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ISTANBUL COMMERCE UNIVERSITY

FOREIGN TRADE INSTITUTE

DEPARTMENT OF INTERNATIONAL TRADE

FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH RELATIONSHIP IN DEVELOPING COUNTRIES IN AFRICA: THE CASE OF KENYA

Master's Thesis

ABDIHAKIM MOHAMED IBRAHIM

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Advisor: Assist. Prof. CİHAT KÖKSAL

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ABSTRACT

The study's main goal is to examine the influence of foreign direct investment on African economic growth, however the researcher chose Kenya as a case study. Foreign influences are critical to any country's socioeconomic development, with foreign direct investment, product and service imports and exports constantly having precedence in both developing and growing economies. The purpose of this study is to determine how foreign direct investment influences Kenya's economic growth. The empirical method was used to assess the influence of FDI, imports, and exports on economic growth in Kenya using secondary data from the World Bank data indicators. The study used secondary time-series data from 1970 to 2018 to assess the influence of FDI, imports, and exports on economic growth in Kenya.

The study discovered that the variables have a significant positive coefficient association and have been linked together. The findings show that the link between FDI, exports, and imports has a positive impact on GDP in Kenya, with both short- and long-term effects on economic growth. Based on these findings, the paper recommended that Kenya continues to investigate efficient strategies to maintain high economic growth rates by increasing FDI and increasing product and service exports.

Keywords: Foreign direct investment, Exports, Imports, Gross Domestic Production

ÖZET

Bu çalışmanın temel amacı, doğrudan yabancı yatırımın Afrika ekonomik büyümesi üzerindeki etkisini incelemektir; bununla birlikte araştırmacı vaka çalışması olarak Kenya'yı seçmiştir. Doğrudan yabancı yatırım, tüm ülkelerin sosyoekonomik kalkınması için çok önemlidir. Doğrudan yabancı yatırım ile, ürün ve hizmet ithalatı ve ihracatı hem gelişmekte olan hem de büyüyen ekonomilerde daima öncelikli olur. Bu çalışmanın amacı, doğrudan yabancı yatırımın Kenya'nın ekonomik büyümesini nasıl etkilediğini belirlemektir. Dünya Bankası veri göstergelerinden elde edilen ikincil verileri kullanarak, Kenya'da ekonomik büyüme üzerinde, DYY, ithalat ve ihracatın etkilerini değerlendirmek için ampirik yöntem kullanılmıştır. Çalışma, DYY, ithalat ve ihracatın Kenya'daki ekonomik büyüme üzerindeki etkisini değerlendirmek üzere 1970'den 2018'e kadar ikincil zaman serisi verilerini kullanmıştır.

Bu çalışma, değişkenlerin anlamlı bir pozitif katsayı ilişkisine sahip olduğunu ve birbirine bağlı olduğunu ortaya koymuştur. Çalışmanın bulguları, doğrudan yabancı yatırım, ithalat ve ihracat arasındaki bağlantının, ekonomik büyüme üzerindeki hem kısa hem de uzun dönem etkileri ile beraber, Kenya'da GSYİH üzerinde pozitif bir etkiye sahip olduğunu göstermektedir. Bulgulara dayanarak, bu çalışma Kenya'nın, yüksek ekonomik büyümeyi sürdürmek için DYY, ürün ve hizmet ihracatlarını artırarak, verimli stratejileri araştırmaya devam etmesini önermektedir.

Anahtar Kelimer: Doğrudan Yabancı Yatırım, İthalat, İhracat, Gayrisafi Yurtiçi Hasıla

DECLARATION

I certify that this thesis is my original work for graduation and that I wrote it only for the purpose of meeting the requirements for a master's degree. This thesis has not been submitted to any previous university. All supporting literatures and resources have been adequately referenced.

Abdihakim Mohamed Ibrahim

07/01/2022

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Abdihakim Mohamed Ibrahım

January,2022

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LIST OF ABBREVIATION

ASEAN	Association of South East Asian Nations,
DFI	Development Finance Institutions
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
NGO	Non-Governmental Organizations
ODA	Official Development Aid
OLS	Ordinary Least Square
VAR	Vector Autoregressive
WTO	World Trade Organizations

1. INTRODUCTION

Global inflows of foreign direct investment have increased considerably during the last two decades. For many developing countries, foreign direct investment (FDI) has emerged as a critical source of private external funds. The governments of such nations began taking steps to attract foreign direct investment after taking into account the potential benefits to economic growth and development.

Foreign investors are wanted by many different nations, but notably those in underdeveloped countries, where cash is in limited supply. Investing in the inward flow of FDI can lead to the creation of new and qualified positions in the modern or "current" area occupations for which laborers frequently get higher wages than those paid by homegrown firms. When host country resources are limited, picking firms that are most likely to create the most jobs is crucial. (Coniglio et al. , 2015).

Despite the high level of empirically and politically relevant research on FDI, hardly no research has been done on the issue of whether FDI results in more jobs in developing nations. The goal of this article is to show how the impact of foreign ownership and employment in developing African countries varies among African countries using a firm-level approach. Because of this wide variety of diverse labor market demand, we focus on multinational corporations many attributes, including their location of origin. (Coniglio et al. , 2015)

Foreign direct investment has been highlighted in outward-oriented development policies, and the investments have been seen as critical in growing output and generating employment (Kayonga, 2008). Throughout the second half of the twentieth century, there were notable changes in the amount and type of cross-border capital flows into developing economies. Since net debt flows have become obsolete, they are no longer meaningful. A well-established foothold has been established in portfolio flows. For the most part, foreign direct investment now plays a greater role than any other financial flow (World Bank, 2008).

A country's long-term investment in another is referred to as foreign direct investment. The Foreign direct investments are including funding, management, joint ventures, and the transfer of technology and experience. The net FDI intake is made up of inward and outward

foreign direct investment, and together these components give a total of inward and outward FDI positive or negative.

The increase in foreign direct investment indicates increased foreign ownership of economic assets, such as industries, mining, and farmland. Increasing economic globalization can be measured by foreign investment growth. The gross domestic product (GDP) gross inflows of foreign direct investment can be expressed as a proportion of GDP. Developing economies such as Kenya have seen a dramatic increase in flows of foreign investment in recent years.

According to (Musau, 2010). Foreign direct investment has the benefit of generating a huge number of externalities for the overall economy, such as local benefits that cannot be absorbed by the host country's GDP. Other ways in which these capabilities may be applied include transferring general knowledge and implementing cutting-edge machineries in manufacturing and scattering, industrial progress, learning a new trade, modern management and accounting techniques, establishing finance and trading networks, and upgrading telecommunications services. The infusion of foreign direct investment in services enhances a country's competitiveness by enhancing the productivity of capital and making it possible to attract additional capital on advantageous terms. Additionally, it can help your company sell more goods and make better products by making improvements in both your products and processes. With the implementation of comparative advantages, increasing a country's competitiveness with foreign and domestic investment, and by way of the far-reaching effects of numerous externalities, foreign and domestic investment can change a country's income level and trade pattern in a variety of ways, all of which serve to increase the country's overall economic volume.

FDI has a number of advantages for the receiving country's economy. These advantages are addressed in greater detail below.

Economic growth is a word that refers to the increase in gross domestic product (GDP) or another measure of aggregate income per capita. It is frequently expressed as the rate of change in gross domestic product. Economic growth is solely measured in terms of the amount of goods and services generated. Economic growth, according to this Wikipedia, can

be either positive or negative. Negative growth can be described as the economy contracting can be negative growth is related with recession and depression in the economy.

Regardless of current exchange rates or purchasing power parity, cross-country comparisons of per capita income may be made using a single currency, which is known as a global currency unit. GDP and GNP measurements particularly in real or inflation-adjusted terms rather with respect to the year's money amount referred to as nominal or current) are commonly expressed in "real" or inflation-adjusted terms as opposed to money figures, or are referred to as "real" or "inflation-adjusted" rather than money facts (Li, M. et al. 2021).

On the surface, it seems that there is a relationship between foreign direct investment and economic development. Despite this apparent association, it is unclear what kind of foreign direct investment African nations get and under what conditions they are willing to accept international investment. Studies on the relationship between foreign direct investment and economic development have been conducted in the past. This section contains readings that are related to the topic of foreign direct investment and economic development, among other things. The conclusions gained from economic development studies are predicated on the assumption that GDP growth is a valid indicator of well-being. It has recently been put into question whether or not this premise is correct. (Anand and Sen , 2000). Even if it is required to ensure the well-being of the population, growth must be pro-poor if it is not accompanied by equality.

