EFFECT OF FOREIGN DIRECT INVESTMENTS (FDI) INFLOW IN KENYA ON ECONOMIC GROWTH (GDP), EXPORTS AND BALANCE OF PAYMENT (BOP)

BY
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A Project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirements for the Degree of Masters of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY

SPRING 2014
STUDENT’S DECLARATION

I, undersigned, declare that this is my original work and has not been submitted to any other college, or university other than the United States International University in Nairobi for academic credit.

Signed: ______________________________ Date: ______________________________

George Saddimbah (636694)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ______________________________ Date: ______________________________

Dr. Amos Njuguna

Signed: ______________________________ Date: ______________________________

Dean, Chandaria School of Business
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This project report is by no means supposed to be produced or transmitted in any form, be it electronic, mechanical, including photocopying, recording or any information storage without prior consent from the author.
The purpose of the study was to assess the contribution of FDI inflow on Kenya’s GDP, BOP and exports. This research paper was steered by the following research questions: What are the effects of FDI inflows on Kenyan economic growth (GDP)? What are the effects of the FDI inflows on Kenyan exports? and what are the effects of FDI on Kenya’s Balance of Payment (BOP)?

Descriptive research design was used in this study. The research design involved observing and describing the behavior of a subject without influencing it in any way. The study relied on a correlation design. This involved obtaining data concerning FDI inflow, GDP, exports value and finally the BOP value of Kenya. The study focused mainly on Kenya as a country and data used was mainly secondary and was obtained from the Kenya Bureau of Statistics. A checklist developed based on the research questions of the study was used to collect data on the value of FDI inflow and the value of GDP, exports and BOP in the corresponding period. The time series data is from 2002-2011. Data was presented in tables. To ensure effective and efficient data analysis process, the data was analyzed using regression analysis in the statistical package for social sciences (SPSS). The data was then analyzed using descriptive, correlation, regression and analytic statistical methods and presented using tables and figures for clarity and ease of understanding.

The study found that FDI inflow into Kenya has a positive relationship with the country’s economic growth. An increase in the level and value of FDI inflow to the country led to an increase in the county’s GDP. The finding on this relationship between FDI inflow and the country’s GDP revealed that the more FDI inflow into the country is health to the country’s economic growth.

Regarding the relationship between FDI inflow in Kenya and the country’s exports, the study further found out that there was a negative correlation between FDI inflows and the level and value of the country’s exports. This implies that for every increase in the value and level of FDI inflow to the country, the country’s exports reduced.

The study finding on the relationship between FDI inflow in Kenya and the country’s BOP was positive. For any increase in the value of FDI inflow into the country, there is an
increase in the value of the country’s BOP. The finding revealed that the country’s BOP partly depends on the FDI inflow to the country and that more and more FDI inflow to Kenya is health to the country’s BOP.

The study concluded that the relationship between FDI and GDP is positive but the significance of the relationship will depend on the host country’s types of investment, operational policies and even the period of the study. On the relationship between FDI inflow and the host country’s export, the study concluded that though the relationship was found to be negative, that the significance of the relationship to whether it is positive or negative also depends on the country of study, the economic policies in place and even the types of investments these FDIs venture in. and finally on the relationship between the FDI inflow and the BOP, the study concluded that the margin of significance rely on the industry, the country’s policies and the period of study. In light of these findings, the overall conclusion of the study is that FDI inflow has effect on the Kenya’s economy and is critical to the economy of the Kenya.

The study made several recommendations among them the need for the government to improve the factors that favour the inflow of FDI to enhance rapid economic development and improve on the BOP. The recommendation for further study was that a similar study needs to be conducted on the other effects of FDI inflow to the host country like employment creation, on the standard of living.
ACKNOWLEDGEMENT

My appreciation goes to the following who made this research project to be a reality.

First I would like to thank the Almighty God for life and strength He gave to me throughout not only the research project period but also during my entire period of study for my MBA program. Secondly I wish to convey my sincere gratitude to my family members; Raphael Linus Saddimbah, Margaret Anyango, Susan Mutua, Rosemary Saddimbah, Elizabeth Muggah, Francis Owino and Juliet Akoth for all the moral support they provided to me throughout the entire period of this research. Their words of wisdom and love always inspired me to want to achieve the best in life. Last but not least, my gratitude goes to my supervisor Dr. Amos Njuguna for his intellectual contribution and support in this research paper.
DEDICATION

I dedicate this paper to my beloved wife Mrs. Martha Onyango for her endurance during the period of study.
ABBREVIATION

**BOP:** Balance of Payment

**FDI:** Foreign Direct Investments

**GDP:** Gross Domestic Product

**MNCs:** Multinational Companies

**IPOs:** Initial Public Offer

**UNCTAD:** United Nations Conference on Trade and Development
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Most developing countries are entangled in spiteful sphere of poverty. Most of these countries located in Africa have insufficient basic capital resources. People’s income in these countries is very low and this makes savings very difficult, hence the level of saving and investments is very low. When people’s income is low, the government gets low revenue from taxation. Because of the low revenue collection, these countries have to face a gap of saving-investment and a gap in the BOP. To minimize on these gaps, these countries rely on FDI in order to fast-track the growth process. Despite the fact that all the developing countries must rely on FDI to fast-track the process of economic growth, the amount and the form of FDI varies from country to country and depends on the country’s economic condition (Mohey-ud-din, 2007).

According to Ahmed (2005), Foreign Direct Investment (FDI) is defined as any investment by Multi-National companies (MNCs) or investment by a non-resident to a company of host nation whereby, they exercise control and earn returns on their investment. It is important to note the differences between indirect and direct investment. Investment such as acquisition of stock of a firm’s, collection of investment, long-term borrowings and even medium-term by banks and intermediaries, and investment in initial public offer (IPOs) of national loans, commercial papers, promissory notes and debentures are some of the indirect investment a company or an individual can make in a foreign country. By talking of direct investment, we refer to investments such as long-term ownership in a foreign company and this ownership gives the investor the managerial control in the company.

Foreign direct investment (FDI) is arguable the greatest steady form of global capital movements (UNCTAD, 2009). These private capital movements are investments from a mother firm to a place outside the mother firm’s country of origin. FDI comprises of owners’ wealth (equity), firm to firm obligations, and retained interest (Srinivasan, 2008). FDI is made of a parent company in their home country and an overseas affiliate which form the Multinational Company (MNC). For a company to meet the requirements of FDI, the
headquarter company must advance some level of control due to their investment in that foreign affiliate (Meyer, 2004). This notion of control, developed by Hymer in 1960 is vital to the differentiating between portfolio and direct investment as well as the inspiration of the company’s asset. Regulation is considered vital when a corporation has 10% or greater of the voting shares. The likely effect of FDI on a host economy has remained unclear since companies became multinational.

The majority of third world countries struggle to appeal to foreign direct investment (FDI) to come and invest into their countries for its acknowledgement as a stimulus in economic growth and development in developing countries (Eduardo, 2008). Furthermore, a huge and emerging body of literature has indicated that FDI acts an important role in economic development of a country. Thus, this thesis analyzes the relationship between FDI, exports, balance of payment (BOP) and economic growth in Kenya. Currently, Kenya is one of the most powerful countries in East Africa and has a critical role in the political and economic situation of the entire region.

It is crucial to note that most emerging nations have tremendously reduced boundaries on FDI inflows and operations of MNCs in the early 1980s. This trend became even more common during the 1990s, and this led to a significant inflow of FDI into the third world countries. In fact, developing countries received close to 35 per cent of the global FDI inflows from 1995 to 1998 in comparison to 20 per cent in the 1982-1986 (United Nations Conference on Trade and Development, UNCTAD 2010). This development of increasing share of third world countries kept on growing till 1999 to 2000, but it declined to 25 per cent during 2003-2010. Over the past thirty years, the share of FDI as a percentage to the GDP has been outstanding. It is 256 percentages for the entire globe. Nonetheless, the obligation is largely in favour of the countries that are still developing as against the developed countries since the percentage is 435 for developing countries and the percentage is 210 for developed countries.

In an effort to protect local industries and have a commanding control over their capital, most African countries imposed trade and non-trade barriers. However, in recent years, much effort has been focused on attracting FDI. For a period of years, policies have been developed by countries to attract foreign companies into investing in their countries (UNCTAD, 2009).
For years, the joint service of the Foreign Investment Advisory Service, the International Finance Corporation and the World Bank, have been in pursuit of helping African governments to promote an enabling environment for foreign direct environment. Most of these advices covered the basic policies governing FDI and those institutions that are mandated to administer these policies. Majority of the African countries have been receptive to these advice from FIAS and many other advisories and have made tremendous progress in improving their basic frame work for FDI (Emery, Spence, Wells and Buehrer, 2009).

