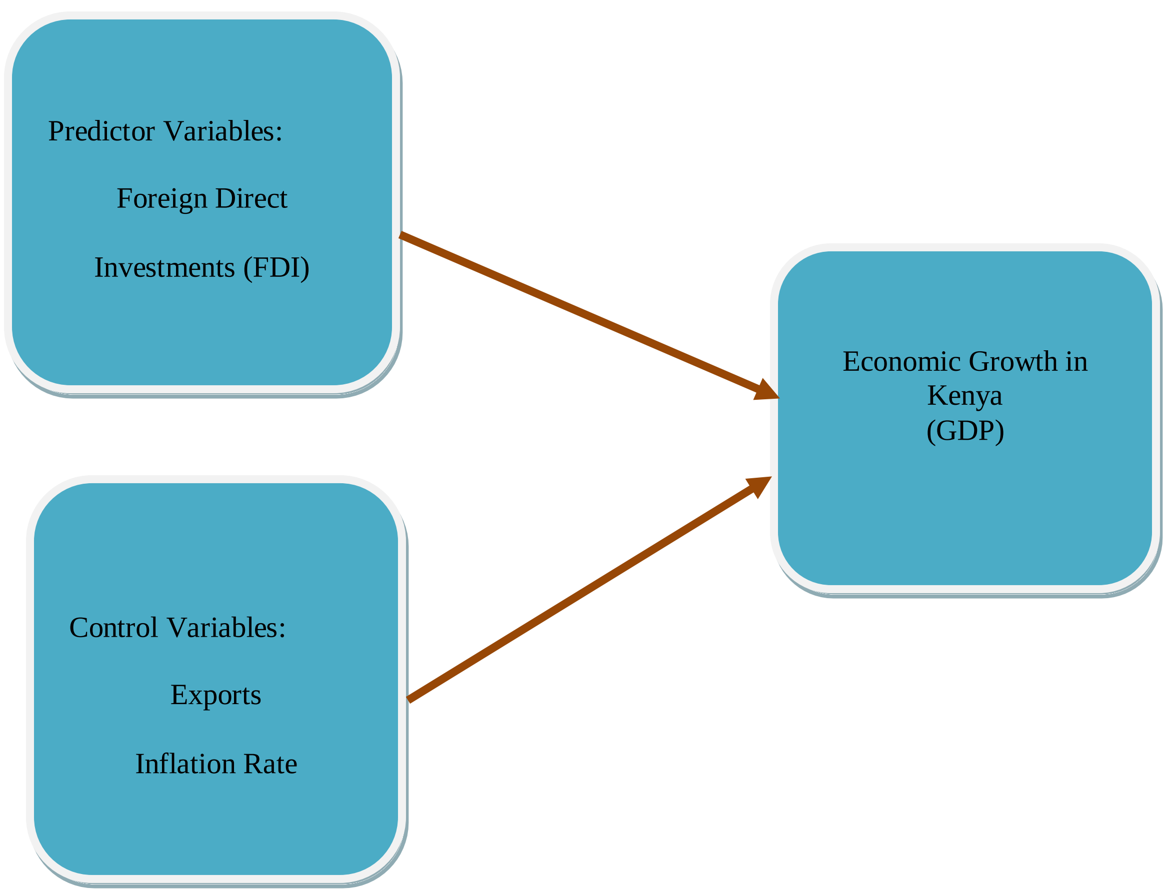
The study that was conducted by most of the scholars was that FDI had a direct impact on the economic growth of the country. The knowledge that was obtained from these works is that FDI does have an impact on things such as balance of payments and interest rates. Most of the literature that has been done by many other scholars on the same topic has showed that there is a trend in the way FDI affect the economy. Therefore, as much as there is a perceived way in which the study is likely to behave, there are gaps that exist. However, the gap comes in when factors like exports and inflation rate are not wholly addressed yet they might have a tremendous impact on the economy and might as well as be factors that are either affecting or affected by the FDI inflows. Therefore, this study seeks to address these deficits in these scholarly works so as to add more knowledge to what already exists. As much as FDI inflows determine how many things move in the economy, it is very important to understand how they affect the inflation rate which is a key economic indicator as well as the exports which are affected by the same.