General terms, the goal is to build a link between foreign direct investment and economic development in Kenya. The particular goal of this study is to determine the influence of foreign direct investment on economic growth in Kenya, specifically.

A variety of organizations will benefit from this study, as described below. It's possible that researchers and academics who are focusing on current country-centric strategies and innovation are doing harm to concepts of sustainability or other sectors, particularly in terms of data gathering and collection methods. Researchers should be able to use these data to construct their own research methodologies. So the study is important since the findings may be applicable to other studies that are interested in determining what makes a study successful or unsuccessful. It's also important that the methods utilized in this study are accurate and

assist researchers in locating and examining certain bits of information Researchers can then select how best to focus their investigation, as well as the different methodologies that they may utilize within the time limit that they have chosen to conduct their study in this manner.

Foreign Direct Investment is the money that foreign governments, individuals through private development organizations, international assistance agencies, and multilateral institutions such as the World Bank, such as International Aid, spend in Kenya with the goal of generating long-term sustainable economic growth. The country has endured an economic catastrophe for the last two decades, resulting in a precipitous decline in living standards. Although the country's economic growth has been modest, it has coincided with skyrocketing prices of basic necessities (World Bank, 2007).

According to Kenyan study, both in absolute and relative terms, the nation has a relatively low level of foreign direct investment. Kenya is the regional business leader despite being the world's fifth poorest nation and receiving relatively little foreign direct investment. The area maintains advantages in attracting foreign direct investment due to its human resources and strategic logistical position. Although foreign investment in Kenya has traditionally been minimal, the nations and industries where these investors may be found are many and well-established. Their efforts have aided in the diversification of the country's exports as well as the advancement of some of the economy's most active sectors, such as agriculture. (World Bank, 2003). Both studies, conducted by the World Bank and the Federation of Kenya Employers, concluded that there is no evidence between FDIs and GDP in any significant manner.

Both international aid and FDI have a minimal effect on Kenya's GDP growth rate. This suggests that the majority of foreign aid money are not completely utilized in development initiatives, raising concerns about corruption or theft of cash (Lokosang,et al. 2005). The analysis he made also explains why donor nations are growing increasingly adamant about how their support is used. However, his research was undertaken in the late twentieth century, and the country has changed significantly since then, including a change of government. (Kurui, 2008), discovered that Chinese enterprises have contributed to Kenya's economy, but advises that additional research is necessary.

choosing a larger scope of international investors and more expansive areas of investigation Researchers have investigated several possible reasons for FDI, such (Wanjala, 2001), as well as other research which focuses on domestic private investment (King'ang'i, 2003), or more broadly, their influence on the overall regional situation, but have neglected to investigate the Kenyan economy (Kayonga, 2008).

The goal of this research is to discover how FDI and growth in Kenya are connected. According to this body of research, the profile of Kenya in Sub-Saharan Africa had to be raised, and a study on the current moment was therefore required. So, from these past studies, no attention is paid to FDI and economic growth in Kenya specifically, and that includes investigating the impacts of either variable on the other and determining how they relate to each other in Kenya. To find the missing piece to the relationship puzzle, this research will focus on answering the following questions:

1. Does FDI contribute to Kenya's economic growth?
2. What effect does FDI have on economic growth in Kenya?

The research will help raise worldwide awareness of bilateral and multilateral institutions, as well as educate the donor community about Kenyan realities. Rather than providing fiscal financial assistance that is frequently swindled or embezzled into private bank accounts, this will encourage them to follow the ideas and practices of other donor countries that are already aware of the problem and have initiated development programs. This, perhaps, will assist Kenyans in escaping poverty and improving their quality of life.

2. LITERATURE REVIEW

2.1 Foreign Direct Investment

The research examines the relationship between foreign direct investment and economic growth. The phrase "foreign direct investment" refers to a sort of cross-border investment made by a resident entity in an economy. The direct investor makes an investment with the goal of acquiring a long-term stake in a firm that is based in another country. The effectiveness of direct investment depends on its ability to be maintained over an extended period of time, as well as the direct investor's ability to have considerable influence over the firm's management. (Michałowski, 2012).

The describe FDI in terms of long-term investment by a country in another country that includes management and joint ventures as well as technology transfer and expert knowledge two forms of FDI are distinguished: inward and outbound FDI (Damooei and Tavakoli, 2006). It might be either positive or negative. As an FDI, the parent business must own at least 10% of its abroad affiliates' common stock (Sharma and Gani., 2004).

The role of foreign direct investment in one of the most contentious problems in the development literature is how to stimulate expansion of the economy FDI encourages host countries to spend more than their own domestic savings, enhancing capital formation under the conventional Solow growth model. This theory claims that FDI's ability to promote output growth is restricted in the near run. The recipient economy may gradually converge to a steady state growth rate as marginal returns to physical capital diminish FDI had never ensued, leaving no long-term influence on the country's growth. (De Mello, 1990).

The impact of FDI and trade in boosting economic growth is well-documented and widely accepted (Samuelson, 1948)and also the same discussion came up the investigation made by (Helpman, 1981) as well as (Krugman, 1979) so it seems the idea of FDI and trade is really interested in the research area because a lot of majority scholars made investigation with FDI and Trade, they discovered it away of boosting well-being of society according to (Kojima, 1975) also this scholar through same researcher about FDI and trade by (Kojima, 1973). Most of scholar have similar arguments about how FDI and trade influence in economic development, (Brecher & Diaz Alejandro, 1977), they made discussion about FDI and trade

and their conclusion included that Increased FDI boosts the manufacturing as well as the services sector. According to (Bhagwati & Tironi, , 1980), they came up with similar argument. To the degree that exchange urges homegrown organizations to participate in actual capital and innovative exchange, it benefits arising economies (Rivera-Batiz & Romer, 1991) and furthermore (Kim et al, 2016).Technology and the board abilities move from industrialized nations to the host country has a positive overflow impact, like FDI inflows (Borenzstein, et al. 1998) and just as (De Melo, 1999) and furthermore (Kukeli, et al.,, 2006). Expressing that the drawn out development impact of exchange is reliant upon every nation's market setup and institutional courses of action, concur with (De Melo, 1999) who noticed that the impact of unfamiliar direct speculation is likewise subject to have country foundations and monetary scale factors.

Through the influence of FDI on export expansion or the impact of export expansion on investment via creation of linked services overseas and a liberalized trade policy framework, FDI and trade are interconnected. These two notions may be perplexing in this case since they imply either a substitutive or complementary effect. FDI and trade, according to (Mundell, 1957), can be utilized to decide output and boost investment, as Mundell demonstrated. For their part, discovered that the growth of FDI inflows affects international commerce and that even the sheer existence of FDI can improve host country trade.

2.2 African Barriers to FDI

Many African countries have erected barriers to international immigration as a direct result of these historical and political impediments. When the Africans realized that they had to take control of the economy, they did so. This attitude continues to influence worldwide investment today. Late venture from East Asian and South African (Daniel et al., 2004) investors may have contributed to the persistence of some of these concerns, but not all of them.

For example, the creation of parastatals, strict regulation, and even nationalization or expropriation were claimed to justify the government's involvement in the economy (Kobrin, 2005). However, despite the fact that these restrictions impacted both domestic and international enterprises, many of the largest exporting companies were owned and operated

by foreigners, and the intervention was intended at them. Particularly Formerly nationalized enterprises such as Ghana's Ashanti Goldfield, which was nationalized in the 1960s, and Tanzania Cigarette Company, which was privatized in the mid-1990s, are now owned by a foreign country although governments retain substantial minority stakes in each. It is still possible to be expropriated. However, governments have tended to play an active role in the economy even when privatization has been strongly pursued, according to the following study.

According (Borenzstein, et al. 1998). The government intervenes to transfer ownership of enterprises from foreigners or indigenous minorities to indigenous peoples, which has been and continues to be a deliberate strategy in Africa. When Idi Amin ruled Uganda and Zimbabwe in recent years, extensive and violent expropriation was employed to accomplish this purpose. In certain nations, like as Kenya and Zambia, the transfer of indigenous ownership is less violent. Numerous components of these laws continue to be employed to boost local ownership today, such as legal discrimination, awarding bids, or set-asides and discounts for local ownership.

Undesirable impediments to international economic cooperation also exist Recent years have seen a remarkable decrease in the number of obvious legal bans against foreigners as economic reform and liberalization have been enacted. Overwhelmingly, most African stock markets prevent non-resident foreigners from owning considerable quantities of equities. A company's stock price can be directly affected by foreign direct investment if it invests more than 10 percent, which may encourage it to avoid listing on the local exchange. (De Melo, 1999).

