

UNIVERSITY OF NAIROBI

INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**THE ROLE OF ECONOMIC DIPLOMACY IN PROMOTING FOREIGN
DIRECT INVESTMENT IN AFRICA: CASE STUDY OF KENYA.**

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DECLARATION

This study is my original work and has not been used for any award whatsoever in any institution.

Signature..... Date.....

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Supervisor

The study has been submitted for examination and approval as the supervisor assigned by the University of Nairobi

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DEDICATION

I dedicate this work to God for the gift of life during my study and my family for the endless support.

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LIST OF ACRONYMS AND ABBREVIATIONS

FDI	Foreign Direct Investment
NEPAD	New Partnership for Africa's Development
SEZ	Special Economic Zones
EAC	East Africa Community
SADC	Southern African Development Community
ECOWAS	Economic Community of West African States
COMESA	Common Market for Eastern and Southern Africa
NACOSTI	National Commission for Science, Technology and Innovation
MNE	Multinational enterprise
UNCTAD	United Nations Conference on Trade and Development

ABSTRACT

This study focused on the role of economic diplomacy in promoting foreign direct investment using Kenya as the case study. It examines the relationship between economic diplomacy and foreign direct investment, Kenya's economic diplomatic strategies for promoting FDI as well as prospects for promoting FDI as a key component of economic development. The study employed both qualitative and quantitative research design in data collection and this helped in getting relevant information for the study. The study observed that economic diplomacy is an essential mechanism that should be promoted to attract investors in the economy. Economic diplomacy ensures that nation states cooperate with one another thereby creating room for investment flow from one region to the other. The study also observed that economic diplomacy also experiences challenges that affects its effectiveness like conflicting interest among the actors. Foreign direct investments were also observed to experience challenges that are linked to unfavorable political environment, heavy conditions and licensing costs that makes investors to shy away. This study demonstrates that Kenya is involved in numerous bilateral and multilateral negotiations in the international system to attract foreign investors as this promotes its economic growth and development.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents the background to the study, statement of the problem, research questions and objectives. It also presents the literature review, theoretical framework, justification of the study, hypotheses, research methodology as well as the chapter outline.

1.1 Background to the study

The global community has become more integrated since the beginning of the 20th century. The integration of the economies have been enhanced by both aspects of regionalism as well as globalization. Globalization has become a huge concept in illustrating international relations. Its impact is felt in addressing diplomatic practices and organizations.¹

In the contemporary 21st century, there have been numerous changes in conceptualizing the study of diplomacy. Many scholars have demonstrated the importance of enhancing international relations outside the state centric security nexus. This study enhances better understanding of the diplomatic processes to practice of economic diplomacy that promotes development and growth in the society. Various tools have been borrowed from other fields like political science, international political economy as well as business studies to help in demonstrating the significance actor's interest on economic diplomatic practices and processes.²

¹ Hopkins, Anthony G. *Globalisation in world history*. Random House, 2011.

² Lee, Donna, and Brian Hocking. "Economic diplomacy." In *Oxford Research Encyclopedia of International Studies*. 2010.

The practice of economic diplomacy is not new and the increasing importance of economic diplomacy is essential in shaping the international economic engagements amongst the states and this is advanced by global interdependence, trade liberalization, expanding global market demands as well as global investments.³ Additionally, the continuous growth in international cooperation, corporations, the transnational movements amongst states, international relations, development of international monetary institutions, and technological transfers continue to force actors to rely on one another for survival in the international system.

The relation between international investment and politics continues to advance the global economics.⁴ The mercantilism became the major economic school of thought in Europe in between 1500 and 1700. They brought the ideals of export promotion through either subsidizing exports as well as open markets through bilateral relations. This was due to the fact that they viewed trade as promotion of favourable balance of trade.⁵ Economics' practice in the international system has developed since mercantilism ideas and this have been also seen in the nation states interventions in the global market. The measures employed should be effective and efficient so that they can be used to monitor the causes of inefficiency. Economic diplomacy therefore becomes an essential element that governments use to promote interventions in international relations.⁶

³ Baranay, Pavol. "Modern economic diplomacy." *Publications of Diplomatic economic club* 20 (2009): 8.

⁴ Okano-Heijmans, Maaïke. "Conceptualizing economic diplomacy: The crossroads of international relations, economics, IPE and diplomatic studies." *The Hague journal of diplomacy* 6, no. 1-2 (2011): 7-36.

⁵ Mathebula, Peaceful. "SA's trade policy: the impact of China's economic slowdown on South Africa's mineral commodity trade." PhD diss., 2018.

⁶ Van Bergeijk, Peter AG, Mina Yakop, and Henri LF de Groot. "The economic effectiveness of diplomatic representation: An economic analysis of its contribution to bilateral trade." *The Hague Journal of Diplomacy* 6, no. 1-2 (2011): 101-120.

Economic diplomacy responds to the issues that jeopardize international trade as well as FDI. It strives to influence policies that are concerned with transnational economics such as the promotion of exports, imports and international flow of investments.⁷ It entails gathering of information and supplying, nation branding and advisory tasks. The promotion of FDI means that the foreign investing entity have to have effective control of the business' decision-making process or at least have substantial influence over the decision-making process.⁸

The study illustrates the correlation between economic diplomacy, conceptualization, and its role in promotion of trade and FDI. By so doing, the study establishes the various opportunities and challenges facing the efforts towards promoting FDI in Kenya and the world, and the role of economic diplomacy in reducing these challenges.

1.2 Problem Statement

Since its independence, Kenya's international relations and diplomatic engagements have transformed from just state survival and leadership to trade and investment. Consequently, Kenya continues to be in need of centralized foreign policy goals to enhance pursuit as well as promotion of international trade and investment. In many instances, trade relations between Kenya and other states results to trade deals that benefits the partners more. Economic diplomacy in Kenya has not described the differences between policy and practice but it has been a strategy for reaction to international relations.

⁷ Ruffini, Pierre-Bruno. "International Trade and Foreign Affairs-Some Reflections on Economic Diplomacy." *Journal of International Logistics and Trade* 14, no. 1 (2016): 3-28.

⁸ Birnleitner, Helmut. "Macroeconomic Determinants of FDI Decisions in the Automotive Industry: Theoretical Foundations and Empirical Evidence." *Journal of Business and Management* 26, no. 2 (2020): 69-92.

Internal and external prosperity of a state entails effective and efficient implementation of market protocols. Realization of these protocols have been a challenge due to the contradictions that exists amongst the actors in making collective decisions as well as harmonization of policies. Such contradictions between states jeopardizes the flow of investments from one country to the other.

Additionally, there are several barriers and threats that negatively affect Foreign Direct Investment. These barriers include political factors, economic factors, and regulatory factors. Most of the barriers and threats are deliberately introduced to protect local industries and market from unfair foreign competition. However, the barriers and threats can be reduced or removed through economic diplomacy by negotiating economic deals that are mutually beneficial. Kenya have the obligation to create a favorable environment for its economy to thrive as well as to promote manufacturing so as to produce goods and services that can compete in the international market. It has the mandate to attract investors that can promote technology transfer relevant for economic growth and development. The study therefore examines the role of economic diplomacy in enhancing FDI in Kenya and revive policies promote competences and structures in that can compete with a competitive world and promote FDI.

1.3 Research Objectives

The main objective of the study is to examine the role of economic diplomacy in promoting FDI in Kenya.

1.3.1 Specific Objectives

- 1.3.1 To examine the relationship between economic diplomacy and foreign direct investment.
- 1.3.2 To critically assess Kenya's economic diplomatic strategies for promoting FDI

1.3.3 To review the prospects for promoting FDI as a key component of economic development?

1.4 Research Questions

1.4.1 What is the theoretical and practical relationship between economic diplomacy and foreign direct investment?

1.4.2 What are the economic diplomatic strategies for promoting foreign direct investment in Kenya?

1.4.3 What are the prospects for promoting FDI as a key component of economic development?

1.5 Literature review

This section presents theoretical literature, empirical literature as well as theoretical framework that guided the study

1.5.1 Theoretical literature

1.5.1.1 Realism theory

Realism is one of the traditional theories in international relations. The study revolves around structural realism which is viewed as a section of realism school of thought. Kenneth waltz posits that despite the international system is defined by anarchy, it is a structured anarchy which is described by organized chaos.⁹

Kenneth waltz describes the organized structures and argues that the structures are essential in describing international relations of the states. To waltz, absolute power does not exist but rather there exist power that results from collective state potentials. The state capability entails its territorial coverage, geostrategic location, resources, energy, level of technology, population. Based on these, there is no single state that has

⁹ Waltz, Kenneth N. "Structural realism after the Cold War." *International security* 25, no. 1 (2000): 5-41.

all the capabilities to the maximum or absolute advantage in the mentioned areas. This supports the argument that there is cooperation in the environment where there is hegemony with no giving of credit to organizations for instance the cooperation that exist between Kenya and USA, Kenya and china.¹⁰

This study deviates from the classical realism and considers the understanding of power that goes beyond the use of military. Based on these, the power relations that exist between states and other actors can be changed so as to allow the existence of hard power that is found in politics- military as well as the soft power that is found on the visible in socio-economic and cultural fronts. It is essential to consider other structures of power relations that are not accommodated in classical realism to help in providing platforms for the analysis of economic dimensions of Kenya in attracting FDI.

1.5.1.2 Economic Nationalism Theory

Economic nationalism is a theory of modern-day international relations and it is also known as economic patriotism/populism. It is an ideology that provides for state intervention over the existing market mechanisms. The theory emphasizes on external relations as well as mobilizing internal resources.¹¹

Hegel's theory of economic nationalism incorporates economics with nation-states. To Hegel, nationalism and capitalism are the products of the state, promoting human capacity as well as rights. Hegel enhances modern ways of illustrating the link between modern economy and the states.¹²

¹⁰ Waltz, Kenneth N. "Anarchic orders and balances of power." *Realism Reader* 113 (2014).

¹¹ Petri, Rolf. *A Short History of Western Ideology: A Critical Account*. Bloomsbury Publishing, 2018.

¹² Hegel, Georg Wilhelm Fredrich. *Hegel: Elements of the philosophy of right*. Cambridge University Press, 1991.

Nation states use their economic strength to advance their national interest in the international system. Economic nationalism enhances use of state power to promote economic capabilities. Nation states rely on various economic and political frameworks to advance their interest and influence in their relations with others. The theory states that nation states that provide foreign aid as well as those that use economic threats in advancing their policies sometimes use mechanisms that are inclined to state interventionism. They advance national power through protection and economic support to the domestic policies. Economic nationalists prefer the use of trade barriers, subsidies as well as other measures to preserve domestic industries.

1.5.2 Empirical Literature Review

1.5.2.1 To examine the relationship between economic diplomacy and FDI.

The link between FDI and economic diplomacy can be best explained by looking into business diplomacy, which is a form of economic diplomacy, as is used by multinational corporations. Multinational corporations like Samsung sustain their profit margins by investing in foreign countries through foreign direct investment.¹³ Therefore, multinationals must understand the role of economic diplomacy in negotiating for the reduction of government-controlled barriers like permits, environmental preservation, prices, and taxes among others. According to Saner, business diplomacy involves establishing and maintaining good ties between the corporation and the host government or an international organization in an effort to secure a business opportunity, in this case in another nation.¹⁴

¹³ Cull, Nicholas J. *Public diplomacy: Foundations for global engagement in the digital age*. John Wiley & Sons, 2019.

¹⁴ Saner, Raymond. "Business diplomacy and international strategic alliances." *European Journal of International Management* 13, no. 5 (2019): 588-595.

However, economic diplomacy is used to governments, individuals, and multinational corporations by providing an avenue for these entities to promote their image to potential investment destinations. Also, nations can use economic diplomacy to promote themselves as a favourable foreign direct investment destination.¹⁵ The entities promote their image by being involved in international forums and stepping up to help in global crises. For instance, Kenya's efforts to drive Al-Shabaab from the neighbouring country, Somalia, were aimed at promoting Kenya's image as good neighbouring and potentially helpful ally. In addition, the strategy was to remove the terrorist threat in Kenya, as a result of proximity to a politically unstable country, thus promoting Kenya as a favourable destination for FDI.

Muldoon further illustrates the link between economic diplomacy and foreign direct investment in the case of multinational corporations, where the modern business environment has changed rapidly and efficiency and competitiveness are not all the ingredients and foreign direct investment requires surviving.¹⁶ Therefore, economic diplomacy is crucial to the survival of the multinational corporation's foreign investment. This is because multinational corporations are specially equipped to deal investment barriers like competition, capital, technology, and operating costs among others;

However, economic diplomacy is essential to; first of all, negotiate for the granting of permission to operate in the country. Also, the hosting government uses economic diplomacy to negotiate terms and treaties which are beneficial to the host country.¹⁷ The negotiations done through economic diplomacy are relative to the

¹⁵ Newburry, W., Liberman, L., & de Miranda Oliveira Jr, M. (Eds.). (2019). *Contemporary Influences on International Business in Latin America: Environmental, Firm and Individual-level Factors*. Springer.

¹⁶ Constantinou, Costas M., Pauline Kerr, and Paul Sharp, eds. *The SAGE handbook of diplomacy*. Sage, 2016.