2.6 Conceptual Framework

The model show illustrates the relationship between the variables in this study. The predictor variable will be FDI inflows into the country where as the control variables will be exports and the political and inflation rate. The variables will seek to explain the dependent variable in this case which the economic growth in Kenya. The impact of the FDI inflow into the country will be measured by the GDP of the country. This means that as the FDI inflow is checked, GDP will also be checked to understand how it behaves in regards to these changes. The control variables which are inflation and exports are factors that when altered affect the GDP which is being measured in this case. To further understand the variables, economic growth in Kenya will be checked year by year and this will be by the readings of the GDP which in this case is determined by the foreign investment inflow. Since the control variables values change by the year, they act as the control mechanism which assist understand the impact of the FDI in the Kenyan economy.

Figure 2.1: Variables for the Study

Independent Variables **Dependent Variable**



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter seeks to describe and lay down the foundation of the research and empirical analysis. The methods of data collection, population that were sampled, data collection techniques and the analysis of the data were all laid down in this chapter. All the variables were also described and discussed.

3.2 Research Design

This research utilized a descriptive cross-sectional design in order to determine how foreign direct investments relate with economic growth. The design was the best for this research as the researcher wanted to understand the relationship between these two variables by describing the nature of their relationship. The research design also shaded some more light in the presentation of the data. The descriptive research design would therefore answer the relevant questions in regards to the study question.

3.3 Data Collection

The data that would be used in this study was all secondary. The secondary data had been previously used for the same purpose as that of this study making it useful and up to date because it was based on the current readings and economic performance. Data would be retrieved from the UNCTAD 2020 and the KNBS website on readings that sook to measure the impact of FDI to the Kenyan economy as well as the levels over the period from 2007 to 2020 making it an estimate of thirteen years. The data was time series and it showed the FDI inflows and its effects on exports for the stated period. The purpose of the study was to identify the impact of the FDI inflow into Kenya to the economy within that period. The data had been collected on yearly frequencies for all the years of study.

3.4 Diagnostic Tests

In determining the suitability of the data that were used in this analysis, diagnostic tests were undertaken. They first study was to test for multicollinearity through the VIF test to whether the relationship between the independent variables in the regression model were high and a mean VIF of anything larger that 5 would indicate that multicollinearity was existent (Burns & Burns, 2008). To test for serial correlation or autocorrelation, the Breusch-Godfrey LM test would be undertaken. Where a P value larger than 5% was observed it would mean that there was autocorrelation. Heteroscedasticity would also be tested to avoid incorrect conclusions and this would be through conducting the Breusch-Pagan or Cook-Weisberg test and a P value lower than 5% would mean that heteroscedasticity was existent (Billington, 2009). Lastly, the study performed the Augmented Dicky Fuller test where a P value greater than 5% would indicate the presence of unit root.

3.5 Data Analysis

The analysis would be done by of descriptive and inferential statistics whereby the regression and correlation analysis will be used for the period of study. Also, the mean and other measures of central tendency were determined for the study so as to describe study better (Cooper and Schindler, 2011). The regression and correlation tests would be done to identify the relationship between the FDI inflows and GDP growth, and FDI and the exports. The independent variable in this study was the FDI inflows whereas the dependent variables would be the exports and GDP. Correlation between these three variables was conducted to also determine the relationships that existed and their strength.

The trend of the FDI inflows for the study period would be analyzed using a Microsoft excel sheet and be compared to the GDP and exports over the period. Also to make the data analysis easier, the SPSS software version would be used and the data represented in graphs and tables for more accuracy. To summarize the data obtained from the World Bank, descriptive statistics would be employed and the results presented by frequencies, measures of central tendencies, percentages and dispersion in tables.

3.6 Analytical Model

The model that was selected for the study was a multiple linear regression model which aided the investigation of the interactions between wider economic variables (exports, government expenditure, FDI Inflows) and the Foreign Direct Investments where the impact would be measured in relation to the GDP. The regression equation was in the form of.

