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Topic: Impact of Foreign Direct Investment on Economic Growth:A Case Study of Kenya

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Abstract

Extensive deliberation has taken place over the pivotal significance of foreign direct investment in promoting economic growth. This debate has included development experts, scholars, aid donors, and beneficiaries in general, with a particular focus on Kenya. Despite this, there are not many empirical studies that look at how foreign direct investment affect Kenya's economy as a whole. Using data from 1976 to 2020, this research explores the link between Kenya’s economic growth and foreign direct investment. To ascertain if adjustments to one variable cause changes in the other, it next applies causal analysis. The findings indicate that the amount of economic growth currently seen is largely influenced by foreign direct investment.The results show that by strategically enhancing investment plans and managing aid monies properly, Kenya might increase its economic development.

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LIST OF ACRONYMS

AfDB: African Development Bank

AG: Aktiengesellschaft (Cooperation/Public Limited Company)

ANOVA: Analysis of Variance

ASEAN: The Association of Southeast Asian Nations

BOP: Balance of Payment

BRICs: Brazil,Russia,India and China

CBK: Central Bank of Kenya

FDI: Foreign Direct Investment

FKE: Federation of Kenya Employers

FSAs: Firm-Specific Advantages

GDP: Gross Domestic Product

ICT: Information and Communication Technology

ISA: International Specific Advantage

KenInvest: Kenya Investment Authority

KNBS: Kenya, National Bureau of Statistics

LDCs: Less Developed Countries

LLL: Linkage, Leverage and Learning paradigm

MNCs: Multinational Corporations

MNEs: Multinational Enterprises

NEPAD: The New Partnership for Africa's Development

NIC: Newly Industrialized Countries

NGOs: Non-Governmental Organizations

OECD: Organization for Economic Co-operation and Development

OLI: Ownership,Location, Internationalization

OLS: Ordinary Least Squares

R&D: Research and Development.

SACU: Southern African Customs Union

SMEs: Small and Medium Enterprises

TOT: Terms of Trade

UNCTAD: United Nations Conference on Trade and Development

US: United States of America

WTO: World Trade Organization

CHAPTER ONE

INTRODUCTION

1 Introduction

The majority of Less Developed Countries (LDCs) opt for foreign direct investment (FDI) as a strategy to promote economic development in various regions, particularly in Africa, South America, and some areas of Asia. Many nations have shown that FDI may effectively attract foreign resources like as capital, technology, managerial expertise, and access to global markets. This, in turn, stimulates economic development, creates employment, and elevates living standards (Odunga, 2020). FDI is crucial for enhancing capacity via the transfer of technology. This means that foreign companies have the ability to train local staff in particular activities related to their own operations, such as manufacturing procedures, quality control methods, and supply chain management. . By upgrading the skills and expertise of the local workforce, this may subsequently raise productivity and competitiveness within the nation where it is implemented.

In lieu of cost-effective technology transfer, FDI may also facilitate the transfer of knowledge and skills via partnerships and joint ventures between domestic and international companies. By engaging in partnerships with international corporations, domestic enterprises may acquire valuable knowledge from their counterparts, expand their reach into untapped markets and networks, and enhance their own operational strategies and capacity for product innovation. The extent to which foreign direct investment contributes to capacity development depends on many aspects, including the nature of the investment, the industry in which it is made, the degree of local involvement and ownership, and the legislative framework that governs FDI. Therefore, it is essential for host nations to establish a favourable legislative framework that encourages responsible and sustainable FDI while also fostering local involvement and reaping its associated rewards.

The World Development Report (2013) posits that FDI is believed to bridge the significant technological disparity in the least developed nations via both direct and indirect transfer of technical knowledge. FDI has been contended to be crucial in expediting the progress of least developed nations. Kenya aims to expand its information and communication technology (ICT), industrial, and energy sectors via FDI. FDI might provide several advantageous outcomes for the nation. FDI in the ICT industry has the potential to provide advanced technology, specialised knowledge, and financial resources, hence facilitating the

modernization and expansion of Kenya's digital infrastructure and services. This initiative aims to enhance the availability of information and communication technology for both consumers and enterprises, foster the growth of e- commerce and digital entrepreneurship, and facilitate the advancement of innovation and skills in the ICT industry.

FDI has the potential to enhance domestic manufacturing capabilities, provide job prospects, and boost the volume of exports in the manufacturing industry. Kenya can enhance the competitiveness of its manufacturing sector by attracting foreign corporations to establish operations in the nation, which would bring in new technology, management techniques, and market access. FDI in the energy sector may assist Kenya in mitigating the country's energy shortfall by augmenting its generating capacity, enhancing energy efficiency and advocating for renewable energy sources' utilisation. Kenya has been dependent on costly and undependable fossil fuels which are environmentally unsuitable.

The rise in corporate earnings and strong demand, along with elevated commodity prices, have rendered less developed countries (LDCs) more lucrative for foreign investors, resulting in a surge of capital inflows. Kenya has had a notable rise in FDI in recent times. This may be attributed to many causes, such as the country's stable macroeconomic policies, which have improved the business environment and boosted investor confidence. In 2013, Kenya experienced a record-breaking influx of foreign direct investment, amounting to $1.6 billion. This positive trend has persisted in the following years due to the government's efforts to foster a favourable environment for foreign investment. These efforts include the creation of special economic zones, offering tax incentives, and establishing investment promotion agencies. As a result, Kenya has witnessed significant economic growth and development (UNCTAD, 2015).

In 2014, East Africa received a total of $672 billion in FDI, which was an 11% increase compared to the previous year. Kenya, in particular, garnered a substantial portion of these inflows. The entire FDI inflow in Africa as a whole, as reported by the UNCTAD World Investment Report (2015), amounted to $5.3 trillion. The rise in sub-Saharan Africa counteracted the decline in Northern Africa, indicating that the overall investment environment in Africa was favourable, with some areas seeing more economic expansion than others.

In 2006, FDI directed towards LDCs, mostly situated in Africa and Asia, reached a total of US$281 billion, representing a growth from the previous figure of US$235 billion. The huge boost in economic development in many of these nations may be primarily attributable to the relaxation of limitations on foreign ownership and the privatisation of the highly lucrative banking and telecoms industries. Furthermore, the privatisation of parastatals may enhance

their efficiency and alleviate the strain on government funds. According to Africa Development Indicators (2006), sub-Saharan Africa absorbed 4% of the worldwide FDI. The pace of technological advancement in the economy is influenced by the host country's potential for invention, social aptitude, and ability to assimilate other companies (Carkovic & Levine, 2002).

1.1 Background of the study

Kenya and Tanzania, sub-Saharan Africa nations have considerably smaller investments as compared to rest of the countries globally (Odunga,2020). FDI flows were acknowledged as the major investment vehicle necessary to support growth in Kenya and Tanzania, non-OECD countries, by the OECD (2012), World Bank (2014), and NEPAD (2012). According to UNCTAD (2018), foreign direct investment is the largest source of finance for non-OECD countries. 39% of all inflows in 2017 came from non-OECD countries.

The worldwide FDI flow for 2016, 2017, and 2018 was $1.87 trillion, $1.43 trillion, and $1.3 trillion, respectively. The figures indicate a decrease of 13% in 2017 and a decrease of 23% in 2016 (UNCTAD,2019). In 2017, the amount of foreign direct investment (FDI) in OECD countries declined in comparison to non-OECD economies. Nevertheless, 18 OECD nations maintained steady FDI inflows. Furthermore, a significant 87% of the prominent multinational corporations were situated in the Triad, including Japan, the European Union, and the United States. Moreover, the vast majority of their foreign investments were focused in this region. During a three-year period, non-OECD economies had a steady increase in the share of foreign direct investment (FDI) inflows, accounting for 54% of the total. The percentage has risen from 47% in 2017 to 36% in 2016. In 2017, there was a 4% rise in foreign direct investment (FDI) into emerging Asia in relation to regional growth. The region saw the highest influx of worldwide foreign direct investment (FDI), reaching a consistent growth rate of $476 billion. Foreign direct investment (FDI) into Africa had a notable increase of 11%, reaching a total of $46 billion. This is significant given the reduction to $42 billion in 2017 and the 21% decline in 2016, which is seen as a rebound (UNCTAD, 2019).

Kenya, despite having a poor economy and developmental status, continues to be the primary beneficiary of FDI in Africa. The FDI amounted to $1.2 billion in 2017 and $1.6 billion in 2018, reflecting a growth of 27%. Kenya attracted a total of $14.4 billion in FDI in 2018 (KenInvest ,2019; UNCTAD 2019).Kenya's ICT industry has attracted the highest amount of FDI. The FDI also considers other sectors such as banking, tourism, infrastructure, and the extractive industries. The United Kingdom, Netherlands, China, and Belgium are the

leading foreign investors in Kenya (AfDB,2019;KenInvest,2019). Kenya is a prominent economic hub in East Africa, thanks to its strategic coastal position, a growing middle class of entrepreneurs, a thriving agricultural industry, and the recent discovery of hydrocarbon reserves.