¹⁷ Ibid.

investments worth and cash flows to avoid foreign firms profiting greatly from the host country while the latter is barely benefiting. Therefore, transparency, especially on the investor's side, is crucial during economic or business diplomacy for it starts building the firms image and establishes good rapport between for future investments or expansions of the affiliate local firm. Therefore, the investing corporation should strive to establish and maintain good relations with the hosting government, international organizations, social movements, and Non-governmental organizations.¹⁸

1.5.2.2 To critically assess Kenya's economic diplomatic strategies for promoting Foreign Direct Investment.

The role of economic diplomacy in promoting foreign direct investment can be illustrated by the strategies that are implemented by the states to promote foreign investment in other countries like Kenya, Brazil, China, and the United States. For example, Brazil has used economic diplomacy strategies, especially with developing countries to share their prowess in education and agriculture.¹⁹ It has been used by other countries to advance their global influence for instance it is responsible for the sudden rise of the Chinese economy.²⁰ The country has used economic diplomacy to negotiate for better trade deals and foreign direct investment, thus, amassing soft power ranking China among the world's superpowers.

Finally, the United States uses economic diplomacy to promote the country's nationals interests abroad including attracting FDI to the country and promoting foreign

¹⁸ Johnson, Tana. "Cooperation, co-optation, competition, conflict: international bureaucracies and non-governmental organizations in an interdependent world." *Review of International Political Economy* 23, no. 5 (2016): 737-767.

¹⁹ Juma, Calestous, "Africa and Brazil at the Dawn of New Economic Diplomacy", The Belfer Center for Science and International Affairs, Kennedy School of Government. February 26, 2013

²⁰ Bijian, Zheng, "China's 'Peaceful Rise' to Great-Power Status", *Foreign Affairs*, October 2005.

direct investment by the country's investors. Economic diplomacy have been considered as an essential element of the USA international politics goals.²¹ In her speech, Clinton explained that the success of economic development and democratic development is not only good for the United States of America as a country but also to the rest of the world which promotes foreign investment inward and outward of the country.²²

A range of diplomatic tools by public officials to support the promotion of certain types of trade and foreign direct investments that advances the country's economic interest. This includes the organization of trade missions as well as deploying diplomatic resources towards economic intelligence. Economic diplomacy is essential since it can be used in looking and exploring opportunities for development. Generally, Economic Diplomacy increases the flow of FDI by enhancing bilateral and multilateral negotiations on matters development and investments. This promotes trusts between and amongst actors hence creating favourable environment for development.²³

Economic diplomacy also promotes a country's exports and inward FDI attraction, while avoiding import attraction and outward FDI promotion. This is done through conducting research on available opportunities, delegate meetings, conferences, and international trade negotiations among others.²⁴As mentioned earlier in this chapter, economic diplomacy can also to international organizations as well as states. These organizations are also crucial to increasing FDI in the receiving state. For instance, World Bank Group is among the major international organizations that have

²¹ "Remarks by Secretary of State Hillary Rodham Clinton". Economic Club of New York. October 14, 2011.

<https://web.archive.org/web/20111105205610/http://www.state.gov/secretary/rm/2011/10/175552.htm>

²² Ibid

²³ Khan, Muhammad Arshad. "Foreign direct investment in Pakistan: The role of international political relations." *University of Oxford, Department of International Development, ISSN* (2011): 2045-5119.

²⁴ Ibid

initiated investments in various nations across the world.²⁵ The World Bank have been involved in promoting the growth and development of the developing states so that they can respond to the needs of the people.²⁶ Also, UNCTAD has continuously explored the various avenues that focus on FDI in the less developed states.²⁷

The importance of economic diplomacy is linked to the available externalities related to intelligence gathering in relation to existing international market opportunities. However, governments have different priorities, they often step in to provide national firms impartial access to information about foreign markets, thus reducing firms' transaction costs and diminishing their liability of foreignness. Currently economic diplomacy have been given recognition by many actors in the international system.²⁸ Based on this, economics have received a huge boost and it is playing a significant role in shaping global politics as well as realization of nation states interests in the community of nations. It is also instituted to influence objectives of the states nationally and internationally and to shape organization.²⁹

Nations are focused on improving their gross domestic product and by so doing improving their economy. Among the main ways of achieving these interests include international trade and investment in terms of foreign direct investment. These aspects of economic growth heavily rely on the relations between the nation and the region and the whole world. The relations of a country are promoted by economic diplomacy,

²⁵Iammarino, S. FDI and regional development policy. *Journal of International Business Policy*, 2018. 1(3-4): 157-183.

²⁶ Ibid.

²⁷UNCTAD, *Foreign Direct Investment in LDCs*, op. cit., Part Two, Investment Profiles, pp. 62-228.

²⁸ Bayne, Nicholas, and Stephen Woolcock, eds. *The new economic diplomacy: decision-making and negotiation in international economic relations*. Ashgate Publishing, Ltd., 2011.

²⁹ Ibid.

according to Berridge.³⁰ Berridge likens economic diplomacy with a manifestation of a nations preferences and needs in accordance with the rules and regulations set internationally.

1.5.2.3 Prospects for promoting FDI as a key component of economic development

According to UNCTAD, prospects of global FDI will decline due to the COVID-19 crisis will. Global FDI flows are forecast to decrease by up to 40 per cent in 2020, from their 2019 value of \$1.54 trillion. This would bring FDI below \$1 trillion for the first time since 2005. FDI is projected to decrease by a further 5 to 10 per cent in 2021 and to initiate a recovery in 2022. A rebound in 2022, with FDI reverting to the pre-pandemic underlying trend, is possible, but only at the upper bound of expectations. The prospect of a deep recession will lead MNEs to re-assess new projects. Policy measures taken by governments during the crisis include new investment restrictions. Starting in 2022, investment flows will slowly recover, led by GVC restructuring for resilience, replenishment of capital stock and recovery of the global economy. MNE profit alerts are an early warning sign. The top 5,000 MNEs worldwide, which account for most of global FDI, have seen expected earnings for the year revised down by 40 per cent on average, with some industries plunging into losses. Lower profits will hurt reinvested earnings, which on average account for more than 50 per cent of FDI.³¹

Emerging indicators shows that immediate impact. Both new Greenfield investment project announcements and cross-border mergers and acquisitions dropped

³⁰ Balzacq, T., Charillon, F., & Ramel, F. (2019). Correction to: Global Diplomacy. *Global Diplomacy: An Introduction to Theory and Practice*, 314.

³¹ UNCTAD (2020e). "Investment Promotion Agencies: Striving to overcome the COVID-19 challenge". *The IPA Observer, Special Issue, No. 8, April 2020*. New York and Geneva: United Nations

by more than 50 per cent in the first months of 2020 compared with last year. The financing of projects more so essential investments on infrastructure fell by 40%. The impact of this fall is severe but it also varies from one region to the other. Economies of the less developed states are viewed to experience huge drop in FDI since they hugely depend on global chains and industries which have been affected by the global uncertainties due to inadequate measures to develop the economies. The FDI flow is likely to drop by 25% to 40% in 2020. This will be enhanced by the drop in the prices of commodities.³²

FDI I less developed countries are structurally weak and their supply chains have been jeopardized in one way or the other by the changing conditions in the global community. They depend on FDI in industry and manufacturing, tourism. The decline in the flow of the FDI have been as a result of the global challenges in the 21st century. Even if there are numerous declines in the flow of FDI, the global community continues to play an essential role in economic growth and development. The international FDI flows will continue to add value to the existing FDI more so in the developing states.³³

1.6 Hypotheses

The study will seek to confirm or reject the following hypotheses:

- 1.6.1. Economic diplomacy promotes and improves Foreign Direct Investment in Kenya.
- 1.6.2. Strategic economic diplomacy policies and structures have increasingly been put in place to attract Foreign Direct Investment in Kenya in the last two decades.

³² Ibid

³³ UN DESA (2020b). "The COVID-19 pandemic puts Small Island Developing economies in dire straits", UN/DESA Policy Briefing no. 64, May, www.un.org/development/desa/dpad/publication/un-des-policy-brief64-the-covid-19-pandemic-puts-small-island-developing-economies-in-dire-straits.

1.6.3. There have been challenges affecting the implementation of current economic diplomacy strategies in Kenya, therefore affecting the significant success in FDI inflows.

1.7 Justification for the Study

1.7.1 Academic Justification

According to Mukolla, studies on economic diplomacy of are based on the broader East Africa region³⁴. However, there is little literally working on the role of economic diplomacy in Kenya and for that matter its role in promoting FDI in Kenya. All these studies show a connection between diplomacy and improved trade relations. However, according to Cerere the studies based on the Kenyan economic diplomacy have neglected the interplay between economic diplomacy and FDI in Kenya.³⁵Therefore, the study aims to fill the knowledge gap in linkages that exists between diplomacy FDI. The findings, conclusions, and recommendations contained in this study will serve as an invaluable resource and reference point for academics.

1.7.2 Policy Justification

Economic diplomacy enhances avenues for trade and investment and this is important in developing Kenya's national interest locally and internationally.³⁶The economy of Kenya is among the most important aspects constituting to the nation's image, and as well its improvement is part and parcel of the nation's interests. Therefore, economic diplomacy plays a major role in improving the Kenyan economy through the negotiation of favourable economic deals that improve the economy.

³⁴Mukolla, "Kenya's Economic Diplomacy In East Africa" (Master's, University of Nairobi, 2015).

³⁵ Cerere, G. "The Role of Economic Diplomacy In Advancing Kenya's Development Interests: The Case Of The 'Look East Policy'" (Master's Thesis, University of Nairobi, 2013).

³⁶ "Vision/Mission." Ministry of Foreign Affairs. Accessed July 17, 2019. http://www.mfa.go.ke/?page_id=151.

The study will try to bridge the gap between diplomacy, in this case, economic diplomacy, to the Foreign Direct Investment in Kenya. By so doing, decision-makers in various ministries as well as state departments in Kenya can use this information in their pursuit to protect the nation's interests. Finally, the results provided by this study can be helpful to the Kenyan government during their economic diplomacy negotiations.

1.8 Summary of Gaps

This study investigates the role economic diplomacy plays in promoting FDI inflow in Kenya. There has been a focus on the general economic diplomacy strategies adopted by countries in a bid to compete for FDI. Many previous studies have documented developed nations but with minimal focus on developing ones. The few that have tried to study developing nations have failed to analyze the different strategies employed by diplomats to influence FDI. There is a lot more that could be evaluated on these strategies but they are out of the scope of the specific objectives in this study. Despite Kenya having a vast diplomatic mission's presence, there is yet need for policies and further studies to affirm the specific role they play in the economy especially in terms of economic diplomacy and promotion of FDI. Further studies should suffice so that these gaps can be filled.

1.9 Theoretical framework

This study was guided by the economic internationalism theory. It is one of the international political economy theories that advocates for economic liberalization and free trade in the international system. Economic internationalism enhances the

relevance of international trade, international relations, need for alliances as well as treaties between and amongst the actors in the international system.

Proponents of this theory believe that international economics is advanced by cooperation amongst actors and development is available to all actors. They argue that sustainable development can be attained if there is political good will in the society. This motive opposes the tariff barriers, subsidies, sanctions as well as other structures that hinder the movement of capital, goods and services. The theory argues that capital, labor, goods and services are mobile within states. Nation states are illustrated by the integration of their capital and labor. Ricardo states that in international economics, global economy is a community of nations that engage through trade, war.

The theory is relevant to this study in that it gives room for movement of goods and services from one location to the other and this can create room for bilateral and multilateral negotiations between and amongst actors. Economic internationalism allows owners of foreign direct investments to freely invest in locations that meet their expectations in the global arena. The adoption of the theory allows Kenyan government to attract investors that promote technological transfer, foreign exchange and this enhances sustainable development thus creating good relations between and amongst actors in the international system.³⁷

1.10 Research Methodology

The study employed the mixed research design. This design entails combining the quantitative and qualitative approaches by merging only the positives. The mixed

³⁷ Jahn, Beate. *Liberal internationalism: Theory, history, practice*. Springer, 2013.

research design made it possible for the study to use a large sample, remain objective, reach quantifiable findings, and understand the social background of the findings.

1.10.1 Data Collection

The study encompassed both qualitative and quantitative data which were collected from primary sources of data and secondary source of data. Primary data was obtained through administering questionnaires and scheduling interviews. The nature of questionnaires was structured questionnaires and entailed both open-ended and closed-ended questions. Open-ended questions were utilized to collect qualitative data while on the other hand the closed-ended questions were used for collecting quantitative data. The questions were formulated in a very flexible questioning and follow up questions that gave a chance to the respondent to ventilate and express their views in-depth. Emails were also used as a ways to collect primary data from selected respondents. The questionnaires were tested for reliability and validity before use. Pilot study was conducted to ascertain the relevance of the questions.³⁸ In order to ensure validity, any ambiguous questions were adjusted to make it easier for the respondents to understand and give correct answer.

The study population consisted of economic diplomacy practitioners and policy makers during President Kibaki's regime and Uhuru Kenyatta's presidency. The study targeted senior administration officials who worked on various economic diplomacy strategies that were implemented in Kenya during the stipulated periods. These officials, through interviews and/or questionnaires, provided an account of the strategies that have been formulated with an effort of promoting FDI in Kenya. The

³⁸ Malhotra, K. *Marketing Research: An applied Orientation* (4th edition). New Jersey, USA: Pearson Education, Inc. 2004

study also consulted economic diplomacy experts to get a theoretical explanation of the strategies and possible outcomes in promoting FDI in Kenya.

The study used a stratified random method of sampling, dividing the target population into representative groups. At least one member from each top-level office in the ministry was selected irrespective of the regime they served. Due to bureaucratic red tape, the random selection of the sample population was not very effective and the study involved staff members who were willing to participate in the survey. The participants, comprised of officials from both regimes, who provided information based on personal experience or archive knowledge on the economic diplomacy strategies that were employed to promote FDI in the country. Therefore, the study interviewed at least 25 people who worked with the Kibaki government and 25 people under Uhuru Kenyatta's rule, who were involved in the formulation of economic diplomacy strategies. This brought the minimum number of respondents to 50.