$Y=\alpha+\beta_1X_1+\beta_2X_2+ X3\ \varepsilon$

Where Y = the economic growth in Kenya (GDP)

α = Constant term

$\beta1, \beta2, \beta3, \beta4, \beta5$ = Coefficients

X_1 = Foreign Direct Investments (FDI)

X_2 = Exports

X3= Inflation Rate

ε = Error term

3.7 Significance Tests

The F-test was used in testing for the significance of the regression model equation at a confidence level of 95%. For the individual independent variables, the test was also utilized at a confidence level of 95%.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section of the paper is about the examination of the acquired data comprehensively analyze all the factors that can be associated with the economic growth. Since the study was to check on the effect of FDI inflows into Kenya, regression and correlation analysis was done on the obtained secondary data to ascertain whether the relationship between the inflows and GDP and export was positive or negative.

4.3 Descriptive Statistics

In order to understand the nature of the data that was used in this case study, measures of central tendency, dispersion, and variance such as mean, standard deviation, skewness and kurtosis were employed as illustrated below.

Table 4.1. Descriptive Tests

Column1	*GDP*	*Exports*	*FDI Inflow*	*Inflation*
Mean	3507793.231	5775384615	733219756.7	8.923153846
Standard Deviation	1156802.278	666766018.2	555372605.5	5.850092786
Kurtosis	0.205491427	-0.676909859	-1.369649783	6.892273191
Skewness	-0.828861684	-0.701519643	0.361335492	2.461802698
Minimum	1336849	4520000000	95585680	3.9614
Maximum	5049686	6660000000	1625921494	26.2398
Count	13	13	13	13

Source: Research Findings (2020)

The two dependent variables in this case study were observed and the calculations done. As for the exports, they had a mean of 5,775,384,615 and a standard deviation of 666,766,018. The FDI inflows had a mean of 733219756.7 and a standard deviation of 555372605.5. As per the table illustration, the GDP on the other hand had a mean of 3,507,793 and a standard deviation of 1,156,802. The other control variable, Inflation rate, had a mean of 8.9 and a standard deviation of 5.8. The kurtosis was platykurtic as the measures fell below the central measure as they were between 0 and (1) for both dependent variables. In the skewness, it was skewed as both variables had a skewness of (1). As per the studies done by other scholars such as Wanjiku (2014), it was evident that the Kurtosis was more of the same in most of the studies. It was also observed that in the East African region, the trend was platykurtic which means that the data and the analysis done in this study was correct and that it supported the knowledge that had been obtained before.

4.4 Diagnostic Tests

The theory that exists in linear regression equations is that the interpreter variables in the model are not so highly linearly related. To further confirm this theory, a VIF test was run on the data that had been collected. The table below shows the test results that were obtained after the exercise was run. Since the explanatory variables had a VIF that was lower than the required minimum of 5 with a Mean VIF of 1.08, it can be concluded that the model was free from multicollinearity. Generally, when a VIF figure is more than the stipulated 5, then it can always be seen that multicollinearity is present. This goes in contravention to the study that was also done by Wanjiku (2014) but supports that which was done by Saddimbah (2014) which had a value of the VIF being more than 5. The difference as well as the similarity can be attributed to the difference in time used, data obtained, as well as the methodology of calculation. Also, depending on the data that was collected, there is a chance of the VIF figures being different.

Table 4.2 Multicollinearity Test

Variable	VIF	1/VIF
Exports(X1)	1.08	0.92
FDI inflows (X2)	1.04	0.96
Inflation Rate	1.11	0.9
Mean VIF	**1.08**	

Source: Research Findings 2021

Heteroscedasticity may at times lead to errors which ultimately lead to wrong assumption and findings about the regression findings materiality as the P value might be distorted. This normally takes place many times in series data then there is a need to conduct the Breusch-Pagan/Cook Weisberg test. The table below shows the results that were obtained in the tests. The p-value obtained was lower than 5% meaning heteroscedasticity does not exist and to deal with this situation, robust standard errors were put into the test in the regression model. These results were in line with most of which the other scholars had conducted prior. This therefore, shows that when this test was done before, there is a certain link that can be observed which means when the same test is done at a later time, the results might be the same as what observed in this case. This therefore can be argued to be a normal occurrence in most of the studies that are conducted pertaining to this specific subject.