Kenya has successfully attracted FDI by fostering collaborations between the government and private sector, as a key component of the Vision 2030 programme. The impediments to investment in Kenya include a dearth of skilled labour, increased insecurity stemming from terrorism, political and social disunity, a lenient legal framework, and corruption (AfDB, 2020; World Bank, 2020). In order to comprehend the reasons behind foreign investors' preference for one country over another, it is necessary to identify the variables of FDI (Dunning, 1998; Dupas & Robinson, 2010; Okafor, Piesse, & Webster, 2017). This research will analyse the determinants of FDI for both OECD and non-OECD countries. This study investigates the impact of FDI on Kenya's export performance and economic development. The research aims to augment the available information and assess the determinants that impact FDI into Kenya.

1.2 Statement of the problem

The governments of affluent nations, foreign aid organisations, and other international institutions, such as the World Bank, along with individuals through development charities like Oxfam, Caritas, Care International, or Action Aid, are collaboratively striving to promote long-lasting and sustainable economic advancement in Kenya (Odunga, 2010). The nation saw a significant decline in living standards as a result of the economic crises that occurred during the preceding two decades. Despite the progressive increase in economic development, there is a simultaneous rise in the pricing of essential goods and commodities (World Bank, 2004).

Kenya's study findings indicate that the level of FDI in the country is low, both in absolute and relative terms. Despite the low FDI inflows resulting from prior economic struggles in earlier decades, Kenya remains the dominant corporate leader in the area. Kenya has retained its regional advantages in terms of FDI due to its skilled workforce and strategically advantageous central location (Federation of Kenya Employers, 2002). Kenyan foreign investors have made minor investments in several areas. Foreign investors have significantly contributed to the growth and development of growing economic sectors such as the horticulture industry and the expansion of export opportunities (World Bank, 2004). The bilateral study conducted by the Federation of Kenya Employers (FKE) and the World Bank

does not sufficiently demonstrate the association between FDI and Kenya's Gross Domestic Product (GDP) throughout the specified time period.

Foreign aid and FDI have a limited effect on Kenya's pace of economic development. This indicates that a significant portion of foreign investment is not effectively used for development initiatives, hence fostering corruption or financial embezzlement (Lemi, 2005). This report shows why donor organizations and governments are increasingly inflexible when it comes to optimising their donations. After the study was finished in the early 20th century, Kenya saw changes in its political systems, among other things. Kirui (2008) states that Chinese enterprises have greatly enhanced Kenya's economic progress. However, a broad variety of outside investors must be properly researched, and a wide range of research subjects must be considered. In homogenous studies, Kenyan academics have either explored how FDI is decided (Wanjala, 2001) and the repercussions of local private investment (King'ang'i, 2003), or major ramifications on the area supervising certain Kenyan economic sectors (Kayonga,2008 & Kirui, 2008). This study examines the relationship between FDI and the economic progress of Kenya. Sub-Saharan African states have often been categorised along with Kenya in literature, without specifically highlighting Kenya as a separate entity.

1.3 General objectives

The main objective of this study is to investigate the impact of foreign direct investment (FDI) on Kenya's economic growth.

1.4 Specific objectives

The specific objectives of this study are;

i. Assessing the contribution of foreign direct investment to Kenya's economic growth,
ii. Identify factors leading to foreign direct investment in Kenya,
iii. Assessing the necessary policy options for enticing foreign direct investment into Kenya's economy.

1.5 Research questions

1. What are the required policy alternatives to lure FDI into Kenya's economy?
2. What is the rate of contribution of FDI on economic growth in Kenya?
3. What are the determinants of FDI in Kenya?

1.6 Hypothesis

The researcher formulated verifiable hypotheses to investigate the correlation between FDI and the country-specific and macroeconomic factors that influence Kenya's economic development.Based on a study of the literature, the researcher proposed the following null hypothesis to estimate the sign of the relationship between country-specific and macroeconomic determinants of FDI in Kenya, using empirical data from a partial literature review.

Null hypotheses are statements or statistical hypotheses that are being tested (Brooks, 2008 p. 52). The following are illustrations of null hypotheses:

Ho: FDI has no significant impact on Kenya's economic growth.

*H1:*FDI has a significant impact on Kenya's economic growth.

1.7 Significance of the study

FDI has been a prominent component of globalisation and has lately become more important than trade growth (Almsafir, Nor & Al-Shibami, 2011; Okafor, 2015). As a result, governments have made it a high priority (Adams, 2009; Zheng, 2009; and Okafor, 2015). FDI, as highlighted by Ajayi (2006) and Assunçao et al. (2011), has a crucial role in financing investments, promoting competitiveness, improving management skills, transferring technology, generating employment opportunities, and stimulating economic development in both OECD and non-OECD countries.

According to Adams (2009), Anyanwu (2012), and Economou, Hassapis, Philippas & Tsionas (2017), FDI is essential in tackling several challenges faced by non-OECD economies, such as underdevelopment, lack of foreign currency, low investment levels, taxation, and the gap in foreign assistance. These issues have a significant influence on countries like Kenya. Furthermore, FDI may bolster domestic savings, foster job creation, facilitate the transfer of state-of-the-art technology, improve worker productivity, and promote the establishment of both forward and backward economic linkages (Dupasquier & Osakwe, 2003; Hailu, 2010). These components may together contribute to the prosperity of Africa. Multinational corporations see emerging and developing economies as having significant growth prospects.

In contrast, many other studies (Kentor & Boswell, 2013; Mwega & Ngugi, 2006; El-Wassal, 2012) have not shown a substantial fluctuation in FDI in host countries. This is attributed to the potential negative consequences associated with FDI. Their argument posits

that FDI aims to decrease local savings and investment rates by obtaining exclusive production concessions from host governments, so restricting competition. The little contribution of foreign direct investment (FDI) to public income via corporate taxes may be attributed to permissive taxation policies, extravagant exemptions, covert government subsidies, and tariff protection strategies used to attract external firms. FDI is widely recognised to have beneficial impacts on the host nation and are regarded as the most reliable kind of foreign investment for emerging economies (Lipsey, 1999). Governments are motivated to provide incentives and implement laws to stimulate FDI because they recognise that FDI is a more reliable form of capital compared to portfolio investment (Moosa, 2002).Given that some countries garner more FDI and get more substantial benefits from it compared to others, it is crucial for policymakers to comprehend the magnitude and trajectory of FDI inflows. Recognising the importance of FDI and its effects on export performance and economic growth in the host nation is crucial.

Freckleton, Wright, and Craigwell (2012) state that the increasing interest in foreign direct investment (FDI) has led to the development of several theories. The FDI hypotheses presented by Kindleberger (1969),Hymer (1976), Knickerbockers (1973), Vernon (1966), Buckley & Casson (1976), and Dunning (1977, 1979, 1988) are included. In addition, the neoclassical models and trade theory proposed by MacDougall (1960) and Kemp (1964) have also been considered. The theories set forth by Moosa (2002) and Okafor (2015) aim to elucidate the reasons behind the utilisation of foreign direct investment, country preferences, and entry tactics by multinational enterprises (MNEs). Scholarly disputes in international business study revolve around the criteria that attract multinational firms. These hypotheses, offered by Dunning (2004), Aizenman and Noy (2006), Teece (2006), Cleeve (2008), and Hailu (2010), indicate that several variables are influential. Nevertheless, it is necessary to acknowledge that not all foreign direct investment has positive impacts on the recipient economy. The topic has been emphasised in studies undertaken by Blomström and Kokko (1994, 2003), Ruane and Sunderland (2005), Herzer and Klasen (2008), Sun (2009), and Zhang (2015).

The premise that conventional foreign direct investment (FDI) is driven by the utilisation of local resources is supported by a multitude of research examining the determinants of FDI and their impact on the economy of host nations (Driffield & Love, 2005; Zhang, 2005; and Prasanna, 2010). This leads to the dissemination of technology and expertise from external enterprises to domestic firms (Adams, 2009; Gui-Diby, 2014; and Iamsiraroj & Ulubaşoğlu,2015).It is often believed that foreign enterprises provide positive externalities, such as knowledge development, which may enhance beneficial spillovers. These spillovers

can have an impact on the competitive productivity performance and efficiency of exports (Ascani et al., 2016; Chanegriha et al., 2020; Chanegriha et al., 2016).

FDI's traditional determinants can be classified based on economic factors such as market size and growth, human capital level, labour costs, trade openness, currency rates, inflation, availability of natural resources, infrastructure quality, and agglomeration (Anyanwu, 2012; Falk, 2015; Anyanwu & Yameogo, 2015; and Shan et al., 2018). Examples of social and cultural variables include geographical and cultural remoteness, colonial links, and language similarity (Bevan & Estrin, 2004; Zheng, 2009; Makino & Tsang, 2011; Demir & Im, 2020). Institutional and political elements that contribute to a country's development include political stability, robust institutions, and the capacity to combat corruption (Bénassy-Quéré, 2007, Faeth, 2009; Zheng, 2009; Dupas & Robinson, 2012). Irandoust (2016) and Suleiman et al. (2015) argue that the relative significance of these three criteria differs between areas, nations, time periods, and methodologies.