1.10.2 Data Analysis and Presentation

The principal data analysis approach that was used in this study was the thematic analysis of qualitative data. The interviews plus opinionated data collected from questionnaires resulted in qualitative data that necessitated the use of thematic data analysis technique as the principal method.³⁹ The information obtained from the analysis of quantitative data was then represented using pie charts, percentages, and bar graphs.

The first step in thematic data analysis was the identification of the themes arising from the research questions and also the themes arising from the observations. The themes were then followed by subsequent interviews to verify key themes.

³⁹Greg Guest, Kathleen M MacQueen and Emily E Namey, *Applied Thematic Analysis* (Los Angeles: Sage Publications, 2012)

Therefore, the research was flexible which provided for proofing and verification of findings and hence more reliable results. The data used in this case involved secondary data from literally material and primary data collected from the interviews and the questionnaires. The data analysis method was cost and time-efficient because it was an inductive process that involved data familiarization, searching for themes, reviewing themes, and naming themes.

After the questionnaires were received back from the various respondents, they were edited, coded and then the data was tabulated. The editing was to make sure that the questionnaires were complete, consistent and readable; on other hand coding was to allow the transfer of the raw primary data to the computer. The coding was to enable the SPSS analytical process was utilized in identifying issues, determining the availability of suitable data, summarizing and communicating the results findings. The study entailed the use of both qualitative and quantitative approach. Results of data analysis was published or summarized in formal Statistics, while results from surveys will be presented in graphical representation format. A narrative technique was utilized in analysing qualitative data while quantitative data was utilized in statistical summaries.

1.10.3 Ethical Considerations in the Survey

The study sought to seek permit from NACOSTI to ensure its legality in Kenya. This was essential for this was a study that involved human subjects. The study methodology and more so data collection methods employed in this study were scrutinized by the University of Nairobi board to see if it violates human rights. This was a necessary process for it prevents legal implications on the side of the researcher and the institution.

Participation in the study was purely voluntary, thus the researcher only worked with the consent of the respondent. Therefore, the researcher sent a letter of consent to the target population clearly outlining the purpose, survey procedure, risks, benefits, and possible alternatives to participation. In addition, the letter stated that the information obtained from such study would be kept anonymous, confidential, and private.

1.10.4 Limitations in the Study

The study heavily relied on data from government offices in the ministry of foreign affairs and international trade. Therefore, the researcher anticipated bureaucratic red tape in accessing the targeted government offices. The researcher also anticipated difficulty in getting in contact with officials who worked on the economic diplomacy strategies during Kibaki's regime. However, the researcher through persistence and a recommendation letter from the university was optimistic of overcoming the bureaucratic red-tape. Furthermore, the researcher tried to track down the officials who have moved on to other jobs or ministries or retired.

1.11 Chapter Outline

This chapter introduces the relationship between economic diplomacy and FDI and goes further to illustrate the problem of the research. The problem of the statement informs the research questions which were used to generate the objectives of the study. The literature review section tries to outline the informational gap in the research topic. The summary of gaps section clearly highlights the gaps identified in the literature review section. Based on the gaps identified, the chapter tries to justify the validity of the study. The hypotheses are developed based on the research objectives of the study. Finally, the chapter outlines the methodology used to carry out the study.

Chapter 2 of this study include the links between economic diplomacy and foreign direct investment.

Chapter 3; Examined the economic diplomacy strategies employed by the Kenyan government between 2002 and 2020 to promote FDI.

Chapter 4; Discussed the efficiency of the diplomatic strategies in promoting FDI in Kenya.

Chapter 5; Presents the conclusions and recommendation of the study.

CHAPTER TWO
THE LINKS BETWEEN ECONOMIC DIPLOMACY AND FOREIGN
DIRECT INVESTMENT

2.0 Introduction

This chapter presents the concept economic diplomacy in Africa, economic diplomacy and its linkages with foreign direct investment.

2.1 Conceptualization of economic diplomacy in Africa

The emerging trends in the global economic order is identified by enhanced globalization and this means the formation of closer links between and amongst the global actors. This developments in the international relations has led to both positive and negative impacts on the African continent. Despite globalization enhances accessibility to international markets, capital flows, which are essential for growth and development. Amin posits that the developed states dominates the global economic institutions and, in many circumstances, they influence the economic policies of the developing states. The actions as well as policies sometimes might not favour the interest of the developing states. The negative influences have also been escorted with some emerging opportunities that promotes economic diplomacy in the African continent.

In the 21st century, trade and investment have been seen as key elements of economic growth and sustainable development that comes in different forms like foreign direct investment to promote African renaissance. The formation of a new African organization in 2002 (African Union) and other institutions like the New Partnership for Africa's Development (NEPAD) have enhanced the emergence of new developments, increased integration and stronger engagement and bargaining with

various actors in the international system. Various leaders have emerged in African states to advance their policies in ways that can attract investors that promotes technological transfer, and general economic growth.

The economic diplomacy of African states can be understood in the context of the diplomacy of development. Diplomacy is primarily concerned with the management of relations between states and between states and other actors.⁴⁰ Cold war era marked a diplomacy that was mainly identified by power relations and ideologies. The period after cold war enhanced twist on policies and priorities for the states. Areas of interest for the states have expanded and the main areas have been economic interests of states and other non-state actors in the international system. Economic diplomacy of most African states can be clearly illustrated as a diplomacy for promoting sustainable development, attracting investors to help improve the economy and initiate infrastructural development. The economic diplomacy in Africa is influenced by the desire of African states to articulate their interests in the international system. The main objective is to initiate improvements in human wellbeing. This is also accompanied by the aim of improving the per capita incomes as well as consumption, reduction in poverty index, improved health services and improved education standards.⁴¹

Recognizing the fact that the African states were individually not capable of exerting tangible influence on the global community, the countries have initiated various ways of influencing the global community in bargaining common concerns like trade

⁴⁰Lee, Donna, and Brian Hocking. "Economic diplomacy." In *Oxford Research Encyclopedia of International Studies*. 2010.

⁴¹Naidu, Sanusha, Liu Haifang, Sanjukta Bhattacharya, AlemayehuGeda, Atnafu G. Meskel, Peter Draper, TsidisoDisenyana et al. *The rise of China and India in Africa: Challenges, opportunities and critical interventions*. Zed Books Ltd., 2010.

initiatives. Collective activities have attracted investors that help in improving the economy of African states.

Head of states have initiated dialogues among themselves to enhance capital flow from one state to another and this has created room for various African innovators as well as other foreign investors to explore the opportunities that can improve the economic development in the continent. The cooperation amongst the states have ensured African states position themselves well in the international arena, thereby promoting the interests of the states.⁴²The establishment of international agencies such as the UNCTAD is a clear indication that diplomacy can promote interaction between and amongst states to engage in trade negotiations. The platform has changed trade negotiations and it has further opened up avenues for capital flow from one region to the other. It has also enhanced focus on the cooperation and development in the third world states.⁴³

The development of various global and regional agencies have promoted cooperation and coordination amongst actors in the international system and this has opened up states leading to customs unions that promotes free flow of capital. The engagements promotes multilateral diplomacy, trade negotiations and effective exploitation of investment opportunities in different countries. OPEC for instance has helped to the provision of attention to the third world states when there was embargoes on oil by the cartels leading to the increase in oil price. The establishment of the new international economic order was initiated by the United Nations to fast track development in the

⁴²Goldstein, Andrea. "Privatization in Italy, 1993–2003: goals, institutions, outcomes, and outstanding issues." *Privatization Experiences in the European Union* 225 (2006).

⁴³Bayne, Nicholas, and Stephen Woolcock. "The future of economic diplomacy." *The new economic diplomacy: decision-making and negotiating in international economic relations*, 3rd ed. Farnham: Ashgate Publishing (2011): 359-378.

third world states as well as to modify inequality amongst the developing and the developed states.⁴⁴

Economic diplomacy has led to the development of various initiatives that involved management and control of the natural resources, increased access to new technologies from the western world, the capacity to regulate the multinational corporations, favourable trade policies that give room for the accessing the market of the developed states.⁴⁵

2.2 Economic integration of the African states

African states economic diplomacy has improved in the 21st century and this has promoted the creation of many opportunities that attracts investors from various parts of the world. The increased population in Africa has also provided a good number of consumers and this investor's morale for initiating investment since they can reach their customers faster. African states experience challenges and this can be solved by development of investment platforms that gives rooms for foreign investors to help in tapping the available opportunities for economic growth. Many businesses have been initiated by citizens from different states and this has been as a result of economic engagement within various economic blocs. For instance, in East African Community, free flow of people and this promoted expansion of trade and capital in the country.

The increasing markets in Africa have become the interest of a lot of MNCs from both Europe, Asia, and the Americans. This has promoted diplomatic engagements. The available opportunities promote foreign exchange and this has been boosted by diaspora

⁴⁴ Mudida, Robert. "Emerging trends and concerns in the economic diplomacy of African states." *International Journal of Diplomacy and Economy* 1, no. 1 (2012): 95-109.

⁴⁵ Ibid

contributions. The bilateral and multilateral engagements has promoted transfer of technology from the developed states to the developing states. The diaspora community has also played a huge part in marketing the country's image in the international community and this has promoted industries like tourism in Kenya.⁴⁶

The development of the regional blocs has become tremendous avenues for promoting investments and this is an essential element of economic diplomacy in the region. Kenya has used the opportunity within these regional blocs to promote her economic diplomacy. The platform has enabled Kenya to engage with other regions like the European Union and this continues to promote the interest of the country thereby attracting investors that comes with technology to help in promoting economic development. The East AFRICA economic bloc continues to be marketed as one entity and this gives room for investors to move freely in the region thereby accessing huge customer base within the region.

African states have been in the pursuit of economic development and this pushed them to initiate integration for the promotion of economic development in the region. Okumu stated that African states since the acquisition of independence have been to promote regional integration as a key pillar in championing investment in the region. African states had been urged to press harder the initiatives of integration as this is driver to sustainable peace and development. Economic diplomacy has been viewed as important in opening wider markets, increased trade as well as transfer of technology. African states need to shape their political culture to ensure that the environment is good for development. Sustainable peace and security is important for attracting foreign investors. Cooperation amongst African states is very important in the realization of

⁴⁶Mahajan, Vijay. *Africa Rising: How 900 million African consumers offer more than you think*. Pearson Prentice Hall, 2011.

economic diplomacy in the region. Kenya as a country can utilize the platforms within Africa to promote its economic interest for sustainable development. This will ensure trade initiatives within Africa and thus promoting development and investments in different sectors like infrastructure. This institutions places Africa in the global economy and in the long run attracts economic development and foreign investments.⁴⁷

2.3 The Link between Economic Diplomacy and Foreign Direct Investment

The link between foreign direct investment and economic diplomacy can be best explained by looking into business diplomacy, which is a form of economic diplomacy used by multinational corporations. Multinational corporations like Samsung sustain their profit margins by investing in foreign countries through foreign direct investment.⁴⁸ Therefore, multinational must understand the role of economic diplomacy in negotiating for the reduction of government-controlled barriers like permits, environmental preservation, prices, and taxes among others. According to Saner, business diplomacy involves establishing and maintaining good ties between the corporation and the host government or an international organization in an effort to secure a business opportunity, in this case in another nation.⁴⁹

However, economic diplomacy is used to governments, individuals, and multinational corporations by providing an avenue for these entities to promote their image to potential investment destinations. Also, nations can use economic diplomacy

⁴⁷Okumu, Washington A. Jalango. *The African renaissance: History, significance and strategy*. Africa World Press, 2002.

⁴⁸Cull, Nicholas J. *Public diplomacy: Foundations for global engagement in the digital age*. John Wiley & Sons, 2019.

⁴⁹Saner, Raymond. "Business diplomacy and international strategic alliances." *European Journal of International Management* 13, no. 5 (2019): 588-595.

to promote themselves as a favourable foreign direct investment destination.⁵⁰ The entities promote their image by being involved in international forums and stepping up to help in global crises. For instance, Kenya's efforts to drive Al-Shabaab from the neighbouring country, Somalia, were aimed at promoting Kenya's image as good neighbouring and potentially helpful ally. In addition, the strategy was to remove the terrorist threat in Kenya, as a result of proximity to a politically unstable country, thus promoting foreign direct investment favourable in Kenya.

Economic diplomacy is especially influential in the international market for it is concerned with economic policy issues like setting standards in the case of the World Trade Organization. Also, economic diplomacy can be used by nations to influence economic policies in foreign countries in an effort to give the home country a competitive advantage in the regional or global market.⁵¹ The effectiveness of economic diplomacy is boosted by its ability to use economic resources to influence the decisions in a bilateral negotiation, regional trade negotiations or global market negotiations. Dictated by country's foreign policy economic diplomacy uses economic resources either as sanctions or rewards in pursuit of the country's national interests.⁵²

Among the advantages of Foreign Direct Investment that can help a country achieve her national objectives and interests include, economic stimulation, easy international trade, employment and economic boost, development of human capital resources, tax incentives, resource transfer, reduced disparity between revenues and

⁵⁰ Newburry, William, Leonardo Liberman, and Moacir de Miranda Oliveira Jr. "Building a Whole from the Parts: Environmental, Firm and Individual-Level Factors." In *Contemporary Influences on International Business in Latin America*, pp. 1-8. Palgrave Macmillan, Cham, 2019.

⁵¹ Saddiki, Said. "Diplomacy in a changing world." *Alternatives: Turkish Journal of International Relations* 5, no. 4 (2006).