According to UNCTAD (2004), for the past thirty years, the progress of FDI has been remarkable. Globally, FDI has risen to reach $1,833 billion in 2007, prior to the economic and financial crisis, well above the earlier time all high set in 2000 (UNCTAD 2009). The formation of goods by an estimated 79,000 multinational companies and their up to about 790,000 foreign affiliates continued to increase with their FDI stock exceeding $15 trillion in 2007. Their total transactions amounted $31 trillion with value added by foreign affiliates globally estimated to be 11 percent of world's overall domestic with up to about 82 million people employed by these multinational companies (UNCTAD 2009). Clarification of these drifts are normally filled with much passion as development is thought to be the sole most vital factor affecting reduction of poverty and thus FDI is crucial in realizing this objective, subsequently, FDI is considered as a vital component for successful economic growth in emerging countries.

Kenya is one the largest FDI recipients in East Africa. Kenya is the economic hub in the East Africa region with an average growth rate of about 5% in the past 10 years (Dupas and Robinson, 2011).

FDIs flow into Sub-Sahara Africa has been displaying momentous variations over the last couple of years in terms of the destination country. The majority of the aggregate FDI flow in East Africa region was largely in Kenya up to the last ten years. Nonetheless, in the current years, neighboring countries to Kenya, i.e. Tanzania and Uganda have been increasingly attracting more of the share of FDIs into the region as shown in Table1.1
Table 1.1: FDI Inflows (millions $)

<table>
<thead>
<tr>
<th>Region/Economy</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2005</th>
<th>2010</th>
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<tr>
<td>Sub-Saharan Africa</td>
<td>6,731</td>
<td>14,910</td>
<td>11,477</td>
<td>14,328</td>
<td>19,490</td>
<td>27,153</td>
</tr>
<tr>
<td>East Africa Community</td>
<td>733</td>
<td>544</td>
<td>607</td>
<td>647</td>
<td>1,335</td>
<td>1,435</td>
</tr>
<tr>
<td>Kenya</td>
<td>110</td>
<td>5</td>
<td>27</td>
<td>81</td>
<td>21</td>
<td>185</td>
</tr>
<tr>
<td>Tanzania</td>
<td>463</td>
<td>388</td>
<td>396</td>
<td>364</td>
<td>935</td>
<td>433</td>
</tr>
<tr>
<td>Uganda</td>
<td>160</td>
<td>151</td>
<td>184</td>
<td>202</td>
<td>379</td>
<td>817</td>
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By the end of the year 2010, Kenya stood at only 12.9 percent of FDI positions in the East African region whereas Tanzania had 30.1 percent with Uganda leading at 56.9 percent during the same period. Comparatively low share of the foreign capital invested in Kenya in comparison to the foreign capital investment in Tanzania and Uganda and this is the result of diminishing share of Kenyan economy in the stream of inflows during recent years. Relatively: in 2000, the share of FDI inflow into Kenya was 1.6 percent of the total FDI inflows into Sub-Saharan Africa, and this reduced significantly by the year 2010 to 0.7 percent. However Tanzania’s share of Foreign Direct Investments dropped from 6.8 to 1.6 percent while Uganda also saw it share go up from 2.3 to 3.0 percent of the total Foreign Direct Investments into the Sub-Saharan Africa region in the same period. These trends show that of late the rate of FDI inflow into Kenya has been declining faster than that of its neighbors in the East African Community (World Bank, 2007).

FDI in East African nations submits that strategic issues and market triumph on export-oriented FDI. Nonetheless, even if we recommend FDIs for the greater export performance in the case of foreign associates, it is absolutely tied with a greater import tendency. Hence, FDI has normally inclined to increase trade internationally to the host country, though its outcome on the balance of trade is tough to measure (Markusen, 2012).
1.2 Problem Statement

It is broadly understood that economic growth relies squarely on both local and foreign investments (Andenyangtso, 2005). Similarly, the level of inflow of FDI relies on the rate at which the economy of the country wishing to attract FDI is growing. It is thought to be a relationship between investment and economic growth in Kenya. Conversely, practical studies of the effect of FDI on GDP are concerned with the overall effect FDI in Africa, or with specific aspects of the FDI impact on employment, technology, trade, entrepreneurship and other areas of the economy, such as infrastructures, education and health. Thus, the impact of FDI on GDP, exports and BOP remains unclear. It is, therefore, necessary to determine the impact of FDI on GDP, exports and BOP in Kenya.

Regardless of the fact that the effect of FDI on host country’s GDP, exports and BOP has been broadly studied, there are still questions regarding the actual impacts of FDI and also regarding the essential environments and the networks over which FDI leads to economic growth of the host country. Indeed, though many studies have established positive effects of FDI, some writers emphasise that there is still no agreement on the level of these impacts (Blomström and Kokko, 2010) whereas Pessoa (2007) and Wang (2009) concurs that the key conclusion to be drawn from numerous studies is that findings are vague. UNCAT (2010) are among the studies that have concluded that FDI does not cause economic growth and Javorcik (2004). Whereas others stake the extensive view that FDI causes economic growth, particularly Blomström (2010) and finally Vissak and Roolaht (2005).

The level of FDI inflow has been decreasing both in relative and absolute terms. Arising from poor economic performance of past decades. Kenya still remains an economic hub in the region amid these low FDI inflows and has retained regional advantages in FDI location, mainly due its workforce and a central logistics position. Overseas investors in Kenya have inclined to make comparatively small investments but they are several and reputable across an extensive range of sectors. They have contributed considerably to certain vibrant sectors in the economy and led to diversification of the exports (World Bank, 2004). These studies by FKE and the World Bank do not show any absolute terms and relationship between FDIs and Kenya’s GDP, exports and BOP across the period. It is with these varying literatures on the impact of FDI on economic growth, exports and BOP and the lack of a clear evidence that the researcher of this study found it necessary to carry out a research on this topic.
1.3 Purpose of the Study
The main purpose of this study was to examine the effects of the FDI on the Kenyan GDP, exports and BOP.

1.4 Research Question
The study was guided by the following research questions:

1.4.1 What are the effects of FDI inflows on the Kenyan economic growth (GDP)?
1.4.2 What are the effects of the FDI inflows on Kenyan exports?
1.4.3 What are the effects of FDI on Kenya’s Balance of Payment (BOP)?

1.5 Importance of the Study
This study is of significant value to various groups as discussed below.

1.5.1 Multinational Companies
This study is of importance to the companies who wish to go multinationals by opening branches and investing into a different country. The study will evaluate the factors favouring companies to go multinational and give trends of the development of FDIs in the East African region and what policies every country in the region have been putting in place to attract the FDIs.

1.5.2 Government of Kenya
This study is of significant value to the government of Kenya in its policy formulation and implementation towards the attraction of FDI in the country. The study will outline to the government the importance of the FDI and the factors that attracts FDI to the country and this will motivate the government to put in place policies that will attract more FDI to the country.

1.5.3 Academia and researchers
Academicians and researchers who may be concentrating on the current country orientated approaches, and advancement being eventually critical to the ideologies of sustainability or of other regions particularly with regards to the method of data collection. Such data will optimistically be useful for researchers in establishing their own ways of carrying on their study. As such, the distinguished importance of this study is the likelihood that it may be able
to use the outcomes for the other studies that may desire to examine the influences for the success or demise of a certain study.

1.6 Scope of the Study
The study was confined to the development of FDIs in Kenya and the exports and Economic development in terms of GDP in Kenya. The study covered 10 years from 2002 to 2011 and exclusively used secondary data.

1.7 Definition of Terms

1.7.1 Foreign Direct Investments (FDI)
This is an investment made by a firm or entity based in one country, into a firm or entity based in a different country. This differs from indirect investments such as portfolio flows, where overseas institutions invest in equities listed on a nation's stock exchange. Firms or entities engaging in direct investments significantly have degree of influence and control over the firm into which the investment is made (Girma, Gorg, and Pisu, 2008).

1.7.2 Balance of Payment (BOP)
BOP refers to a record of all business dealings made between one certain country and all other countries during a specified period of time. BOP equates the dollar variance of the volume of exports and imports; this includes all fiscal exports and imports (UNCTAD, 2008).

1.7.3 Multinational Companies (MNCs)
According to Gorg and Greenaway (2012), the term multinational corporations or multinational companies implies that the activities of the corporation or company comprise more than one country.