Table 4.3 Heteroscedasticity Test

Ho:	Variables:	Chi2(1)	Prob>Chi2
Constant Variance	Fitted Variables of GDP	0.45	0.04

Source: Author's computations

4.5 Correlation Analysis

Correlation take to measure the intensity of relationships between pairs of variables. Table 4.4 illustrated at 95% confidence level what relation or association the pair of variable had using the Pearson method of analysis. In the analysis, the results are based on the thought that those closer to one or the positive values have a strong correlation while those that are negative or closer to zero have a weaker relationship. In the study analysis that was conducted, it was established that the relationships were strong as no particular relation was negative. The relationship between exports and GDP was positive with a value of 0.69 and that between the GDP and FDI inflows was also strong with a value of 0.44. The relationship between FDI inflows and exports was weak though with a positive value of 0.1 but the weakest was inflation with a negative value of -0.676. As per the studies done previously, the relationships between GDP, FDI, Exports and Inflation have always had a positive relationship. However, the negative result for the inflation can be attributed to the changing factors that are experienced in the economy. As the table 4:4 shows, the relationship between inflation rate keeps on becoming stronger as the rate is contrasted from GDP to exports to FDI inflows. When these results are compared to the studies that have been done before, there has been a trend of the same findings. The only change is that there is no study that has been done on the behavior regarding inflation therefore, it can be categorized as new information that has been brought on board.

Which relatively means that this study has brought up new knowledge to what already exists.

Table 4.4 Correlation Test

Column1	GDP	Exports	FDI Inflow	Inflation
GDP	1			
Exports	0.69041937	1		
FDI Inflow	0.444517097	0.119663955	1	
Inflation	-0.676280819	-0.27157216	-0.192697434	1

Source: Research Findings 2021

4.6. Regression Analysis

This analysis is aimed at understanding the relationship or association between the dependent and the explanatory variables in a study. in order to understand this relationship even better, the model below was used for this particular study.

$Y=\alpha+\beta_1X_1+\beta_2X_2+ X3\ \varepsilon$

The table 4.5 below shows the findings that were obtained given the data that was provided having used the regression equation effectively. The coefficient that was illustrated in the table below as R Square highlights the degree to which the predictability can be explicated by the explanatory elements in the study. The R-Squared value was 0.8 which showed that 80% of the variation that took place was due to the independent variables that were selected. The remaining 20% was influenced by other elements that were not in the model of study. The P-value that was obtained in the study was 0.041, having used a significance level of 5%, it means that the null hypothesis is therefore rejected. When these results are compared to the other studies that have already been conducted by other scholars, it was observed that at most times the regression results were similar which means that the null hypothesis was rejected as well. Also, this means that this study was done with the utmost correctness.

Table 4.5 Model Summary

Multiple R	0.902725742
P- Value	0.059
R Square	0.814913765
Adjusted R Square	0.753218353
Standard Error	574666.0813
Observations	13

Source: Research Findings 2021

4.7 Discussion of Research Findings

This paper sought to show the relationship that exists between FDI inflows into Kenya and the effect or impact that these inflows have to the economy and in this case the GDP which is the main measure of economic growth. Kumar et al. (2010) conducted a test in Kenya and most of what he observed was that the Kenyan economy was very receptive. This aims to mean that the FDI inflows had an impact on the economy at large. Various diagnostic methods were employed through the study so as to analyze the data that was collected to aid in ascertaining the real impact of FDI. Through the descriptive tests it was found out that the kurtosis was platykurtic as the measures fell below the central measure as they were between 0 and (1) for both dependent variables. In the skewness, it was skewed as both variables had a skewness of (1). The VIF test was conducted and it was found that the value was lower than the required minimum of 5 with a Mean VIF of 1.08, therefore, concluded that the model was free from multicollinearity.