⁵² Ibid.

costs, increased income, and increased productivity among others.⁵³ All the above factors constitute the determinants of Foreign Direct Investment and motivate economic diplomacy for the determinants of FDI are crucial to the prosperity and sustainable development. This forms basis for interplay between economic diplomacy and foreign direct investment.

However, Foreign Direct Investment has its inherent disadvantages which make it undesirable to the host country. These disadvantages include hindrance to domestic investment, political changes risk, negative influence on exchange rates, increased costs of products, economic non-viability, expropriation, negative impact on the country's investment, and modern-day economic colonialism to mention just but a few.⁵⁴ It is also the role of economic diplomacy to negotiate Foreign Direct Investment deals that minimize the disadvantages mentioned above among others. It is thus the responsibility of the government to protect the local markets from unfair international competition and the citizens from overpriced products which leads to a high cost of living.

There are several advantages that foreign direct investment brings to the hosting country which include stimulation of economic growth, and easy international trade among others. For instance, foreign direct investment acts as a powerful stimulant to Kenya's economic growth by creating a more conducive work environment for the investing country and accrues benefits for the local market.⁵⁵ Also, foreign direct investment improves international relations between the investing country and the hosting country. Improved relations provide a path for negotiation of better trading deals between the countries thus promoting economic integration.⁵⁶ Other FDI

⁵³ Borensztein, Eduardo, Jose De Gregorio, and Jong-Wha Lee. "How does foreign direct investment affect economic growth?." *Journal of international Economics* 45, no. 1 (1998): 115-135.

⁵⁴ Ibid

⁵⁵ The Republic of Kenya. "Kenyan Foreign Policy" Op cit

⁵⁶ Interview with GenAfrica Asset Managers, on October 23rd 2019

advantages include an increase in employment opportunities for the local market, development of human capital resources, technological exchanges and improved revenues through taxation of the foreign investments.⁵⁷

According to Van Bergeijk et al, there are three main elements of economic diplomacy that are used to promote economic diplomacy in Kenya.⁵⁸ The first element, which is also the most crucial element in this study, involves commercial diplomacy and NGO's where political relations and influence are exploited to influence investment and international trade. The second element involves bilateral trade, structural policies and investment agreements which are mainly used by the Kenyan government to increase the country's economic security. The final economic diplomacy element involves international organizations where these organizations strive to consolidate the right international political economic environment and the right national political environment climate.⁵⁹

2.4 The Role on Economic Diplomacy in Enhancing FDI

Policymakers around the world explore diplomacy as one of the instruments to engage in fierce competition for FDI. Economic negotiations that nation states engage in as well as with other non-governmental actors are designed to have impact on the transnational economics. This process entails responsibilities of diplomats that are pursuing economic interests of their respective countries through various bilateral and multilateral engagements with other actors. Despite the numerous analysis of economic diplomacy in illustrating trade activities, there exist minimal illustrations on the

⁵⁷ Ibid.

⁵⁸ van Bergeijk, Peter AG, and Selwyn JV Moons. "Introduction to the Research Handbook on Economic Diplomacy." In *Research Handbook on Economic Diplomacy*. Edward Elgar Publishing, 2018.

⁵⁹ Ibid.

correlation between FDI and diplomacy. Nigh established that cooperation and coordination between and amongst the states has the potential of promoting effective flows of FDI from one region of the other. For example, the effective relations of the USA with other states have the potential of broadening their market reach hence making their companies to invest easily in other countries with ease.⁶⁰ Morriset argued that the promotion of investment by various agencies generally leads to FDI attraction since they demonstrate the available opportunities in various parts of the world. Areas that are targeted by agencies that promotes investments leads to development in FDI flow in various sectors. Good promotion of investment plans have the potential of adopting effective marketing strategies to give potential investors the real situations on the ground so as to maintain close relations that leads to sustainable development. The interactions between and amongst the global actors indicates that the bilateral and multilateral diplomatic engagements lead to capital flow from one region to the other and this illustrates that diplomacy is linked to foreign in direct investments which benefits both parties that are involved in the processes.⁶¹

The study observed that conditions that states put in their economic engagements enhances gaps and this affects the flow of FDI directly or indirectly and this is due to the fact that economic diplomacy requires trusts and if there is inadequate openness in negotiations, the development processes can stagnate. It has been noted that FDI can be affected by the nature of the political environment in a particular state and this influences the areas that the MNC's tends to flow to. Instability in a country

⁶⁰ Harding, Torfinn, and Beata S. Javorcik. "Roll out the red carpet and they will come: Investment promotion and FDI inflows." *The Economic Journal* 121, no. 557 (2011): 1445-1476.

⁶¹Cezar, Rafael, and Octavio R. Escobar. "Institutional distance and foreign direct investment." *Review of World Economics* 151, no. 4 (2015): 713-733.

jeopardizes the activities of FDI as they fear risks of losing their resources.⁶² Investors always have the capacity to shift their focus on the host nations once they roll their investment capital.

Diplomats in the host countries is a demonstration of good relations between the states and this easily builds the trusts amongst the actors that are involved in the promotion of the FDI. The presence of the diplomats is important since they can be used to enhance negotiations if there are some traits of differences on policies that guides investment flows from one state to the other. Their presence gives the investors' confidence and comfort in the host countries and they help in peaceful engagements with the political leaders so that stability can be advanced and to reduce the insecurity about potential political upheaval about an investment.

The enhancement of economic diplomacy has the nature and operation of international firms that have capital for investment and they have been involved in gathering of information about issues that can jeopardize investment initiatives. Investors engage in research before getting releasing their investment plans so as to know the guiding principles and norms of the local community as well as the host state, know potential allies in trade.⁶³ The research by investors to gather information provides necessary information that can be useful to other firms that have limited capacity to carry out the research and this leads to giving of free investment ride there by the knowledge of joining a foreign economy is minimized and this can lead to minimal production.

⁶² Hayakawa, Kazunobu, Hyun- Hoon Lee, and Donghyun Park. "Are Investment Promotion Agencies Effective in Promoting Outward Foreign Direct Investment? The Cases of Japan and Korea." *Asian Economic Journal* 28, no. 2 (2014): 111-138.

⁶³ Siegel, Jordan I., Amir N. Licht, and Shalom H. Schwartz. "Egalitarianism, cultural distance, and foreign direct investment: A new approach." *Organization Science* 24, no. 4 (2013): 1174-1194.

The use of diplomatic connections have been enhanced by actors in the international system since it helps in providing information to various investors on the available opportunities, rules, and legal procedures and this lowers the costs for searching information thereby promoting ease in international development hence a plus on the relevance of economic diplomacy in promoting foreign investment opportunities.⁶⁴ It is imperative to note that diplomacy promotes effective negotiations between states thereby providing a leveled ground for interaction and negotiations of investment plans amongst actors. Diplomats in many instances have been used to entice investors on the economic environment in their home countries.⁶⁵

2.5 Conclusion

Although foreign direct investment has positive impacts on the host nation's economy, it must be regulated to protect the local firms from superior competition, technology, and knowledge among others. In order to reach agreeable terms between the host nation and the investing firm, business diplomacy is used to negotiate terms and establish a long-term relationship with the governments, institutions, social bodies, and non-governmental organizations. Therefore, economic diplomacy is among the pillars supporting both inward and outward foreign direct investment. For it is responsible for reducing government-induced barriers to foreign direct investment like taxes, environmental controls, quality controls, and investment permits. All these barriers can completely prevent establishment of foreign direct investment in a country, indicating the importance of economic diplomacy in promoting foreign direct investment.

⁶⁴ Harding, Torfinn, and Beata S. Javorcik. "Investment promotion and FDI inflows: Quality matters." *CESifo Economic Studies* 59, no. 2 (2013): 337-359.

⁶⁵ Lim, Sung-Hoon. "How investment promotion affects attracting foreign direct investment: Analytical argument and empirical analyses." *International business review* 17, no. 1 (2008): 39-53.

A country's foreign policy plays a big role in promoting Foreign Direct Investment in the country and outward to other countries. Both situations, that is, the investing country and the host country are beneficial in their own way. For instance, FDI leads to increased revenues for the investing country through profits and interests and the host country through increased capital inflow, technological exchanges, and revenue through taxation. Economic diplomacy thus plays a crucial role in promoting Foreign Direct Investment in Kenya and investment by Kenya by making Kenya a favorable destination for investment, trade, and tourism.

CHAPTER THREE

ECONOMIC DIPLOMACY AND FDI IN KENYA

3.0 Introduction

The chapter presents a critical analysis on economic diplomacy and how it has achieved its goal of promoting FDI in Kenya. Specifically, looking at achievements and gaps in the strategies and challenges.

3.1 Economic Diplomacy in Kenya

Kenya developed its first foreign policy, since independence on November 2014, which was comprised of five pillars, that is, economic diplomacy pillar, cultural diplomacy pillar, environmental diplomacy pillar, peace diplomacy pillar, and economic diplomacy pillar.⁶⁶ Therefore, economic diplomacy is part and parcel of the new foreign policy which has very specific objectives as dictated in the foreign policy. Kenya acknowledges the fact that the country cannot succeed without a peaceful and stable environment to conduct the objectives stipulated in foreign policy. Thus, the country's socio-economic development and prosperity are linked to the mutual coexistence in the society.⁶⁷

Kenya's economic diplomacy pillar include the increase of the country's capital flows which can only be increased through foreign direct investment and international trade. Also, the economic diplomacy advocates for promotion of exports and foreign direct investment by Kenyan enterprises. Finally, but not the last, the economic diplomacy pillar promotes the country's image as a favorable destination for foreign

⁶⁶ The Republic of Kenya. "Kenyan Foreign Policy" Op cit

⁶⁷ Ibid:23

investment and tourism to secure and help in realization of economic goals as described by Kenya's Vision 2030.⁶⁸

Therefore, economic diplomacy is the sum total of all the decision and policymaking by the state that advocates for the interests of the state abroad. Also, economic diplomacy refers to the use of the full spectrum of economic tools that are used by a state in order to achieve its

3.2 Strategies for Promoting FDI

The vision 2030 was a long-term plan that is implemented progressively in phases (five-year plan) and it started in 2008 -2012. The second Medium Term Plan 2013-2017 has been created and best practices embraced from the first medium term arrangement.⁶⁹ The Sustainable Development Goals (SDGs) that replaced the MDGs after 2015 were similarly tended to in resulting progressive medium-term plan from that point. The Vision 2030 Delivery Secretariat is mandated to plan, actualize and monitor progress of all the three areas in the Vision 2030. It is consequently considered responsible to guarantee all goals in the Vision are met and Kenya turns into an internationally aggressive market by 2030.

The Vision is isolated into three pillars that have their own particular destinations in accordance with the Vision. These are: The Economic pillar focuses on achieving a GDP development rate of at least 10% per annum through a financial development program targeting all Kenyans from 2012; the Social pillar tries to create a secure environment built on social values that promote a culture of fairness and equality; the Political pillar seeks to understand a popularity based political framework

⁶⁸ Ibid.

⁶⁹ Olingo, Allan. "Kenya Fails to Secure \$3.6b from China for Third Phase of SGR." The East African. The East African, April 27, 2019. <https://www.theeastafrican.co.ke/business/Kenya-fails-to-secure-loan-from-China-for-third-phase-of-SGR/2560-5090192-2o0y9j/index.html>.

established on legislative issues and a governance structure with respect to laws and norms with respect to human rights to all Kenyans.⁷⁰

3.2.1 Reduction of Customs Duty Rates

Kenyan foreign policy document was developed in 2014 and it has focus on five key pillars namely: to enhance international security and peace, promote economic prosperity and development and enhance regional integration and relations. The countries under economic diplomacy have a binding commitment to reduce their customs duty rates on imports of goods. In some instances, these countries need to have zero tariffs on some goods. This is thus to address the issues of the developing countries being allowed better and cheaper access to imports from the developed countries as well as allowing them to export theirs at a considerable price in such a way that they are not left at the suffering of the larger markets.⁷¹

Kenya recognizes East African Community as its primary base for economic development and therefore seek to ensure it strengthens the relationship and further build on partnering with other African countries. It explores the emerging economies around the globe by strategically positioning themselves as observed in the foreign policy and as well tap into existing resources with Kenyan investors in those countries.⁷²

The benefits to Kenya include bringing of resources into the economy, which without the FDI would have not been. The extensive mechanisms of economic diplomacy helps Kenya in gaining technological transfer especially from a number

⁷⁰ Kagwanja, Peter. "Economic Diplomacy Transforming Kenya into a Global." Daily Nation. Daily Nation, September 3, 2016

⁷¹ Kagwanja, Peter. "Economic Diplomacy Transforming Kenya into a Global. Op.cit

⁷² Ibid

of multinationals thus leading to increased rate of economic growth. It also leads to the creation of employment as well as new job creation. It also improves the Kenyan Balance of Payment (BOP) in terms of capital investments, increased exports and substitutes for imports. The costs on the other hand include increased levels of competition in the country, capital account affected negatively due to earnings and imports and key economic decisions are made by foreigners.

