GLOBAL FACTORS INFLUENCING TRADE AND FOREIGN DIRECT INVESTMENT PATTERNS, A SURVEY OF CHINESE MULTINATIONAL CORPORATIONS IN KENYA

BY

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DECLARATION

The project is my original work and has not been presented to any university or other institution of learning.

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Declaration by the Supervisor

This research project has been submitted for examination with my approval as the Supervisor.

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This research project has been duly submitted in partial fulfillment for the requirement of the award of the degree of Master of Business Administration, University Of Nairobi.

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Last but not least, my family for prayers and encouragement.

DEDICATION

Special dedications to my Late Dad; Paul K. Ng'etich. To my mum; Dyphine C. Ng'etich for her love, prayers and support. To my beloved brothers and sisters for their support and prayers. To my beloved siblings and close friends; Jacob Masega and Catherine Ngunjiri for words of encouragement.

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ABSTRACT

The objective of the study was to establish global factors influencing trade and foreign direct investment patterns; A survey of China MNCs in Kenya. The relevant theories in support of the study are; Gravity theory; Theory of absolute advantage; Theory of comparative advantage and Hecksher – Ohlin Theory. The essential Conditions for Globalization encompass freedom in reference to absence of government regulations and restrictions on sourcing and financing from foreign investments, that is the essence of economic liberalization; facilities including infrastructural facilities to enable the firm operate effectively; government support, favorable policy and procedural reforms, development of common facilities, Research and Development (R&D), financial and market reforms; resources include R&D, finance, managerial expertise company and branding; competitiveness arising from low cost factors, costs, product differentiation, technological superiority, after sale service, marketing capabilities, among others; finally the issue of global orientation gains from trade are varied in nature. The study used descriptive research to analyze data which was conducted on 28 multinational corporations in Kenya. A total of 84 questionnaires were distributed. 60 questionnaires were successfully filled and returned. The findings indicate that most of these respondents occupied senior management positions, a few were directors of the host company. The study indicated that over 65% of the employee had worked with the firm for more than 15 years while 35% had worked between 1 year and 10 years. From the analysis, good level of education standards were registered with 25% university level, 40% postgraduate level and 35% doctorate level. The results indicated that 42% of firms have been in operation for up to ten years of operation; 33% have been in operation for over ten years; and 25% of these firms have been in operation for 20 years. It emerged that 35% of these firms are in engineering related fields, 40% of these are in construction industry, the rest of 25% are divided among the enterprise general business. The factors which have greatest influence are government policies, high cost, trade barriers and competition. The least influential factors were supply problems and resistance to change. The analysis indicated the most popular modes of entry for the Kenya's – China multinationals. Popular mode of entry included joint ventures; franchising, wholly owned subsidiary and licensing. Management contract and turnkey projects are the least popular modes of entry to foreign markets. The outcome of the analysis revealed particular patterns of factors which have influenced foreign investment patterns. Most noted were desire to expand own markets, government policies and regulations and competitive pressures globally. The study also noted the various constraints towards globalization practices. They included poor infrastructure, negative foreign government policies and regulatory framework. The study also indicated a very encouraging pattern of investment between Kenya and China through the operations of these multinational firms. The firms have greatly contributed to Kenya economic development agenda.

ABBREVIATIONS AND ACRONYMS

EATA	East African Trade Agreements
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
KIA	Kenya Investment Authority
KNBS	Kenya National Bureau of Statistics
MNEs	Multi National Enterprises
MNCs	Multi-National Corporations
NTB	Non-tariff Trade Barriers
R&D	Research and Development
TNCs	Trans National Corporations
UAE	United Arab Emirates
UK	United Kingdom
VER	Voluntary Export Restraint
WTO	World Trade Organization

CHAPTER ONE: INTRODUCTION

CHAPTER TWO: LITERATURE REVIEW

CHAPTER THREE: RESEARCH METHODOLOGY

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSIONS

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

No country resides as an economic island. A country's firms, industries, commercial activities in goods and services, technology, available capital, living standards are related to other countries' economies. This then forms complex flow of factors of production between different nations. Every nation must then cope with the increased interdependence (Sprinkle et al; 2003). Nations benefit from interactions with other nations hence the need to heighten these benefits and reduce the cost of interdependence through trade policies, currency value, national output level and investment. There is need by countries to develop effective international trade policies which will enhance international foreign investment. The law of comparative advantage states that any given economy is able to produce goods and services at a lower opportunity cost than other countries. Adam Smith compared nations to households. He noted that nations just like households should produce what it needs and buy others from the profits obtained from selling its products.

According to Cherunilam (2006), there are a host of factors promoting global economic integration, these factors include international trade. Trade is a major driver of global economic integrations. Global integration (the excess of international trade over output growth) has been quite significant; production sharing and global sourcing, international investment and production, cross border mergers and acquisitions, economic integration and trade pacts, transplant(s). Business gets linked and grows across borders, promote global business and economic integration through strategies which include international licensing and franchising. International strategic alliance(s) is a strategy which increases the competitive advantage of a company in the long run through coalitions with competitors. Competition is a vital ingredient in fostering international economic integration.

Globalization or Quangui hua in China, Scholte (1996) signifies trade across the world. Ohmae (1995) describes it as the absence of trade barriers and borders among nations; Dicker (1992) indicates globalization as a shift in traditional patterns of international production investment and trade. Kaunter & Dreteler (1998) implies globalization as same practices globally. Renesh (1992) Brown (1992) believe that globalization is the interconnections between overlapping interests of business and society. It is a process where world interconnections in virtually every sphere of activity are growing. Some of these interconnections lead to integration. Some of these interconnections lead to integration worldwide, others do not. Together, global interconnections and their relationship represent a historically unprecedented process that is rapidly shaping the context for many activities (Held et al 1999). The result is blurred boundaries within and between organizations, nations and global interests. There are various theories which support the under mentioned study, these include: Hecksher-Ohlin Model; Absolute Advantage Theory, Comparative Advantage Theory, Gravity Theory; all these therein add up to explain the international business scenario in the 21st century and beyond.

China is one of the greatest trade partners in Kenya. Throughout the entire East African region, the Chinese firms and government agencies have made land mark developments. Trade between these two nations has registered significant heights; Kenya’s imports from

China were on the rise from 1990's. Even the Kenyan exports registered high output; mainly in agricultural products. Imports include electronics, electrical, motor vehicle accessories and spares, machinery and civil engineering. The Chinese multinationals have registered a strong presence in the Kenyan foreign trade and putting great landmarks and patterns in the country and the continent as a whole (Wanjiru 2013).

1.1.1 International Trade

International trade is trade between nations. Cherunilam (2006) classifies trade into intra-regional trade, reciprocal trade and adversarial trade. Intra-regional trade sometimes referred as regionalism have created trading schemes and blocks. Reciprocal trade is trade between industrial countries. In reciprocal trade, a country imports same goods as it exports.