1.7.4 Gross Domestic Product (GDP)
GDP is an approximation of marketplace throughput, totaling together the value of all ultimate goods and services produced and traded for monetary values within a specified period of time (Nadaa, 2008).
1.8 Chapter Summary
The chapter covers the introduction to the thesis, the background of the problem on the effects of FDI inflows to the host country’s exports, GDP and BOP, statement of the problem and purpose of this study, research questions and importance of the study and the scope of the study is also covered. The chapter ends with the definition of terms and finally the summary of the chapter. The next chapter will cover the relevant literature to the research problem under study. This thesis is comprised of five sections, the first section begins with the introduction, followed by section 2 that provides the literature review while in the third section, methodology of data collection is discussed. Section four analyses the data and finally section five presents the findings of the data, including the conclusion and recommendation for further research.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter details the literature reviewed relating to the effects FDI on GDP, BOP and exports to Kenya. The study arrays the framework for the three main research questions. It mainly presented information from the literature that gave answers to the research questions by linking the research questions with the statement of the problem and the purpose of the study. The research questions provide the guideline for the literature review.

2.2 Effects of FDI Inflows on Kenyan Economic Growth (GDP)
The pointer of Economic growth is the growth in the real GDP per capita over a period of years. Usually a shift outward of the production possibility curve show the economic growth of a country (Srinivasan, 2008). A production possibility curve shows the combination of two goods that a country can produce when it employs all its resources. Economic growth for a country is demonstrated by an increase in the volume of services or goods that can be possibly produced by that country. To do this, the mass or superiority of production factors must be improved. According to Srinivasan (2008), development is a wider course that comprises of raising the living standards and poverty reduction of the country’s citizens.

On the other hand, economists on the supply side, maintained that economic growth would ultimately lead to an overall advance of the living standards of the country’s citizens as trickle down arises. According to Rutihinda (2007), this is the process where part of the population experiencing an increase in their income spends money on the domestic economy thus setting in motion multiplier effect, which generates income for the poorer sections of the population.

Kariuki (2008), the measure of Economic growth is the growth in the actual GDP per capita for a time span. Fisher and Clark believed that this could be revealed by an outward change in the production possibility curve. FDI leads to economic growth which increases the country’s amount of goods and services produced. This also leads to the increase in the
quantity or quality of the production factors. He argued that growth is a comprehensive process that entails raising living standards and reducing the level of poverty.

The relation between FDI and economic growth drew the scholar’s attention quite lately compared to other research works. According to Njoroge (2009), certain features of FDI inflows into a host country and concluded that FDI inflows have positive effects on the economy of the host country. In their study of 69 developing countries, Borensztein, Greorio, De and Lee (2008), inferred that the developing countries benefit from FDI and that they must be having the competency to absorb radical technologies. In the World Investment Report UNCTAD (2009), also some econometric simulations for determining the influence of FDI on GDP were established. The report analyzed data from 11 countries in Latin America and East Asia, they used econometric methods such as unit root and co-integration tests.

According to Zhang (2011), FDI stimulates economic development in countries with an opened trade administration, and a labor force with higher job skills and high literacy level. He went ahead to confirm that FDI offers complete entry to the world markets and acts as a channel for the host country to play a part in the globalization course. Using co-integration and an error-correction model to examine the link between FDI and economic growth in India, in their work, Chakraborty and Basu (2002) submitted that GDP growth in India was not largely caused by FDI, and that the causation runs largely from GDP to FDI. Whereas according to Hsio and Shen (2008) there are two way relationships between FDI and economic growth and backing feedback relationship between FDI and GDP. In their study of 81 countries, Jacobs and Coolidge (2006) discovered that the relationship between FDI and economic growth is a progressive one, primarily from the mid-1980. In their argument, they pointed out that FDI and trade liberalization have positive effects on economic growth, whereas Hansen and Rand (2006) concurred that the relationship between FDI and GDP in emerging economies is that FDI stimulates economic growth, however the magnitude to which a nation is benefited from FDI inflow rests on the host country’s policies on trade, skills of the labor force and most importantly the capabilities to be absorptive.

Dynamic panel models used by Baharumshah and Thanoon (2006) confirmed the progressive impact of FDI on the economic growth of East Asian. Consequently, Hansen and Rand (2006) had a contrary opinion that with data on 28 countries that were still developing
countries, there exists no relationship to either long-term or a short-term on effect of FDI on economic growth; in reality, no single country was found to be having a positive unidirectional effect of long-term from FDI to GDP. In their analysis of economic growth by sector Chakrabory and Nunnenkamp (2008), as impact of FDI in the case of India and the findings was that FDI in service industry promoted growth in the manufacturing industry via cross-sector spillovers and thus economic growth to the host country. Merican (2009) verified the effect of FDI and Gross Domestic Investment on economic development in the four countries in Asia proposed that the FDI is healthier than Domestic Investment for economic development only in two out of the four countries.

According to Whalley and Xin (2009), the sustainability of both China’s export and gross economic development may be doubtful if FDI inflow keeps growing in the future. Based on a simple OLS regression, a study on Malaysia’s growth-FDI case and the findings was that there is a range of possible factors that ensure that FDI promotes or hinders growth in economy. It is important to discuss the recent OLS panel study (45 countries over the period 1997 to 2004) of Merican (2009) The main conclusions show that FDI inflows exert a positive impact on economic growth only in the presence of highly skilled labor.

According to Blomstrom, Lipsey and Zejan (2010), there is no proof that education is imperative, they maintained that FDI has progressive effect on economic growth when a country is adequately endowed by so much resources. FDI also have a vital role in GDP with if the host country has a financial market that is well-developed. Well established policies on economic conditions enable the host country to evaluate and maximizes on the advantages that these FDI comes along with.

It is observed that several studies are focused on the case of developing countries and the major part of them highlights that FDI, attuned to other contributing factor, have a substantial affirmative effect on GDP. Numerous of these studies use regression of time-series and analysis of panel data in establishing the link between FDI and growth. Many of the previous studies used per capita GDP as a substitution for growth but FDI mainly effects the income of labor forces. So using overall GDP of country would demonstrate better findings. Again few studies have considered the structural gap of GDP. Various countries’ economies have experienced the phase of structural gaps because of many global events like oil shock, crises of the stock market, crises of currency inflation etc. Merican (2009) has pointed out that
unless such structural changes are taken into consideration when analyzing data, the findings attained may not be binding.

The economy of China and India experienced tremendous growth during the period of 1993 to 2009, it is during this time that we had the largest number of FDI flow to these two countries. The time period of 1993 to 2009 was considered in the GDP as structural change as proposed by Dondeti and Bidhu (2007) that economies of China and Indian had experienced structural change in 1993 and 1992 respectively. Multiple regression approach was adopted by the study to investigate the effect of FDI on the GDP of these two economies. The study first recommends a growth model considering numerous factors that stimulates output (GDP). These factors are mostly known by literature review and other study reports and courses.

The question that is often asked is, does FDI inflow in Kenya have any effect on the economic growth? This is likely to be the case particularly for small scale farmers who are connected through integrated producer schemes (Hansen and Rand 2006). Nonetheless, there is rising experiential proof signifying that the effect of FDI on economic growth is not automatic. According to UNCTAD (2009), FDI inflow aids economic growth, the receiving country must have accomplished a minimum standard of progress in technology, education, financial markets, infrastructure, and health. Consequently, FDI contributes to economic growth precisely when the host country has attained a progressive level capable of absorbing the cutting-edge technology that comes along with these multinationals corporations. This suggests that greater of the impact of FDI on economic growth possibly originates from efficiency gains rather than an overall higher prompted level of investment (Srinivasan, 2008). In a similar perspective, Carkovic and Levine (2002), demonstrated that ,positive and significant spill-over occurs only in industries which are largely labor-intensive and technology gap between Chinese and foreign firms are low or moderate. Ikiara (2003) shows that, FDI inflow contributes to production by nurturing over-all factor productivity and efficiency of using resource, thus leading to economic growth. He found out that the spread tool between FDI inflow and economic growth is via technological spillover, international trade integration direct technology transfer, human capital formulation, and competitive business environment. Though in his study, the emphasis was largely on reduction poverty
and not on economic growth. This may stand as a drawback in the finding and relationship between economic growth and poverty eradication, but the two are closely related.

In Kenya, a study carried out by the Kariuki (2008) to analyze the impact of FDI on Kenyan GDP over the period from 1990 to 2007, revealed influence that FDI inflows have on economic growth. The study was also designed to analyze the influence of other variables of gross capital formation and labor on GDP. In the study, analysis on the rate of economic growth (GDP per capita) as the dependent variable and inflow of FDI as the independent variable was carried out. The study used multiple regression model to ascertain the relationships between FDI inflow and the country’s economic growth. The researcher used SPSS to analyze the data and the findings of the study were that FDI influences economic growth though not very strongly. In the findings, it was clear that the benefits Kenya derives from FDI is still very low. However, it was clear from the findings that capital formation is the major driver of economic growth. Although from the finding it was clear that FDI does not have a very significant effect on GDP, it is rational to point out this to the fairly small amounts of capital inflows into the country. The study recommended that the government carries out a campaign to appeal to the FDI to come.