There is currently no widely accepted theory for the relationship between foreign direct investment (FDI) and exports, as shown by the lack of consensus among researchers such as Zheng et al. (2004), Jenkins & Edwards (2015), and Fetai & Molina (2019). Similarly, there is no established theory for FDI links, as indicated by the studies of Borensztein et al. (1998), Lall & Narula (2004), Zheng et al. (2006), and Kotey & Abor (2019). The timing and consequences of foreign direct investment (FDI) has been extensively studied. However, the bulk of existing empirical research rely on aggregated data from many nations. The predominant body of research, shown by studies conducted by Morrisset (2000), Asideu (2006), Cleeve (2008), Adams (2009), Anyanwu (2012), and Okafor (2015), mostly concentrates on analysing subregions, namely sub-Saharan Africa.

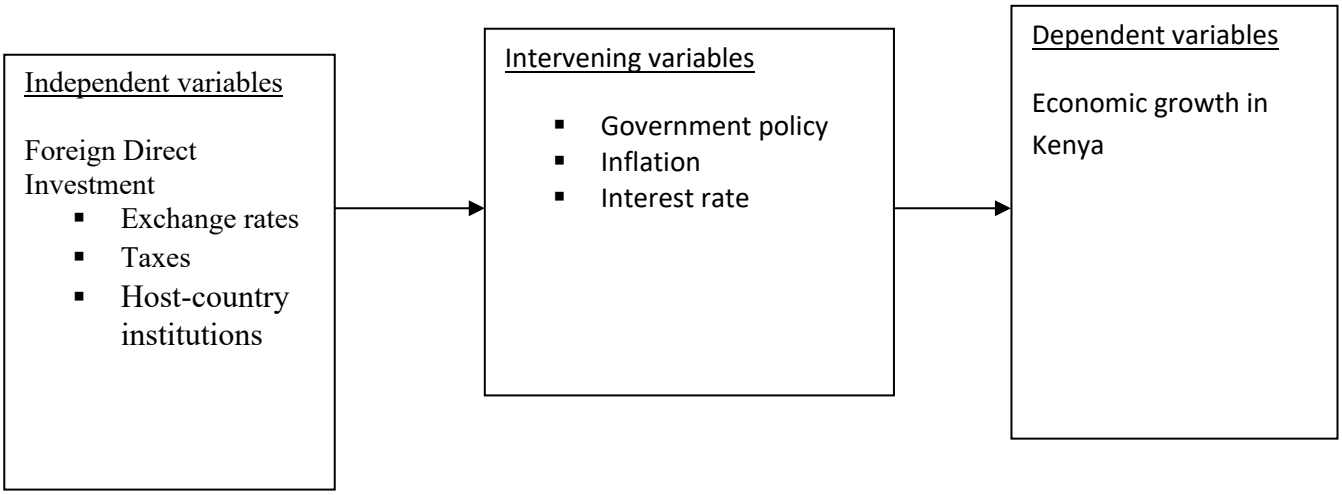
Several studies, such as those conducted by Mwega & Ngugi (2006), Dupas & Robinson (2012), Kinuthia (2012), Omanwa (2013), Kinuthia & Murshed (2015), and Paudel (2016), have analysed the determinants of foreign direct investment (FDI) and its impact in Kenya and Tanzania. However, these studies have not differentiated between the variables that influence FDI in the domestic economies. This study will contribute to the existing research by focusing specifically on the factors that influence foreign direct investment (FDI) in Kenya. The findings of this study may provide valuable insights for Kenyan policymakers.

1.8 Scope of study

Evaluates the Kenyan FDI sector, evaluating the elements that influence FDI and its effect on the nation's economic growth. The research examines various variables affecting FDI, including their patterns, motives, and their effects on the Kenyan economic development. More precisely, assessing FDI's effects on Kenyan economic expansion.

1.9 Conceptual framework

Figure 1: Conceptual framework



Source: Researcher (2023)

CHAPTER TWO

LITERATURE REVIEW

2 Introduction

This chapter primarily examines the pertinent literature related to foreign direct investment (FDI) and other significant aspects of the subject under investigation. This text covers several elements related to foreign direct investment, including its definition, different forms, the FDI's influence on economic development, variables that contribute to FDI, and the drivers and theories behind foreign direct investment.

2.1 Foreign Direct Investment

Foreign direct investment (FDI) refers to the acquisition of control over a productive asset in another nation by a person or firm, often defined as ownership of at least 10%.Portfolio investing, in contrast, involves acquiring foreign bonds, currencies, and equities without gaining any sort of control over them. The most often used technique of FDI is acquisition. 'Greenfield FDI' is a frequently seen phenomenon that involves the establishment of a new manufacturing facility. Overseas joint ventures, partnerships, and reinvested earnings in an established overseas subsidiary are other kinds of FDI. Multinational enterprises (MNEs) are companies that have subsidiaries operating in many countries.

Giorgio and Venables (2004) reported that from 1986 and 1999, the annual growth rates for real world GDP, real world exports, and real world FDI inflows were 2.5%, 5.6%, and 17.7% respectively. As stated by Bernard et al. (2005), MNEs account for 90% of both American exports and imports, which is referred to as intra-firm trade. From 1990 to 2003, FDI accounted for the majority of capital flows to LDCs. However, most of the FDI flows were concentrated among developed nations (UNCTAD, 2004).Research on FDI can be categorised into two main areas: the analysis of multinational production and the factors that influence global FDI patterns, and the examination of the impacts of FDI and multinational enterprises on both the home and host countries. This includes studying the returns to production factors, economic growth, and the externalities related to innovative activities.

2.2 Understanding what motivates FDI by Multinational Enterprises

For instance, Dunning (1974, p. 13), Dunning (1993, p. 3), and Casson (1985, p. 31) all describe multinational enterprises (MNEs) as participating in foreign direct investment (FDI) and possessing/overseeing value-adding activities in many countries. FDI are investments made by an investing firms outside its native country. The investor retains authority over the transferred resources' allocation (Dunning, 1993/96, p.5). According to McManus (1972), the achievement of worldwide production is contingent upon both the transfer of capital and the transfer and expansion of administrative control over overseas subsidiaries. He argued that management had the capacity to allocate resources in a more efficient manner compared to the market via ownership-based control.

Value added refers to the additional value generated when a product progresses through the many stages of the business process, including sourcing raw materials, manufacturing, and distribution. To comprehend the occurrence of multinational enterprises in contemporary society, it is imperative to scrutinise novel methods of internationalisation, alternative approaches to regulating international transactions without equity capital, and the investment potential of MNEs (Osman, 1984; Gilroy, 1998).According to Cargill & Shepard (1994, p. 24), after the ban on new investments in South Africa was lifted by then-President Bush in July 1991, 51 out of 158 US firms with employees or direct investments in South Africa created new branches. Additionally, the number of US firms with non-equity connections, such as licensing or distribution concessions, rose from 184 to 448. The existing operational definition of MNEs is outdated due to the increasing diversity and diversification of their activities.

In comparison, a multinational firm has a significant advantages over a parastatal due to its ability to efficiently transfer economic resources, information, expertise, and ideas across international and regional boundaries. This is achieved by leveraging its extensive network and providing a diverse array of limitless transaction options. The examination of multinational firms often adopts a static approach, concentrating on structural elements such as the geographical placement of factories and the reduction of transaction-related expenses at certain periods. Additionally, there is a quest for an analytical investigation into the operational flexibility and externalities, which are discovered on a worldwide scale via networks (De Meza & Van der Ploeg, 1987; Buckley & Casson, 1998).

The primary focus of empirical research on the factors that influence patterns of foreign direct investment (FDI) is the examination of the effects of governmental laws and macroeconomic factors, such as exchange rates and taxes. The motivation for this study stems

from analyses conducted using the partial equilibrium model of firm behaviour, which examines how firms respond to various conditions. However, the existing literature has faced challenges in obtaining micro-level data for their studies. To evaluate industry/country level data with theories of firm-level models, it is necessary to make strong assumptions about the characteristics of the firm.

2.3 Micro-determinants of FDI

The primary emphasis of FDI micro-determinants is the location-specific factors that impact the profitability of FDI at the firm/industry level. Market size & growth, labour costs, host government laws, tariffs, trade restrictions, and host country features together influence cost and productivity at this level.