Countertrade, a form of international trade involving exchange of paid goods or services wholly or in part, with other goods or services rather than with money. Countertrade takes several forms than barter trade which is a direct exchange of goods of equal value; buy back involves the supplier of plant, equipment or technology agreeing to buy goods manufactured with that equipment or technology. Compensation deal involves receipt of payment partially in cash and product. Counter purchase trade involves receiving full cash payment and spending same amount of money in that country within a specified period (International Business PHS). International trade is activated by search for economies of scale which make markets imperfectly competitive. It is this imperfectness that encourages trade between countries with similar needs (Krugman 1979). The oligopolistic competition serves as an independent cause of international trade (Brander

& Krugman 1983). International trade should be a mechanism to achieve mutual gain (Broadman 2007).

1.1.2 Multi-National Corporations

Multi-National Corporations (MNCs) are international companies; also known as Multi National Enterprises (MNEs); Trans National Corporations (TNCs); global corporations, international corporations; are known to have operations in multiple countries, it disperses management and other decisions to the host country (Johnson and Vahlne 2007).

The multinationals undertake product adoption in different host countries and local markets (Jorge and Augusto 2011). According to Cherunilam (2006), the MNCs can be defined using different dimensions; definition by size, by structure, by performance. Among various benchmarks used to define multinationality are as follows: produce rather than distribute abroad as well as host country; operate in certain minimum number of nations (at least six); derive some minimum percentage of its income from foreign operations (25%); possess a management team with geocentric orientations; directly control foreign investments (as opposed to holding shares in foreign companies). Multinational corporations derive various benefits with host countries; creation of job opportunities, encourage interregional trade, finally MNCs encourage international production; technology transfers benefits; MNCs facilitate economies integration; they also break domestic monopolies.

1.1.3 Foreign Direct Investment

FDI is acquisition of tangible assets in a foreign country for control and management by the parent corporation. Financial capital is not offered by the investor, instead in planning and management of investment in form of Domestic Corporation through foreign subsidiaries or taking over of an existing firm (Sprinkle et al 2003). While analyzing the relationship between economic growth and FDI, Carkovic & Levine (2002) indicated that a robust independent influence on growth is not exerted by the exogenous component of FDI.

Borensztein et al (1998) researched how FDI affects fiscal growth by analyzing FDI effect on economic growth in a cross country regression framework, utilizing data on FDI flows from industrial counties to 69 developing counties over the last two decades. The findings indicated Foreign Direct Investment is an important technology transfer tool which contribute relatively more to growth than domestic investment when the advanced technology is sufficient in the host country.

1.1.4 International Trade in Kenya

Kenya's international trade history dates back to 1900-1920 (Yabs 2007). Kenya had traditionally traded with Western Countries from Europe and America and has maintained cordial relations with European Union and other regional economic integration blocks like East African Community. The trade packs a relations has been out of long cordial standing political and trade relations under the framework of successive come conventions and the Cotonou partnership agreement. In 1994, the Kenya government liberalized her economy with IMF and the World Bank support; this reduced tariffs thereby facilitating a vibrant international trade (Aullo 2014). Later, Kenya was in the list of the leading nations in signing a structural adjustment loan with the World Bank (Gertz 2008). Its reform programme led to substantial alterations in trade policy because it replaced post-colonial import substitution policies with export promotion programme. It has been the lead country in East African Trade Agreements (EATA) and this has greatly facilitated trade among sister countries. According to KNBS (2013) economic survey it indicated that Kenya's top export countries are; China, United Arab Emirates (UAE), Saudi Arabia, Japan, South Africa, Indonesia, United Kingdom (UK), Germany, Rwanda, Egypt, Netherlands, Tanzania and Uganda.

1.1.5 Kenya – China Trade

A China-Kenya relation has prospered over a period of time. China is emerging to be an international trade partner. Trade volumes between China and Kenya have been increasing in volumes. International trade has been identified as a major boost and contributor towards economic growth and industrialization in any economy. China membership to World Trade Organization (WTO) has been marked with impressive trade volumes between her partner countries in international trade. China MNCs have recently established contact offices and opening subsidiary firms locally to boost the growth of business. Kenya–China exports went up from 1990. China imports to Kenya include; telecommunications, equipment, electrical, household appliances, among the rest. Exports of Kenya to China include scrap metals, agricultural produce, leather and fish (Kenya Daily Nation 29.6.2010). China- Kenya trade volumes has reached US$186.37 Million; while China exports registered US$180.576 Million, while imports was US$5.798 Million (Chinese Embassy in Kenya). These multinationals operating locally are spread in various industries, but have registered strong local participation in telecommunications industry; automobile sector; battery manufacture and beverage markets. Some of these firms include; China Import And Export (Group) Corporation for Complete Sets Of Equipment, China Road Bridge Construction (Group) Corporation, China Wuyi (K) Ltd, Shanghai Dongmeng Road And Bridge Machinery Company Limited, Shanghai Longzhen Heavy Industry Company Limited, Shanghai Shebang Machinery Company Limited, Shanghai Zenith Mining and Construction Machinery Company Limited, Zhejiang Weixing New Building Materials Company Limited, Zhengzhou City Unites Steel Industrial Company Limited. A survey by Kenya Investment Authority (KIA) showed at least 18 Chinese firms have operations locally, and the investment costs(s) of over 7 billion (Nguku 2013).

1.2 Research Problem

MNCs who sell a segregated product globally consider setting up production facilities or subsidiaries to serve foreign markets as profit making. This results as foreign direct investment. Similarly, MNCs with diverse phases of production may find it profitable to set up production facilities in foreign markets enjoy reduced operating costs. Vertical integration of processes would be ideal. For instance, in automobile sector, whereby a country decides to assemble components in one country, moved to another country and finally assembled in a third country (Sprinkle et al 2003). Vernon (2001) believes that business advancement globally is inevitable. Ellis believes that businesses make choices to meet their long term goals and for global society’s benefit as well. He believes that business should have common interest with the larger society.

China-Kenya trade is the most successful chapter in the global trade patterns. Heavy investments are being witnessed in the construction and technology related fields. The foreign multinationals are actively in transfer of suitable technology to developing nations. The foreign trade Gross Domestic Product (GDP) ratio is usually huge in developed economies. However, the Kenya's GDP has been growing impressively with the increase of foreign participation in international business.