Kenya uses the regional integration platforms to enhance its foreign policy goals. Various state departments cooperate in the formulation of policies that can ensure the growth of per capita income for instance agreements on trade as well as agriculture. This agreement is aimed at creating reforms in the trade sector and to draw policies which are market oriented. This would create an environment that is more predictable and stable for both importing and exporting countries.⁷³ Such commitments are meant to enhance market access, support subsidies at the domestic and export levels and in situations where the agreements facilitate support for rural economies, ensure it through policies that least distort the trading processes. This agreement has therefore brought order, fair market competition and a more stable sector.⁷⁴

3.2.2 Special Economic Zones (SEZs)

Economic diplomacy covers the economic vision of Kenya which is Vision 2030. One of the driving forces includes the fact that Kenya is advancing its manufacturing base, but unfortunately this has not been doing well. The industry accounts for 14

⁷³ Odhiambo W, „The distribution of Costs and Benefits in Trade in the Context of the East African Regional Integration Process“, in *East African Integration, Dynamics of Equity in Trade, Education and Media*. Nairobi: SID, 2011

⁷⁴ Ibid

% of GDP since independence. A number of factors can be contributed to this such as: deficiencies in hydro power, extreme energy costs, run-down transport infrastructure and the abandoning cheap imports. However, the MTP envisions a vigorous, varied and competitive industrial environment. Realization of this has been enhanced by the establishment of special economic zones as well as five small and medium enterprise parks were prioritized.

The Special Economic Zones (SEZs) are aimed at attracting new investments, expansion of infrastructure and liberation of the entrepreneurial energies of the private sector to exploit business opportunities in regional and other external markets. Industrial activity is another core activity of economic diplomacy in Kenya today. This is focused around the three biggest urban centers of Nairobi, Mombasa and Kisumu, anchored on investment, for example, grain processing, brew generation, as well as manufacturing of various products.⁷⁵

Kenyan economic diplomacy is also promoted by the development in the oil sector, an oil processing plant for domestic consumption. Wholesale and retail trade provide linkages with other segments key to the economy, such as agriculture, the manufacturing sector and the service industry by creating outlets for goods and services to reach the consumer.⁷⁶

Kenyan policies have improved restructured from simply survival purposes to a commitment to be a force in the trade and investment opportunities. A procedure of more prominent democratization moved the needs of remote engagement towards economic discretion, which turned into an essential instrument for seeking

⁷⁵ Rose, A.K., „the Foreign Service and Foreign Trade: Embassies as Export Promotion“, the World Economy (2007)

⁷⁶ Kenyuru A, op. cit, p. 11; see also Were M et al., „Trade Policy in Kenya“, in Adam et al. (eds), Kenya Policies for Prosperity. Oxford: Oxford University Press, 2010

development¹⁹. In the Kenyan Context, Economic policy is not just a representation of a change in practice and strategies but more of a response and adaptation to the changing global environment.

Relevant economic policies have made Kenya to be versatile on international matters. Since the attainment of independence, the sober mindedness has appeared as 'positive lack of bias in remote relations. This was considered as means of protecting the country's domestic accountability and responsiveness in reality where extraordinary power control of weaker states was the fundamental normal for global undertakings. Thus, it turned into a position through which Kenya looks to safeguard that character in a domain in which worldwide occasions have noteworthy national and territorial repercussions.⁷⁷

This stance conveys what needs to be enhanced especially on Kenyan economic engagements. It recognizes troubles that comes as a result of isolation from the financial and political ties that emerges from the past regional relations. Presently, be that as it may, it must perceives moves in the worldwide economic power structure. Consequently, in spite of reliance on remote markets for its essential exports, imports as well as Aid and the quick changing trends in the international market, Kenya dependably stays away from any type of foreign pressure from any one nation or more countries.⁷⁸

⁷⁷ Collier P & SN Ndungu, „Strategies for growth“, in Adam et al., op. cit. See also Mutiga M, „How Nation Can Avoid Economic Ruin in 2012“, Sunday Nation, 16 October (2011)

⁷⁸ Volpe Martincus, C., A. Estevadeordal, A. Gallo and J. Luna, ,,) Information barriers, export promotion institutions, and the extensive margin of trade“, Review of World Economics (2010)

3.2.3 Increasing Trade Boundaries

Since independence, Kenya has accomplished regional administration on account of strong planning and an emphasis on economic contemplations while facing national challenges. This outlook made a blended economy that empowered the nation to advanced managed capitalism' framework that enhanced agricultural profitability, established manufacturing as well as prompted to expanded development in service industry.⁷⁹

Its prosperity encouraged fast development in exports to Tanzania and Uganda reflecting modern uneven characters coming from the principal REC initiatives and dissimilar to neighboring States that experienced more genuine financial challenges and in addition times of political insecurity, empowered Kenya to survive the oil emergency of 1973 and the fall of the main EAC.

Kenya actualized the ERS from 2003 to 2007. Its principle point was to establish an investor methodology where private sector turned into the primary channel for creating business and income, putting the nation on a stable development path. The accomplishment of the ERS prompted to the detailing of Vision 2030, the primary objective of which is economic flourishing. It tries to revive the stagnant levels of private ventures that are the essential reason for Kenya's disillusioning basic changes in the economy. The manufacturing sector has exhibited great development just from 2004 onwards.

Consequently, Kenya is viewed as the most proficient passage in East Africa due to its initial introduction towards free market approaches, the presence of ports, for example, the port of Mombasa which is essential on the grounds that various states in

⁷⁹ Volpe Martincus, C., A. Estevadeordal, A. Gallo and J. Luna, ,,) Information barriers, export promotion institutions, and the extensive margin of trade", Review of World Economics (2010)

the region are landlocked. Kenya has grown moderately proficient correspondences and is viewed as the economic as well as development capital because of accessibility, manpower, improved infrastructure that allow effective trade and transactions to take place. For instance, the air transport as well as sea transport has promoted effective capital flow in the region.⁸⁰

This strategy has promoted access to goods and services within the region hence enhancing human wellbeing. This strategy though important, it is observed that its capacity is jeopardized by the contradictions within the nation states in the region that sometimes go against the open policy.

3.2.4 Increasing the Capital Inflows to the East African Region

Economic diplomacy in Kenya have mandates to increase capital inflows to the East African region and more specifically Kenya. It also increases Foreign Direct Investment by Kenyan enterprises across the globe and within the region and increase Foreign Direct Investment to Kenya through various initiatives like conferences, tourism among others.⁸¹

Kenya enjoys good relations with most of the East African countries making the countries rank among the most important trading partners in the region. Therefore, the region has become a lucrative monetary point for both development and trade. The relations can be attributed east africa economic bloc where economic diplomacy, FDI and Trade deals are negotiated to achieve a near balance situation for its member states' national goals and interests.⁸² World Bank observed that East African Community

⁸⁰ Ibid

⁸¹ Ibid.

⁸² Owino K. "Multilateral Relations and the East African Community" in East African Scenarios Project Research Compendium. 2007. Nairobi.

facilitated economic integration through economic diplomacy thus facilitating Foreign Direct Investment and as well promoted various FDI determinants.⁸³

By extension, regional blocs have played a very important role in providing an enabling environment for economic diplomacy and so Foreign Direct Investment by Kenyan entities and to Kenya. However, prior to the new Kenyan foreign policy, foreign investments in Kenya and by Kenyan organizations were relatively low despite the size of Kenya's economy.⁸⁴ However, the numbers started to increase since 2010, although the country had not formulated an official economic diplomacy goal and strategy. These strategies were tested in beta stages where they showed promise for the country.

The United Nations indicated that FDI flows in Kenya increased by 27% to a total worth of 1.6 billion US dollars. Most of these FDI flows come from China following the improved relations between Kenya and China. Chinese investors mostly focus on hydrocarbons, mining, and the engineering sector. For instance, the Standard Gauge Railway, connecting Kenya to Rwanda from Mombasa through Kampala to Kigali, is contracted to a Chinese company.⁸⁵ As mentioned earlier, FDI promotes technological exchanges, thus Kenya enjoys advance railway technology in terms of the railway line and the coaches as well.

All these developments can be attributed to Foreign Direct Investment into the Kenyan market. The project is also funded by the Chinese government, a deal that was negotiated between the Kenyan government and the Chinese government through economic diplomacy where all the parties agree on a deal that will be mutually

⁸³ World Bank. *The World Doing business report 2010*. World Bank Publication, 2010

⁸⁴ "Kenya: Foreign Investment." Santandertrade.com. Accessed August 19, 2019. <https://en.portal.santandertrade.com/establish-overseas/kenya/investing>.

⁸⁵ Ibid.

beneficial to the countries. UNCTAD's 2019 investment report showed a substantial increase in FDI influx into the Kenyan market over the years, since the development of the economic diplomacy pillar in Kenya's foreign policy increasing from 1.2 billion in 2017 to 1.6 billion US dollars in 2018.⁸⁶

3.2.5 Economic Integration

Foreign Direct Investment has been at the forefront of spurring economic growth in the country making the country top of the most developed microstates in the world.⁸⁷ According to Razin and Loungani, foreign financial flows contributes to a country's economic growth compared to other financial flows.⁸⁸ Therefore, Foreign Direct Investment, a source of foreign capital flow, contributes to economic growth through creation of jobs, boosting regional development, promoting technological advancements, and advance of human resource among others. The above-mentioned merits contribute to the rise of the Grand Duchy to have the largest economic growth rate, lowest unemployment rate, and high standards of living among others.⁸⁹

In addition, investments boosts levels of competitiveness in market, thus promoting market innovation and intervention by the local market in order to match their competitors, hence the country reaped the benefits of competition. Also, the competition promotes adoption of better, efficient and cheaper production techniques as producers compete to provide high quality but affordable products.⁹⁰ Therefore, Foreign Direct Investment has great benefits to the host nation in both developing and developed economies in the world.

⁸⁶ UNCTAD. "World Investment Report." Op cit.,

⁸⁷ Ibid

⁸⁸ Loungani, P., A. Razin, and C. Yuen. *Capital Mobility and the Output-Inflation Trade-Off*, 1997.

⁸⁹ Kavvadia et al. "The economic diplomacy of small states" Op cit.,

⁹⁰ Ibid:11

As a small state, Luxembourg did not pose any threat to competing nations either economically or in military, therefore the negative factors which undermine economic diplomacy in promoting foreign direct investment are lower compared the positive factors promoting FDI. This boards well with the assertions made by Warrick Smith and Mary Hallward-Driemler stating that the location of the investment dictates the location-specific factors which present unique opportunities or threats to the country.⁹¹ In a situation where the location-specific factors are favorable to both the investment country and the hosting country, the two countries enjoy hastened economic growth.

It is the responsibility of the country's foreign policy to negotiate favorable location-specific factors that undermine or promote foreign direct investment through economic diplomacy. This is an example of how economic diplomacy helps promote a nation's foreign policy. Commonly, a nation's foreign policy dictates the nation's mission, objective, interests and goals, and strategies of achieving these items. One of the strategies of achieving national goals, usually sustainable economic development, include economic diplomacy. The Kenyan foreign policy uses the economic diplomacy pillar to promote outward and inward foreign investment, international trade, and tourism among other national goals.⁹² Having said that, Luxembourg has taken economic diplomacy, more so foreign direct investment, way before the entire world stated recognizing the relevance of FDI to global economy in the late 20th century.⁹³

⁹¹ Smith, Warrick, and Mary Hallward-Driemeier. *A Better Investment Climate for Everyone*. Washington: The World Bank, 2004.

⁹² The Republic of Kenya. "The Kenyan Foreign Policy" Op cit., 21

⁹³ Kavvadia et al. "The economic diplomacy of small states" Op cit.,12

Kenya has barriers to foreign investment, and for a good reason because the uncontrolled foreign direct investment can be detrimental to the host country.⁹⁴ However, this rule works best for individual investors and firms but varies where the investor is a multinational corporation from country to country and in different industries. Thus, multinational corporations, in foreign direct investment, do not follow the rule of thumb in investments where a basic investment usually tries to fill a market gap of some sort.⁹⁵

3.2.6 Interact with Different National and International Bodies

Multinational corporations in Kenya are drawn to industries that have a high concentration of firms, and the barriers to entry into the local market are relatively high. The rationale behind such behavior is that due to the size of multinational corporations, they are able to overcome these barriers without a significant increase in production cost or reduction in production quality for they enjoy economies of scale, have advanced technology, and very efficient resource management.

Therefore, multinational corporations are the best-equipped firms to destroy the monopolistic aspect of industries of countries that have high restrictions. That is, they have access to cheaper financial sources if the barriers are in form of high costs, they have the technology to produce high-quality products if the barriers are in form of product standards.⁹⁶ Another, assumption for MNCs attraction to markets with relatively high barriers because they are an indicator of a vibrant market as opposed to

⁹⁴ Magnus, Blomstrom, and Kokko Ari. *How Foreign Investment Affects Host Countries*. The World Bank International Economics Department International Trade Division. March 31, 1997. <http://documents.worldbank.org/curated/en/992201468765633696/How-foreign-investment-affects-host-countries>.

⁹⁵ Magnus et al. *How Foreign Investment Affects Host Countries*. Op cit.

⁹⁶ Ibid.

areas with almost no barrier which screams low capital flows. Therefore, certain requirements and pressures subjected to foreign investors attract multinational corporations which in turn increases industries.

Also, the corporations demolish monopolistic behaviors in industries promoting improved quality, innovation, and invention, and in the long run improved capital flows in the host nation and multinational organization itself.⁹⁷ Finally, in the case of non-governmental organizations, barriers and underdeveloped may also attract foreign direct investment based on their objectives or mission statement. In addition, barriers put by the host government are dealt with using economic diplomacy between the multinational corporation and the host country. According to Ruel et. al., Multinational corporations have the ability to negotiate complex situations and interactions with both local and international governments, and as well international Non-Governmental Organizations in their efforts to establish or advance foreign direct investment.⁹⁸ This falls under the business diplomacy section of economic diplomacy where businesses negotiate their own relations with foreign governments or NGOs.