Many African governments continue to limit foreign investment in specific industries, such as mining and agriculture. However, because parastatal monopolies and liberalization are sometimes related, the two have often occurred together. Only Tanzania has permitted international banks to operate lawfully since the early 1990s. It is still illegal for foreigners to do business in Ghana's commercial and service industries, even though economic liberalization began in the country two decades ago (Romer, M., 1986). And also (Lucas Jr, 1988), and (Kukeli et al. 2006).

Numerous African countries and NGOs are therefore opposed to changes that try to standardize national treatment and limit the ability to set unique criteria, such as requiring local employment, local cooperation and locally sourced inputs in the production process (Graham, 2001). Oxfam, for example, warns that a WTO investment agreement could be an investment treaty with the World Trade Organization, on the other hand, would put these projects at danger by limiting host countries' power to regulate on behalf of the poor " Despite the trend toward investment liberalization and privatization across much of Africa, several governments continue to have strong legal prejudices against international investment.

Other factor barriers to FDI include the business climate. A number of African countries have attracted foreign direct investment due to changes in the business environment and deliberate image enhancement tactics, as demonstrated by (Morisset, 2000). While most African governments have made considerable economic reforms, (Basu, A and Srinivasan , 2002) and (Asiedu, 2002) states that FDI in Africa has declined in large part due to the fact that policy environment changes have been restricted compared to reforms elsewhere. Partial reform syndrome has a long history in Africa and many reforms are implemented only partially.

For centuries, developing nations have attempted to attract foreign direct investment to their continents. Foreign direct investment is critical for Africa's economic development since it is projected to generate economic growth. It has the capacity to bridge the continent's savings gap, as well as its skills and technological gaps. This implies that foreign direct investment is more than a flow of money resources; it also entails a substantial amount of administrative and technical expertise capable of increasing production. As a result, the continent must adopt active steps to attract FDI. Since their independence, most African countries have enacted policies with substantial incentive packages to attract foreign direct investment (UNCTAD, 2005). It is believed that foreign investments have externalities such as technology transfer and spillovers, which is why they are attractive to investors. There is the potential for enormous spillover effects throughout the economy. When technology is transferred. Structural Adjustment Program planners believed that boosting FDI was crucial for sustained economic recovery after 1980's debt crisis and commercial bank lending cessation. A competent macroeconomic policy and expedited liberalization, deregulation and

privatization, according to this view will attract foreign direct investment to Africa (World Bank, 2004) and as well as (IMF, 1999).

2.3 Africa's FDI Movements and Drivers

2.3.1 Trends

It is stated that African nations have not received the full advantages of global FDI flows because of their policies and rates of return on their assets. The mid-1980s FDI boom did not help the African continent. Global FDI inflows totaled $401.7 billion between 1991 and 1996, while Africa got just $7.1 billion, or 1.8 percent of that total. There was more money earned in other parts of the globe than in Africa. Latin America and the Caribbean received a $47.9 billion catch, while Asia and Oceania garnered an $83.9 billion gain. During the remainder of the time period shown, African organizations got less money. In that year, Africa received just 2% of worldwide foreign direct investment flows. Africa's proportion in the world's developing economies was roughly 5% between 1993 and 1998. It peaked at over 9% in 2001, but by 2002, it had decreased to barely 6.8%. In 2004, the amount allocated to impoverished nations amounted for 7.8% of the total. Asia and Oceania raised their proportion of foreign direct investment to developing nations from 48% in 1999 to over 63 percent in 2004. Global FDI inflows have been declining since 1999, however this trend has reversed in 2004. Between 2000 and 2003, there was a gradual drop. The entire amount of FDI inflows in 2004 was $648.1 billion, with $18.1 billion flowing to Africa. The fundamental reasons of the decrease were weak economic growth in most nations throughout the globe and poor hopes for a short-term rebound. The reduction was unequal among nations and regions, contrary to projections. Africa had a 41% drop in population. Both the manufacturing and service sectors witnessed decreases in production, while the primary sector saw a gain.

2.3.2 Awareness of FDI in Africa

FDI continued to dominate the oil industry. Foreign direct investment into Africa is concentrated in a few countries. Egypt, Angola, Nigeria, and South Africa have generally been the biggest beneficiaries of FDI. South Africa's new inflows have been connected for the most part to the privatization cycle, the arrival of ventures set up in adjoining nations

during the politically-sanctioned racial segregation time, and financial backer premium in the country's sizable homegrown market. (Morisset, 2000) Somewhere in the range of 1995 and 1998 and 1987 to 1990, 33% of the development in FDI streams went to four oil-creating nations: Angola, the Congo Republic, Central Guinea, and Nigeria. (Pigato, Miria, 2001), FDI kept on overwhelming the oil business, with Angola, Algeria, Chad, Nigeria, and Tunisia representing the greater part, everything being equal Egypt, Angola, Nigeria, and South Africa represented 61.9 percent of the market in 2002. Given Tunisia's significance in 2002, these nations' portion expanded to 70.11 percent with its consideration. The changes in FDI streams to these nations essentially affect FDI streams to Africa in general. In 2004, Angola, Tropical Guinea, Nigeria, and Sudan all mineral-rich nations, just as Egypt, were the greatest recipients, representing simply under portion of complete inflows to Africa.

2.3.3. The Distribution of FDI Categories in Africa

Foreign Direct Investment in Africa is limited to industries where the continent's competitive advantages outweigh its drawbacks, a trend that has continued for decades. Among these are minerals (Mills and Oppenheimer, 2002) lumber, coffee, oil, and coffee. Globally, FDI has migrated from manufacturing to services. Early 70s, the sector contributed for less than one-quarter of global FDI. World Foreign direct investment in Africa is no longer entirely focused on mineral resources, as is widely believed by the general public However, services and manufacturing are becoming important receivers of international direct investment, even in oil-exporting countries like Saudi Arabia.

There has been little interest in Africa's emerging economies, despite the high returns that can be achieved through foreign direct investment. The lack of adequate infrastructure and a legal framework for contract enforcement are just a few of the factors contributing to this. Other factors include the way people view Africa's political and economic activity. Prospective investors are often put off by Africa's bad reputation when it comes to investing. As a result, the continent's diversity and richness, as well as investment opportunities in specific countries, are obscured. Because of their macroeconomic policy frameworks and advantageous regulatory environments, some African nations have been successful in attracting foreign direct investment, while others have been unsuccessful. The lack of knowledge and comprehension of African realities is an issue. Africa has become a more

attractive site for mining FDI as a consequence of the improvements made. Mineral production has increased significantly in some post-conflict countries, such as Angola and Mozambique, in recent years. The United Nations Conference on Trade and Development (UNCTAD 2005).

2.4 Model of Economic Growth

As defined by (Klein and Rosengren , 1994), Economic growth is defined as an increase in per capita GDP or equivalent aggregate income measurements, which is frequently stated as a percentage change in real GDP each year. The capacity to create more goods and services with the same amount of labor, capital investment, energy, and raw resources is the major engine of economic development. Short-term economic stability is distinguished from long-term economic stability by economists. Economic development is a key issue in the long term. A business cycle is a phrase used to describe fluctuations in economic growth that occur over a short period of time. Globally, the general state of the economy varies (Phillips and Obwana , 2000).

A wide range of statistics may be utilized to define the demographic, economic, technical, and institutional elements of an economy. (Sharma and Gani., 2004). Scientific information, its distribution throughout operations and application to economic change-related difficulties are all part of the stock of knowledge. But it also includes opinions that have an impact on the decisions chosen to mitigate economic change. An upper limit is set by this body of knowledge for service business, and specifically for banks (Melitz and Gianmarco , 2008). Because it is a financial, commercial and logistical center, Kenya attracts foreign investors. This has led to a concentration of foreign investment in Kenya's service sector Foreign direct investment is said to have a major positive impact on a host country's development efforts (Damooei and Tavakoli, 2006). In Kenya's economy, FDI has generated numerous externalities, including general knowledge transfers, specific production and distribution technologies, industrial upgradation, labor experience, and the establishment of finance- and trading-related networks, as well as improvements in telecommunications.