Previous research undertakings have been conducted in various fields related to international trade. Kioko (2012) carried out a case a study on China-Africa economic relations. He indicated that relations of Africa–China approach was very profound and has achieved tremendable success. China views the Kenyan partnership as a bridge and gateway to East African region and is very vocal and central in China-Africa trade ties and general economic development. Mbiti (2014) researched on the impact of the shift from Western to Eastern trade partners on Kenyan balance of payments. Her findings were that there was a total shift of Kenya's choice of trade partners from the traditional Western partners to new Eastern partners like China and the Far East. Uchehara (2009) researched on China-Africa relations in the 21st Century. He noted many reasons for the increased China-Africa relations. Gichuru (2006) studied barriers to trade; Export of Kenya's vegetables and fruits to the European Union.

Kinuthia (2002) investigated the factors that influence export trade by focusing on manufacturing firms in the pharmaceutical industry; Nguku (2013) undertook a study on factors influencing China-Kenya relations; her findings indicated that cordial political relations, relevant technology and favorable trade ties and conclusive business environment have positively contributed to good trade relations. From the previous research undertaken, no known research has been conducted under the current area of study. The research question was what is the global factors influencing trade and foreign direct investment patterns; a survey of China multinational corporations?

1.3 Research Objective

The research objective was to establish global factors that influence trade and foreign direct investment patterns; A survey of Chinese multinational corporations in Kenya.

1.4 Value of the study

China-Kenya relations and contribution done by Chinese multinational firms will be of great importance to the Kenyan chapter of international business; the Kenyan government and various stakeholders in the foreign trade ventures. The study will strengthen their understanding of forces influencing international trade relations.

The study will be of great application to the business community operating in the country. For the local business fraternity involved in international trade, the study will equip them with the necessary knowledge and knowhow on how to operate and improve their operations globally through understanding the various variables affecting favorably and unfavorably on international business circles.

To the academicians, the study will be of great applications. It will enhance the academic knowledge frontiers through understanding what relevancy pertains to the success of international business transactions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section analyzes theories, factors influencing international trade, benefits and constraints in operations of MNCs. Others include essential conditions for globalization, international trade policies, obstacles to globalization and international business strategies.

2.2 Theoretical foundations of the Study

There exists considerable amount of academic research in the field of IT and foreign investment. Relevant theories in support of the study are; Gravity Theory; Absolute Advantage Theory; Comparative Advantage Theory and Hecksher-Ohlin Theory.

2.2.1 Gravity Theory

The gravity theory was introduced by Tinberg (1962), Poyhones (1963) and Linnemann (1966) to explain bilateral trade flows between home and host countries. The gravity model was later augmented with many other explanations such as population, trade blocks and common language. Later, the gravity equation has been derived from diverse models including Ricardian, Hecksher-Ohlin and Monopolistic competition models Anderson (1979), Berstan (1985), Deardorff (1988). Under these frameworks, the simple gravity equation is based on the absence of all barriers to trade with homogenous products and then enhanced with assumption of differentiated production (Mbiti 2014).

2.2.2 Theory of Absolute Advantage

Developed by Adam Smith in 1776, the theory indicates a country's ability in production of goods using few resources than any other country. The objective of the theory is to have higher living standards by the people of a country by obtaining goods abundantly and more cheaply.

A country's wealth is measured by the people's standards of living and not the money in country's reserve (Smith 1776). The sources of international trade is the absolute difference in cost of producing different goods among nations. Adam Smith considered foreign trade as a vent for surplus. A nations accumulated gains from international trade include productivity gain, absolute cost gain and vent for surplus gain.

2.2.3 Theory of Comparative Advantage

This theory by David Ricardo was first articulated in 1817. The theory has had low input and refinements from other scholars like J.S. Mill, Marshall, Taussig among others. The core aspect of the theory is that of comparative costs principle which states "if trade is left free, each country in the long run tends to specialize in the production and export of those commodities in whose production it enjoys comparative advantage in terms of real costs, and to obtain by importations those commodities which could be produced at home at a comparative disadvantage in terms of real costs, and that such specialization is to the mutual advantage of the countries participating in it. Differences in the comparative cost of production of commodities between nations can result in trade, absolute cost advantage/disadvantage is not necessary for trade (Ricardo 1817).

2.2.4 Hecksher-Ohlin Theory

The theory by Eli Hecksher (1919) and Bertil Ohlin (1933) links countries exports and imports to factor endowments and methods of production. In classical theory, the basis of international trade was comparative cost difference though little attempt was made to explain the causes. The alternative formulation of the comparative cost doctrine developed by Hecksher-Ohlin attempts to explain why comparative cost differences exist internationally. International (and inter-regional) differences in comparative costs is attributed to different prevailing endowments of the factors of production and the fact production of various commodities requires that the factors of production be used with different degrees of intensity. The differences in factor intensities in the production of function of goods along with actual differences in relative factor endowments of the countries which explains international differences in comparative cost of production. Thus the Heckscher-Ohlin theory states that a country will specialize in the production and export of goods whose production requires a relatively large amount of the factor with which the country is relatively well endowed.

This theory was instrumental in laying ground for substantial development of international trade theory; it is also able to provide an analysis that could integrate the factor market into international trade theory. This model is also useful in trying to grasp the vital trade patterns (Mbiti 2014).

2.3 Essential Conditions for Globalization

According to Cherunilam (2006), there are a number of conditions essential for internationalization or globalization of business; these conditions must be satisfied for successful ventures. These conditions encompass freedom in reference to absence of government regulations and restrictions on sourcing and financing from foreign investments, that is the essence of economic liberalization; facilities including infrastructural facilities to enable the firm operate effectively; government support in favorable policy and procedural reforms, facilities, Research and Development, market and financial reforms; R&D, finance, managerial expertise company and branding; competitiveness arising from low cost factors, costs, product differentiation, technological superiority, after sale service, marketing capabilities, among others; finally the issue of global orientation gains from trade are varied in nature.

Freenstnra (1992) cites gains from trade as being static and dynamic. Static gains are the increase in world production and consumption resulting from specialization and trade. Dynamic gains are gains over time. Benefits can be singularized as follows; firms producing goods more efficiently due to that specialization; foreign capital if utilized property makes substantial contribution to economic development of a nation; increase in competition would encourage cost and quality consciousness encourage spirit of innovation and creativity; opening up to opportunities for firms in developing economies.

2.4 International Trade Polices

Host country policies can prohibit or encourage international trade among nations. Lindert (1987) outlines that governments can implement Non-tariff Trade Barriers (NTBs). This is a government policy other than a tariff which is designed to restrict imports. Quotas are most adopted measures to regulate international trade. Quotas is a government policy that restricts the number of units imported. A multifibre arrangement is whereby a country can import or export a specified amount of textiles and apparel items.

Finally, another non-tariff barrier is the VER, an arrangement to limit number of units of goods for export (Sprinkle et al 2003). Government do restrict or influence international trade using trade barriers. These include tariffs; which are import taxes. They have some effects; they affect local consumption of imported goods; affects production of native production competing with goods imported; also affected is production of local goods that compete with imports and finally changes the configuration of the native economy.