2.3 Effects of FDI Inflows on Kenyan Exports

Besides reforms on the economic front carried out in countries in South Asia and the tremendous increase in the inflow of FDIs, countries from South Asia have also seen growth in the value of their exports during the nineties century. Whereas Bangladesh and India achieved growth of a double-digit in export during that decade, countries in Africa like Sri Lanka enhanced export performance during the nineties in comparison to the eighties. Although the economy of Pakistan had inferior export growth during the nineties owing to the economic recession, it has been improving during the recent years. According to UNCTAD (2002), the export-related success of East Asian countries submit that FDI is an influential tool for promoting a country’s export because the relative technological dominance of MNCs helps local companies either directly and indirectly, mostly when it comes to technological improvement and offers access of international market to export. Nevertheless, the achievement tiers of these economies cannot be generalized to countries of the South Asian owing to the poor infrastructure, slow market reforms and structural
inflexibilities (Srinivasan, 2008). The role of FDI in export promotion depends upon the motive of investment. If the motive is to capture domestic market because of high cost of doing trade and tariffs, then improvement in the host country’s export may not be realized due to rise in FDI inflow. On the other hand, if FDI is driven by make use of cheap inputs or comparative advantage of the host country, then the increase in FDI inflow causes increases in the level of exports by capitalizing on those factors of production.

Experiential valuation of the role that FDI plays to the exports performance of the host country is important, consequently it has been noted for a long time that exports is the backbone of economic growth. There is a broadly collective view that FDI stimulates exports of host countries by enhancing local capital for exports, aid in transfer of technology and new goods for exports, enable easy entree to the new and large international markets, and finally offers training for the domestic workforce and upgrade skills in the field of technology and management. Conversely, the critics of FDI argued that FDI could possibly lower or substitute local savings and investment, the transfer of technologies that are inferior or unsuitable for the host country’s factor proportions. Most target largely the local market of the host country and therefore do not lead or facilitate exports growth, other FDI hinder the growth of local companies that might have become exporters and finally they don’t help to develop the host country’s dynamic relative advantages because they focus merely on cheap labor and raw materials from the locals. Whereas extra hypothetical comprehensions would be valuable, experimental studies of the issue are desirable as well for improved understanding of the link between FDI and export (Blomstrom, Kokko, and Zejan, 2010).

According to Hoekman and Javorcik (2006), the merits of global economic integration have become progressively manifest over the previous times. Augmented flow of goods, services, people and investments transversely international borders had facilitated many developing countries to realize fast and constant economic growth. Many economic observers argued that FDI had been a vital element in the process of facilitating economic growth for the developing countries by enabling transfer of technology, techniques and skills from industrialized countries.

According to Blomström and Kokko (2003), if the MNCs introduce either processes of manufacturing or new products in the host country, local firms and even some other MNCs benefits from a rapid dissemination of new technology because of labour movement between
MNCs and other local firms. There are always employee turnover for every organization and when these employees move from this MNCs to other companies, they move with their experts, skills and knowledge acquired from the other MNCs. This result in a greater competition in the market. When MNCs cannot realize all the benefits as a result of the activities they engage in, in a foreign country, owing to the public upright moral characteristics of their company’s precise assets, then this results in a spillover (Srinivasan, 2008).

In a study on the relationship between FDI and exports done by Naughton (2006), it was discovered that export campaign though FDI is one of the key reasons why the government aspire to attract FDI. FDI can direct capital to advance industries with prospective ability to compete worldwide. The productivity spillovers to the firms that are supplying the goods and services might result in the exportation of products of higher-value. These MNCs have the availability of inputs with higher-quality which results from FDI spillovers which is as a result of growing of supplying industries which in return benefit local manufacturers of final goods and enable them to upgrade their exports.

2.3.1 Exports Upgrading

According to Harding and Javorcik (2011), there is corresponding evidence that suggests that FDI can aid un-developed-country’s exports fastener with the worth frontier. They argued that there are various explanations to why FDI contributes to upgrading the exports of the host country. To start with, the products that multinational companies export have greater values, this is because most multinational companies possess superior technology and great techniques in marketing their products. Secondly, domestic companies operating in the same industry learnt from these multinational companies in turn upgrading their technologies and marketing techniques thus upgrading the value of their produce and finally the value of the exports. According to Caves (2006), a host country may improve on its volume and value of exports by hosting FDI because MNCs are well-thought to be the linkage of the facilitate access to international market by adding value to the exports thus upgrading the exports.
2.3.2 Boost Exports

In the popular view, foreign investors in developing countries focus mainly on simple and low-value-added tasks in order to exploit cheap labor costs and liberal controlling governments. Opponents argued that this could widen the gap of income between developing countries and developed countries rather than reduce it. However, Srinivasan (2008) presents data demonstrating that this view is not precise. He showed that the greater part of industrial FDI go into further radical industrial zones rather than the best common commodities, examples of these commodities include; clothing, shoes, and other operations that do not require sophisticated and advanced skills. In reality, sectors that require medium-skilled processes like auto-mobile and auto-mobile accessories, industrial equipment, medical tools, scientific gadgets, household electronics and electrical goods and plastic goods attracts up to about 17 times more FDI inflows than low skilled and labor intensive industrial sector every year from 2002 to 2007. This high proportion of FDI in more skill-intensive manufacturing had also risen for years. FDI could, thus, prompt technological development in developing countries and inspire growth in export medium-skilled sectors. In Kenya, the study done by Kariuki (2008) confirms that FDI inflow enhances exports by upgrading and boosting the level of exports and that there exists a positive correlation between FDI inflow and the level of the host country’s exports.

2.4 Effects of FDI Inflows on Kenyan Balance of Payment (BOP).

At the macroeconomic level, foreign direct investments by definition, brings in new capital for investment, contributing to the balance of payments, adding to the country’s capital stock, and actually adding to the future economic growth of the host country. FDI is also noted as one of the most steady form of capital flow and therefore it is debatably more appropriate and development friendly for countries with low income portfolio (UNCTAD, 2009).

FDI inflow have a significant part in decisive of the surplus or deficit in both the capital and financial account of the balance of payment statement (Flexner, 2000). It is clear that the preliminary impact of FDI inflow on BOP is positive but the long run, the effect might either positive or negative as export output is increased by the foreign investors, imports of intermediate goods and services, and start to deport profits back to their home country (Fosu, 1990). For that reason, one can even query the role of FDI on economic development. FDI
inflows may as well have an adverse effect on the growth forecasts of a country if they give rise to considerable setback flows in the form of transfer of profits and dividends and/or if the MNCs get substantial tax or other concerns from the host country. These undesirable effects could be accumulated if the expected positive spill-over effects from the transfer of technology are minimized because the technology transferred is inappropriate for the host country’s factor proportion or as a result of overly restrictive intellectual property right (Aizenman and Noy, 2005).

When capital machineries have been set up, the FDI-financed corporations start to export their goods as most of these enterprises are export-oriented. FDI-financed companies might tend to export a superior amount of their output than their local competitors as these firms usually have a relative advantage in their information of international markets, efficiency of distribution channels, and their ability to adjust and respond to the changing pattern and dynamics of international markets (Billington, 2009).

The question that may often be asked is, why are we worried about the balance of trade? The current account balance is an essential pointer of any economy’s performance and it is of significance to makers of policies and analyzing of economic growth. It’s worth emanates from the fact that the current account balance, reflecting the saving-investment ratio, is closely related to the status of the fiscal balance and private savings which are key factors of economic growth (Fosu, 1990). Second, a country’s balance on current account includes the difference between its exports and imports, reflecting the totality of domestic residents’ transactions with foreigners in markets for goods and services (Billington, 2009). Third, since the current account balance determines the evolution over time of a country’s stock of net claims on the rest of the world, it reflects the inter-temporal decisions of inhabitants (Billington, 2009). Therefore, policy makers are trying to explain the current account balance measure, assess their best level, and seek to bring changes to the balance through policy measures. There are three sub-accounts under the current account, namely balance of trade, investment income and unilateral transfer. For most countries trade balance is the major component of the current account. Trade balance is the difference between export and import of a country for a specified time period, usually a year. It is the main component of the current account balance of a country. Determinants of trade flows have always attracted researchers both in academic area and making of policies establishments as they are the key
determinants of the current account balance and finally the economic performance of a country (Blake and Pain, 1994).

Notwithstanding the prompt economic growth that Kenyan economy realized between 1963 and 1970, the BOP remained negative apart from 1963, 1964, 1965, 1977, 1993, 2003, 2009 and 2010 when the value of current account recorded was; US$ 10.1m, US$50.6m, US$0.5m, US$25.9m, US$124.5m, US$ 132.4m, US$ 9908.3m and US$11404.95m respectively (Fosu, 1990). This study analyzed the trade deficits and Bop for Kenya to prosper in economic growth. For Kenya to address and arrive at high growth rates, issues of trade deficits and growing indebtedness should be well analyzed because the automatic forces equating payments and foreign receipts are weak and imperfect. The adjustments in balance of payments in Kenya appears to be complicated because the receipts and expenditures are mostly financial and seldom in real assets.