2.3.1 Market Size and Growth

Countries that have large domestic markets and well-developed economies often lure FDI. The robust and growing local economy offers an expanded market for the products of global corporations (Lucas, 1993).There is a high probability of reduced transaction costs (McMillan, 1995). Empirical research provide strong evidence supporting the significance of market size as a factor influencing FDI .In their 1997 analysis, Wang & Swain examined many early studies conducted in the 1960s and 70s. They found that the majority of these studies supported the notion that the size and market expansion of host nations were significant factors in FDI .The latest study conducted by Schneider & Frey (1985) and Wheeler & Mody (1992) has also shown a correlation between the inflow of foreign direct investment (FDI) and the size of the market.

2.3.2 Labour Costs

When determining whether to use ownership advantages in a foreign jurisdiction, multinational enterprises should consider labour costs. Higher wages lead to a decrease in foreign direct investment, since it is driven by the need for cheap costs and efficient manufacturing. Lucas (1993) argues that when wages rise relative to the cost of capital, there is a tendency for labour to supplant foreign capital. Low salaries may not be the only concern for corporations. The multinational firms may actively seek skilled labourers and experts (Wang & Swain, 1997). The primary objective of multinational companies is to maximise profits by achieving

efficiency improvements and minimising expenses. Labour conflicts are a significant element to consider. A host nation that has frequent and severe industrial disputes is considered unappealing (Yang et al., 2000).

Empirical findings from cross-country and time series analysis, particularly in developing countries, provide compelling evidence supporting the idea that foreign direct investment (FDI) is considerably influenced by comparatively lower wages. Researchers Wheeler & Mody (1992) and Lucas (1993) established a correlation between foreign direct investment (FDI) inflows and reduced labour expenses. This inclination is associated with the inherent characteristics of multinational organisations (Urata & Kawai, 2000). It was shown that the dependence of Japanese SMEs on foreign direct investment (FDI) is greatly affected by the relatively lower salaries. Neighbouring Asian countries' small and medium-sized enterprises (SMEs) engage in production with the aim of reducing factor costs, and thereafter export their products to Japan. In contrast, bigger enterprises prioritise the local sales, size, and growth of the host market.

2.3.3 Host Government Policies

The policies of the host government include location-specific factors in many ways that influence the profitability and decision-making process of multinational corporations regarding FDI. These tactics encompass the utilisation of incentives and performance requirements (United Nations, 1995). The primary intent of incentives provided by the host government is to enhance the attractiveness of the region by stimulating FDI inflows, achieving cost reductions, and improving investment profitability. Holidays and tax cuts, together with trade benefits such as duty-free input imports. The host governments' programmes are closely linked to government efforts aimed at promoting investment in companies that specialise in exporting or specialised sectors in the undeveloped parts of the country. Developed countries implement these programmes.

The primary motive for host governments' insistence on investor performance is to ensure that FDI contributes to the nation's welfare, notably via the employment of local people, utilisation of local resources, transfer of technology, and export of product. These programmes have the potential to attract FDI, but government interference may also deter potential investors. If the predetermined limit has been met and the investigation demonstrates that the impacts of governmental actions are unambiguous, using tax rebates as a fiscal stimulus is feasible. According to Helleiner (1989), special incentives have little impact on FDI flows and

negligible influence on investors' decisions. Dees (1998) suggests that investment incentives have a limited significance for American enterprises contemplating investment in China. The survey's empirical results indicate that there is no positive association between the establishment of favourable operating circumstances for companies and the elimination of regulations that effect FDI flows.

2.3.4 Tariff and Trade Barriers

The 'tariff-hopping' concept asserts that multinational firms have challenges in exporting to prospective host countries due to the presence of significant protective trade barriers, which make their products less competitive. Foreign direct investment is the preferred method for multinational corporations to join a market and provide local services to clients in order to save on marketing expenditures, circumvent protectionist barriers, and save transportation expenses (Wang & Swain, 1997). The relationship between taxes and foreign direct investment remains complex, particularly when the domestic market is expanding and the strategy of tariff-hopping becomes appealing. FDI may be influenced by many taxes, but the primary factor of concern is the corporation tax imposed by the host nation. Specifically, when the host country has lower tax rates, it tends to attract more foreign direct investment and vice versa.

The research conducted by De Mooij & Ederveen (2003) on 25 different empirical studies indicated that the median elasticity of tax rates on FDI was -3.3. Moreover, the research suggests that the impact of taxes on FDI is contingent upon the specific tax type, the kind of FDI, and the government's policy influence (see, for instance, Hartman, 1985). The primary concern is the issue of double taxes. Parent companies are concerned about the taxes imposed by both their home nation and the host country. In some legal jurisdictions, money generated outside the parent company's home nation is exempt from taxation, resulting in no tax liability.

Parent firms often face worldwide taxes on their income, but in order to avoid being taxed twice, multinational organisations should be granted preferred treatment. Multinational firms often address the issue of double taxation in their home country by providing credit or subtracting overseas tax payments. Multiple studies on the US tax reform provide contradictory findings about the changes in FDI behaviour under different tax regimes of the parent country (e.g. Scholes & Wolfson, 1989; Swenson, 1994). Based on Hines's 1996 study, there is a decrease in FDI in the United States, namely among non-credit system foreign investors compared to credit system foreign investors.

The primary focus of research in this context is on tax rivalry among governments

striving for foreign direct investment (e.g. Janeba, 1995) and the influence of bilateral tax treaties between countries (e.g. Chisik & Davies, 2004). Hines (1999) and Gresik (2001) have provided exceptional literature on taxes and foreign direct investment, offering valuable insights and information. Jun & Singh (1995) conducted an empirical investigation of the tariff hoping hypothesis and discovered a statistically significant positive relationship between international trade taxes and both transactions and foreign direct investment. Yang et al. (2000) corroborated the results using an alternative methodology. Upon assessing the Australian economy's openness by computing the amount of imports and exports as a proportion of the gross domestic product, they discovered an adverse correlation with FDI.Hence, their contention was that, similar to the tariff-hopping theory, FDI inflows serve as alternatives to trade.

The influence of location-specific macro variables on FDI depends on many aspects. The nature of the investment is crucial. The costs of inputs and the anticipated returns from a certain location have an impact on investment in export manufacturing. If the investment aims to cater to the local market, the market's size and level of openness are critical factors. The life cycle stages of a product are essential particularly for new, mature, or standardised commodities. Locations with lower input costs are ideal for standardised products. A company may be motivated to establish manufacturing facilities in a certain host country due to a combination of different incentives.

2.4 Macro-determinants of FDI

The FDI’s macro-determinants are fundamental factors that influence the process of making investment decisions and the potential for profitability in a global economic context.. These are the dimensions and rates of development of the host market and factor prices. The following information pertains to the size, growth, and price factors of the host market. Tariffs and taxes exert an impact on the pricing of factors of production. The focus is mostly on the impact of the overall macroeconomic climate on FDI inflows, as well as the macroeconomic factors that determine FDI. The macro environment's influence is evident in the supplementary factors affecting FDI,including currency rates, political risk, inflation rate, budget deficit, domestic investment, openness, and export orientation.

2.4.1 Openness and Exports

Multiple justifications have been presented to establish the nexus between openness, exports, and FDI flows. The tariff hopping hypothesis posits a negative association between openness and foreign direct investment. FDI serves as a substitute for trade in closed economies. On the contrary, economies that focus on luring FDI and withstand pressure from global competition tend to have higher levels of productivity. On the contrary, outward-oriented economies that focus on attracting foreign direct investment and face pressure from global competition tend to have higher levels of productivity. The domestic economy's size does not hinder FDI's attractiveness for an outward-oriented economy. Instead, the focus is on efficiency and the ability to reach global markets.

Empirical evidence supports the idea that an export-oriented host country is crucial for attracting FDI due to its openness. According to Lucas (1993), foreign direct investment exhibits more adaptability in response to export demand from Southeast Asian nations, in contrast to its responsiveness to total domestic demand. Considering the higher likelihood of foreign affiliates to engage in exporting, it is recommended to include exports as a control variable (Jun & Singh, 1996). It is essential to establish a robust correlation between overall exports, specifically manufactured exports, and foreign direct investment. The empirical research raises the issue of whether FDI is drawn to export-oriented economies or whether FDI leads to an increase in exports. According to Jun & Singh (1996), there is a probability of a contemporaneous link based on recent evidence that supports the general notion that exports precede foreign direct investment.

2.4.2 Exchange Rates

The currency area theory and exchange rate risk consideration are the two primary perspectives about the significance of exchange rates in deciding foreign direct investment. Based on the currency area theory, enterprises originating from countries with stronger currencies have a greater ability to maximise their profits from FDI at higher rates compared to local firms. Additionally, they may get loans at cheaper interest rates. The percentage of capital value and the extent of the premium on local currency grow in direct correlation with the level of competitive advantage that foreign investors have over local firms and the amount of foreign direct investment attracted. The other points pertain to the currency rate risk that multinational firms face when participating in foreign direct investment, and how this risk affects their choice

to choose a certain host country. Depreciation is advantageous when multinational firms engage in export-oriented production, resulting in competitive pricing of their products. Importing a significant amount of inputs increases costs due to depreciation. Even if the international corporation's operation is not considered, the exchange rate may still be crucial. Significant volatility in the currency rate hinders the inflow of foreign direct investment due to the heightened uncertainty around the economic conditions of the host nation (Urata & Kawai, 2000). The currency rate also has a role in determining the value of repatriated earnings.