Various tariffs exist within international trade circles; revenue tariff levied by government on imports; a protective tariff; levied on goods to protect local industry from foreign competition.

2.5 Obstacles to Globalization

Globalization is both a challenge and opportunity for any developing economy. Government policy and procedures of bureaucratic nature will inhibit trade. High cost of inputs and other factors such as raw materials and intermediaries, power, finance, infrastructural all combine to reduce competitiveness; poor infrastructure, obsolescence of technology employed; resistance to change as a result of socio political factors; poor quality image of products; supply challenges, inexperience, trade barriers, increased competitiveness, limited R & D among others (Cherunilam 2006).

2.6 International Business Strategies

Hill (2005) outlines various international business strategies firms can adopt in international business arena. These strategies include global, transnational and multi domestic strategies among others. Global markets are now more competitive due to globalization of the world trade and investment environment. Accomplished competitors are competitors are challenging each other continuously; hence the task of strategy is to identify areas of low cost and of value creation which will differentiate the competitor's production and offer superior performance. Rastogi (2008) argues that a firm need to have critical competencies to survive and compete globally. These include; technical competency and internal capabilities which includes managerial capabilities. This is aimed at reducing production costs by locating value creation activities at an appropriate location. Development globally allows firms to grow their profits in ways not possible in local markets; global operations by firms enable them enjoy economies of location by dispersing individual value creation activities to those locations where they perform most efficiently; earn a higher return on investment from distractive skills or core competencies by leverages of skills and applying them in new global markets.

According to Hill (2005) firms can pursue the following strategies; multi domestic strategy which is aimed at achieving maximum local responsiveness; to match the different national conditions, firms tailor products and marketing strategy. Multinational strategy is logical when pressure is high for local responsiveness and low for cost reductions. The global strategy increase profits by pursuing low cost strategy through experience curve and location economies. Facilities get located at few favorable locations. Bartlett et al (1989) argues for a firm to survive globally, intense completion exist hence the need to adventure to experience based and location economies. There is need therefore for essential competencies to be transferred inside the firm while paying focusing on pressures for local responsiveness. It is noted that core competences do not just reside in the home economy in modern transnational enterprises but in the operations of the firm worldwide.

Bartlett and Ghosal (1989) argue that skills flow and product offering should not take the form of host to foreign subsidiary for firms pursing an international strategy. Transnational strategy is ideal for firms facing high pressures for cost reductions, local responsiveness and substantial chances to influence valuable skills within multinational global network of operations. Firms pursuing transnational strategy are trying to simultaneously achieve cost and differentiation advantage.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

The chapter presents research design adopted by the researcher. It covered research design, target population, data collection and data analysis.

3.2. Research Design

This refers to how data collected and analyzed were structured in order to meet the objectives of the study through empirical evidence (Cooper & Schindler, 2006). A descriptive survey research was adopted which answers the questions; who, what, where, when and how of the problem (Saunders, Lewis & Thorn Hill 2009). This type of research enabled the researcher to collect appropriate respondent opinions, analyze, and interpret them in relation to the problem under investigation so that appropriate decisions will be arrived upon.

3.3. Target Population

Mugenda and Mugenda (2003), defined target population as the members of a real or hypothetical set of people, events or objects the researcher wishes to generalize the results of the study. Target population consisted of all foreign Chinese based multinationals in Kenya. These comprised of twenty-eight firms (28). A census approach was undertaken since the number (s) were manageable and all are headquartered in Nairobi.

3.4 Data Collection

Primary data was the most preferred source of information. This data comprised of information directly obtained from respondents for the first time. Data was collected by use of standard questionnaires which were self-administered and some sent through emails with closed and open ended questions which gave the respondents chance to respond and air their own views. The use of questionnaires was adopted because they are easy to administer and can reach a larger audience within a very short time. Questionnaires are efficient in covering a wide scope with the response rate being high.

The data was further processed and analyzed so as to produce accurate information. The respondents included the top level management cadre of each organization; comprising of general managers, regional heads of various departments like international investments portfolio; host country directors depending on the structure of each individual firm’s management cadre(s).

3.5. Data Analysis

This indicates ways of examining data collected during the survey, making deductions, assumptions and inferences. This entails finding of variables, identifying anomalies and testing underlying assumptions (Orodho & Kombo, 2002).

According to Bailey (1984), data analysis is the process of packaging the collected data, and putting it in order. According to Bailey (1984), data analysis procedure includes the process of packaging the collected information, putting it in order and interpreting the findings in a way that can be easily and effectively communicated. Data was edited, coded and tabulated. It was then analyzed using qualitative and quantitative techniques. For qualitative techniques, content analysis and evaluation of text material was carried out. For quantitative technique, numerical values were used to produce frequency.

Raw data was coded and analyzed. Descriptive statistics were through absolute and relative frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). The results were displayed by well interpreted and easy to understand tables, pie-charts and bar charts and relevant explanations.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1. Introduction

The section examined the analyzed data, interpretation and how they were presented. The objective was to establish global factors influencing trade and foreign direct investment patterns; a survey of Chinese multinational corporations. Primary data which was collected by use of questionnaires. Collected data was quantitative and qualitative in nature. The results were presented in tables, charts and figures. The results provided formed the basis for discussion that led to the findings.

4.2. Response Rate

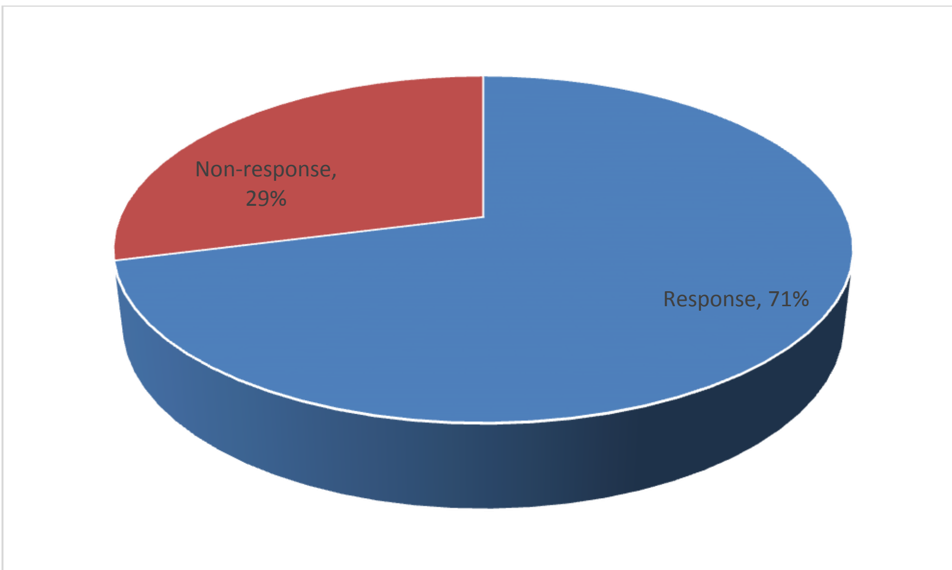
The research sought to establish the response rate in order to gauge the successful outcome of the study. 84 questionnaires were given to 28 firms headquartered in Nairobi. 60 questionnaires were successfully filled and returned. This contributes of a 71% response rate and 29% non-response rate can be attributed to use good cooperation between the firms and the researcher personnel.