Foreign direct investment has been criticized for its unique benefits, notably in terms of the types of incentives given to foreign firms in practice Both at the miniature and large scale

levels, the observational proof supporting unfamiliar direct venture having great overflows for have countries is equivocal, which energizes this discussion. "There is meager proof that unfamiliar direct venture prompts positive overflows for have countries," contend Hanson et al. (2001). Microdata on overflows from unfamiliar claimed to locally possessed firms shows that the impacts are overwhelmingly negative, as indicated by the creators. Investigations of the determinants of unfamiliar direct venture (Wanjala, 2001), the effect of homegrown private speculation (King'ang'i, 2003), or the more extensive territorial ramifications of unfamiliar direct venture have been led before, however they have not analyzed the particular effects of unfamiliar direct venture on foundation improvement and information move.

Improving the flow of foreign direct investment has historically been a major aim for economic advancement, especially in developing countries Foreign direct investment has been advocated by the Chinese government in order to boost undeveloped industries (Sharma and Gani., 2004) For example, FDI is expected to help indigenous enterprises improve their technological efficiency while foreign entrants are expected to provide new technologies to the country.

2.4.1 Kenyan Economics Growth

According (Kimenyi et al, 2016), have revised a study from the 1960s to examine Kenya's economic development from 2000 to 2008. The previous research was carried out in order to discover why the economic success of the 1960s and early 1970s did not continue into the 1980s and 1990s. Although the economy grew at a snail's pace, there was no change in the government's policies. As of 1970, the United States' economy was growing at an average rate of 7.2% per year. Between 1980 and 1990, it decreased from 4.2% to 2.2% of the overall population. (World Bank, 2018).

The global economic crisis, commodity price drops, delayed structural adjustment programs, and political succession are among the possible causes of Kenya's ongoing economic slowdown. Another factor contributing to the country's poor performance was the country's exposure to a series of unfavorable shocks. As a result, the Bank of Kenya (World Bank, 2014) is pessimistic that a country case study can be dissected and reassembled in order to

achieve better economic growth in Kenya. Or, to put it another way, we'll concentrate on a few key concepts that help explain where things stand right now.

When compared to 2018, Kenya's GDP grew by 5.9 percent, which is more than twice as fast as 2017. With a 10 percent GDP growth target and an aim to reduce absolute poverty to the lowest possible percentage of the population, Kenya's Vision 2030 aims to achieve 10 percent GDP growth. First, I vowed to reduce the percentage of people living in poverty from 46.0% to 28.0%. 36.1 percent of Kenyans are living below the poverty line, which necessitates speeding up efforts to reduce poverty. The wealthiest 20 percent of earners account for 59.4 percent of the country's total expenditure, while the poorest 20 percent account for just 3.6 percent.

Poverty in Kenya has decreased significantly over the past three decades. The poverty rate dropped from 52.3% in 1997/98 to 46.8% in 2005/06 and 36.1 percent in 2015/16, a 0.9 percentage point annual decrease. Even though the country's economy shrank from 2.3% in 1997 to -0.2% in 2000 as a result of droughts, deteriorating infrastructure, and a lack of aggregate demand, Kenya's economy grew at an average annual rate of 3.9% from 1997 to 2016. Real GDP per capita grew at an average annual rate of 1.2 percent between 1997 and 2016. There was an average annual growth rate of 2.9% in real GDP per person between 2010 and 2019. Growth in Kenya's GDP per capita is directly proportional to the country's economic growth. Increasing economic activity is essential to improving the country's economic well-being.

Poverty alleviation is slower in rural areas than it is in peri-urban and central metropolitan areas. Peri-urban and core-urban poverty was 27.5 percent and 29.4 percent respectively in 2015/16, while rural poverty was 40.0 percent compared to 36.1 percent nationally. Rural poverty decreased by 12.8% between 1997/98 and 2015/16, while it increased by 21.5 percentage points in peri-urban areas and 19.8 percentage points in core urban areas, indicating a downward trend in rural poverty. In rural areas, children are more likely to be poor than any other age group in the country. National child poverty rates in 2015/16 were higher than those for youth and non-youth, respectively, with a national rate of 41.5%. 43.9 percent of children in rural areas were in poverty; this is higher than the national average of

41.5 percent and higher than the peri-urban and core urban rates of 30.2% and 37.9%. Agricultural dependency is the primary cause of rural poverty, which is exacerbated by low agricultural output. To reduce rural and national poverty, agricultural productivity must be increased.

Keynesian Economic Theory Despite the fact that colonial governments did not prioritize development or the link between rich and poor countries in the 1950s, development assistance to the world's poorest countries has been around since then. Keynesian economics is to blame for this trend, as evidenced by this graph. Because they didn't want to be viewed as backward and unproductive, they aimed to transform these areas into vibrant and growing economies instead. Instead of directly boosting living standards, foreign investment aids the economy's transformation and promotes long-term growth. Investing in developing countries served the economic interests of industrialized nations as well as their own well-being. In wealthy countries, interest rates are higher than capital productivity, while in developing countries, interest rates are lower than capital productivity. If rich countries have underutilized resources that cannot be utilized due to balance of payment constraints, it would be mutually beneficial to shift these resources to poor countries (Ikara Moses, et el, 2003).

The story of Kenya is a tale of missed chances. As a result, global trade has had little impact on Kenya's manufactured exports because the country is located on the coast, has cheap labor, and is generally pro-market. Historically, manufacturing exports accounted for less than 15 percent of total manufacturing output, but this has changed in recent years. However, trade liberalization policies were frequently reversed, which hampered progress during this period. Labor shortages in addition to supply restrictions, including limited or expensive credit, poor infrastructure, and a poor regulatory environment, hampered the country's exports and made it more difficult for it to compete in the global marketplace. Because of their powerful agglomeration economies, Asian countries have a cost-competitiveness threshold that is difficult to surpass. Almost universally, it is agreed that transaction costs are the most significant barrier to increased exports of manufactured goods. The decline in manufactured exports is the most obvious, but all exports have been adversely affected. Kenya is set apart from its neighbors, particularly those outside of East Africa, by a congested 'exports engine'

(World Bank, 2014). The export share of GDP has fallen from 21.7% in 2006–10 to 18.9% in 2011–14, despite an increase in imports during the mid-2000s. Exports of services, in contrast to goods, are on the rise. However, this growth has been so slow that it has failed to close the growing gap between exports and imports. Because of the country's shifting economic landscape, the current account deficit has widened. In 2006, the current account deficit amounted to 1.75 percent of GDP, an increase from the previous year. World Bank data shows the deficit grew to 10.6% of GDP in 2012, and to 10.8% of GDP in the year to July 2015, mainly due to slow exports in the face of rising imports. The deficit was 10.8% of GDP in July 2015. More than half of all imported goods are machinery and other equipment, but other goods have also risen by about a quarter. They are essential to the economy's future development. (Kimenyi et al, 2016).

2.5 The Relationship between FDI, And Economic Growth

Foreign direct investment and trade are seen as key elements of the globalization process. Wealth has expanded in economies that rely on foreign direct investment and commerce to support growth in recent decades (Tang et al., 2015). International trade and foreign direct investment have a number of good effects, including poverty reduction and the creation of jobs, technology transfer, and economic growth (Sakyi & Egyir, 2017). As a result of the export-led growth and FDI-led growth theories, the relationship between FDI, trade, and GDP has often been empirically explored. Therefore, international commerce contributes to economic growth by boosting knowledge diffusion, technical transfer, and competitiveness. It was shown by Melitz et al. (2008) that international commerce had an impact on intra-industry allocation and industry productivity as a whole." Inward FDI, according to the FDI-led growth theory, supports economic growth by expanding capital stock, creating jobs, and facilitating technology transfer. Contrary to expectations, empirical research in emerging nations continues to be unreliable when it comes to evaluating these hypotheses. As Liu, et al. (2002) established, FDI, trades and economic growth are all interdependent and causally linked in China. Slovakia's emphasize foreign direct investment in their manuscript exports, as well as economic growth were linked in Szkorupová, Z. (2014) study. As a result, Dritsaki et al. (2014) found that exports have a significant impact on economic growth in Croatia, but FDI has a small impact. According to the same research conducted by Belloumi (2014), FDI,

trade, and growth in Tunisia are not causally linked. He and his co-authors examined the causative correlations between economic growth, exports, and FDI in a number of Asian countries and found that the causal relationships were significantly different. An analysis by Asian economies found that FDI, exports, and growth did not co-integrate over the long run.