The Kenyan data for BOP does not disclose huge amounts of foreign transactions that warrant a country crisis on BOP. However, it can only suggest a serious mismanagement of macroeconomic policies as well as challenges of governance of international resources (Srinivasan, 2008). One could also assume that development policies that the Kenyan government has since independence paid little attention to the vital contribution of international trade, private area and overseas investment. The possible neglect of the contribution of these sectors to economic development is reflected in the regular balance of payments deficits. Most importantly is the failure to embrace export-oriented solutions to agriculture and to oil imports that for long have put the balance of payments of the country in disequilibrium through imports.

Aizenman and Noy (2005) argued that it is common to anticipate bidirectional linkages between FDI and trade in goods. Though, it is hard to specify whether FDI inflows and outflows have different effects on trade in divergent kinds of goods. They submitted that there is a robust reaction type of relationship between FDI flows and trade, specifically in manufacturing goods. Relating Srinivasan (2008) decomposition method, Aizenman and Noy establish that the Granger causation from FDI flows to trade openness was robust than that from trade to FDI flows.
2.6 Chapter Summary
This chapter provided literature review as per the research questions. The study discussed the effects of FDI inflow on the Kenya economic growth (GDP), effects of FDI inflow on the Kenya exports and finally the effects of FDI inflow on the country’s BOP. The next chapter covers the research methodology. Research design, the population, sample size, data collection instruments and methods of data analysis is discussed.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the research design employed in this research. It describes the population, sampling techniques, sample size, research procedures, data collection method and finally data analysis. In this section, a blue print for data collection, measurements and analysis is constituted.

3.2 Research Design
The research design constitutes the blueprint for the collection, measurement, and analysis of data. It is a plan and a structure of investigation so conceived as to obtain answers to research questions (Charemza and Deadman, 2007). The plan is the overall scheme or program of the research. The research design is the plan aimed at achieving the objective (Cooper and Schindler, 2011).

The research design used in this study was descriptive in nature. Descriptive studies describe the characteristics associated with the subject population. According to Pride and Ferrell (2007), descriptive research design deals with answering the following questions: where, who, when, what and how related with a certain research problem, descriptive studies cannot decisively establish solutions to why a scenario is what it is. Descriptive studies are used to acquire information regarding the present status of the phenomena and to describe what exists with regards to variables in a scenario. Descriptive statistics was valuable and the most appropriate research design since it brought out the relationship and causal effect of FDI on GDP, exports and BOP.
3.3 Population and Sampling Design

3.3.1 Population

Population is the set of all the individual of interest in a particular study (UN, 2009). The study was to determine the effect of FDI inflow on the Kenya’s GDP exports and BOP. The population was the entire economic performance data from 2002 to 2011. The population consists of the actual FDI inflow value, GDP, exports and the BOP value during the period of study. Because the changes in these variables was continuous, the population is too large. The study describes the FDIs, exports and BOP for the period 2002 to 2011. In total 10 observations were made for each of the four variables.

3.3.2 Sampling Design and Sampling Size

3.3.2.1 Sampling Technique

The sampling technique employed in this study was a non-probabilistic sampling, this is because the study did not involve random selection. The researcher studied the variable under the study using the most recent data available from Kenya.

3.3.2.2 Sampling Size

According to Cooper and Schindler (2011), sampling size is the number of sampling units which are to be included in the sample. The sample was selected from the years between 2002 and 2011.

3.4 Data Collection Methods

The main method of collecting data was the desk study. Secondary data is data used for a research project that was originally collected for some other purpose. The data used included documents and historic data. Its purpose was to help form a good understanding of the FDI situation in the country and the evolution of the situation and finally to disclose data gaps. Two checklists were used to collect data. The first one was used to collect data on the inflow of FDI under the period of the study. This was designed to collect the value of FDI inflow into the country during the specified period of time. The second was used to collect data on the dependent variables i.e. BOP, GDP and the exports during this period of time. The checklist consisted of the number of years, the value of BOP in US$ for every corresponding years, exports, GDP and FDI inflows in US$ for every corresponding years as shown in the appendix.
Table 3.1 Data Collection Sheet

<table>
<thead>
<tr>
<th>Year</th>
<th>BOP (US$ millions)</th>
<th>EXPORT (US$ millions)</th>
<th>GDP (US$ Millions)</th>
<th>FDI Inflow to Kenya (US$ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>27,618,450</td>
<td>3,273,520,000</td>
<td>13,000</td>
<td>200</td>
</tr>
<tr>
<td>2003</td>
<td>81,738,240</td>
<td>3,590,020,000</td>
<td>13,100</td>
<td>500</td>
</tr>
<tr>
<td>2004</td>
<td>46,063,930</td>
<td>42,830,007,000</td>
<td>14,900</td>
<td>300</td>
</tr>
<tr>
<td>2005</td>
<td>21,211,690</td>
<td>5,341,992,000</td>
<td>16,100</td>
<td>100</td>
</tr>
<tr>
<td>2006</td>
<td>50,674,720</td>
<td>6,101,267,000</td>
<td>18,700</td>
<td>200</td>
</tr>
<tr>
<td>2007</td>
<td>729,044,200</td>
<td>7,293,597,000</td>
<td>22,500</td>
<td>270</td>
</tr>
<tr>
<td>2008</td>
<td>95,585,680</td>
<td>8,4106,01,000</td>
<td>27,360</td>
<td>300</td>
</tr>
<tr>
<td>2009</td>
<td>116,257,600</td>
<td>7,385,781,000</td>
<td>30,460</td>
<td>400</td>
</tr>
<tr>
<td>2010</td>
<td>178,064,600</td>
<td>8,950,912,000</td>
<td>30,580</td>
<td>600</td>
</tr>
</tbody>
</table>

3.5 Research Procedures
The researcher conducted the pilot testing on a number of selected periods to find out whether there was consistence. Correlation was done on values obtain from different periods and it was ascertained that there was consistence in the data collected. According to Cooper and Schindler (2011), a pilot testing is conducted to detect weakness in design and instrumentation and to provide proxy data for selection of a probability sample. It should
draw subjects from the target population and simulate the procedures and protocols that have been designed for data collection. Data analysis involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper and Schindler, 2011).

The researcher designed the samples to be collected yearly. The yearly data was available and used in this research. The researcher designed the tables to collect data and also tested the usefulness of the tables. Those tables were found out to be appropriate for the data collection in this study.

3.6 Data Analysis

Data analysis was done by use of inferential and descriptive statistics where Correlation and regression analysis was used for this study that covered a period of 2002 to 2011. Also determined in the study were the mean and standard deviation. Regression and correlation analysis was set up to establish the relationship between FDI inflow and GDP, exports and BOP in Kenya. The independent variable used in the analysis was the FDI inflow whereas the dependent variable were GDP, exports and BOP. Correlation between the three was examined so as to determine the relationship of FDI inflow on the BOP, exports and GDP. The trend of the FDI inflow was analyzed during the period selected and compared with the GDP, exports and BOP on corresponding years using Microsoft Excel.

The results was interpreted based on the correlation coefficient. $P=1$ indicates that there is a positive correlation, whereas $P=-1$ indicates a perfect negative correlation and finally $P=0$ indicates no linear relationship between the two variables.

The value of the sample correlation coefficient is used as an estimate of the true population correlation. Large correlation coefficient indicate that one variable has a huge influence on the other variable or the relationship is causal or the variables being correlated have a number of causes in common. On the other hand, small correlations indicates that the variables are possibly not linearly related.

A test for the significance of the correlation is added. This test is added to find out if the value is significantly greater than zero. 5% significance level was used.
Correlation coefficient is given by:

\[ \text{Cor}_{xy} = \frac{\text{cov}_{xy}}{\text{sd}_x \cdot \text{sd}_y} \]

\[
\text{Cor}_{xy} = \frac{\sum (x_i - u_x) (y_i - u_y)}{\sum (x_i - u_x)^2 \cdot \sum (y_i - u_y)^2}
\]

Where

\text{Cor}_{xy} \text{ is the correlation coefficient between the variable x and y.}

\text{Sd}_x \text{ is the standard deviation of X}

\text{Sd}_y \text{ is the standard deviation of y}

\text{x}_i \text{ is the ith observation of variable X}

\text{y}_i \text{ is the ith observation of the variable Y}

\text{u}_x \text{ is the mean of variable X}

\text{u}_y \text{ is the mean of variable Y}

The alternate hypothesis of the study was that FDI inflow in Kenya have positive relation on Kenya’s GDP, exports and BOP. DW tests was also used to determine whether there was presence of autocorrelation between FDI inflow and GDP, exports and BOP.