Table 4.1: Response rate

Category	Frequency	Percentage
Responded	60	71%
Non-respondent	24	29%
Total	**84**	**100**

Source: Research data (2016)

Figure 4.1: Response rate analysis



Source: Research data (2016)

Table 4.1 and Figure 4.1 indicated that the response rate was 71% and non-response 29%, the response rate was sufficient because according to Mugenda and Mugenda (2003), more than fifty percent response is sufficient as it is considered satisfactory in providing a general view from the respondents.

4.3. General information of respondents

The researcher analyzed the respondent's position in the organization, years of continuous service and academic qualifications.

4.3.1. Position in the Organization

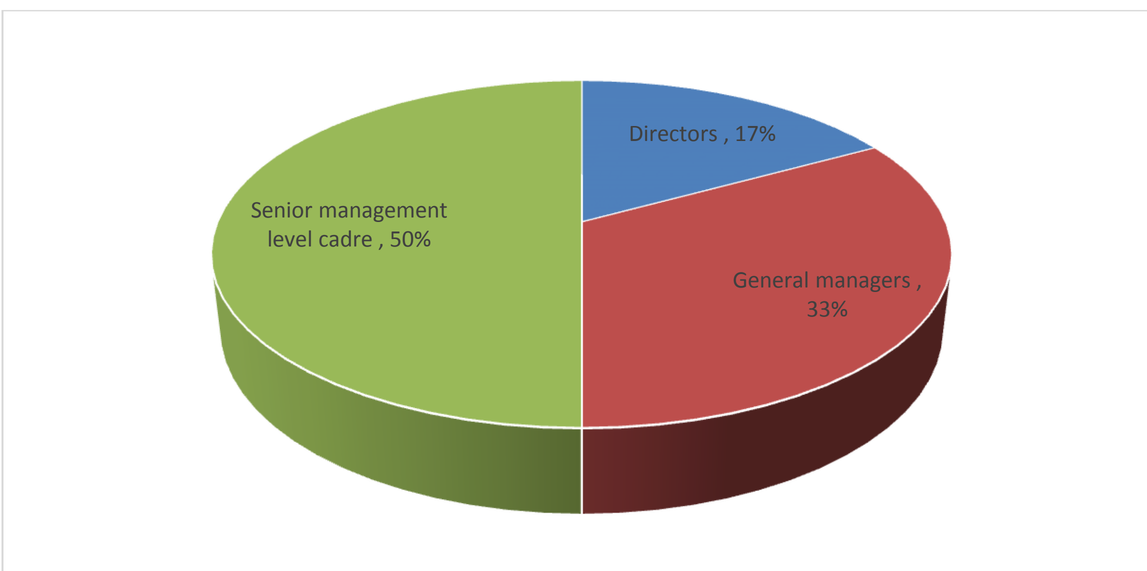
The researcher intended to understand the positions of various respondents in the organization, with a view to ascertain the authoritative nature of information given. The findings indicate that most of these respondents occupied senior management positions, a few were directors of the host company. Other respondents were general managers and the balance constituted of senior level managers of the individual multinationals.

Table 4.2: Position in the Organization

Statement	Frequency	Percentage
Directors	10	17%
General managers	20	33%
Senior management level cadre	30	50%
Total	**60**	**100%**

Source: Research data (2016)

Figure 4.2: Position in the Organization



Source: Research data (2016)

The analysis indicated that 50% of the respondents occupied senior management position cadre in various organizations, which indicates that the level and quality of information given was quite authoritative in nature. 33% of the respondents were general managers of various organizations, 17% were at the rank of country directors. The categorization of various respondents reveals a rich source of information gathered from the process.

4.3.2. Years of continuous service

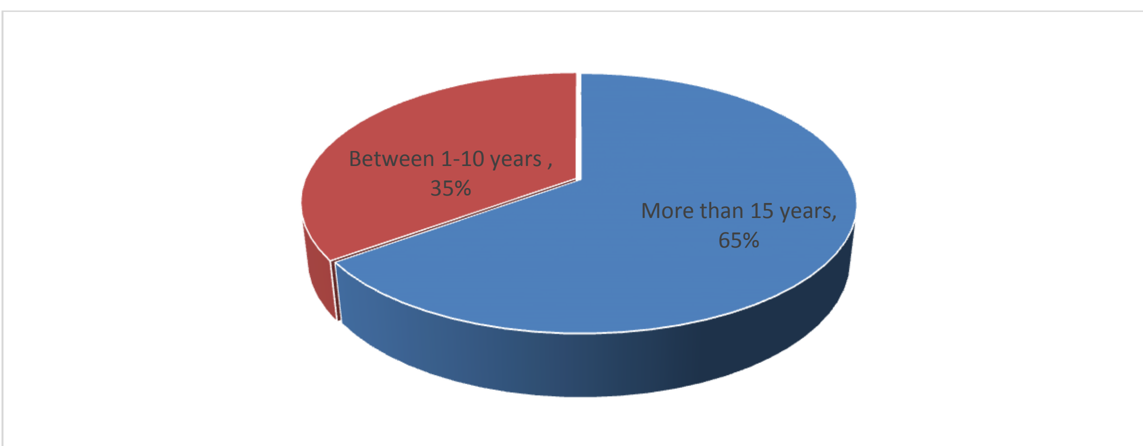
The study deemed it necessary to find out who has been longer in organization employment service. In a view to determine the quality of information and understanding of general trend pattern and cycles.

Table 4.3: Years of continuous service

Category	**Frequency**	**Percentage**
More than 15 years	39	65%
Between 1-10 years	21	35%
Total	**60**	**100**

Source: Research data (2016)

Figure 4.3: Years of continuous service



Source: Research data (2016)

The study indicated that over 65% of the employee had worked with the firm for more than 15 years while 35% had worked between 1 year and 10 years.