Debatable is the understanding of the relationship between commerce and foreign direct investment, which can be interpreted as either complementary or substituting. When it comes to foreign direct investment and exports in East Asian emerging countries, Marchant et al. (2002) discovered a favorable association between the two. It has been shown that trade and foreign direct investment in nations complement each other, according to Fontagné (1999) as well as Wilson and Cacho (2007). There is a stronger link between foreign direct investment and trade in developing nations than in industrialized countries when absorption capacity is taken into account, according to Aizenman and Noy (2006). Emphasis should be placed on emerging countries having low trade and financial restrictions in order to have a positive relationship between FDI and trade. The relationship between FDI and commerce in Latin America, on the other hand, was found to be inconclusive by Ponce (2006) An increase in the number of free trade agreements signed by countries has increased their ability to attract FDI inflows. Foreign direct investment might grow at a far quicker rate than commerce if free trade is implemented, according to Neary (2009). However, in countries with low trade costs they may be substituted.

Tobin, J. (1985). define economic growth as an increase in real GDP per capita over time. In fact, the production possibilities curve is moving outwards, demonstrating this. Using all of a country's resources, the production potential curve shows the grouping of two things that a country be able to create most efficiently. As a result of economic expansion, a country's potential to produce goods and services improves. Increasing the number or quality of components of production is required to achieve this. Development, according to Fisher and Clark, involves a broader range of activities, such as raising living standards and reducing poverty.

In supply side economics, economic expansion would ultimately result in an improvement in people's living conditions via trickle down effects. A rise in income from one sector of the

population trickles down to those who are less fortunate, causing a multiplier effect that provides revenue for the poorest segments of society.

Affects the economic growth of Kenya for smallholder farmers connected to integrated producer systems, this is expected to be especially true. The fact that FDI doesn't inherently enhance economic growth is becoming more and more evident. According to (Borenzstein, et al. 1998) the host country's education, technology, infrastructure, financial markets, and health systems must be at a particular level of development before FDI can contribute to economic growth. To summarize, foreign direct investment only helps to advance the economy at the point when the beneficiary nation has arrived at a degree of advancement where it can retain the predominant innovation conveyed by FDI therefore, most of FDI's impact on monetary development is possible because of productivity gains rather than a bigger degree of prompted interest overall. The overflows are positive and enormous in enterprises that are work escalated and have a low to direct innovation hole among Chinese and abroad organizations. Since work costs are so modest in China, 8.5 percent improvement in efficiency would cut the China evaluating by not exactly a large portion of a penny on the assembling dollar in a given year. By giving a first improvement to the economy, and by raising absolute variable usefulness and asset use effectiveness, FDI is thought to add to financial turn of events. Economic growth is the outcome of increased total factor productivity and resource use efficiency. A competitive business climate, international trade integration, and direct knowledge transfer all contribute to the transmission mechanism between foreign direct investment and economic growth. In spite of the reality that economic growth and poverty reduction are likely to go hand in hand, his research concentrated more on poverty reduction. (Musau, 2010).

2.6 The Effect of Export and Import on Economic Growth

Import refers to a type of international trade in which goods or services are brought into a country from another country and resold on the domestic market. The method for bringing items into the country is as follows The import procedure begins with a trade inquiry to determine how many nations and firms export the desired goods. (Bakari, S., & Mabrouki, M., 2017).

Theoretically, it has been contended that the two commodities and imports can assume a urgent part in monetary turn of events. Theoretical and exact examinations center principally around the connection among product and development or import and development or the connection between commodity, import and monetary development. Products of labor and products are viewed as the driving force of monetary and social advancement for various reasons, including sends out, which require development and enhancements to keep up with piece of the pie. Then again, trades guarantee an expansion in deals and benefits. On the other hand, they diminish their reliance on neighborhood markets, on the grounds that on account of extension in unfamiliar business sectors, the market base will expand, prompting a decrease in nearby purchasers as it were. In any case, sends out can possibly diminish the effect of market variances. By working in worldwide business sectors, organizations are more defenseless to financial changes, changing customer requests, and occasional variances in the neighborhood economy. At long last, and as far as product benefits, it tends to be summarized that an increment in trades prompts an increment in admittance to monetary standards, which thus prompts an increment in public pay, business and state excesses. It works on personal satisfaction. (Bakari, S., & Mabrouki, M., 2017).

Notwithstanding these benefits for trades, they here and there don't make these outcomes alluring and don't add to the country's high financial development, and this is because of a few reasons, among them: Seriousness surpasses assumptions, items Are disliked or famous in different business sectors, shakiness in the objective nation because of war or common difficulty, feeble media exposure and definition send out items or other comparable reasons. With regards to imports, it as a rule mirrors the state's shortcomings in addressing its own requirements, making them reliant and cultivating abroad. Imports, in contrast to sends out, lead to the freedom of neighborhood monetary standards, debilitating the exchange balance and accordingly debilitating financial development. Be that as it may, now and again it is viewed as a shipper for monetary development. This is especially true if it contains hardware and electronics that help increase and drive investment, or if it contains products that are costlier to produce than imports For these reasons, imports and exports are still a controversial topic as they have the potential to influence the social and economic growth of a country. (Bakari, S., & Mabrouki, M., 2017).

According to (Carbaugh, 2000) has noticed that imports and financial development are decidedly connected with the explanations behind going the two different ways. Quick monetary development prompts higher imports, however nations that are available to exchange, imports and products will generally become quicker than shut or less open nations. Also, as noted, somewhere in the range of 1998 and 1999, complete US Gross domestic product developed by 5.6 percent and imports expanded by 12.3 percent. It isn't the case; Nonetheless, it isn't unexpected contended that this Gross domestic product would become quicker assuming individuals spent their pay on locally created merchandise rather than on imports. For sure, in view of their financing, imports don't take away from all out Gross domestic product net imports represented 8% of Gross domestic product in 2005. Kenya's fundamental commodity items are plant items, tea, espresso, fish and concrete. The fundamental imports are hardware, method for transport, oil, iron, steel, saps and plastics. Kenya is Africa's biggest pre-owned vehicle merchant the normal advertisement valorem obligation rate on imported products is 12.7%.

2.7 Empirical Review

In the case of long-term investments by one nation in another, management involvement, joint ventures, technology transfer, and knowledge transfer are all examples, according to (Zhang, et el, 2001). Inflows of foreign direct investment (FDI) are categorized as either positive or negative net FDI inflows, depending on whether the investment is channeled inward or abroad. The ordinary shares of a foreign subsidiary's parent company must be owned by the parent company by at least 10% in order to qualify as FDI. In addition to license agreements and outright acquisitions, a country may transfer technology via the procurement of foreign capital goods, inflows from development finance institutions, turnkey projects, and international technical support. Its growth was highly reliant on licensing and turnkey projects, while Korea's development was mostly reliant on equipment imports and turnkey construction. (Damooei and Tavakoli, 2006).

In the development process, it is commonly acknowledged that technological advancements are a necessary component. Attracting FDI flows was highly valued by ASEAN member nations in order to facilitate technology transfer (Montes 1997). It has been shown that

foreign direct investment technology transfer encourages indigenous enterprises to develop their technologies. Employees who leave the organization may choose to utilize the technologies they learnt while working for the company to create their own enterprises after they have left (Chia 1997). Different nations in the Association of Southeast Asian Nations ASEAN have adopted a variety of methods to development finance and technical upgrading, based on their economic and policy situations (Chia et al. 1993).

Initially through an import-substitution strategy focusing on "mainline" advancement businesses, for example, material creation and vehicle gathering, ASEAN economies have reliably searched out worldwide creation innovation to modernize their assembling area, fully intent on turning out to be more serious in the worldwide market (Montes 1997).

In exact examinations, it has been shown that financial development and FDI are associated. The information from narrative sources suggests that there is a significant connection between monetary development and the level of homegrown venture. The exchange of innovation, aptitude, and other immaterial resources is a significant justification behind unfamiliar direct speculation's great impact on usefulness and asset allotment (Graham 1995). As per the World Bank, foreign direct venture and monetary improvement have a great affiliation (Zhang, et el, 2001). They hope to track down an immediate connection between FDI and financial improvement because of their review. Despite the fact that characteristics such as the trading system and macroeconomic stability in the host nation play an essential role in this finding, Zhang derives this result using data from 11 emerging countries in East Asia and Latin America, including China. (Phillips and Obwana , 2000).

3. RESEARCH METHODOLOGY

3.1 Research Design

This thesis case is based on Kenya's economic growth, and emphasis on how foreign direct investment (FDI) drives Kenya's economic growth and how FDI affects Kenya's economic growth. This is because FDI and economic growth are both variables that impact one another, yet the data available for study is limited, requiring the employment of statistical econometric methodologies. Annual GDP and FDI data from 1970 to 2018 might be used as a proxy for economic progress and foreign direct investment. The study's target population will include all sectors of Kenya's economy in order to acquire statistics on economic growth. GDP numbers are a measure of economic growth that include all economic sectors.