3.7 Chapter Summary

This chapter covered the methodologies of the research, the chapter covered the research employed in this study, population and sampling design, data collection methods which was secondary data by use of check list, research procedures where a pilot testing was done and finally data analysis. The main data analysis tool was the SPSS software and data collection
was through tables and bar graphs. The next chapter looks at the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the results and findings of the study. The purpose of this study was to determine the effects of the FDI on economic growth (GDP), Balance of Payment (BOP) and exports. The study relied predominantly on secondary data. Regression and correlation of the data was used to ascertain whether there is a positive or negative relationship between FDI inflows and the selected economic indicators.

4.2 General Information

4.2.1 Inflows of FDI into Kenya Trends
From the table 4.1, it is evident that the rate to which FDI have been flowing into Kenya has been fluctuating with 2011 recording the highest number of one billion US dollars and 2005 the lowest value of one hundred million US dollars. From 2005 the value was steadily on an increase.

![Figure 4.1: Trend of FDI inflow in Kenya](image)

From the graph above, the value of FDI inflow into the country has generally been growing other than during the year 2004 when it started dropping to the lowest point of US$ 100 million in 2005 and then picked up to a steady growth to US$ 1 billion in 2011.
Table 4.1: Descriptive data on FDI inflow

<table>
<thead>
<tr>
<th></th>
<th>Valid</th>
<th>Missing</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Mean</td>
<td>387.00</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>300.00</td>
<td></td>
</tr>
<tr>
<td>Mode</td>
<td>200a</td>
<td></td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>261.451</td>
<td></td>
</tr>
</tbody>
</table>

The table above shows the descriptive statistic on the FDI inflow in Kenya, the mean average was US$ 387 million with a standard deviation of US$ 261.451 million. This shows that the value of the FDI inflow has greatly been fluctuating. There were US$ 200 million appearing twice during the period of study.
Table 4.2: Moving Average of FDI

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (US$ Million)</th>
<th>Quarterly</th>
<th>Quarterly value (US$ Million)</th>
<th>3 monthly Moving Averages</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>200</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd</td>
<td>55</td>
<td>58.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>45</td>
<td>41.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>25</td>
<td>81.67</td>
</tr>
<tr>
<td>2003</td>
<td>500</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>175</td>
<td>111.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd</td>
<td>135</td>
<td>140.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>110</td>
<td>108.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>80</td>
<td>96.67</td>
</tr>
<tr>
<td>2004</td>
<td>300</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>100</td>
<td>83.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd</td>
<td>70</td>
<td>80.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>70</td>
<td>66.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>60</td>
<td>55.00</td>
</tr>
<tr>
<td>2005</td>
<td>100</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>35</td>
<td>35.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd</td>
<td>10</td>
<td>23.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>25</td>
<td>21.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>30</td>
<td>40.00</td>
</tr>
<tr>
<td>2006</td>
<td>200</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>65</td>
<td>50.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd</td>
<td>55</td>
<td>56.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>50</td>
<td>45.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>30</td>
<td>58.33</td>
</tr>
<tr>
<td>2007</td>
<td>270</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>95</td>
<td>66.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd</td>
<td>75</td>
<td>76.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>60</td>
<td>58.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>40</td>
<td>65.67</td>
</tr>
<tr>
<td>2008</td>
<td>300</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>97</td>
<td>70.00</td>
</tr>
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<td>2nd</td>
<td>73</td>
<td>83.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>80</td>
<td>67.67</td>
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<tr>
<td></td>
<td></td>
<td>4th</td>
<td>50</td>
<td>95.00</td>
</tr>
<tr>
<td>2009</td>
<td>400</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>155</td>
<td>103.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd</td>
<td>105</td>
<td>113.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>80</td>
<td>81.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>60</td>
<td>116.67</td>
</tr>
<tr>
<td>2010</td>
<td>600</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>210</td>
<td>155.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2nd</td>
<td>195</td>
<td>190.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>165</td>
<td>166.67</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>140</td>
<td>236.67</td>
</tr>
<tr>
<td>2011</td>
<td>1000</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>405</td>
<td>300.00</td>
</tr>
<tr>
<td></td>
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<td>2nd</td>
<td>355</td>
<td>320.00</td>
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<tr>
<td></td>
<td></td>
<td>3rd</td>
<td>200</td>
<td>198.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4th</td>
<td>40</td>
<td></td>
</tr>
</tbody>
</table>
Overall inflow of FDI in Kenya has been on the rise from the year 2002 to 2003, from US$200 million to US$ 500 million had a drop in 2004 to US$ 100 million, picked up from 2006 at US$ 200 million, US$270 million in 2007, US$ 300 million in 2008, US$ 400 million in 2009, US$ 600 million in 2010 and finally US$ 1 billion over the ten year period of study. The moving average for FDI has not been steady but on aggregate its value has been increasing though in a fluctuating manner. It is difficult to tell the trend quarterly but we are able to predict that this trend is increasing though sluggish. Covering the period of study, FDI hit the highest value recording US$ 1 billion in 2011 as shown in table 4.2.

4.2.2 GDP

![GDP Graph](image)

**Figure 4.2: Value of GDP**

From the above graph, it is clear that Kenya’s GDP has been growing, in 2002, Kenya’s GDP stood at US$13000 million rising to US$ 32190 on 2011 represent a significant growth rate of 147.6% in ten years.
4.2.3 Exports

![Graph of Export Value](image)

**Figure 4.3: Value of Exports**

From the above graph, it is clear that the value of Kenyan export has been growing. It is during the year 2008 to 2009 that Kenya’s exports dropped but picked up gradually. This is attributed to the post-election violence that made it difficult for the country to be productive while at its citizens were at war and more properties were destroyed.

4.2.3 BOP

![Graph of BOP Value](image)

**Figure 4.4: Value of BOP**
Kenyan BOP has been fluctuating, under the period of study the highest recorded BOP stood at US$ 729,044,200 in the year. The country’s BOP has not been doing well since there has been variations with fluctuations as shown in figure 4.4.

4.3 Effects of FDI inflow on host country’s GDP

4.3.1 Regression Analysis

The main hypothesis for the empirical work is that the contribution of FDI inflow to economic growth in Kenya is positive. This can be established or repudiated centered on the projected value of $\beta_1$ in the regression analyses. The null hypothesis for $H_0: \beta_1 = 0$, that is, FDI inflows to a country do not contribute to growth, whereas the other hypothesis is $\beta_1 = 0$.

The result of this regression analysis over the period of ten years is presented in table 4.3. The autocorrelation is tasted using the Durbin Watson (DW) statistic. It is important to note that the nearer DW is to 0, the further confident autocorrelation and if the value is closer to 2, then there is no autocorrelation indicated in the analysis. In testing for the significance of the coefficient estimates, the t value is used.

**Table 4.3: Regression result of FDI on GDP for Kenya**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-74.569</td>
<td>216.941</td>
<td>-.344</td>
</tr>
<tr>
<td>GDP Value in US$ millions</td>
<td>.021</td>
<td>.009</td>
<td>.621</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-72.936</td>
<td>233.407</td>
<td>-.312</td>
</tr>
<tr>
<td>GDP Value in US$ millions</td>
<td>.023</td>
<td>.034</td>
<td>.679</td>
</tr>
<tr>
<td>Export Value in US$ million</td>
<td>-6.877E-09</td>
<td>.000</td>
<td>-.060</td>
</tr>
</tbody>
</table>

`Y = B0 + B1X (FDI)`
For this study, the coefficient estimate for FDI is positive but not significant at the 5% significance level according to the t test. The results show a positive correlation of the residual. According to this regression analysis, a unit increase in FDI inflow causes a 0.023 million US dollars growth in GDP.

Table 4.4: Correlation result of FDI on GDP for Kenya

<table>
<thead>
<tr>
<th>Value of FDI inflow in US$ Millions</th>
<th>Value of FDI inflow in US$ Millions</th>
<th>GDP Value in US$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.621</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.055</td>
</tr>
<tr>
<td>N</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

From the table 4.4, there is a positive correlation of 0.621 between FDI and GDP. This means that a unit increase in FDI inflow will cause the GDP to increase by a 0.621 in value. From this table, it is clear that a unit increase in the level of FDI inflow into the country led to US$ 0.621 increase in GDP. There is a significant relationship between FDI and GDP at a 5% confidence level.
4.4 Effects of FDI inflow on host country Exports

Table 4.5: Regression result of FDI on Exports for Kenya

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>237352347.956</td>
<td>724978010.872</td>
</tr>
<tr>
<td></td>
<td>GDP Value in US$ millions</td>
<td>283450.695</td>
<td>31415.596</td>
</tr>
<tr>
<td>2</td>
<td>(Constant)</td>
<td>231625548.470</td>
<td>780529980.814</td>
</tr>
<tr>
<td></td>
<td>GDP Value in US$ millions</td>
<td>285070.140</td>
<td>42852.711</td>
</tr>
<tr>
<td></td>
<td>Value of FDI inflow in US$</td>
<td>-76799.074</td>
<td>1262753.994</td>
</tr>
</tbody>
</table>

\[ Y = B_0 + B_1X \] (FDI)

For this study, the coefficient estimate for FDI is positive but not significant at the 5% significance level according to t test. The results show a positive correlation of the residual. According to this regression analysis, a unit increase in FDI inflow leads to a 0.07 million US dollars growth in BOP. In this study, a P-value of 0.059 is obtained which is greater than the 0.05 as seen in table 4.5, so we reject the null hypothesis.
Correlation coefficient of FDI on export was done to establish the strength of the relationship of the two variables. From the above table the correlation coefficient was found to be -0.621. This shows that an increase in FDI inflow lead to a Decrease in the Value of the export. Every US$ 1 million increase in the value of FDI inflow to Kenya leads to US$ 0.621million decrease in the value of exports.