4.3.3. Academic Qualifications

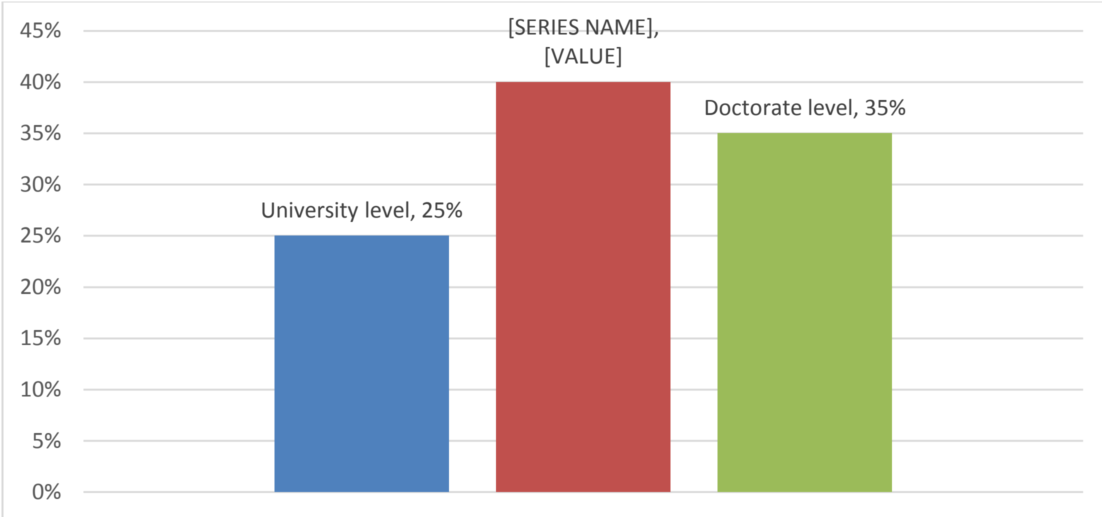
The study set to understand the educational level of respondents. The level of education signals the level of competency the respondents have, which enables them to make informed decisions on the patterns and factors influencing trade patterns.

Table 4.4: Academic qualifications

Category	**Frequency**	**Percentage**
University level	15	25%
Post graduate level	24	40%
Doctorate level	21	35%
Total	**60**	**100**

Source: Research data (2016)

Figure 4.4: Academic qualifications



Source: Research data (2016)

From the analysis, good level of education standards were registered with 25% university level, 40% postgraduate level and 35% doctorate level.

4.4. Number of years of firm operations in Kenya

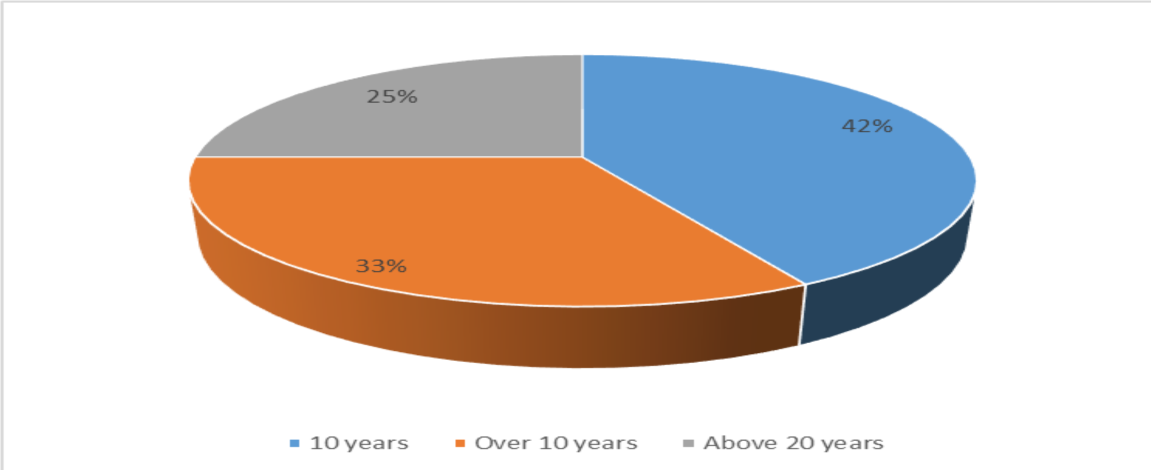
The main aim was to determine the years of MNCs operations in Kenya.

Table 4.5: Number of years of firm operations in Kenya

Category	Frequency	Percentage
10 years	25	42%
Over 10 years	20	33%
Above 20 years	15	25%
Total	**60**	**100%**

Source: Research data (2016)

Figure 4.5: Number of years of firm operations in Kenya



Source: Research data (2016)

The results indicated that 42% of firms have been in operation for up to ten years of operation; 33% have been in operation for over ten years; and 25% of these firms have been in operation for 20 years. These results creates a pattern of trend which reflects that majority of these firms have been in operation for quite some time hence their pattern of regional trade in eminent and can be analyzed for further participation or inclusion of service.

4.5. Nature of business operations

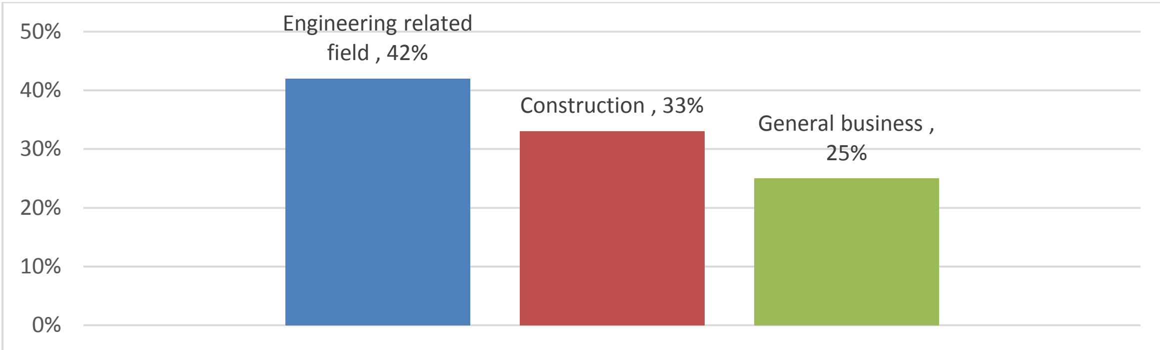
The researcher sought to know the various categories of business Chinese MNCs were engaged in.

Table 4.6: Nature of business operations

Category	**Frequency**	**Percentage**
Engineering related field	25	42%
Construction	20	33%
General business	15	25%
Total	**60**	**100%**

Source: Research data (2016)

Fig 4.6. Nature of business operations



Source: Research data (2016)

It emerged that 35% of these firms are in engineering related fields, 40% of these are in construction industry, the rest of 25% are divided among the enterprise general business.

4.6. Global factors influencing trade and foreign investment patterns

The study sought to understand the various factors influencing global trade and investment patterns, the results are indicated below. The respondents use a likert scale of 1-5 to come up with their views.