Table 1. Variables and Their Proxies

Economic growth	**GDP (constant 2010 US$)**
Foreign direct investment	FDI net inflow(BoP, current US$)
Exports	Exports of goods and services (constant 2010 US$)
Imports	Imports of goods and services (constant 2010 US$)

3.2 Model Specification

To assess empirically the impact of foreign direct investment on the economic growth in Kenya over the period 1970-2018, this paper is applied the Vector Autoregressive Estimation (VAR) structural break is tested the cointegration method to analyze the existence of the variables in the study have a long-run equilibrium. Therefore, the basic specification of the model is presented as:

$$\mathrm{Yt} = \mathrm{a} + \beta_1 \mathrm{Y}t_{-1} + \beta_2 \mathrm{Y}t_{-2} + \beta_3 \mathrm{Y}t_{-3} + \varepsilon_t \quad \ldots\ldots\ldots\ldots (1)$$

$$\mathrm{GDP} = \mathrm{a} + \beta_1 \mathrm{FD}I_{-1} + \beta_2 EX_{-2} + \beta_3 IM_{-3} + \varepsilon_t \quad \ldots\ldots\ldots\ldots (1)$$

Where: GDP is gross domestic production, FDI is foreign direct investment, EX is exports, IM is imports and ε is the error term. The bound F-test for co-integration is part of the VAR approach. The VAR method is one of the most popular, adaptable, and simple models for

multivariate time series analysis. To test for the presence of long-term cointegration, equation (1) is rearranged as an unrestricted error correction model (ECM) in the VAR framework as equation (2):

$$\Delta GDP_{it} = C_0 + \alpha_1 GDP_{t-1} + \alpha_2 EX_{t-1} + \alpha_3 FDI_{t-1} + \alpha_4 IM_{t-1} + \sum_{i=1}^{n} \alpha_1 \Delta GDP_{t-1} + \sum_{i=1}^{n} \alpha_2 \Delta EX_{t-1} + \sum_{i=1}^{n} \alpha_3 \Delta FDI_{t-1} + \sum_{i=1}^{n} \alpha_4 \Delta IM_{t-1} + \varepsilon_i \ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

Where the delta is the short-term dynamics and the operator of the difference are represented. Long lasting relationships are calculated along with variables by the attached parameters. The short-run error correction model is used to evaluate short-run dynamics and to verify the long-run coefficient of equation robustness (2). It is stipulated as show in equation (3):

$$\Delta GDP_t = C_0 \sum_{i=1}^{n} \alpha_1 \Delta GDP_t + C_0 \sum_{i=1}^{n} \alpha_2 \Delta EX_{t-1} + \sum_{i=1}^{n} \alpha_3 \Delta FDI_{t-1} + \sum_{i=1}^{n} \alpha_4 \Delta IM_{t-1} + ECM_{t-1} + \varepsilon_i \ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

The study uses yearly time series data from 1970 to 2018, with current data expressed in US dollars. The United Nations Statistics Division and the World Bank were among the sources used to compile the data. The study uses the VAR systemic break to assess if the present short-run connection between the variables is cointegrated in order to examine the long-run and error correction model.

3.3 Method of Estimation

3.4 Descriptive Statistics

The review utilizes unmistakable measurements to clarify essential information highlights. It gives a little example and measures outlines. The type of the premise of for all intents and purposes any quantitative information examination with basic designs investigation. Expressive investigation uncovers the mean, least, stander deviation and a limit of the information.

3.5 Unit Root Test

The first step is to check the unit root using Phillips-Perron and Augmented-Dickey-Fuller. To test the data stationary is checked through Phillips-Perron and Augmented Dickey-Fuller test are applied to trend and intercept. The Null Hypothesis for PP and ADF is that the series is non-stationary, while the alternative Hypothesis is the series is stationary.

3.6 Vector Autoregression (VAR) Model

The vector autoregression (VAR) model is one of the best, adaptable, and simple to utilize models for the examination of multivariate time series. It is a characteristic expansion of the univariate autoregressive model to dynamic multivariate time series.

3.7 Diagnostic Test

Testing the Normality of Data: As the sample size grows large, consistency is a trait of the point estimator that collapses around the parameter, essentially telling us nothing about the shape of the sample size. The results of the study need a way of approximating the distribution of the estimators. The hypothesis of the study

H_0 Data is not normally distributed

H_0 Data is normally distributed

If the null hypothesis is not discarded, this means that the data used in this hypothesis is not usually distributed and that the possibility of heteroskedastic error exists (Charles, 2005).

Tests for Heteroskedastic Error: The study also investigates whether the perfect assumption of homoscedasticity exists. Then this hull theory was established as follows.

$H_1: \sigma_1^2 \ = \sigma_2^2 = 0 \ldots \ldots \sigma_k^2 = 0$

H_1 : At least one of these is different from zero

So if the study rejects the null hypothesis. Then the study concludes that model has problem of the heteroscedasticity.

3.8 Cointegration Test

A co-integration test is performed to analyze the existence of the variables in the study have a long-run equilibrium. The study applied trace and maximum eigenvalue tests, the assumption of intercept and trend were considered for all the variables.

3.9 Granger Causality Tests

A Granger Causality test was used to determine the direction of the variables in the research. The findings, which are presented, show a link between foreign direct investment and Kenyan economic development. The patterns of causal linkages between variables were investigated using the Granger causality approach. The Granger causality test is a predictive hypothesis test for determining if one-time series may predict another. If the probability value is less than a certain amount of alpha, the hypothesis will be discarded at that point.

4. EMPIRICAL RESULT AND DISCUSSION

The study presents and discusses the findings of the empirical analysis in this section. First, the analysis presents descriptive statistics to virtualize the quantitative data analysis the analysis also conducts the root check of the device to assess the data in the station. Finally, this analysis explores the empirical relationship between foreign direct investment and economic growth in Kenya.

4.1 Descriptive Statistics

Table presents the descriptive statistics show that the average, minimum, stander diversion and maximum.

Table 2: Descriptive Statistics

	GDP	FDI	EXP	IMP
Mean	2.60E+10	2.18E+08	5.16E+09	6.60E+09
Median	2.26E+10	46371851	4.63E+09	4.09E+09
Maximum	6.18E+10	1.63E+09	1.06E+10	1.92E+10
Minimum	6.76E+09	394430.6	2.21E+09	1.56E+09
Std. Dev.	1.40E+10	4.06E+08	2.71E+09	5.53E+09
Skewness	0.884297	2.274029	0.664124	1.097666
Kurtosis	2.984471	7.046835	2.079262	2.749366
Jarque-Bera	6.386668	75.66765	5.332839	9.968022
Probability	0.041035	0.000000	0.069501	0.006847
Sum	1.27E+12	1.07E+10	2.53E+11	3.23E+11
Sum Sq. Dev.	9.42E+21	7.93E+18	3.51E+20	1.47E+21
Observations	49	49	49	49

Source: Author's analysis using data from the United Nations Statistics Division and World Bank

Table 2 present the summary statistics of the variables under consideration using the mean, median, maximum, minimum, standard deviation and the measure of distribution (skewness and kurtosis). Nothing that the analysis was carried out in log form of the series with each

series comprises of 49 years' data point. The result reveals that average gdp over the study period was found to be 2.60 (SD=1.40) which span between 6.76 to 6.28. the average value of export is 5.16 (SD=2.71) and it ranges between 2.71 to 2.21. The value of average for foreign direct investment and import was obtained to be 2.18 (SD=4.06) and 6.60 (SD=5.53) respectively. The skewness for each series is less than value of 3 and the kurtosis is closer to 2 except for that foreign direct investment which has kurtosis of 7.04. with skewness of the series value of 2.27, it implies that the spread of each series around the mean value approaches standard normal density spread and likewise for peakedness of each series with the exception of FDI which more peaked.

4.2 Correlation Analysis

Correlation matrix examines the direction of the relationship among variables also indicates the multicollinearity problem. Table 3 shows the pair matrix for the variables used in the empirical analysis.