NGO's thrive on the success of the foreign investments for it promotes foreign financial flows which are more beneficial to Multinational corporations than nations since MNCs have a more efficient management system for all resources. Therefore, this motivates the MNCs to engage in economic diplomacy where they are exposed to various multilateral agreements that were formulated by major global organizations like the WTO, World Bank, ILO and the European Union among others; and national laws formulated by host government.⁹⁹

⁹⁷ Blemet, *Business Diplomacy in international firms*, Op cit,

⁹⁸ Ruel, Huub, Tim Wolters, and Raymond Loohuis. *Business Diplomacy in Multinational Corporations (MNCs: An Exploratory Study Working Paper*. *Windesheim University of Applied Sciences, School of Business, Media and Law,

⁹⁹ Ibid:1

Economic diplomacy, thus, equips the multinational corporations with the avenues for managing negotiations with different actors. Studying how Multinational Corporations use economic diplomacy both at the state level and non-state level in an effort to facilitate foreign investment in the host countries best explains the role of economic diplomacy in promoting foreign direct investment. This is because most of the foreign direct investments in the world are made by multinational corporations as opposed to governments, and individuals.¹⁰⁰

The main reason why multinational corporations require advance business diplomacy or economic diplomacy is that the host governments control the aspects of foreign direct investments that are crucial to the survival of said MNCs. Such aspects include the permits to invest in the country, foreign investments excise duty and tax, production standards, environmental standards, and recommended prices for goods and services.¹⁰¹ Saner et al described business diplomacy as economic diplomacy that is concerned with influencing social actors and economic actors in order to seize a business opportunity or establish a business.¹⁰²

Therefore, business diplomacy interacts with different national and international bodies that make rules which in a way influence international business and investments. Therefore, it is focused on preventing potential conflicts between the stakeholders and the hosting nation, minimizing risks arising from political situations, and promoting the corporate's image in various multinational forums and media in order to ease the acceptance process in foreign direct investment by the host nations.¹⁰³

¹⁰⁰ Ruel et al. *Business Diplomacy in Multinational Corporations*, Op cit

¹⁰¹ Ibid.,

¹⁰² Saner, R., Yiu, L., & Søndergaard, M. *Business diplomacy management: A core competency for global companies*. (2000) *The Academy of Management Executive* (1993-2005), 80-92.

¹⁰³ Huub et al. *Business Diplomacy in Multinational Corporations (MNCs)*, 2

The rate of foreign direct investments in Africa has risen drastically with multinational corporations taking the lead and this have been as a result of the linkages that exist between economic diplomacy and FDI. Therefore, Africa defied the global decrease in foreign direct investment where FDI in Africa increased by 11% between the years 2017 and 2018.¹⁰⁴ The total foreign direct investment cash flows in Africa increased to 46 billion US dollars according to the report submitted by World Investment Report 2019.¹⁰⁵

However, foreign direct investment by multinational corporations preferred investment in developing African countries compared to more developed African powers like Nigeria, and Egypt.¹⁰⁶ The increase can be attributed to good relations between the country and the investing entity, mostly multinational corporations. Good relations are established through business or economic diplomacy in order to reach favorable terms for both the investing company and the host nation.

Some of the major international investors in Africa through foreign direct investment include France, Netherlands, United States, United Kingdom, and China among others; in order of decreasing investment in Africa.¹⁰⁷ The data, as provided by the World Investment Report 2019, compared the investment by these developed countries between the years 2013 and 2017 where Netherlands had the greatest increase in investment and the United Kingdom having the largest decrease in foreign direct investment to Africa. The United Kingdom's decrease in foreign direct investment is due to declining relations between the country and other countries in the world as a

¹⁰⁴ UNCTAD. "Foreign Direct Investment to Africa Defies Global Slump, Rises 11%." United Nations Conference on Trade and Development, June 12, 2019. <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2109>.

¹⁰⁵ Ibid.

¹⁰⁶ UNCTAD. "Foreign Direct Investment to Africa Defies Global Slump. Op.cit

¹⁰⁷ Ibid.

result of the Brexit from the European Union. As a result of reduced international trade when British filed a referendum to exit the European, led by Prime Minister David Cameron¹⁰⁸. Withdrawing from an economic and political union is a bad economic diplomacy move for impacts negatively on the relations between the country and member countries, and sometimes other countries in the world.

Economic diplomacy promotes the increase of the nation's exports as a result of improved international relations between the host and the investing country. Economic diplomacy, as part of Kenya's new foreign policy, strives to promote Kenya as a favorable investment destination thus promoting the increase of Foreign Direct Investment in Kenya.¹⁰⁹

3.2.7 Regionalism and 'Looking East' Policy

Every economy, including Kenya's economy, requires the support of the neighboring economies in order to thrive. This is because it is next to impossible for a country to have all the resources to satisfy her citizens without the help of international trade or foreign direct investment. Liargovas and Angelopou claim that foreign direct investment contributes to a country's economic growth indirectly through technological exchanges and knowledge exchanges, and directly by financing economic development initiatives.¹¹⁰

According to Kagwanja, Kenya is becoming a soft power slowly by slowly through its economic diplomacy thus transforming the country to rank among the

¹⁰⁸ Henley, Jon, J. Ranking, and P. Oltermann. "European leaders rule out informal Brexit talks before article 50 is triggered." *The Guardian* 27 (2016).

¹⁰⁹ Interview with Stella Maina foreign policy analyst at MOFA on October 18th 2019

¹¹⁰ Liargovas Panagiotis and Anastasia Angelopoulou "Foreign Direct Investment and Growth: EU, EMU and Transition Economies." *Journal of Economic Integration*, Vol. 29, No. 3, 2014: 470- 495.

world's soft powers.¹¹¹ Kenya has enhanced its economic diplomacy with friendly states, unveiling friendly environments for other states to invest in and this increases the chances of receiving foreign direct investments.¹¹²

Kenya continues to attract China as the major investing company either in foreign direct investment or in general investment in Kenya's infrastructure.¹¹³ Among the major foreign direct investment projects by the Chinese government to Kenya include the famous Standard gauge Railway.¹¹⁴

This is an example of foreign direct investment where the Chinese company CRBC controls the Chinese funded railway line although there are other local anonymous shareholders to the project. Kenya was mandated to commence the operation of the line as from 1st June 2017 failure to which the country would attract a fine of 24.2 million Kenya shillings in accordance with the contract between Kenya and the Chinese investing company indicating that the foreign company had more control of the standard gauge railway compared to Kenya.¹¹⁵

Therefore, high-level state visits are among the economic diplomacy strategies that have been employed by the Kenyan government in efforts of increasing foreign direct investment in Kenya. For instance, the president of Kenya made a high-level state

¹¹¹ Kagwanja, Peter. "Economic Diplomacy Transforming Kenya into a Global." Daily Nation. Daily Nation, September 3, 2016. <https://www.nation.co.ke/oped/opinion/Economic-diplomacy-transforming-Kenya-into-a-global-soft-power/440808-3368446-1407fhl/index.html>.

¹¹² Ibid.,

¹¹³ Mwambeu, Menya. "Kenya Has Gained More from China than Just SGR." UREPORT-CITIZEN JOURNALISM, n.d. <https://www.standardmedia.co.ke/ureport/article/2001327673/kenya-has-gained-more-from-china-than-just-sgr>.

¹¹⁴ Okoth, Edwin. "Mysterious Local Owners of SGR Firm." Daily Nation. Daily Nation, June 9, 2019. <https://www.nation.co.ke/news/Shocking-details-of-mysterious-local-owners-of-SGR-firm/1056-5150128-yiesvlz/index.html>.

¹¹⁵ Ibid.

visit to China to try and negotiate an investment deal by the Kenyan government of 3.6 billion US dollars for the completion of the SGR third phase.¹¹⁶

3.2.8 Hosting International Trade Conferences

It was observed that Kenya also uses international trade conferences as a mechanism for advancing economic diplomacy in the country and strengthening trade ties with friendly countries across the globe which improves the state's global outlook as a favorable investment environment.¹¹⁷ For instance, Kenya held the 14th Tokyo forum for development in Africa dubbed TICAD that was held in Nairobi in 2016.¹¹⁸ In addition, Kenya uses soft power as an economic diplomacy strategy that relies on the power of persuasion and attraction as opposed to coercion.¹¹⁹ Soft power is linked to Kenya's regional integration where the east Africa countries agree to reduce or remove trade barriers thus allowing free flow of goods and services within the region.¹²⁰

Since the development of Kenya's foreign policy in 2014, Kenya has used economic diplomacy to project its soft power thus persuading foreign investors to engage in foreign direct investment thus transforming the country into a global soft power. Mutual engagement between Kenya and other states not only attracted foreign investors from all the world but also attracted major conferences and international dignitaries. This leads to the promotion of a peaceful environment that attracts investors as human security is guaranteed.

¹¹⁶ Olingo, Allan. "Kenya Fails to Secure \$3.6b from China for Third Phase of SGR." *The East African*. The East African, April 27, 2019. <https://www.theeastafrican.co.ke/business/Kenya-fails-to-secure-loan-from-China-for-third-phase-of-SGR/2560-5090192-2o0y9j/index.html>.

¹¹⁷¹¹⁷ Interview with Ministry of Foreign Affairs Economist, October 15, 2019

¹¹⁸ Kagwanja. "Economic Diplomacy Transforming Kenya into a Global." Op cit

¹¹⁹ Interview with Fatouma Latifa, MOFA Economist, October 15th 2019

¹²⁰ Ibid.,

3.2.9 Understanding Diasporas' Role in Economic Diplomacy

The diaspora community has become more important in the global community in the 21st century. The community is important in investment as they enhance economic growth through their remittances and this can advance the Kenyan economy. Kenya is one of the countries that have accepted diaspora's role in their foreign policy. The foreign policy consists of four pillars which is economic diplomacy, peace diplomacy, environmental diplomacy, and diaspora diplomacy. The Ministry of Foreign Affairs has incorporated diaspora diplomacy as one of the main pillars in their Ministerial Strategic Plan (Ministry of foreign Affairs of Kenya). This accepts that there is an intrinsic linkage between Diaspora Diplomacy and Economic Diplomacy.¹²¹

3.3 Challenges to economic diplomacy and FDI

Realization of economic diplomacy to advance foreign direct investments experiences numerous challenges that comes from contradictions within the diplomatic environments.

Inadequate cooperation and coordination amongst nation states for instance in the East African region have led to minimal policy harmonization that can attract investors in Kenya and the region as a whole. It was observed that the presence of ideological differences amongst the leaders in the region jeopardize smooth operation of trade initiatives as well as the capital flow. The minimal trust within the region affects integration processes hence, making investors to shy away.

The various strategies that are employed by Kenya require cooperation and coordination with other actors in the international system.

¹²¹ Barston, Ronald Peter. *Modern diplomacy*. Routledge, 2019.

3.4 Conclusion

Kenya's economic diplomacy has been essential to economic integration and consequently promoting Foreign Direct Investment. The globalization era brought major changes to the functioning of world economies by eliminating and/or reducing trade restrictions. Therefore, Kenya, through its foreign policy agenda has continued to gain access to international markets paving a way for Foreign Direct investment. The growth in FDI had a positive impact on Kenyan economy at the time despite the country being in a developing state, however there is need to enhance foreign policy both regionally and globally.

CHAPTER FOUR
A CRITICAL ANALYSIS OF THE ECONOMIC DIPLOMACY AND
FOREIGN DIRECT INVESTMENT IN KENYA.

4.0 Introduction

Sustainable development in most emerging economies is advanced by foreign flow of capital, investments from one country to the other. Having established the links between FDI and economic diplomacy, it's through utilization effective and reliable economic diplomacy that enhances the inflow of FDI into the country's economy. The previous chapter analyzed various strategies that have been used by the Kenyan government as a form of economic diplomacy. This chapter, analyzes the extent to which these economic diplomacy strategies have been utilized in promoting foreign direct investment in Kenya. This chapter tests the hypothesis that economic diplomacy measures have the potential of promoting the foreign direct investments in Kenya.

4.1 Global Prospects of FDI

According to UNCTAD¹²², the COVID-19 crisis has negatively affected investments in and this resulted to minimal flow of FDI in the economy. It has been observed that the flow of FDI is expected to fall by 40% in 2020 from the 2019 value of \$1.54 trillion, this could result to a fall in FDI flow below \$1 trillion since 2005. This projection in the fall on FDI flow has been linked to the current health crisis in the international community hence the need for effective policy measures that can ensure economic integration amongst global actors so as to mitigate the economic effects of the pandemic. The global pandemic has been regarded as a threat to supply and demand for

¹²² UNCTAD's 2020 'World Investment Report'. Available at https://unctad.org/en/PublicationsLibrary/wir2020_en.pdf, Accessed on June 2, 2020

economic development in the society. Slow flow of investment is linked to inadequate engagement between and amongst actors. The changing structures in the global community demands nation states to reinvest their earnings so as to meet development gaps.¹²³

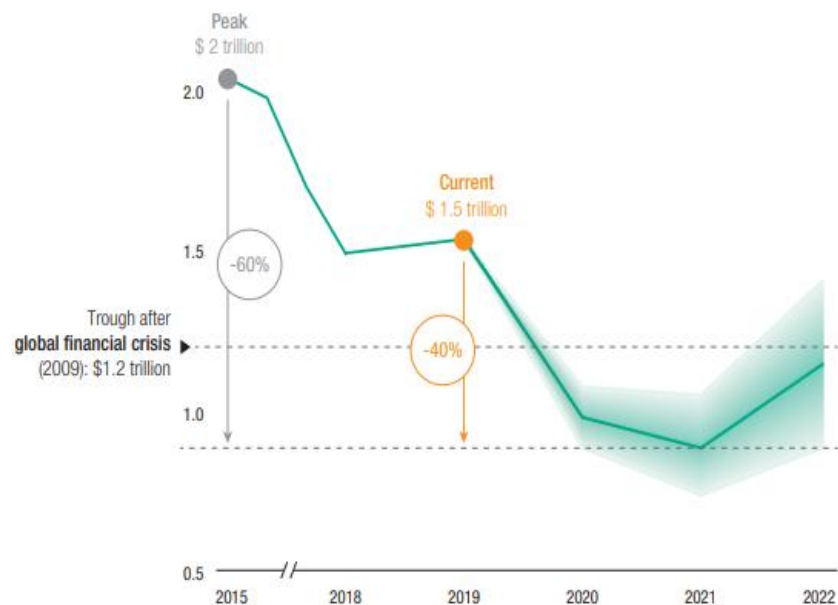
Economic diplomacy is embraced by states to promote trans-border mergers and flow of capital that can boost economic growth of states. Cross border engagement has been viewed as a key pillar in promoting development in states hence the increased integration between and amongst various actors in the international system. The economic integration of states fallen in the first months of 2020 as compared to 2019 and this have been as a result of global challenges that have shifted the focus of many states hence the need for economic diplomacy to advance the interest of nation states in championing sustainable development. The impact, although severe everywhere, varies by region. Developing economies are expected to see the biggest fall in FDI because they rely more on investment in global value chain (GVC)-intensive and extractive industries, which have been severely hit, and because they are not able to put in place the same economic support measures as developed economies.