Table 4.7: Global factors influencing foreign direct investment patterns

Category	**Mean (M)**	**Standard Deviation (SD)**
Trade policies	3.57	0.456
Facilities	3.57	0.451
Resources	3.0	0.435
Competitiveness	3.20	0.446

Category	**Mean (M)**	**Standard Deviation (SD)**
Orientation	2.60	0.586
Technological enhances	2.61	0.588
Growing entrepreneurship	3.41	0.574
Economic liberalization	3.62	0.783
Expanding markets	3.33	0.574

Source: Research data (2016)

The results indicate the strong global factors influencing foreign direct investment patterns between Kenya and China. Important factors included trade policies (M= 3.57 SD=.456); competitiveness (M= 3.20 SD= .446); facilities (M= 3.37 SD= .451); expanding geographical markets (M= 3.33 SD= .574); economic liberalization (M= 3.62 SD=.783). The factors which showed least impact on investment patterns were technological enhances (D= 2.61 SD= .588) and orientation (M= 2.60 SD= .586).

4.7. Barriers to globalization practices and influence on foreign direct investment patterns

The study sought to know the barriers to globalization practices which affected or influenced the investment patterns under study. The respondents filled the questionnaires using a likert scale of 1-5 to find out the disparities and weight accorded to different variables under study.

Table 4.8. Barriers to globalization and influence on foreign direct investment patterns

Category	**Mean (M)**	**Standard Deviation (SD)**
Government policies	3.52	0.522
High cost	3.28	0.521
Poor country image	3.24	1.185
Poor infrastructure	3.35	0.512
Trade barriers	3.25	0.521
Supply problems	2.65	0.611
Resistance to change	2.51	0.601
Competition	3.34	1.188

Source: Research data (2016)

From the analysis, it can be noted that the factors which have greatest influence are government policies (M= 3.52 SD= .522); high cost (M= 3.28 SD= .521); trade barriers (M= 3.25 SD= .521); competition (M= 3.34 SD= 1.888); least influential factors were supply problems (M= 2.65 SD= .611); and resistance to change (M= 2.51SD= .601).

4.8. Popular entry strategies for Multi-National Corporations

Table 4.9. Popular entry strategies for Multi-National Corporations

Category	**Mean (M)**	**Standard Deviation (SD)**
Joint ventures	3.73	0.592
Export	3.62	0.522
Franchising	3.28	0.521
Wholly owned subsidiary	3.42	1.186
Licensing	3.62	0.522

Category	Mean (M)	Standard Deviation (SD)
Turn key projects	2.75	0.630
Management contract	2.5	0.622

Source: Research data (2016)

The analysis indicated the most popular modes of entry for the Kenya's – China multinationals. Popular mode of entry included joint venture (M=3.73 SD=.595); franchising (M= 3.28 SD= .521); wholly owned subsidiary (M=3.42 SD=1.186); and licensing (M=3.62 SD=.522); Respondents indicated the following methods are unpopular, Management contract (M= 2.5 SD= .622) and turnkey projects (M= 2.75 SD= .630).

4.9. Discussions

The respondents were requested to explain the various gains from trade between the two countries as a result of these multinational corporations' engagements locally. The respondents indicated that international trade is a sure gain through multinational participation. The respondents summarized gains from international trade as follows: it develops and encourages most efficient use of resources, enables specialization on large scale because of expanded markets which realizes economies of scale, availability of goods which are not available locally, it makes goods cheaper through comparative advantage to conserve resources. The respondents further explained terms of trade as the ratio of exchange between nation's export and import goods. The respondent continued to indicate that terms of trade depends on a country's strength and elasticity of demand than reciprocal demand.

The researcher indicated obstacles to globalization which included high cost of inputs and other factors such as raw materials and intermediaries, power, finance, infrastructural all combine to reduce competitiveness; poor infrastructure, obsolescence of technology employed; resistance to change as a result of socio political factors; poor quality image of products; supply challenges, inexperience, trade barriers, increased competitiveness, limited R & D among others.

The results indicate the strong global factors influencing foreign direct investment patterns between Kenya and China. Important factors included trade policies, competitiveness, facilities, expanding geographical markets and economic liberalization. The factors which showed least impact on investment patterns were technological enhances and orientation.

The factors which have greatest influence are government policies; high cost of inputs; trade barriers and competition. The least influential factors were supply problems and resistance to change.

The respondent finally concluded the session by indicating the influences on terms of trade which included elasticity of demand and supply, competitive position, tastes and preferences, rate of exchange, tariffs and quotas, economic development.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This section presents the findings, conclusion and recommendations. The conclusions were drawn from study outcomes.

5.2. Summary of findings

Based on the analysis, the following findings were noted; most of the businesses have been in Kenya for quite a number of years at least more than ten years. The study revealed that various global influence factors were responsible for the investment patterns in Kenya, the respondents indicated that trade policies, facilities, competitiveness, expanding markets, economic liberalization have the greatest influence in the investment pattern. The findings also indicated various barriers to globalization practices and their subsequent effects on investment patterns. The findings indicated that government policies, high cost, poor country image, poor infrastructure and trade barriers were the greatest hindrance and were rated quite highly. The least rated factors were competition and resistance to change as well as supply problems.

The findings also highlighted the various entry strategies for various multinational firms. The popular entry modes included joint ventures, franchising and wholly owned subsidiary. Turn key projects and management contracts were least indicated as the list of possible entry mode. The study established that most of the firms adopted the licensing approach among the rest.

The findings also indicated that there are various gains achieved from these investments from foreign countries; the study also concluded with examining the terms of trade especially on the influencing issues like competitive position, quotas and economic development.

5.3. Conclusion

The respondent finally concluded the session by indicating multiple factors that affect foreign direct investment patterns. These included the influences on trade which included the demand elasticity and supply elasticity, competitive position, tastes and preferences, rate of exchange, tariffs and quotas and economic development.

5.4 Recommendations

The researcher recommended the following measures as pertains to the influence on investment patterns between the multinational corporations involved, the recommendations included the further examination of specific firms in terms of their foreign entry strategies investment priorities and patterns.

The study also recommended that the political environment seems to have the greatest impact, therefore there's also need to research further into the political factors encouraging the investment patterns to these multinationals.

5.5 Limitations of the Study

These are challenges encountered by the researcher when conducting the survey. They include:

5.5.1 Language barrier

There was communication barrier with the Chinese firms because of the language. Most of them do not communicate effectively in English.

5.5.2 Confidentiality

There was a challenge in assessing information due to the nature and confidentiality of data. The researcher sought authority and assured the organization that the data collected would be treated with outmost confidentiality and would only be used for academic purposes only.