Table 3. Correlation Matrix

	GDP	**FDI**	**EXP**	**IMP**
GDP	1	0.746730	0.96898	0.96029
FDI	0.746730	1	0.731586	0.7945206
EXP	0.96898	0.731586	1	0.962994
IMP	0.960298	0.7945206	0.962994	1

Source: Author's analysis using data from the United Nations Statistics Division and World Bank

The table above shows the correlation test of the variable and it seems that all those variables are correlated each other, there is a strong positive coefficient relationship when it comes the GDP and FDI with the value 0.746730, and also same relationship between GDP and EXP with the value of 0.96898 which is strong coefficient correlation, the same associate between

GDP and IMP with value of 0.960298. So the other variables have strong positive coefficient relationship between each other

4.3 Unit Root Test

To test the data stationary is checked through Phillips-Perron and Augmented Dickey-Fuller tests are applied to trend and intercept. The Null Hypothesis for PP and ADF is that the series is non-stationary, while the series is stationary in the alternate hypothesis.

Table 4. Unit Root Test Using Phillip Person Test

At level	**t-statistics**	**Prob. ***	**Integrated order**	**conclusion**
GDP	5.818145	1.0000	**I(0)**	**Non-stationary**
FDI	-1.380349	0.5841	**I(0)**	**Non-stationary**
EXP	0.784726	0.9928	**I(0)**	**Non-stationary**
IMP	2.532297	1.0000	I(0)	**Non-stationary**
1st Difference	**t-statistics**	**Prob. ***	**Integrated order**	**Conclusion**
GDP	-1.299753	0.6221	I(1)	**Non-stationary**
FDI	-6.157480	0.0000	I(1)	**Stationary**
EXP	-6.276636	0.0000	I(1)	**Stationary**
IMP	-5.846998	0.0000	I(1)	**Stationary**

The table above show the results of unit root by utilized PP test, the test reveals at level all series are non-stationary, while some are stationary at level first difference except GDP because the P-value is greater than 0.05 and other series of the data are stationary. The result indicated the series can be said to be integrated of order (1). Proceeding further, will necessitate a time series model that requires the series to be integrated of order (1).

Table 5. Unit Roost Using by Augmented Dickey-Fuller Test

At level	t-statistics	Prob. *	Integrated order	Conclusion
GDP	7.685119	1.0000	**I(0)**	**Non-stationary**
FDI	-2.996238	0.0438	**I(0)**	**Stationary**
EXP	0.683117	0.9906	**I(0)**	**Non-stationary**
IMP	2.823877	1.0000	I(0)	**Non-stationary**
1st Difference	**t-statistics**	**Prob. ***	**Integrated order**	**Conclusion**
GDP	-1.679849	0.4347	I(1)	**Non-stationary**
FDI	-3.116217	0.0337	I(1)	**Stationary**
EXP	-6.293450	0.0000	I(1)	**Stationary**
IMP	-2.086634	0.2508	I(1)	**Non-Stationary**

Source: Author's analysis using data from the United Nations Statistics Division and World Bank

The table above shows unit roots test under ADF method, and the results indicates that all series at level are non-stationary except FDI series because the results indicate the FDI series are stationary and also the table shows results of unit root at firs difference that indicates GDP and imports series are non-stationary, while FDI and exports are stationary.

4.4 Cointegration Test

A co-integration test is performed to analyze the existence of the variables in the study have a long-run equilibrium. The study applied trace and maximum eigenvalue tests, the assumption of trend and intercept were considered for all the variables.

Table 6: Long-Run: Cointegration Test- Johansen

Hypothesized	Trace	0.05

No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.490220	64.74788	47.85613	0.0006
At most 1 *	0.322554	33.08037	29.79707	0.0202
At most 2	0.241572	14.77741	15.49471	0.0639
At most 3	0.037196	1.781552	3.841466	0.1820

Source: Author's analysis using data from the United Nations Statistics Division and World Bank

To proceed, we further examine if the series are cointegrated to established if there is long run relationship or say to determine if the series achieve equilibrium. The test used the Johansen Cointegration test which assume no cointegrating equation between the series against the alternative. The hypothesis is stated as

$$H_0: There\ is\ no\ Cointegrating\ Equation$$

$$VS$$

$$H_1: There\ is\ Cointegrating\ Equation$$

If the trace statistic is more than the 5% critical value, the Ho is rejected. In the Johansen Cointegration test output, we focus on the hypothesis labeled None, which has a trace statistic of 64.74 and a 5 % critical value of 47.85 (p=0.0006). Because the computed trace statistic is bigger than the crucial value, Ho is rejected, implying that the variables have a cointegrating equation. As a result, the series have a long-term partnership. The short run model, which employs the vector error correction model, and the long run model are then presented.

4.5 Vector Autoregression

Vector Autoregressive Model are utilized for the multivariate time series. The exhibit is the direct capacity of the principal timespan variable and the second time period second factor.

Table 7: Vector Autoregressive Estimates

	GDP	FDI	EXP	IMP
GDP(-1)	1.353781	0.093620	0.024122	0.162536
	(0.15378)	(0.06515)	(0.11776)	(0.16331)
	[8.80364]	[1.43705]	[0.20485]	[0.99525]
GDP(-2)	-0.346859	-0.074772	0.009237	-0.199140
	(0.15156)	(0.06421)	(0.11606)	(0.16096)
	[-2.28859]	[-1.16451]	[0.07959]	[-1.23720]
FDI(-1)	-0.767186	0.451485	0.272737	0.133743
	(0.38953)	(0.16503)	(0.29829)	(0.41369)
	[-1.96952]	[2.73584]	[0.91434]	[0.32329]
FDI(-2)	0.469840	-0.266590	-0.422077	-0.526081
	(0.38791)	(0.16434)	(0.29705)	(0.41197)
	[1.21121]	[-1.62218]	[-1.42091]	[-1.27700]
EXP (-1)	-0.255742	-0.158796	0.937978	0.190740
	(0.21667)	(0.09179)	(0.16592)	(0.23011)
	[-1.18032]	[-1.72992]	[5.65323]	[0.82891]
EXP (-2)	0.123937	-0.006724	-0.072333	0.459568
	(0.26090)	(0.11053)	(0.19979)	(0.27708)
	[0.47504]	[-0.06083]	[-0.36205]	[1.65863]
IMP (-1)	0.400423	0.174027	0.105016	0.689264
	(0.15126)	(0.06408)	(0.11583)	(0.16064)
	[2.64723]	[2.71567]	[0.90664]	[4.29069]
IMP (-2)	-0.246735	-0.104047	-0.111666	0.138275
	(0.14858)	(0.06295)	(0.11378)	(0.15779)
	[-1.66062]	[-1.65294]	[-0.98145]	[0.87630]
C	2.68E+08	-17270933	18893448	-9.64E+08
	(2.9E+08)	(1.2E+08)	(2.2E+08)	(3.1E+08)
	[0.92509]	[-0.14097]	[0.08532]	[-3.14033]

Source: Author's analysis using data from the United Nations Statistics Division and World Bank

The desired focus model for GDP in the short run is given as

$$\widehat{gdp_t} = 2.68 + 1.35 * gdp_{t-1} - 0.34 * gdp_{t-2} - 0.76 * fdi_{t-1} + 0.46 * fdi_{t-2} + 0.25 * exp_{t-1} + 0.12 ** exp_{t-2} + 0.40 ** imp_{t-1} - 0.24 * imp_{t-2}$$

The long run model is then given as

$$\widehat{gdp_t} = 3.49 + 0.40 * fdi_t + 3.17 * exp_t + 0.91 * imp_t$$

The long run model shows that there is a positive impact of the export and foreign direct investment on the gross domestic product while import has positive impact. The result shows that for every rise in the log of export and log of foreign direct investment by 100 units, the log of gdp will rise by 40 and 317 respectively while 100-unit rise import will increase the gdp by 91. The p-value associated with the estimated values indicated that only the log export has significant impact on the log gdp at 5% level. The R-squared obtained to be 0.949 and this means that 94.9 of variation in the log gdp are explained by the included variable in the long run. As such, the model is valid for prediction purposes.

The result of the short run model in table 6 by the VAR model shows the instantaneous impact of the series lags on the each of the exogenous variable. The coefficient are accompanied with the standard errors (in round parenthesis) while the t-statistic are provide in square parenthesis. A significant coefficient is one with large t-statistics (usually greater than 4) and insignificant coefficient have t-statistic lower than 4. The lower the standard error closer to zero the more the precision of such estimated coefficient and the higher its significant. It can be seen from the model that each of the series at lag 2 has lower t-statistic lower closer to zero. This means that the series at lag 2 are significant for modeling the system of equation. This is also true for series at lag 1 and suggesting that the lag of the series are not significantly impacting the system in the short run with the exception of lag 1 and 2 of log GDP series which has higher t-statistic for both the lag 1 and lag 2.