More tests were done in relation to the correlation and given the data that has been acquired from the World Bank, it was evident that the relationship between exports and GDP was positive with a value of 0.69 and that between the GDP and FDI inflows was also strong with a value of 0.44. the relationship between FDI inflows and exports was the weakest though with a positive value of 0.12. These findings were the same as those which were found by Liargovas and Angelopoulou (2014). To finalize the tests, the regression analysis was done to ascertain the relationships that exist between the variables that were used. In the study, the time period was fixed and a change in the period can make the observations change depending on whether something happened during that period.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The purpose of the study was to establish the effects of FDI inflows on the economic growth of Kenya, exports, inflation rate, and GDP. As it is expected the economy of any country has those aspects that make it to keep growing. This study was therefore specifically made for the Kenyan economy so as to understand how several aspects affected the growth and what impact they has as well as the direction. The study was aided by the use of relevant theories such as the eclectic paradigm and the internalization theory, just to name a few, so as to follow some of the existing knowledge from other scholars. This was mainly to guide on the best path that should have been taken so as to employ the best test statistics as well as the bet data management techniques. Following the work previously done on the topic the necessary gaps were identified and they led to the gap that this study sought to fill. The gaps that were identified once addressed would fill the gap that exists in the scholarly works. The secondary data was analyzed through descriptive statistics and the findings tabulated and further analyzed. As much as the test statistics are done, they were further described in detail and this as to understand what impact the FDI had and how the other variable affected the whole economy. From the study questions it was evident that there was a relationship between the FDI inflows and GDP, inflation rate, and the level of exports. This was through the pattern that was observed.

5.2 Conclusion

In the developing economies, Foreign Direct Investments are very important when it comes to boosting the economies through bridging the gaps that exist in investments, savings, and even transfer of technology. Many researches have been undertaken and they have all yielded mixed results when it comes to the impact of FDIs on these economies. The Kenyan governments have been very focused on the efforts to increase FDI inflows as over time they have yielded good results. Therefore, this study sought to also test the impact of the FDIs to the Kenyan economy but by using exports, inflation rate, and GDP as variables. By using the Ordinary Least Square and the Augmented Dickey Fuller tests, it was revealed that there was a significance between the variables and it was evident that FDIs were significant enough to impact a positive economic growth in Kenya.

Apart from this, it was also evident that the political and governance climate also has a major role to play when it comes to the FDIs inflows as well as the impacts on the economy. In the 2007/2008, the FDI inflows were less as well as their impact. This means that when the political climate is not conducive enough, the impact is not assured to be positive or to continue in the way it was. According to the control variables that were used in the study by the researcher, it was evident that FDIs have a positive impact to the Kenyan economy and that is the reason as to why the government tries all efforts to marshal for more investments every year. In terms of FDIs and economic development this study supported that a country that sought to have high FDI inflows must have policies that stimulate the growth of literacy levels as well as have an open administration when it comes to trade. All the same, conducted research on the Kenyan economy from 1990 to 2007 and he established that they do have an impact on economic growth.

Therefore, since the studies that have been conducted before have all yielded different results it can be concluded that the impact of FDIs to the economy depend highly on the investments that have been undertaken when relating to the GDP. As much as the impact of the FDIs to the Kenyan GDP is small, it cannot be ignored. As for the exports, it also based on the types of investments, industries, and the operational policies that exist in the country. In relation to Kenya, the relationship between the FDI and the exports was a weak negative relation which cannot also be ignored. This means that most of the products that are produced are sold locally or the MNCs take back all the profits and revenues to their home country (repatriation). The findings from this research confirmed that FDI has meaningful impact on economic growth when inflation rate, exports, and GDP are concerned. This was through the analysis done on how the levels of FDI into the country affected the movement of the variables in the study.

5.3 Recommendations

Since there exists a positive relationship between the FDI inflows and the GDP, the recommendation can be that there needs to be better management strategies by the government. This means that the Kenyan government should focus more on those sectors that are key such as agriculture because the greater Kenyan population depends on this sector. On the exports, what the Kenyan government is sensitize the Kenyan people on the importance of exports. This is because most of the goods produced in Kenya are consumed locally. This therefore means that there must be incentives that are awarded and this would make the exportation process valuable enough.