Although there are existing rules on currency rates, the decrease in exchange rates and the foreign exchange balances in developing countries may provide challenges in enforcing limits on these remittances (Lucas, 1993).The impact of the currency rate on foreign direct investment remains inconclusive based on empirical research. Research on the effects of currency devaluation on foreign direct investment indicates that the extent to which multinational corporations in a country rely on foreign markets for exporting their goods or importing their inputs has a crucial role (Wang & Swain, 1997).The impact of currency rates on foreign direct investment is not immediately apparent. If the currency of the host nation strengthens compared to the currency of its home country, the value of its assets would decline. Furthermore, profits generated from investments in the currency of the nation where the investment is made are also devalued in the currency of the country where the investor is based.

Theoretical linkages established by Froot & Stein (1991) and Blonigen (1997) propose that as a host nation's currency depreciates, it will encourage foreign direct investment (FDI) inflows. This proposition is supported by the bulk of empirical research. There is a corpus of research that examined how currency rates influenced choices about foreign direct investment (FDI). Campa (1993) contends that exchange rate uncertainty negatively impacts foreign direct investment. However, Cushman (1985) and Goldberg & Kolstad (1995) provide divergent results and suggest that this effect may be linked to the firm's trading connections within the market. Recent study indicates that foreign direct investment stays relatively stable despite currency crises occurring in host countries. Aguitar and Gopinath (2005) state that global companies have taken advantage of the chance to increase their investments in these countries.

2.4.3 Inflation Rates

The currency rate serves as an indicator of a country's external economic equilibrium or imbalance, whereas the degree of inflation indicates the stability of its internal microeconomy. Investment is unappealing due to heightened instability resulting in more uncertainty. The

government and central bank's inability or reluctance to achieve budget equilibrium and restrict the money supply is seen in an elevated inflation rate (Schneider & Prey, 1985). This exacerbates the volatility of the business climate. Inflation leads to an increase in manufacturing costs (Urata & Kawai, 2000). Hence, the inflation rate has a detrimental effect on the inflow of foreign direct investment. Empirical evidence for this has been offered by Schneider & Frey (1985), Yang et al. (2000), and Urata & Kawai (2000).

2.4.4 Budget Deficits

The host country's significant or expanding budget imbalance discourages FDI inflow. The potential uncertainty around the sustainability of the host nation government's fiscal position might impact the costs and profitability of investments. Chaudhuri & Srivastava (1999) provide empirical evidence supporting a negative and significant link between foreign direct investment (FDI) flows and budget deficits.

2.4.5 Investment and Infrastructure

FDI complements domestic capital, and there is a reciprocal relationship where investment is attracted to foreign direct investment due to enhanced capacity for productivity (Chaudhuri & Srivastava, 1999). Infrastructure development fosters an enabling environment for international investors. Infrastructure development and FDI contribute to cost reduction in manufacturing and greater productivity. This correlation may be supported by the empirical findings of Wheeler & Mody (1992), Cheng & Kwan (2000), and Urata & Kawai (2000).

2.4.6 Political Instability

Political turmoil gives rise to a range of concerns, including disruptions in manufacturing, confiscation or destruction of property, endangerment of personnel, and changes in macroeconomic governance and regulatory frameworks (Lucas, 1993). Political instability results in heightened uncertainty over the expenses and profitability of investment, thereby diminishing foreign direct investment. According to McMillan (1995), stability may not always have beneficial consequences in the opposite direction. The overall feeling of security about investments is enhanced, although it lacks a distinct influence(‘‘pull’’) compared to market forces. Empirical investigations had varied outcomes. Wang & Swain (1997) provide empirical data from CEO surveys conducted in multinational firms to support the notion that there is a

negative correlation between foreign direct investment and political discontent. In contrast, data from cross-sectional research shows that investors give little importance to political factors, since they tend to treat foreign direct investment selections and local investment choices similarly.

Wheeler & Mody(1992) employ a comprehensive range of indicators to assess administrative efficiency and political risk. This involves assessing the probability and characteristics of regime changes, the attitude of opposition groups towards foreign direct investment, the likelihood of labour disruptions, factors affecting the risk of local terrorism, the challenges in obtaining approvals and permits from bureaucrats, the need for bribes, and the efficiency and integrity of the justice system. They determined that the aggregated metric was statistically insignificant. Lucas (1993) apply episodic dummies (‘‘good and negative events’’) to evaluate socio-political risk in East and Southeast Asian nations, as an alternative to the composite indicator technique. The Asian and Olympic Games hosted by the Republic of Korea and the inauguration of President Aquino in the Philippines are considered favourable occurrences(‘‘good events’’)that have a favourable correlation with foreign direct investment. The killing of Park in the Republic of Korea and the implementation of martial rule by Ferdinand Marcos in the Philippines are considered adverse occurrences(‘‘negative events’’) that have a detrimental impact on foreign direct investment.

According to Jun & Singh (1996), the inconsistent findings from many investigations on this phenomena may be related to the challenge of getting accurate quantitative measurements consistently over an extended period. According to Wang & Swain (1997), the notion of political instability is controversial. Econometric analyses of the factors influencing foreign direct investment tend to prioritise the examination of political instability events rather than considering how these events may hinder foreign investors. Political instability does not always heighten the political risk to foreign direct investment.

2.5 Strategic Determinants of FDI

The strategic determinant of FDI considers long-term factors that impact the decision to invest in a country. The strategy of a multinational corporation dictates FDI whether it is carried out to protect current international markets or diversify the firm's operations. Acquiring and retaining a particular market, securing supply sources via FDI, or leveraging the benefits of complementary alternative investments. When analysing the strategic factor influencing FDI, it is assumed that the host country has limited ability to actively recruit FDI. Instead, the focus

is on the qualities of the multinational firm. Extensive analysis of the host country's attributes has provided insights into the appeal of FDI ,and several empirical studies exist to assess the importance of the factors influencing FDI. It may be inferred that open and stable economies are more likely to attract FDI flows.

2.6 Other Studies on Determinants of FDI

Multiple peripheral literatures have investigated the influence of supplementary factors on foreign direct investment (FDI). The incorporation of institutions from the host country (Wei, 2000), legislation for trade protection, and the effects of agglomeration and information externalities (Head et al., 1965; Blonigen et al., 2005) has been accomplished. The primary emphasis of the micro determinants of FDI is in the location-specific variables that impact the profitability of FDI at the level of individual firms or industries. Productivity is influenced by several factors of the host nation at the micro level, including market size and growth, labour costs, host government policies, and tariffs and barriers to trade. The macro drivers of FDI at the economy-wide level are the variables that influence profitability and investment choices. These determinants include openness and export orientation, currency rates, inflation rate, budget deficit, domestic investment, and political risk. The factor pricing, determined by tariffs and taxes, as well as the size and development of the host market, are important considerations.

The research on variables attracting FDI has identified both policy and non-policy factors as determinants. The policy variables include elements such as market openness, product market rules, labour market arrangements, corporate tax rates, limits on FDI, infrastructure, and trade barriers. The non-policy determinants include the market size of the host country, measured by its GDP, as well as distance and transit costs, natural resource endowments, and political and economic instability (Fedderke & Romm, 2006; Matev, 2009; Anyanwu, 2012).

The factors impacting FDI may be broken down into two main categories: firstly, the identification of FDI determinants as supply-side variables (such as skilled labour, research and development, and infrastructure) and demand-side variables (including the size of the host market and income distribution). Furthermore, institutional components such as political and economic instability, cultural influences, intellectual property rights, transaction costs, bureaucracy, and corruption have a significant role (Dunning, 2006; Zeng, 2009). The second step involves identifying the push and pull elements. The phrases "push factors" or "domestic

factors" refer to conditions inside a country that encourage the outflow of FDI.The factors contributing to these conditions include rising labour costs, local currency's appreciation, growing capital's costs, and deflation.

The pull factors that attract FDI to host nations include low-cost labour, abundant natural resources, low transaction costs, geographical and cultural proximity, political and institutional stability, low levels of bureaucratic corruption, and the openness of the host country (Gottschalk, 2001; Karakaplan et al., 2005; Dunning, 2006; 2008; Zheng, 2009 and Anyanwu, 2012).The allure of Kenya as a rising nation stems from its cost-effective standard of living, ample labour force, vast natural resources, advantageous currency exchange rates, access to both local and international markets, and its close proximity to many different cultures.