Table 8: Ordinary Least Square

Variables	**Coefficients**	**Prob. ***
FDI	0.406372	0.8358
EXPORTS	3.179757	0.0000
IMPORTS	0.910005	0.0156
Constant	3.49E+09	0.0255
R2	0.949139	
Observations	49	
Number of countries	Kenya	

Source: Author's analysis using data from the United Nations Statistics Division and World Bank

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9: Diagnostic test

Serial Correlation test	25.22976 0.0669
Heteroskedasticity test	463.5755 0.2109

Source: Author's analysis using data from the United Nations Statistics Division and World Bank

The model was further examining for consistency and assumption violations. The model residual was tested for presence of serial correlation, heteroskedasticity and normality. The result reveals that the p-values obtained for the serial correlation and the heteroskedasticity are greater than alpha 0.05 which thus informed the rejection associated Ho for the test while the p-value for the normality test is relatively greater than the 0.05. As such, residuals are serially correlated and as well assume no constant variance over term but assume to be relatively normal.

4.6 Granger Causality

To examine the direction between variable the study a Granger Causality test was performed. The results, which are summarized the nexus between foreign direct investment and economic growth in Kenya.

Table 10: Granger Causality Tests

Null Hypothesis:	**Obs**	**F-Statistic**	**Prob.**
FDI → GDP	47	1.56913	0.2202
GDP → FDI		11.2838	0.0001
EXP → GDP	47	1.27371	0.2904
GDP → EXP		0.95912	0.3915
IMP → GDP	47	3.32544	0.0456
GDP → IMP		2.06545	0.1394
EXP → FDI	47	6.86192	0.0026

FDI → **EXP**			1.84857	0.1700
IMP → **FDI**		47	12.5911	5.E-05
FDI → **IMP**			1.28312	0.2878
IMP → **EXP**		47	0.60918	0.5485
EXP → **IMP**			6.54798	0.0033

Source: Author's analysis using data from the United Nations Statistics Division and World Bank

The granger causality test was also carried out to determine if the past values of export, import and foreign direct investment can be used in predicting the future values of the gdp. The result is presented in table 8 which reveals that none of the series granger cause the GDP except IMP because import can granger cause GDP and the gdp can granger cause FDI. The other series of the study shows that EXP does granger cause FDI, and also imp does granger cause FDI, the series of EXP does granger cause imp The causality test on GDP towards the other series shows a uni-directional causality which means that past values of the log GDP is sufficient in predicting the future values of the export, import and the foreign direct investment. Also, among the export, import and foreign direct investment, the p-value from the granger causality test were seen to be lower than alpha 0.05 in both directions which means that there is there is unidirectional causality between the export, import and foreign direct investment.

5. CONCLUSION AND DISCUSSISON

As previously noted, empirical data from Kenya reveals that the association between FDI and economic development is a positive indicator. This indicates that attracting FDI inflows will contribute a large share of capital to total investment capital, improve employment and income, promote products and services exports, transfer of technology, and management expertise and skills. Labor productivity will rise as a result, and economic development will be aided. Foreign-invested firms in Kenya are the most rapidly expanding sector, with GDP growth routinely exceeding the national average. This result agrees with the findings of (Ali and Fei, 2016) and other researchers who found the same results (Bouchoucha and Ali , 2019) as well as (Nguyen, 2019) as the same scholar found similar results (Nguyen, 2020). A positive and substantial association between FDI and economic growth reminds governments that there are rising competitive incentives to attract FDI inflows, as evidenced by empirical research. This puts pressure on the Kenyan government to adjust its strategy for attracting FDI inflows and exports in the next term.

Because of its low starting position, a developing country has several challenges in exporting products and services due to insufficient initial acquired capital, core technologies, weak managerial skills, and, most crucially, an inexperienced labor population. As a result, the country has a closed economy, limited international economic integration, a weak export market, a mostly local supply of goods and services, a tiny economy, and low annual economic growth rates. As a result, exports and economic development are intertwined. The study found that exports have a large impact on economic growth and there is other scholar found similar result, like (Singh, 2015).

Even among a group of nations with greater growth rates, countries from underdeveloped to low middle income or low developing countries should have higher yearly economic growth. Countries take advantage of both home and international markets by negotiating bilateral and multilateral trade agreements, resulting in increased production to fulfill both domestic and export markets. Kenya has implemented a number of open economic policies in order to achieve low-middle-income status, attract FDI, and expand foreign markets. The size of production grows in response to the expansion of the export market, which boosts economic growth. The strong correlation between exports and economic growth is significantly

favorable, according to experimental findings. This result is consistent with the finding by (Romer, M., 1986)as well as (Lucas Jr, 1988),it might seems that there other researcher who institute comparable results (Lloyd et al, 2001). And also (Nguyen et al, 2016).

According to the study's analysis, imports have a positive impact on Kenya's economic growth. This result suggests that increasing this factor will boost overall economic growth, imports in East Africa are a very critical part of their economy because most of these countries are not industrialized countries but they are agriculture-based, so we can attribute that. Import plays an important role in their economic development.

5.1 Practical Implementation

The goal of this thesis is to examine the influence of foreign direct investment on Kenyan economic growth from 1970 to 2018. In addition, the study compared the impact of various factors on economic growth. At a substantial level, the function of the components in economic growth is a strong and positive causal link. Based on the findings of this paper, the study recommends the following policy implications.

To begin, Kenya must pursue high-tech projects leveraging inexpensive labor and natural resources through tax and agricultural incentives in order to generate a fresh momentum for attracting FDI inflows and to be able to compete with government in all areas. It is critical to move fast from FDI projects, infrastructure development, administrative process reform, absolute eradication of informal fees, supply of high-quality human resources, and a modern health system, to highlight a few.

Second, Kenya always seeks constructive solutions to mobilize all sources of local and international capital, including the state budget, private capital, and, in particular, foreign investment capital, in order to meet the aims of its socio-economic development plan in any age. As Kenya progresses from a low-income developing nation to a low-middle-income developing country, the relationship between Kenya and foreign donors will shift from development aid to partnerships. Although Kenya has strong international backing, foreign donors are pressing for a gradual shift in Kenya's development cooperation policies to allow official development aid to be invested in less favorable terms, such as affordable loans. Assist with support and progressive growth initiatives. Kenya should think about where it

wants to put its loan money based on its financial circumstances. For projects that straightforwardly advance reasonable improvement related monetary development, ODA advances and unfamiliar guide credits, for example, transport foundation projects, tasks like savvy urban communities, clean energy, shrewd rural turn of events, or overflow impacts. Ought to be liked. Transformation, improvement in ecological principles, change in schooling, wellbeing, innovation and abilities. Notwithstanding, the selection of ventures ought to be in the general harmony between medium-term public speculation and medium-term public obligation, zeroing in on reimbursement conditions to guarantee believability and responsibility for unfamiliar benefactors.

Third, Kenya advances the product of labor and products originating from a positive causal connection among trade and financial development: the severe execution of reciprocal and multilateral concurrences with different nations and globally. Monetary organizations, to deal with the commodity markets accessible there and to extend the new product markets. Detail arrangements to help endeavors to put resources into the revelation of devices, innovation and assembling cycles to satisfy the guidelines and norms of commodity markets. The rebuilding of commodity items is toward expanding the amount of items that are of high worth. Fortifying business sector data to make positive conditions for organizations to make the most of product openings. Advancing the advancement of framework and coordination's administrations. Reinforcing disentanglement of administration processes, execution of the executives' practices and import and commodity exercises strategies, and giving exhortation, data and legitimate help to organizations managing import and product exercises.

5.2 Further Research

Kenya's current constitution, which was written in the previous three years, establishes a decentralized governance structure. With this in mind, future research should concentrate on the examination of specific regional and country examples in order to provide precise policy suggestions and to employ more rigorous econometric models. As a result, the impact of FDI on the economy can be improved. Although there is now a substantial amount of FDI money in agriculture, the majority of it is channeled through foreign affiliates who have formed

affiliates in Kenya. A research should be carried out with the goal of lowering the risk of FDI and poverty in the small-scale agro-industry.

The recent burgeoning mining industry, in which foreign-affiliated firms are required to explore Kenya's natural resources with the finest expertise and resources, should perform a pre-construction study to avoid inappropriate rules. It has to be done. Impact on the local economy is negative.

The influence of FDI on Kenya's economic growth is investigated using macroeconomic factors in this study. Investors' reactions to the influence of various business factors on their businesses should be explored, and information regarding the other side of the coin supplied. From the standpoint of a multinational firm, FDI is seen.

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