The outlook for FDI in structurally weak and vulnerable economies is extremely negative. Many least developed countries (LDCs) are dependent on FDI in extractive industries, many small island developing States are dependent on investment in tourism, and landlocked developing countries are disproportionately affected by supply chain blockages. In 2019, FDI inflows to LDCs declined by 6 per cent to \$21 billion, representing just 1.4 per cent of global FDI. Despite the drastic decline in global FDI

¹²³ UNCTAD (2020e). “Investment Promotion Agencies: Striving to overcome the COVID-19 challenge”. The IPA Observer, Special Issue, No. 8, April 2020. New York and Geneva: United Nations

flows during the crisis, the international production system will continue to play an important role in economic growth and development. Global FDI flows will remain positive and continue to add to the existing FDI stock, which stood at \$36 trillion at the end of 2019.¹²⁴

Figure 4.7 Global FDI inflows, 2015–2019 and 2020–2022 forecast (Trillions of dollars)



Source: UNCTAD

4.2 The Performance of The Kenya’s Economic Diplomacy Strategies

Kenya has shifted from political to economic diplomacy making it to become a global soft power. The use of economics has been employed since it gives room for cooperation and coordination between various actors. The study observed economic diplomacy promotes attainment of external support for development.

¹²⁴ UN DESA (2020b). “The COVID-19 pandemic puts Small Island Developing economies in dire straits”, UN/DESA Policy Briefing no. 64, May, www.un.org/development/desa/dpad/publication/un-desa-policy-brief64-the-covid-19-pandemic-puts-small-island-developing-economies-in-dire-straits.

Before, the reign of president Uhuru Kenya was deemed as an unstable for the country and one that was not worthy of receiving any form of foreign direct investment. The country was close to being declared a failed state.¹²⁵ However, the Kenyan citizens including the president of the republic recognized the potential possessed by Kenya as a nation explaining the tireless efforts by the president to use economic diplomacy to improve Kenya's situation.

The country employed economic diplomacy strategy in a bid to enhance and improve its economic positioning by attracting the international community to invest in the country.

The country has been able to gradually recover from the impacts of the 2007 post-election violence that devastated the whole country by reducing the number of foreign direct investments, tourists, and destroyed foreign relations. Therefore, foreign direct investment has been improving over the years following the economic diplomacy strategies that were employed by President Uhuru Kenyatta. The foreign direct investment inflow into Kenya by the year 2018 had increased to 672 million US dollars which is an improvement of about 71 percent.¹²⁶ Therefore, the economic diplomacy strategies employed have been effective despite the political uncertainties of the year 2017 which was an election year. The improvement in the level of foreign direct investment in the year 2018 can be attributed to high demand from the Kenyan local market and inflows into the ICT industries.¹²⁷

However, there have been some successful economic diplomacy strategies such as the high-level state visits to various friendly countries by the former president Mwai Kibaki

¹²⁵ Ibid.,

¹²⁶ “Kenya Records an Impressive 71% Increase in FDI Inflows - UNCTAD.” Kenyan Wallstreet, June 11, 2018. <https://kenyanwallstreet.com/kenya-records-an-impressive-71-increase-in-fdi-inflows-unctad/>.

¹²⁷ Ibid.,

and the current president Uhuru Kenyatta. However, there were threats of economic sanctions by Kenya's traditional allies, especially after president Uhuru Kenyatta and his deputy president William Ruto assumed office, due to the International Criminal Court cases against them relating to the post-election violence of 2008.¹²⁸ Although the world was hostile to Kenya's new rule, Uhuru Kenyatta adopted the economic diplomacy strategy to pursue the country's national interests as stipulated in Kenya's foreign policy.

According to Kirubi, high-level state visits have been quite effective in attracting foreign direct investment in Kenya and promoting international trade between the countries.¹²⁹ Kenya is one of the largest recipients of FDI in Africa, with FDI inflows significantly increasing since 2010. According to the figures from UNCTAD's 2020 World Investment Report, FDI flows in Kenya decreased by 18% to USD 1,3 billion in 2019 (compared to USD 1,6 billion in 2018), despite several new projects in information technology and health care¹³⁰. The total stock of FDI stood at USD 15.7 billion in 2019. In recent years, the ICT sector has attracted the most FDI, thanks to the arrival of fiber optics in 2009-2010. The other sectors targeted by FDI are banking, tourism, infrastructure and extractive industries. The United Kingdom, the Netherlands, Belgium, China and South Africa are the main investors in Kenya. However, the president was criticized by the opposition leaders as the 'tourist president' for he focused on state visits to secure trade deals and promoted Kenya as a favorable

¹²⁸ Ibid

¹²⁹ Kirubi, Chris. "Benefits of President Kenyatta's Travels Now Clear to All." Capital Blog, August 30, 2016. <https://www.capitalfm.co.ke/eblog/benefits-president-kenyattas-travels-now-clear/>.

¹³⁰ World Bank's 'Doing Business 2020' Report. Available at <http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

investment destination because he had made more than 56 state visits to over 40 friendly countries.¹³¹

Kirubi admits that before president Uhuru took power, the country was in tatters following the post-election violence in 2008 which led to a considerable decrease in the country's foreign direct investment.¹³² Kenya was close to becoming the laughing stock of the whole east African region and the rest of the world as well following the negative reports that were engineered by the select international press.

The government of Kenya continues to advance measures as well as implementation of reforms that attracts FDI. As a result, the country made progress in the 'Doing Business 2020 Report' ranking published by the World Bank. The country was ranked 56th worldwide, for the ease of doing business in the Report.¹³³ This demonstrates a growth from the 2019 indicators where the country was ranked position 61st. The country has improved in making the dealing with construction permits more transparent, creating a favorable environment for investor, both internal and external investors. Kenya also improved the reliability of electricity supply by modernizing its existing infrastructure. Registering property, getting credit, protecting minority investors, tax payment and resolving insolvency are the other aspects where the country has made notable changes.

¹³¹ Ibid.

¹³² Chris. "Benefits of President Kenyatta's Travels Now Clear to All." Op cit

¹³³ Ibid

4.3 Contribution of economic diplomacy to FDI

4.3.1 Creating and Building Bilateral and Multilateral Investment Relations

The government of Kenya has recorded success as a result of the President Kenyatta's shuttle diplomacy which include investment promotion and protection agreements with other states across the globe. The government have used the international platforms to pave way for Kenya's economic growth and development at national level through the foreign direct investment.

This study observed that the government of Kenya continues to create favourable environment that allows the thriving of the FDI and this is done through various negotiations that leads to agreements in trade and investments between Kenya and the partnering states. The mutual engagements create conditions that allows free flow of capital into the economy as well as removal of barriers to trade. Collective negotiations continue to expand the market within the East African region and this gives room for investments, development of infrastructure that attracts foreign investors into the economy. Cooperation with other states leads to free trade initiatives, hence allowing importation and exportation of different products, competition in production thus improving the quality of products that are released to the market. For instance, competition amongst COMESA states has been advanced by trade liberalization.

Bilateral trade between China and Kenya

Kenya has been involved in the signing of various agreements with china and the two states have enjoyed cordial engagements the leads to economic growth and development. The relations that has majorly focus of trade, infrastructures development has been considered by many as one of the important international relations in the present world today. The development of various institutions by china in Kenya for

instance the Confucius institute in the university of Nairobi and Kenyatta University continues to strengthen the economic ties between the two countries. The study observed that the two states have express interests in promoting mutual relations in advancing their national interest so as to attain economic growth and development. The existing obstacles should not prevent the states from cooperation since there is more to gain in the integration hence the need to develop cooperation and coordination that will ensure mutual coexistence between the states. The establishment of economic diplomacy between Kenya and china has enhance sustainable development as well as influence of china on other states within the East African region.

Lack of competition amongst the local companies has led to the growth of economic diplomacy between Kenya and china and this has been observed to promote economic growth and development within the country by expanding the market and access to various products. This has also been advanced by the advent of globalization that has opened up many economies and giving room for states to advance their interest based on mutual contract.¹³⁴

4.3.2 Sustainable development agreements

The study established that Kenya enhances investment agreements with various states so as to achieve its national interests of expanding its economy. For instance, the study observed that the government of Kenya initiated investment promotion, protection and agreements with countries like France, Finland, Germany, Italy, Netherlands, Switzerland, China as well as the United Kingdom and it continues to explore various agreements with different actors that can propel its economic development.¹³⁵ With the

¹³⁴ Gilpin, Robert. *The challenge of global capitalism: The world economy in the 21st century*. Princeton University Press, 2018.

¹³⁵ Poulsen, Lauge N. Skovgaard. *Bounded rationality and economic diplomacy: The politics of investment treaties in developing countries*. Cambridge University Press, 2015.

desire to enhance faster development, Kenya has created a favourable environment for investors through the provision of incentives to investors as well as removal of tough measures on licensing and permits. Good infrastructure has been key priority to Kenyan government since good roads, ports, assures investors that their products can reach the intended market on time. The expansion of the airports, roads continues to expand market accessibility and this lowers transportation expenses hence advancing investment incentives both for local and foreign companies.

During the study, it was observed that economic diplomacy has helped Kenya to have bilateral agreements that improve infrastructure for instance development of roads, ports, railway networks, airports as well as telecommunication networks continues to improve the environment for micro and macroeconomic business environment which is essential for foreign investors. Wasseja posited that FDI is enhanced in an economy if there is available skilled man power, reliable infrastructure, transparent institutions, and resources for production, ready market and investment returns among others.¹³⁶

Institutions have been formed by the Kenyan government to promote Kenya's image through advertisement and branding for instance the KenInvest as well as Brand Kenya that promotes Kenya to various investors, providing necessary information about Kenya and the various opportunities that are available for investment. The Kenyan government embrace technological transfer in the like the ICT sector that advance efficiency and effectiveness in the business across the globe. Numerous marketing strategies like campaigns have been initiated by Kenya investment authority report of

¹³⁶ Wasseja, Mohammed Mustapha, and Samwel N. Mwenda. "Analysis of the determinants of foreign direct investment in Kenya." *Journal of Multidisciplinary Scientific Research* 3, no. 4 (2015): 16-26.

2010 as a mechanism for attracting investors in the country and this has made Kenya to explore more opportunities than other states within the east African region.¹³⁷

The study observed that issues of violence, unstable political environment affects investment in the country. For instance, it was observed that every electioneering year investors tend to shy away due to uncertainties. In 2002, 2007/08 investors were scared and they were not sure of the safety if they invest in Kenya. The same uncertainties affected investment in 2013 but after peaceful change of power, many investors were convinced that Kenya is a good destination for investment. Adherence to the rule of law as well as efficient justice systems in Kenya provides protection to all local and foreign investors and this continues to attract many investors into the economy. It was also observed that Kenyan lean towards the East continues to attract many investors from Asia states like India, china amongst others and tis has helped in boosting infrastructure in different sectors like roads and healthcare systems.¹³⁸

Bilateral economic engagements between Kenya and other actors in the international system has led to the signing of trade agreements that ensure easy flow of capital from one state to the other as have witnessed between Kenya and China to promote infrastructural development.

The inflow of investments in Kenya was also viewed to lead to the growth in technology and this is important for the enhancing the GDP. Despite the additional values that foreign investors bring to the economy, the study established that it is also a threat to the local grass root industries that have less capital base as well as efficient technology and therefore there was need for government regulations to ensure that the local

¹³⁷ Mary, Mugo, and Mwencha Peter Misiani. "Applying Anholt's National Branding Model: The Case of Kenya." *Bus Eco J* 8, no. 335 (2017): 2.

¹³⁸ Jensen, Nathan, Glen Biglaiser, Quan Li, and Edmund Malesky. *Politics and foreign direct investment*. University of Michigan Press, 2012.

industries also survives. The domestic industries were viewed to be less competitive and may suffer losses.

The political and economic relationship between Kenya and China was also observed to enhance peaceful coexistence between the two states despite challenges and tensions that sometimes exists. The governments have embraced continued cooperation regardless of the challenges to promote economic development.

Investors have also been concerned about the safety of their operations. Kenya has established strong legal systems and this has given room for investors to easily operate in the country as this helps in realizing the government agenda of promoting its economic pillars. The presence of clear guidelines has attracted investors in the country. It was established that investors are capable of operating in Kenya without having to resort to bribing of the government officials. This is important since it allows open calculations for the costs of investments. Hence, unlike in other African states, it was observed that the fee that an investor has to pay is clearly set out and not dependent on a corrupt official.