The literature categorises the factors that affect inbound FDI into three groups: fundamental economic factors (such as the host country's market size, disparities in capital return rates across countries, and portfolio diversification strategies); trade and exchange rate market policies (including trade liberalisation, foreign exchange rates, and their volatility); and other aspects of the investment climate (Sekkat & Veganzones-Varoudakis, 2007). Various risk factors that may arise include the availability of skilled labour, labour costs, infrastructure, political and economic risks (including transportation, trade, and communication costs), and social variables (such as political stability and the management of institutions responsible for enforcing rules and regulations) (Schneider & Frey, 1985).

Subsequent to the establishment of Dunning's Ownership advantage, Location advantage, Internationalisation advantage (OLI) framework, several research have been conducted to analyse the factors that influence FDI in emerging economies. In addition, the OLI framework, developed by Dunning, Agarwal (1980), and Schneider & Frey (1985), is worth mentioning. In the past, while evaluating FDI inflows to recipient countries, attention was primarily given to issues such as trade policy, tax policy, and foreign investment policy.

For example, Filippaios et al. (2003) performed a cross-sectional examination of countries regarding the inflow of foreign direct investment from the United States to OECD nations in the Pacific Rim, which included Australia, New Zealand, Korea, and Japan. The market size, income levels, and the presence of trained labour were identified as significant factors influencing the timing and location of US investors' regional investments. Similarly, Park (2003) examined the trends of foreign direct investments and strategies employed by Japanese manufacturing companies. The study revealed that Japanese foreign direct investment in Asia and other developing nations primarily focused on low-cost resources, particularly in

labor-intensive industries.

However, Naudé & Krugell (2007) did find that Japanese foreign direct investment from the US and Europe was focused on seeking markets and was concentrated in industries that required a high level of expertise. Janicki & Wunnava (2004) conducted a cross-country research on emerging economies, specifically focusing on the variables that affect FDI from the European Union into eight countries in Central and Eastern Europe. The factors of inward FDI include the size of the host economy, labour costs in the host country, the risks associated with operating in the host country, and the level of trade openness.

In a cross-country research on the determinants of FDI, Love & Lage-Hidalgo (2000) discovered that both domestic demand and relative factor costs influenced the FDI flows of the host nation. The research included financial contributions from the United States to Mexico. The investment choice was impacted by the fluctuations in the currency rate. In a similar context, Ismail (2009) investigated the determinants of FDI in ASEAN countries and found that shorter travel distances, common languages, and proximity to borders or larger markets were more conducive to attracting foreign investment compared to longer distances. The ASEAN nations have drawn FDI as a result of many microeconomic factors, including reduced inflation, a favourable currency rate, and efficient budget management. Telecommunication and infrastructure quality, together with transparency and trade policy, significantly stimulated the inflow of FDI in the ASEAN area.

The primary elements that affected FDI in BRICs nations, as identified by Vijayakumar et al. (2010), were the market size, labour costs, infrastructure, currency value, and gross capital formation. The correlation between FDI inflow, economic stability, and trade was shown to be negligible. Ranjan & Agarwal (2011) conducted a study on the BRICs countries from 1975 to 2009. They found that factors such as market size, trade openness, labour infrastructure costs, macroeconomic stability, and growth prospects had a significant impact on FDI flows. However, they found no significant impact on FDI from labour forces and gross capital formation.

Wadhwa and Reddy (2011) found that the three motives identified by Dunning (1988) - market-seeking factors (such as population growth and market size), resource-seeking factors (such as infrastructure and imports), and efficiency-seeking factors (such as inflation) - all had an impact on FDI inflow into Asian countries. According to Tsai (1994), the primary factors influencing FDI flows in nations throughout the globe are the market size and economic development. Jadhav & Katti (2012) hypothesised that there exists a positive association between FDI inflows in BRICs countries and their level of trade openness, adherence to the

rule of law, market size, voice, and accountability. However, they also found a negative correlation between FDI inflows and the abundance of natural resources in these countries, after classifying the determinants into economic, political, and institutional factors. The survey indicates that FDI into BRICs states were motivated by both market and efficiency considerations. Jadhav & Katti (2012) argue that the motivation behind "resource seeking" is for host nations to acquire natural resources, and this kind of historical and significant FDI continues to be a vital source of FDI for many developing countries.

The presence of natural resources significantly influenced the choices and FDI's appeal in African nations. Previous studies conducted by Asiedu (2002 and 2006) and Dupasquier & Osakwe (2003) have shown that African countries with abundant natural resources attracted more FDI compared to other criteria. Suleiman et al. (2015) analysed FDI determinants in Southern African Customs Union (SACU) between 1990 and 2010. The ample availability of natural resources had a substantial and beneficial effect in impacting the foreign direct investment (FDI) of the member countries of the Southern African Customs Union (SACU), together with the size of the market and the degree of trade openness. The research undertaken by Morisset (2000) analysed the determinants of foreign direct investment (FDI) in Sub-Saharan African countries between 1990 and 1997. The results revealed a direct correlation between FDI inflows, trade, and economic progress. Nevertheless, there was an adverse correlation among the illiteracy rate, FDI flows, and infrastructure. The research highlighted that African countries may still be appealing FDI inflows, especially in the absence of access to natural resources and large markets.

Bende-Nabende's 2002 study on Sub-Saharan Africa found a connection between market growth, trade openness, favourable FDI policies, real effective exchange rates, and the size of the FDI market. The study's findings indicate that enhancing macroeconomic management, broadening export markets, and liberalising foreign direct investment regimes have the potential to result in sustained growth in FDI. Asiedu's (2002) research analysed 71 developing nations from 1980 to 2000, emphasising the significance of their market size, natural resources, political stability, and institutional and policy frameworks. Onyeiwu & Shrestha's (2004) research on the institutional and macroeconomic determinants of FDI in 29 African states revealed that factors such as growth, economic openness, inflation, natural resources, and foreign currency reserves all influenced FDI into Africa.

Asiedu (2006) examined the impact of several variables on FDI inflows in 22 developing countries from 1984 to 2000. These factors included market size, political stability, inflation, the judicial system, infrastructure, and educational levels. The research found many

factors that attract inbound FDI, including abundant natural resources, a large market, a well-developed infrastructure, low inflation, high levels of education, dense population, openness to FDI, political stability, low corruption levels, and a dependable legal system. According to Asiedu (2006), it is possible to attract FDI in nations with limited natural resources and smaller markets by enhancing institutional quality and the regulatory environment. Empirical research unequivocally demonstrates that certain variables have a significant impact on the level of FDI received by host nations (Dunning, 1988).

Despite the substantial research undertaken in both established and emerging nations, there is no consensus on the key factors that consistently impact the inflow of FDI in a host country. The main variable is assessed based on factors such as market size, growth, labor/human resources, infrastructure, openness, and inflation rates. Based on empirical analysis, it can be inferred that the significance of each element differed depending on the geographical location, study approach, and historical period. There is a scarcity of research on certain African countries or areas (Irandoust, 2010, and Suleiman et al., 2015). The aim of this research is to contribute to the existing body of knowledge pertaining to Kenya's FDI inflows.

Recent theoretical and empirical research suggests that the reduction of barriers to foreign direct investment (FDI), significant advancements in transport and communication technologies, and the direct implementation of government policies designed to draw FDI are all factors contributing to the changes in the Kenyan economy resulting from increased FDI inflows. These changes have produced aggregate economic effects and FDI spillover effects (Hubert, F. & Nigel Pain, 2000). Many empirical research have been prompted by this advancement to examine the advantages of FDI inflows in host nations. These studies suggest that it is possible to evaluate the economic advantages of government incentives aimed at attracting multinational firms. Increased inflows to a host nation might have various economic benefits. FDI has the potential to impact labour and capital markets, as well as red buttons, and ultimately influence economic development.

The economy of Kenya might potentially be impacted by a rise in FDI and the establishment of multinational firms. Kinaro (2006) found that Kenyan FDI is affected by economic openness, taxes, labor/human capital, real exchange rate, inflation, and FDI from previous periods, using series analysis. The significance of other elements, including as government expenditure, economic expansion, the accessibility of natural resources, and political liberties, is seen to be insignificant. He explicitly stated in his conclusion that there is a positive correlation between the effect of FDI and the increase in FDI inflows.

2.7 Examination of General-Equilibrium Model Predictions

Recently, there has been much empirical research to closely align the empirical description of FDI activities at the national level with general equilibrium models of multinational corporations. Previous empirical research mostly used gravity-based models to analyse country-level patterns of FDI whereby the size of the countries and their geographical distance are the primary variables considered. Carr et al.,(2001) proposed the empirical specification which is grounded on the knowledge capital model of multinational firm activity. This model suggests that factor endowment differences play a crucial role as a control variable, which is not accounted for in gravity-based specifications. The disparities in endowments are crucial as they serve as a proxy for the incentives of vertical multinational enterprises. Carr et al. (2001) conclude that the data align with the knowledge-capital model. However, recent research has identified specification flaws that cast doubt on the evidence for vertical incentive for FDI (see; Braconier et al., 2005). The presence of vertical motivation in the data was verified by the methodologies used by Yeaple(2003b) and Hanson et al.,(2001), notably in sectors like as electronics and transportation equipment. According to Yeaple (2003a), there is a potential correlation between international ties and developments in FDI. The importance of these repercussions has been shown by recent empirical research conducted by (Baltagi et al., 2007).