Furthermore, as much as the government tries to build up the economy and provide better living standards for the people, it is recommended that the impact of the foreign firms should be controlled in that they do not push out the local firms out of business. At many times, the companies have better resources than the local companies and this might give them some competitive advantage that might eventually make the local firms collapse. Many African countries face the fall of their companies because they cannot compete with the foreign firms. The reason is because these companies are more advanced that the local companies. When the local companies collapse it means that the foreign firms control the market and at that point in time the locals are at the mercy of the foreigners.

5.4 Limitations of the Study

The secondary data that was used for this study was obtained from World bank and the KNBS and this means that there could have been some possible bias or human error or system errors that might make the data provided erroneous. Since most of this data is obtained from secondary sources, there is always a possibility of an error taking place and this means that the findings might not be properly portrayed. Therefore, the data being from human controlled sources since original data cannot be collected, it means that biasness is very possible. Also, some of the data had to require registration to some accounts which was tiresome and this was a real barrier.

The study used few variables and this might also have affected the findings of the research. Also, some of the variables that could have been better used for the study such as political governance cannot be measured and the data that existed was not consistent. This means that when the study uses more variables it is possible to make better and more conclusive conclusions. Therefore, this was a limitation that was experienced when conducting the research.

The data that was used in the study had to be obtained from several websites such as the KNBS and World bank and some of it such as the inflation rate was not consisted. This means that period before the year 2007 was hard to obtain. This thus limited the time of study which might not portray the best findings because of the low period used.

Finally, the methods used for the study were limited and this could have affected the findings. The study only used the common analysis tools and did not go into the deeper analysis tools which might have given better answers and findings.

5.5 Areas for Further Studies

The future researchers might include more variables in the study such as balance of payments to establish the impact of FDI inflows on the GDP while factoring in things such as corruption and quality of investments on economic growth in Kenya.

The study can also be conducted again on the same topic so as to assess for any disparities that might have occurred in this study. This might greatly assist in coming up with better and stronger recommendations on the subject matter.

More studies can also be done on how the FDI inflows have been affecting local companies and whether they should be more or less. This is mainly to identify the impact of foreign companies to the local companies.

Finally, further studies can be done on what else affects GDP, inflation rates and exports apart from the FDI inflows into Kenya.

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Appendices

Appendix 1: Data Used for the Study

Year	GDP	Exports	FDI Inflow	Inflation
2007	1,336,849	4,520,000,000	729,044,146	9.7589
2005	1,357,262	5,880,000,000	95,585,680	26.2398
2009	2,863,689	4,800,000,000	116,257,609	9.2341
2010	3,104,303	5,510,000,000	178,064,607	3.9614
2011	3,294,026	5,020,000,000	1,450,474,757	14.0225
2012	3,444,339	5,400,000,000	1,380,173,662	9.3778
2013	3,646,821	6,270,000,000	118,825,000	5.7175
2014	3,842,186	6,240,000,000	820,937,598	6.8782
2015	4,061,901	6,380,000,000	619,724,470	6.5822
2016	4,300,699	6,050,000,000	393,359,421	6.2972
2017	4,507,377	6,100,000,000	671,488,393	8.0057
2018	4,792,174	6,660,000,000	1,625,921,494	4.6898
2019	5,049,686	6,250,000,000	1,332,000,000	5.2359

Appendix 2: Regression Statistics and computations

Regression Statistics						
Multiple R	0.9					
R Square	0.8					
Adjusted R Squ	0.8					
Standard Error	574666.1					
Observations	13					
ANOVA						
	df	*SS*	*MS*	*F*	*Sign F*	
Regression	3	13086128185274.6	4362042728424.9	13.2	0.0	
Residual	9	2972169944541.7	330241104949.1			
Total	12	16058298129816.3				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*VIF*	*std.dev*
Intercept	-1362775.132	1600949.759	-0.851229169	0.416714941		
X Variable 1	0.000912691	0.000259176	3.521514315	0.006499965	1.085140055	666766018.2
X Variable 2	0.000603069	0.000305185	1.976073498	0.079560846	1.043870738	555372605.5
X Variable 3	-94445.99002	29887.51906	-3.160047839	0.01154933	1.110849844	5.9