### 4.5 Effects of FDI inflow on host country BOP

In this section correlation and regression analysis on the data on the inflow of FDI and the corresponding effect on the BOP was done to ascertain whether FDI inflow into a host country has a positive or negative impact on the host country’s balance of payment.
Table 4.7: Regression result of FDI on BOP for Kenya

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-52934067.636</td>
<td>215766540.753</td>
<td>-0.245</td>
</tr>
<tr>
<td>GDP Value in US$ millions</td>
<td>10100.277</td>
<td>9349.848</td>
<td>0.357</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-48578892.484</td>
<td>231960195.664</td>
<td>-0.209</td>
</tr>
<tr>
<td>BOP Value in US$ millions</td>
<td>8868.705</td>
<td>12735.095</td>
<td>0.313</td>
</tr>
<tr>
<td>Value of FDI inflow in US$ Millions</td>
<td>58404.947</td>
<td>375268.946</td>
<td>0.070</td>
</tr>
</tbody>
</table>

The researcher conducted a multiple regression analysis so as to determine the relationship between the FDI inflow and the host country’s BOP. Taking other variables constant (FDI inflow, GDP and exports) the value of BOP will be US$ 8868.705 million. The data analyzed also shows that holding other variables at zero, a unit increase in FDI inflow will lead to US$ 1.08 million increase in GDP. A t-test was used to determine whether the mean of a population significantly differs from the hypothesized mean or from the mean of another population.
The outcome obtained in the regression analysis in table 4.8 show that there is negative but significant impact of Foreign Direct Investment (FDI) on Balance of payments with a coefficient of \(-7.592315\). This coefficient is statistically significant as revealed by its corresponding standard error and \(t\)-values of 5.25779. Hence, FDI is elastic to balance of payments. This negativity in the coefficient of Foreign Direct Investment is in conformity to the prior sign that a negative impact of Foreign Direct Investment on Balance of payments worsens the country’s balance of payments deficit.

For this study, the coefficient estimate for FDI is positive but not significant at the 5% significance level according to \(t\) test. The results show a positive correlation of the residual. According to this regression analysis, a unit increase in FDI inflow leads to a 0.07 million US dollars growth in BOP. In this study, a \(P\)-value of 0.059 is obtained which is greater than the 0.05, so we reject the null hypothesis. Correlation coefficient of FDI on BOP was done to establish the strength of the relationship of the two variables. From the above table the correlation coefficient was found to be +0.07 and the significance at +0.460.

Table 4.8: Regression result of FDI on GDP for Kenya

<table>
<thead>
<tr>
<th>Model</th>
<th>Beta In</th>
<th>(t)</th>
<th>Sig.</th>
<th>Partial Correlation</th>
<th>Collinearity Statistics /Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of FDI inflow in US$ Millions</td>
<td>.070b</td>
<td>.156</td>
<td>.881</td>
<td>.059</td>
<td>.614</td>
</tr>
</tbody>
</table>
4.5 Chapter Summary
In this chapter, a presentation of results and findings in form of tables and graph is provided. The finding illustrates the causal relationship between FDI inflow and the GDP, exports and BOP. SPSS and Microsoft Excel were both used to present graphs and tables of this data. FDI inflow into a country was found to have various effects on the economic growth measured in GDP, balance of payment and export of the host country. The correlation coefficient of FDI between economic growth (GDP), balance of payment and exports were +0.023, +0.07 and -0.621 respectively. This inferred that FDI has a relative weak positive effect on economic growth (GDP) and BOP but stronger negative effect on export. These findings provide evidence that FDI is critical to the Kenyan economy.

The next chapter will present discussion of the findings, conclusion and recommendation for further study. Consideration of the literature review and the findings of this chapter from the data collected was taken into account.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, a summary of discussion, conclusions and recommendations are represented. The first section of the chapter provides a summary of the purpose of the study, the research questions, summary of the research methodology used and then the summary of the results and findings. The next section discusses the results and the findings of the study. The third part of the chapter illustrates the conclusions drawn from the discussions. Finally, the chapter concludes by providing recommendations guided by the research questions.

5.2 Summary

The purpose of this study was to find out the effects of FDI inflow on the economic growth of the host country (Kenya), the BOP and the export. The study was guided by the following research question: (i) what are the effects of FDI inflows on Kenya’s economic growth (GDP)? (ii) What are the effects of the FDI inflows on Kenyan exports? And (iii) what are the effects of FDI on Kenya’s Balance of Payment (BOP)?

Descriptive statistic research design was used. Secondary data was used and it was collected from the World Bank website and the Central Bank of Kenya. Regression, correlation and descriptive statistical analysis was employed. Data analysis was done using the Statistical Package for Social Science (SPSS) and results presented in form of tables. The finding revealed that there is a causal positive relationship between the FDI inflow and GDP and BOP and a negative relation between FDI inflow and the exports.

In the first research question’s finding, it was evident that though there are some trends between FDI inflow and GDP, there is a conclusive relationship that can be drawn from these trends. The trends are taken from a ten year period and in some years FDI inflow and GDP moved in the same pattern. The correlation coefficient between FDI and GDP is +0.621, indicating a positive relationship.

The second research question too revealed that there are some trends between FDI inflow and the exports and there was a conclusive relationship that can be drawn from these trends. The trends too were taken from a ten year period and like in the first research question’s trends,
FDI and exports moved in opposite direction, i.e. there were found to be a negative relationship between FDI and exports, the researcher felt that the relationship was significant. Finally the third research question points to the fact that the value of FDI inflow cannot signal that FDI inflow to Kenya have effect on BOP. There was no significance in the relationship between the FDI inflow to Kenya and its BOP. At a correlation coefficient of +0.07, the researcher felt that the relationship between FDI and BOP was not significant.

5.3 Discussion

5.3.1 Analysis of FDI inflow on GDP
The findings on whether there is a relationship between FDI inflow and GDP of the host country, i.e. that FDI inflow contributes to the economic growth. The findings of the study concurred with the literature available that the relationship between the two variables is significant and that FDI inflow leads to increase in GDP with a positive correlation coefficient. FDI stimulates economic development in countries with an opened trade administration, and a labor force with higher job skills and high literacy level (Zhang, 2011). FDI offers complete entry to the world markets and acts as a channel for the host country to play a part in the globalization course. Using co-integration and an error-correction model to examine the link between FDI and economic growth in India (Zhang, 2011; Chakraborty and Basu, 2002) submitted that GDP growth in India was not largely caused by FDI, and that the causation runs largely from GDP to FDI. Whereas according to Hsio and Shen (2008) believes that there are two way relationship between FDI and economic growth and backing feedback relationship between FDI and GDP. In their study of 81 countries, Caves (2006) discovered that the relationship between FDI and economic growth is a progressively one, primarily from the mid-1980. In their argument, they pointed out that FDI and trade liberalization have positive effects on economic growth, whereas Hansen and Rand (2006) concurred that the relationship between FDI and GDP in emerging economies is that FDI stimulates economic growth, however the magnitude to which a nation benefits from FDI inflow rests on the host country’s policies on trade, skills of the labor force and most importantly the capabilities to absorptive.
Blomstrom, Lipsey and Zejan (2002) believes that there is no proof that education is imperative, they maintained that FDI has progressive effect on economic growth when a country is adequately endowed by so much resources. FDI mainly comes to exploit on those resources and export thus earning the country foreign exchange. FDI also plays a vital role in GDP if the host country has a financial market that is well-developed. Well established policies on economic conditions enable the host country to evaluate and maximize on the advantages that these FDI comes along with.