2.8 The Economic Impact of FDI and MNE Activity

The main areas of research concerning the effects of FDI have centred on the influence on wages, technological diffusion(technology spillovers), and economic development in the host country. The premise underpinning many research on the impact of foreign direct investment on the host country is that multinational corporations increase salaries in the host country. Multinational firms pay higher salaries because they have a greater value of marginal output resulting from productivity advantages. A potential counter argument is that global corporations pay higher efficiency salaries compared to local firms in order to recruit high-quality personnel, given that they operate in an environment where they have limited information. In contrast to the theoretical perspective, empirical evidence indicates that multinational companies offer greater compensation in both developed and least developed nations (e.g., Globerman et al., 1994; Aitken et al., 1996).

The most fascinating question is to the presence of wage spillovers, wherein multinational corporations also increase the wage payments of local firms. However,

identifying these spillovers in the data is a challenging undertaking. Multiple research have shown conflicting data, as discussed by Lipsey & Sjöholm (2005). There is a dearth of theoretical advancement in literature about the specific circumstances and locations in which wage spillovers are anticipated. The impact of FDI on pay disparity is a matter of concern. If multinational enterprises possess distinct technology and need different types of labour compared to local firms, the impact of greater FDI on wage inequality may either reduce or worsen it. Multiple cross-country studies have identified different FDI's impacts on wage inequalities in the host country. By analysing industry-specific data, the research conducted in the United States demonstrates that there is no influence of outbound/inbound foreign direct investment (FDI) on wage inequality in the nation (Slaughter, 2000; Blonigen & Slaughter, 2001). Feenstra & Hanson (1997) convey a model elucidating how FDI might result in a rise in pay disparity between low-skilled and high-skilled labourers in both the host nation and the home country of the investor. Their empirical study provides evidence of substantial effects of American FDI on the disparity in wages in Mexico.

A comprehensive study has been carried out to examine the effects of FDI on productivity spillovers, specifically focusing on its influence rather than wage spillovers. Nevertheless, the results of many research have not yielded definitive conclusions, since several investigations have shown contradictory outcomes (e.g. Görg & Strobl, 2001). This is unsurprising due to the inherent vagueness of the hypothesis. Foreign corporations are often seen to possess superior efficiency compared to an average domestic enterprise. Hence, the existence of FDI leads to a decline in the market share of domestic firms, leading to reduced productivity for these companies, especially in cases where economies of scale play a vital role. Local companies may ultimately acquire better technology from multinational companies via previous employees or joint suppliers. A further factor that might contribute to conflicting findings is the challenge of accurately identifying or accounting for spillovers in the data (e.g. Aitken & Harrison, 1999).

Most papers in the literature inadequately address these challenges, and Carkovic & Levine (2005) emphasise the statistical sensitivity of the inferences in these research. There is a scarcity of literature sources that examine the diverse impacts of FDI on both the host and parent countries. This refers to the effects of FDI on the investment and employment levels of the country where the investment comes from (Blomström et al., 1997), the influence of FDI on the trade policies of the country where the investment is made (Blonigen & Figlio, 1998), and the various adjustments made by multinational companies to suit local circumstances (Giorgio et al., 2003).

2.9 Theories of FDI

The economic analysis of foreign direct investment and multinational corporations originated in the 1970s, when scholars were interested in understanding why some firms chose to establish manufacturing facilities abroad instead of relying on exports or licensing agreements to serve overseas markets. The key differentiating feature of multinational corporations is the firm-specific assets' ownership. This factor may make FDI a more attractive option for the firm compared to exporting or licensing agreements, especially in cases of market failure. In cases when a firm has an intangible asset, such as a unique manufacturing process, that is not expressly mentioned during negotiations of contract , the licensor firm may not provide the entire value of the asset. Instead, they may keep the item totally concealed until the contract has been signed. The costs associated with the inherent hold-up issue may require the business to form its own subsidiary in the overseas market, commonly referred to as ''internationalisation''. The ownership-location-internalization (OLI) theory of MNEs, developed by Dunning (2001), is based on this principle.

The mathematical fails to incorporate any formal representation of the OLI theory, which is a commercial idea of internationalisation. The international literature on economics maintained the practice of classifying foreign direct investment (FDI) as a regular capital flow until the mid-1980s, despite the distinct patterns and characteristics it had compared to other capital flows. Yet, the narrative shifted with the introduction of the MNEs' general equilibrium model, as shown in the works of Markusen (1984) and Helpman (1984). Both papers largely focused on analysing the notion of firm-specific assets, particularly their public-good characteristic that allows for their simultaneous use in production across all factories controlled by the corporation. This feature increases the attractiveness for companies to build many plants. However, it is essential to include other variables into the model to provide explanations for firms' choices to create factories in foreign countries.

Helpman's (1984) paradigm suggests that multinational enterprises may be categorised into two separate activities: the development of firm-specific assets at the highly trained headquarters, and the manufacturing process, which requires less skilled personnel. In a vertical model, multinational firms often divide their activities between their headquarters, which provide specialised services, and manufacturing facilities located in both the parent and host nations.

his segregation arises from disparities in resource endowments across nations, with each country possessing enough resources in their various skill levels. Conversely, Markusen (1984) proposes the horizontal FDI model, which posits that multinational corporations establish multiple plants when trade costs, such as transportation expenses and trade restrictions, are substantial. This allows the multinational corporation to duplicate to duplicate itself in the foreign market and cater to its demands.

The primary theoretical framework used by trade economists for multinational enterprises is based on these models. Recent research has further elaborated on these models. Brainard (1997) employed monopolistic competition to construct and evaluate hypotheses derived from the simplified horizontal multinational firm model. The knowledge-capital model, established by Markusen et al. in 1996, combines elements from both horizontal and vertical models. Helpman et al. (2004) recently created a model that can clarify why exporting and multinational enterprises coexist in a uniform industry with variations among firms. Further models that incorporate the role of transaction costs and the theory of the firm (e.g., Antras & Helpman, 2004; Feenstra & Hanson, 2005) have also been developed. There is a dearth of a unified theory for the internationalisation of production. An authoritative argument can be made that multinational firms engage in foreign direct investment (FDI) with the aim of maximising profits by expanding their operations across many regions to increase competition and gain access to new markets, resources, and talents. The primary focus of examining the causes of FDI should be on evaluating the extent to which enterprises pursuing FDI get efficiency and cost advantages.

Dunning's (1993) theory of ownership, location, and internationalisation (OLI) advantages states that there are three essential conditions that a firm must have in order to participate in foreign direct investment (FDI) and establish itself as a transnational entity. Firstly, net ownership advantages refer to intangible assets that are exclusive to enterprises of a certain nationality in a specific market. Foreign markets may be used by multinational firms via the utilisation of intellectual property rights to a product or manufacturing technique. Regardless of the specific manifestation, the ownership advantage confers market power and cost advantages to a corporation, which are sufficient to overcome the challenges of doing business in foreign markets. Furthermore, it is essential that in order to maximise their advantages, companies must hold these advantages of ownership and use them inside rather than transferring them to foreign corporations via sales or leases. The positive aspects of in-house transactions should surpass those of external marketplaces. Finally, the firm's profitability is achieved by using these advantages together with factor inputs (such as natural

resources, cheap labour costs, and access to consumers) outside of its domestic market. The effective fulfilment of the three prerequisites offers rationales for why enterprises expand their output internationally and participate in FDI.

It is crucial to stress that FDI leads to cost savings and efficiency gains as a consequence of firm-specific ownership and internationalisation advantages. The location advantages vary depending on the nation, thus it is necessary to analyse how a country's unique characteristics allow foreign enterprises, who already possess ownership advantages, to optimise their profits. Wang and Swain (1997) categorised the attributes of a nation into micro, macro, and strategic elements which influence foreign direct investment.

2.9.1 Neoclassical Trade Theories and FDI

2.9.1.1 Neoclassical Trade Models

The first effort to elucidate FDI was undertaken by using novel classical trade models, namely MacDougall (1960) and Kemp (1964). Initially, these models used the standard premise that there was no movement of capital in their initial effort to explain Foreign Direct Investment (FDI). Attempts have been made to integrate capital flows into neoclassical trade economics (Mundell, 1957) by relaxing the assumption of immobility. Mundell argued that if there are major impediments to international trade, FDI might serve as an alternative for trade rather than just a supplement. Kojima (1973) posited that FDI serves as a complementary measure to trade, especially in situations when the utilisation of a competitive advantage is hindered by flaws in trade. Prior to this, Iversen (1936) hypothesised that foreign direct investment (FDI) was driven by capital arbitrage. The premise suggests that capital will relocate to a nation where the marginal product of a certain component is higher than in another country, as long as the benefits surpass the costs and risks related with the relocation. Hence, the disparities in capital interest rates across various locations served as a stimulus for FDI.