4.3.3 Cooperation for regional integration

Kenya and its neighboring states have been involved in negotiations to strengthen the east African community and this has enhanced huge expectations on the establishment of the common marketing the region. Institutions such as the east Africa legislative assembly and the east Africa court of justice have been formed. There have been continued push for various areas of cooperation for instance security as a result of the various threats to security. The shift towards a common market was expected to be relatively smooth since institutions are already in place. The challenge has been strengthening the institutions so as sufficiently support the integration. The contradictions that exists between some of the member states has curtailed cooperation

in various sectors thus affecting the free flow of capital and investors within the region.¹³⁹

Implementation of the regional protocol is important in ensuring economic development in the region as it will lead to stronger bargaining with other markets. The study established that even though cooperation is important and can open many opportunities for Kenya and the region at large, states have experienced challenges in the implementation of the protocol and this jeopardize the realization of investments in the region as states do not want to lose their control of their markets. This further affects the decision-making processes. The study observed that inadequate political good will negatively affects investment amongst the member states.

Despite the challenges that result from socio-economic and political factors, the study observed that Kenya and the EAC member states in general have developed and are articulating shared policy objectives in order to make the region attractive for investment. This is illustrated by the enactment of the competition policy law, standardization, quality assurance, the development of policies to curb infringement of property rights as well as production of counterfeit goods. There is also a significant step is the formulation of an investment code to guide member states in developing their national investment law.

4.3.5 Diaspora community

The study established that the diaspora community plays a crucial role in promoting the interest of Kenya in the host states. Apart from the remittances, the diaspora community have the potential of attracting various donors that can invest in the Kenyan economy

¹³⁹ Oucho, Linda Adhiambo, and Anthony O. Ong'ayo. "The biggest fish in the sea? Dynamic Kenyan labour migration in the East African Community." (2013).

through various projects. Kenyans living in foreign countries led by the head of diplomatic missions have the understandings of the business situations in Kenya and this was observed to be given much consideration before considering the FDI. They have knowledge of the priority needs of the economy and the key investment opportunity available in the country.

It was also observed that appropriate methods should be chosen before publication of the available opportunities for foreign direct investments in the country. The study observed the organization of events like workshops, seminars, conferences, economic briefings have proven to be relevant in attracting the FDI since it gives room for convincing investors.

4.4 Challenges to FDI

The study also observed numerous elements that affects effective realization of FDI into the Kenyan economy. Multiple conflicts of interest between various firms dealing with investment was highlighted as an impediment to investors. It has been difficult for investors to identify a specific structure in which investors can follow to make their work easier and this has been observed to cause frustration, making others to shy away and look for other alternatives. The lack of coordination within government institutions has led to aspects of corruptions hence making licensing more complex and this affects all sectors of investments. Economic diplomacy has the responsibility to ensure that clear guidelines are put in place to ensure effectiveness in containing investors.

The various institutions that have been formed to advance the promotion of FDI's in Kenya have also been accused of using poor mechanisms for instance Keninvest that has been accused of placing huge levy on certificates for investments, huge capital,

licences as well as unfavourable taxation regimes. It is therefore important to minimize the number of regulations and bureaucracies that only leads to improper coordination between different arms of the government. The study also identified inadequate trade and investment measures as a challenge to FDI in the economy.

Economic diplomacy in advancing foreign direct investment in Kenya has been jeopardized by the unpredictable political environments. The study observed that many investors tend to shy away from the Kenyan economy every time the electioneering period is approaching. Elections in Kenya just like other African states is occupied by various forms of violence hence investors' fears the dangers of incurring losses and destruction of properties, hence the need to institutionalized a political culture that is guided by the rule of law.

The study also observed that lack of implementations of policy guidelines within the region negatively affects the bargaining power of the states in the international arena hence jeopardizing the realization of absolute and comparative advantages in the region.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The study sought out to examine the role of economic diplomacy in promoting foreign direct investment in Kenya. This aimed at examining the relationship between economic diplomacy and foreign direct investment; assessing Kenya's economic diplomatic strategies for promoting Foreign Direct Investment and reviewing the prospects for promoting FDI as a key component of economic development. The hypotheses were: economic diplomacy promotes and improves Foreign Direct Investment in Kenya; strategic economic diplomacy policies and structures have increasingly been put in place to attract Foreign Direct Investment in Kenya in the last two decades and sought to confirm that there have been challenges affecting the implementation of current economic diplomacy strategies in Kenya, therefore affecting the significant success in FDI inflows. These were examined within the theoretical framework based on the economic internationalism theory, which focuses on a political principle that advocates greater political or economic cooperation among nations and people. It is associated with other political movements and ideologies

5.1 Summary

Economic diplomacy is essential important in promoting or advancing FDI. The FDI are important in improving sustainable development in the country. Despite this, it must be regulated to protect the local firms from superior competition, technology, and knowledge among others. In order to reach agreeable terms between the host nation and the investing firm, business diplomacy is used to negotiate terms and establish a long-term relationship with the governments, institutions, social bodies, and non-governmental organizations. Therefore, economic diplomacy is among the pillars

supporting both inward and outward foreign direct investment. For it is responsible for reducing government-induced barriers to foreign direct investment like taxes, environmental controls, quality controls, and investment permits. All these barriers can completely jeopardize growth and development in a country hence illustrating why diplomacy is essential in promoting foreign direct investment.

The study showed that improved infrastructure is essential for the investors as it ease movements of goods and services and this minimizes losses that might occur due to poor infrastructure.

The study showed that the Kenyan government had contributed in creating more FDI through signing of bilateral trade agreements thus facilitating smooth trade and investment processes between the countries that have signed them. The study also found out that the government had enabled expansion of markets through being a member of EAC and COMESA. This had helped Kenya to expand its free-trade zone, thus investors in Kenya could export to the members free of export duty. Within the region, there was also Trade liberalization and the elimination of tariff and non-tariff barriers which had enhanced competition in the COMESA region.

The respondents cited challenges such as institutional framework which was as a result multiplicity of independent institutions dealing with investments resulting in turf wars and causing frustrations to investors. There had been difficulties in establishing a one-stop shop for facilitating investment, corruption, and weak coordination among government departments/agencies and private sector organizations. The regulations to investors also came out as a major hindrance to investments thus there was need to rationalize the number of regulations governing FDI,

either through border posts reforms; taxation reforms; liberalization and competition laws aspiring to best practice as well as sectoral investment policy and strategy.

The study sought out to examine the role of economic diplomacy in promoting FDI in Kenya. Kenya has been maximizing on the availability of the regional market for trade and through this, the country has become a regional hub. Economic diplomacy has become the center stage of its African affairs and by this move, the country is expected to grow drastically in the next five years. It can be argued that taking an economic front and keeping it low on political affairs will help the country advance its economic interests in the region. It can also be concluded from the study that there is a rising need for Kenya to expand its manufacturing industry to continue having an upper hand in the region.

In this case, Kenya ought to be on the forefront in improving and increasing its manufactured products and improve the quality of its products that circulate in East Africa. Indeed the involvement of other stakeholders in Kenya's pursuance of economic diplomacy is an effective strategy adopted by the government in promoting its economic diplomacy.

Economic diplomacy in itself cannot be conducted by the government alone. For its full effectiveness, involving third parties ensures that the country is achieving its full potential in the regional and global market. The researcher therefore observed that the ministries of Foreign Affairs and that of East African Affairs, Commerce and Tourism, as well as all high commissions abroad are working hard and need to work even harder, in coordinating with the private sector to enhance strong economic relations in the region.

Kenya's economic diplomacy has been essential to economic integration and consequently promoting Foreign Direct Investment. The globalization era brought major changes to the functioning of world economies by eliminating and/or reducing trade restrictions. Therefore, Kenya, through its foreign policy agenda has continued to gain access to international markets paving a way for Foreign Direct investment. The growth in FDI had a positive impact on Kenyan economy at the time despite the country being in a developing state, however there is need to enhance foreign policy both regionally and globally.

The study found out that, commercial activity was always the important area of diplomatic service while its means, methods and the purposes were defined by the actual moment of history. Governments around the world are increasingly involved in economic diplomacy and this study tried to establish if the use of this instrument makes sense empirically. Indeed from the study, it is clear that economic diplomacy has a significant effect on trade and investment flows and what the sign of that relationship is.

Realization of the economic diplomacy goals experiences various challenges that are results from socio-economic and political challenges between and amongst states. The study showed that corruption and poor governance were major obstacles in attracting FDI into Kenya. Poor and undeveloped infrastructure (electricity, ICT, roads, water) was also cited as another major challenge in attracting FDI and doing business in Kenya. On Security and Political Environment, the study showed that investors found unstable political environment and insecurity; perceived political risks; lack of political good will; and insecurity a major challenge in attracting FDI into Kenya.

5.2 Conclusions

A country's foreign policy plays a big role in promoting Foreign Direct Investment in the country and outward to other countries. States and non-state actors that are involved in economic engagements receive benefits in their own ways.. For instance, FDI leads to increased revenues for the investing country through profits and interests and the host country through increased capital inflow, technological exchanges, and revenue through taxation. Economic diplomacy is key to the promotion of foreign direct investment in Kenya since it forms part of the economic development agendas. Among the main functions of economic diplomacy as stipulated in the Kenya's foreign policy include promoting foreign direct investment and promoting the Kenyan image as a favourable destination for trade, investment, and tourism.

Therefore, Kenya has developed several economic diplomacy strategies that are aimed at promoting foreign direct investment in Kenya for it increases the country's capital inflows, promotes technological and knowledge exchanges, and promotes human resource development among others. Therefore, it was critical to repair the Kenyan image that was tainted during the 2008 post-election violence through hosting important dignitaries and international trade conferences and through high-level state visits by the Kenyan president and his deputy. These strategies have been relatively efficient. Therefore, economic diplomacy plays a crucial role in promoting foreign direct investment in Kenya.

5.3 Recommendations

5.3.1 Recommendations for policies

The subject of foreign direct investment is very important for the success of the nation, thus the ministry of foreign affairs to prioritize economic diplomacy. By so doing, more economic development strategies will be developed and tested for efficiency in order

to promote foreign direct investment in the country. Finally, the government should double their efforts on promoting foreign direct investment for these advantages are crucial to the success of the country and achieving the vision 2030.

The study found that the Kenya allowed investors to repatriate the profits made from their investments back to their countries. It is therefore recommended that the incentive on profit repatriation to be reviewed to ensure investor re-invest profits in Kenya, and instead but give them guarantees against imports for creating long-term export capacity). This would ensure that FDIs build a linkage with the rest of the economy and that both Kenya and investors enjoy a fair return of FDI inflows.

The study further showed that political instability had been found to be one of the factors that had adversely affected investments in Kenya and that before foreign investors make investment decisions, they consider political stability and risk. It is therefore recommended that in order to benefit from FDI, Kenya needed to maintain political stability in the region as it is one of the determinants of Foreign Direct Investment (FDI) all over the world. Further, it is recommended that the country adopts democratic practices and good governance as these are some determinants of political stability.

The study recommends improvement in the transparency and accountability in government structures are very important in economic diplomacy. Investor's attitudes are influenced by the nature of bureaucracy in a country. The presence of transparency and accountability will create conducive environment for the investors in the country. It is also important to ensure that the appointment of the diplomatic professionals are done in a transparent manner based on skills and professionalism to ensure that there

effective diplomatic engagements. Individuals with knowledge and skills should be employed to promote national interest of the state in the international relations.

The study also recommends the promotion of democratic values in the country. For the realization of effective economic diplomacy that attracts FDI, the government of Kenya needs to put good governance systems that can portray good image of the country in the global arena. Proper governance attract FDI that can enhance the creation of numerous opportunities for the youths and this will improve growth and development in the society. This can be achieved by promoting the rule of law, human rights, fair elections, and eradication of acts of corruption in the society.

Democracy tends to attract FDI as compared to other systems. Low corruptions in a country creates a conducive environment for FDI for instance Rwanda. Kenya should strengthen measures for curbing corruption cases for it to promote economic diplomacy objectives.

There is need to strengthen the regional integration blocs. Kenya needs to mobilize member states to effectively implement the policies of the EAC as well as other economic blocs so that there is peaceful coexistence in promoting common interests. This will ensure capital flow in between the countries. Proper coordination is essential for technological transfer as well as fair trading initiatives

APPENDIX 1

Interview Guide Questions

The study examined the role of economic diplomacy in promoting Foreign Direct Investment in Kenya which specific focus on the following study questions; what is the theoretical and practical relationship between economic diplomacy and foreign direct investment? What are the economic diplomatic strategies for promoting foreign direct investment in Kenya? What are the prospects for promoting FDI as a key component of economic development?

1. What is your understanding of economic diplomacy and foreign direct investment?
2. In your opinion, does economic diplomacy enhance growth and development in a country?

Explain your answer.....

3. What has been the contribution of economic diplomacy in respect to Kenyan global interests?
4. In terms of integration, does economic diplomacy promotes stability in the East African region?
5. What are the opportunities for Kenya in advancing economic diplomacy within the EA region?

6. In supporting bilateral and multilateral engagements, is Kenya giving key priority on its interest?

7. What are some of the measures that Kenya has put in place to ensure that there is favorable environment for foreign investors?

8. How has Kenya been successful or unsuccessful in attracting FDI from its development partners?

9. What are some of the challenges that Kenya experiences in advancing its interests of attracting FDI?

10. Do you believe it is worthwhile for Kenya to put more consideration on economic diplomacy alone in enhancing FDI? Explain your answer.....

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