In Kenya, a study carried out by the Kariuki (2009) to analyze the impact of FDI on Kenyan GDP over the period from 1990 to 2007, revealed that FDI inflow have influence on economic growth. The study was also designed to analyze the influence of other variables of gross capital formation and labor on GDP. In the study, analysis on the rate of economic growth (GDP per capita) as the dependent variable and inflow of FDI. The study used multiple regression model to ascertain the relationship between FDI inflow and the country’s economic growth. The study found that FDI influences economic growth though not very strongly. In the findings, it was clear that the benefit Kenya derives from FDI is still very low. However, it was clear from the findings that capital formation is the major driver of economic growth. Although from the finding it was clear that FDI does not have a very significant effect on GDP, it is rational to point out this to the fairly small amounts of capital inflows into the country since FDI inflow into Kenya has been declining in the recent times compared to the neighboring countries. The study recommended that the government to carry out a campaign to appeal to the FDI to come.

5.3.2 Analysis of FDI inflow on Exports

On the findings for the second research question, it was revealed that there are some trends between FDI inflow and the exports and there was a conclusive relationship that can be drawn from these trends. The trends taken from a period of ten year revealed a negative correlation between FDI inflow and the host country’s exports. FDI and exports moved in opposite direction, i.e. there was a negative relationship between FDI and exports, the researcher felt that the relationship was significant.
The findings on this research question contradict what most of the literature provided in the literature review chapter. Some of the literature that argued that FDI inflow leads to growth in the host country’s exports included the following.

In their arguments, Hoekman and Javorcik (2006) had evidence that suggests that FDI can aid developing country’s exports fastener with the worth frontier. They argued that there are various explanations to why FDI contributes to upgrading the exports of the host country. To start with, the products that multinational companies export have greater value, this is because most multinational companies possess superior technology and great techniques in marketing their products. Secondly, domestic companies operating in the same industry learnt from these multinational companies in turn upgrading their technologies and marketing techniques thus upgrading the value of their produce and finally the value of the exports. The third reason was that productivity spillovers to the firms that are supplying the goods and services might result in the exportation of products of higher-value and finally the fourth reason would be the availability of inputs with higher-quality which results from FDI spillovers which is as a result of growing of supplying industries which in return benefit local manufacturers of final goods and enable them to upgrade their exports.

In his study on the relationship between FDI and exports, Naughton (2006) discovered that export campaign, FDI is one of the key reasons why the government aspires to attract FDI. FDI can direct capital to advance industries with prospective ability to compete worldwide. According to Caves (2006), a host country may improve on its volume and value of exports by hosting FDI because MNCs are well-thought to be the linkage that facilitate access to international market thus opening up international market for local companies thereby increasing the level and value of exports and eventually triggering economic growth.

The findings of the study do not conform to the findings of most research done earlier, but the relationships of the variables are dependent on the recipient country’s economic policies in place. This study may act as basis for the country to review its economic policies in regards to attraction of foreign investments.
5.3.3 Analysis of FDI inflow on BOP

On whether there is a relation between FDI inflow and the Kenya’s BOP, the findings was that there is a weak positive relationship. The correlation coefficient is positive though not significant.

The study’s findings concur with most of the research carried out earlier, although the level of the strength of the relationships may vary but the study agrees that there is a positive relationship between FDI inflow and Kenya’s BOP.

According to Aizenman and Noy (2005), FDI inflow has a significant part in decisive of the surplus or deficit in both the capital and financial account of the balance of payment statement. It is clear that the preliminary impact of FDI inflow on BOP is positive but in the long run, the effect might either be positive or negative as export output is increased by the foreign investors, imports of intermediate goods and services, or start to deport profits back to their home country. For that reason, one can even query the role of FDI on economic development. FDI inflows may as well have an adverse effect on the growth forecasts of a country if they give rise to considerable setback flows in the form of transfer of profits and dividends and/or if the MNCs get substantial tax or other concerns from the host country. These undesirable effects could be accumulated if the expected positive spill-over effects from the transfer of technology are minimized because the technology transferred is inappropriate for the host country’s factor proportion or as a result of overly restrictive intellectual property right.

Billington (2009), argued that when capital machineries have been set up, the FDI-financed corporations start to export their goods as most of these enterprises are export-oriented. FDI-financed companies might tend to export a superior amount of their output than their local competitors as these firms usually have a relative advantage in their information of international markets, efficiency of distribution channels, and their ability to adjust and respond to the changing pattern and dynamics of international markets. By exporting more and with the greater value, this improves the current account of the host country thus positively contributing to the BOP.
There have been found to be a positive relationship between FDI inflow and BOP. The degree of the relationships depends on a number of factors on the recipients countries, these include: economic policies, tax regimes, availability of raw materials among others.

5.4 Conclusions

5.4.1 FDI Inflow on GDP

As to whether FDI contributes to growth in a host country’s GDP is still doubtful, but one thing that is clear is that the relationship between FDI and GDP may be significant or on insignificant subject to the country being studied, the type of investments, the operational policies of the host country, the used methodology and even the period of study. For this study in Kenya, there is a positive but weak relationship between FDI and GDP and thus however small, the impact of FDIs on the Kenya’s economy cannot be ignored.

5.4.2 FDI Inflow on Exports

The issue of whether FDI contributes to growth and improvement in exports value of the host country is not clear. But, one thing that was clear is that the relationship between FDI and export could also be either significant or insignificant subject to the country of study, the type of investments and industry, and the operational policies of the host country, the used methodology and even the period of study. From the findings in this study in Kenya, there is a weak negative relationship between FDI and exports. This means that the higher the level of FDI inflow in Kenya, the lower the level of exports the country experiences. The basis for this argument might be that some FDI come to invest produce the goods and sell them locally or repatriate all their revenue back to their home country.

5.4.3 FDI Inflow on BOP

As to whether FDI contributes to growth in a host country’s BOP is still doubtful, but one thing that is clear is that the relationship between FDI and BOP may be significant or insignificant subject to the country being studied. The study established that FDI inflow in Kenya has a relatively weak positive effect on the Kenyan BOP. An increase in FDI inflow to the country led to an increase in the country’s BOP. However, for FDI to flow to a country, the country’s prevailing policies on economics come into play and only those
country with sound economic policies that will be able to attract the FDIs. There also need to be regulations of the FDI in order to realize full advantages of this FDI since most will opt to repatriating all the income to the mother company leaving nothing to the local if not monitored.

5.5 Recommendations
From the above analysis, the following recommendations are made. These recommendations include;

5.5.1 Recommendations for Improvement

5.5.1.1 Effect of FDI on GDP
Since there is a positive though weak relationship between FDI and GDP in Kenya, to effectively manage these foreign investments so that the masses can feel the impact, the government of Kenya should avert a greater share of FDI in investment in Key sectors that contributes to the greatest exports and economy of the country. Key sectors will include agriculture because about 70% of the Kenyan population depends on agriculture. Trade liberalization in agricultural is mostly important and growth in agriculture has an equal effect on economic growth.

5.5.1.2 Effect of FDI on exports
Since there was found to be a negative relationship between FDI and exports in Kenya, to effectively manage the exports of the country, there need to be exports sensitization since most of the FDI seems to be producing products that are sold to the local market. Exports needs to be encouraged by the host country and incentives provided to the exporters. Value addition to the product being transported is also necessary to make the product valuable.

5.5.1.3 Effect of FDI on BOP
There was also a positive relation between FDI and BOP though not significant to effectively manage these FDI so that the entire country can feel the impact, there needs to be regulations by the host country on the kind operations FDI can engage in. It is through exporting more so that a country can realize a healthy BOP, the government of the host country needs emphasis
on not just exporting more but also exporting more valued products so that they fetch more in the international market.

### 5.5.2 Suggestion for Further Study

FDI is currently being encouraged by most countries as one of the tools for enhancing economic growth and improving on their BOP. However, further research needs to be carried out on the negative impacts of FDI inflow to the host country to ascertain the negative effects FDI might be posing to the host country. It will also be interesting to have a study done on the effects of FDI on other macro-economic factors like on job creation etc.

Secondly this study focused on the period between 2002 and 2011. In the future, further studies on the same topic but would be of importance to find out the deviation of the findings from this study.
REFERENCES


Irwin McGraw-Hill.


### APPENDICES

#### Appendix I: Secondary Data Collection Sheet

<table>
<thead>
<tr>
<th>Year</th>
<th>BOP (US$)</th>
<th>EXPORT (US$)</th>
<th>GDP (US$ Millions)</th>
<th>FDI Inflow to Kenya (US$ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>27,618,450</td>
<td>3,273,520,000</td>
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<td>200</td>
</tr>
<tr>
<td>2003</td>
<td>81,738,240</td>
<td>3,590,020,000</td>
<td>13,100</td>
<td>500</td>
</tr>
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<td>2004</td>
<td>46,063,930</td>
<td>42,83,007,000</td>
<td>14,900</td>
<td>300</td>
</tr>
<tr>
<td>2005</td>
<td>21,211,690</td>
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<td>Gross Profit</td>
<td>Operating Income</td>
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