5.5.3 Inaccessibility of Information

Accessing information was a major challenge, lack of co-operation from staff, mobilizing staff was not an easy task and the response was relatively low because of tight work schedules.

5.5.4 Lack of Cooperation

Most employees feared that the results of the research might be used to victimize them in future and put their job at risk hence they were reluctant to participate in the research. The management also feared that the employees might expose some of their weaknesses by responding to the questionnaires. To overcome this limitation the researcher provided a cover letter that assured respondents that the data would be treated as confidential.

5.5.5 Time Constraints

Time to undertake an exhaustive study was limited and thus the study was limited to the head office in Nairobi.

5.6. Areas for further action

More research need to be done on each strong variable influencing global investment trade patterns as this will give a more comprehensive picture of opportunities and constraints which need be addressed to overcome negative pattern trends. There is also need to do research on other areas of international business which is not related with China - Kenya relations to find out whether the same variables play significant roles in the foreign investment pattern structures.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

TOPIC: GLOBAL INFLUENCE ON TRADE AND FOREIGN INVESTMENTS PATTERNS – A SURVEY OF CHINA MULTINATIONAL & CORPORATIONS IN KENYA

Dear Respondent,

This questionnaire tries to establish the global factors influencing trade and foreign direct investment patterns; a survey of Chinese Multinational Corporations in Kenya. Kindly try to answer all the questions. The data collected from these questionnaires will be treated with outmost CONFIDENTIALITY and will be used for academic purposes only. Please tick in the box [√] provided and the spaces provided.

1. SECTION A: INDIVIDUAL DEMOGRAPHICS

Q1. Name of respondent____

Q2. Position of respondent____

Q3. Number of years' experience in the organization______________________________

Q4. Number of years in current position_________________________________

Q5. Level of education____

Q6. Special training (foreign/ international business) ______________________________

2. SECTION B: ORGANIZATIONAL DEMOGRAPHICS

Q7. Name of the firm____

Q8. Years of operations in Kenya____(less than 1 year, more than 5 years, over 10 years.)

Q9. Nature of business undertaken_____________________________________

3. SECTION C: ECONOMIC FACTORS INFLUENCING BILATERAL TRADE IN KENYA

Q10. Rate the following factors in terms of their contribution to bilateral trade in Kenya (use a scale of 1 – 5 provided)

1= No extent; 2= Little extent; 3= Moderate extent; 4= Great extent; 5= Great extent.

FACTORS	**1**	**2**	**3**	**4**	**5**
Balance of payments					
Exchange rate movements					
Government politics					
Trade Agreements					

Q11. How have the following socio cultural factors influenced bilateral trade patterns in Kenya & China.

FACTORS	**1**	**2**	**3**	**4**	**5**
Consumer behaviour					
Customer preferences					
Affluence society					
Global social networks					

Q12. Explain the extent of contribution to influence and trade pattern investment levels through the listed factors.

FACTORS	1	2	3	4	5
Political decisions					
Government investment policies					
Regional trade blocks					
Political – legal factors					
Change of host country leadership					

Q13. Indicate the extent of influence of the following factors towards investment patterns and trade in Kenya.

FACTORS	1	2	3	4	5
Export diversification					
Infrastructure					

Q14. Indicate the extent to which the following factors have contributed to international business to invest in the local industry.

FACTORS	1	2	3	4	5
New market ventures					
Unique products					
Product life cycle(stages)					
Political stability					
Government policy					
Competitive pressures					

FACTORS	**1**	**2**	**3**	**4**	**5**
International trade ties					
Globalization pressures					
I.C.T. Revolution & trends					
Collaborations & joint ventures					

Q15. Kindly enlist down the various challenges encountered in international trade patterns and investments.

Q16. What mechanism does the Kenya government use to enhance foreign direct investment?

Q17. In support of international business, what sort of assurances, or gains the government of both countries (host & foreign give to your firms?

Q18. Kindly summarize your views in terms of PEST (Political Economic Social and Technological Environmental factors as it affects business operations in Kenya.

Q19. What are the popular international strategies your firm's have adopted?

Q20. Kindly indicate the kind of obstacles your firms have experienced while operating in international circles especially the local business environment.

THANK YOU FOR YOUR TIME AND PARTICIPATION

APPENDIX II: LETTER OF INTRODUCTION

University of Nairobi

School of Business

Department of Business Administration

P.O Box 30197 – 00100

NAIROBI

Dear Sir/ Madam,

<u>RE: MBA RESEARCH PROJECT</u>

I am Caroline Chepkemei, an MBA Student at The University of Nairobi. I am currently undertaking a research on the global factors influencing trade and foreign direct investments patterns; a survey of Chinese Multi-National Corporations in Kenya.

I am kindly requesting your cooperation and adequate information that will enable me attain my objective. I would appreciate if you provide further comments or suggestions that you consider are necessary in contributing to building the knowledge base of investment patterns by global firms.

Your assistance is highly appreciated.

Yours faithfully,

<u>CAROLINE CHEPKEMEI</u>

APPENDIX III: LIST OF CHINESE MNCs OPERATING IN KENYA

1. Aucma China
2. Battery Maker Golden Lion
3. China Import And Export (Group) Corporation for Complete Sets Of Equipment
4. China Road Bridge Construction (Group) Corporation
5. China Wuyi (K) Ltd
6. Huawei International
7. Jiangsu International Economic and Technological Cooperation Co.
8. Prance Building Materials
9. Sichuan International Economic and Technological Cooperation Co Ltd
10. Technology Firms ZTE
11. Shandong Liangzi Hardware Co. Ltd
12. Shandong Yuanda Steel Sheet Science and Technology Co. Ltd
13. Shanghai Dongmeng Road And Bridge Machinery Co. Ltd
14. Shanghai Longzhen Heavy Industry Co. Ltd.
15. Shanghai Shebang Machinery Co. Ltd
16. Shanghai Zenith Mining And Construction Machinery Co. Ltd
17. Wuxi Rafiki Tools Co. Ltd
18. Xiamen Leadsun Co
19. Xiamen Zheng Liming Metallurgical Machinery Co. Ltd
20. Xinxiang Tianfeng Machinery Manufacture Ltd.
21. Xuzhiu Feiya Wood Co. Ltd
22. Zhaoqing Ally Building Materials Co. Ltd

23. Zhejiang Longyuansifang Machinery Manufacture Co. Ltd

24. Zhejiang Sunshine Imp. And Exp Co. Ltd

25. Zhejiang Weixing New Building Materials Co. Ltd

26. Zhengzhou City Unites Steel Industrial Co. Ltd

27. Zhengzhiu City Unites Steel Industrial Co. Ltd

28. Zhengzhou Sanhua Technology And Industry Co. Ltd

Source: The Kenyan Chinese Embassy Bulletin (2016)