Earlier neoclassical theories had proposed that domestic rivalry really led to a decrease in the profit rate in industrialised countries, prompting corporations to participate in foreign direct investment (FDI) in emerging nations. The cause of this problem is ascribed to a scarcity of manpower resulting from the process of industrialization in advanced nations (Kinuthia, 2012). Oneal & Oneal(1988) employed Hobson and Lenin as an example, suggesting that highly developed economies have a reduced rate of profit as a result of excessive capital output, which in turn leads to decreased demand for capital. As a consequence, capital owners were

compelled to consider doing business in other less developed countries, where capital was considered limited yet provided higher earnings.

The concept was spread by trade theories rooted in the Heckscher Ohlin's (1919) model, which posited that differences in the rate of return on capital across countries resulted in the flow of foreign direct investment from countries with lower rates of return to those with the potential to attain higher rates of return on capital employed (Faeth, 2009). Investors factored in the potential risks linked to portfolio diversification and portfolio selection when computing the capital's rate of return. Aliber (1970) extended this line of thinking by proposing that the differences in investment returns between developed and underdeveloped economies were attributed to fluctuations in currency risks and capital endowment resulting from interest rates that incorporated a premium determined based on anticipated currency depreciation. Hence, companies with stronger currencies were able to get higher returns from their foreign direct investment in nations with weaker currencies in contrast to domestic enterprises.

Jorgenson (1963) expanded upon Chenery's (1952) and Koyck's (1954) flexible accelerator model by including the output/market size hypothesis. He assumed that in a foreign nation, there is a direct relationship between an enterprise's foreign direct investment (FDI) and its production. The precise and simple explanations provided by these models are grounded on the disparities in capital returns that benefit foreign direct investment. Kindleberger (1969) was a prominent opponent of these ideas due to their assumption of perfect mobility across nations, and he specifically focused on the monetary aspect of foreign direct investment. As a result, the neoclassical method failed to elucidate the characteristics of foreign direct investment (FDI) movements. Kindleberger (1969) postulated that foreign direct investment is absent in a society typified by perfect competition. Without any trade or competition obstacles, international commerce would be the exclusive method of reaching the global market.

The main aim of these theories, as delineated by Moosa (2002) and Okafor (2015), is to provide explanations for the motives behind multinational enterprises' involvement in foreign direct investment, their selection of certain countries for commercial operations, and their choice of the most appropriate entrance strategy. Moreover, other studies, such as Agarwal (1980), Parry (1985), Teece (2006), Faeth (2009), and Denisia (2010), have failed to reach clear results about the effectiveness of different theories in explaining inbound foreign direct investment (FDI) at the firm, industry, and nation levels. The main argument about this study is that each hypothesis provides new elements while simultaneously criticising the current hypotheses. The theoretical foundation of foreign direct investment is complex and

spans several economic domains, making it challenging to establish a comprehensive overarching theory in the field of international trade (Braunerhjelm & Svensson, 1996).

2.9.1.2 Theory of Market Imperfection and International Organization Theories

Expanding upon Kinderberger's (1969) stance on oligopoly, Hymer (1976) formulated his Industrial Organisation Theory, arguing that firms participate in foreign direct investment (FDI) with the intent of acquiring control over foreign corporations in order to restrict competition and capitalise on unique advantages possessed by the firm. Hymer (1976) suggested that in order for FDI to be successful, foreign firms must have a countervailing advantage over local enterprises. This advantage is necessary since foreign firms confront limits and challenges while competing in a host nation. Hence, it is necessary to establish imperfect competition and eliminate perfect competition.

Hymer (1976) contradicted the position of Iversen(1936), a portfolio theorist by insisting that FDI involve finance capital, and transfer of technology, management skills and entrepreneurship as package resources. Expectations of earning economic rent on these resources was the firms' motivation to invest abroad. There was absence of resources' ownership and transfer of rights owing to the fact that there was transactions of indirect investment through the market, such changes were unnecessary. Thus, the arrangement of the resource transaction and the value-enhancing activities associated with it were distinct. Hymer (1976) likely focused only on FDI, namely the firm's capacity to exercise control over property rights that are transferred to its overseas affiliates. The existence of a special benefit was sufficient to offset the liability of foreigners.

Hymer (1976) emulated Bain's(1956) classics exposition on domestic markets' barriers to competition by expanding this analysis to give explanations on the firms' cross-border activities , presuming that such firms had possession of some form of proprietary/monopolistic advantage. Moreover, Dunning & Lundan (2008) found the use of the term "monopolistic" to be inappropriate because the existence of such advantages may not necessarily allow for the firm to enjoy temporary economic rent, even though some ownership advantages may result from the firm's ability to improve resource allocation and efficient transaction organization than the markets.

Hymer's thesis was appealing because of the power of prediction. . He illustrated that foreign direct investment seldom happened in sectors that closely resembled perfect

competition. Foreign direct investment was concentrated in sectors related to natural resources or in industries with a significant degree of industrial concentration. His significant contribution was the relocation of the idea of foreign direct investment from international trade and finance to both the theory of industrial organisation and the theory of the firm. When Hymer was writing there was lack of prominence in the discipline of industrial organization because monopoly, efficient business behaviour and complex forms of organization dominated (Teece,2006).

Hymer failed to establish a connection and investigate the existence of unique advantages held by multinational organisations. Rather than using contractual methods, these firms should use internal transfers to leverage these advantages. He was for the idea that if a multinational enterprise possesses a special advantage, then competition has to be restricted, postulating that there was need for protection of direct investment against competition in a foreign processing industry , Yamin(1991) & Teece (1998 and 2006) challenged this position because Hymer's view was insufficient. Hymer's focus on market power as a determinant of international expansion by firms was a matter of deliberate decision rather than a lack of awareness of the intellectual growth of the theory of the firm and the discipline of strategic management (Pitelis, 2006).

Hymer's drawback and his benchmarking on perfect competition was attributed to lack of realistic welfare criteria for evaluating the multinational enterprise Teece (2006) claimed that perfect competition is an unachievable and unworkable policy standard, which informed Hymer's arrival at awkward conclusions and recommendations. In contrary, Teece (2006) did observe that during Hymer's time there was little activity to enable him fathom organizational capabilities which impacted is orthodox approach towards multinational enterprises as has been depicted by his poor comprehension of competition policy in his era Hymer's first attempt to exert control over foreign firms in order to reduce rivalry among them proved to be catastrophic, particularly in the context of today's free and competitive global environment. Although Hymer's emphasis on market power rather than efficiency (Teece, 1985) diverged from the conventional approach, the development of the product life cycle theory was influenced by this idea as an explanation for FDI.

2.9.1.3 The Product Life Cycle Theory

From competitive standpoint., Vernon (1966) proposed that the stage of production achieved in the international life cycle of distinct products has an impact on the types of products

exchanged between nations, particularly in the case of knowledge-intensive products. Geographical shift is meant to strike a balance between production and consumption due to variation in the stages of the product life cycle reached. The emergence of new product stages is common in highly industrialised and innovative nations due to increasing demand conditions. Product's standardization, innovating country's rise of both production and consumption, increased economies of scale and low prices characterized the mature product stage. The higher proportion of total sales was from exports to other countries . Product's production through foreign direct investment began in other advanced and industrialized countries at this stage.

The standardized product stage is characterized by selling of product entirely on the basis of price. LDC's relatively cheap labour influenced the relocation of production owing to the fact that low cost locations was feasible. Occasionally, the newly established industrial sites in less developed countries (LDCs) started exporting more goods to the innovative nation and other advanced economies. Despite the thorough explanation of the logic behind the practice of industrialised economies outsourcing their manufacturing to countries with cheap labour costs, its validity has diminished. The US, where Vernon (1966) disseminated his model, never held a dominant position in terms of foreign direct investment, according to Piggott and Cook (1999 and 2006). An explanation was required due to the presence of multinational firms from several regions, including Europe, Japan, Newly Industrialised Countries (NIC), and emerging economies.

In response to the initial critique, Vernon (1979) revised his model, asserting that multinational companies had been modified in order to hinder the entrance of new enterprises into the market. Vernon (1994) explicitly identified the decrease in organisational risks as the primary motivation for FDI. Like Hymer, Vernon developed a framework that focused only on a subset of the operations carried out by multinational firms. The international product life cycle theory does not adequately explain resource-based, efficiency-seeking, or strategic asset-seeking foreign direct investment (FDI). This model established the foundation for comprehending the dynamic dynamics that influence foreign direct investment and the relationship between international trade and foreign production. The incorporation of innovative hypotheses about the stimulation of demand, technical advancements and delays, and the expenses associated with knowledge and communication were subsequently shown to be valuable instruments for studying overseas production and exchange (Dunning & Lundan, 2008).

By positing describing the product life cycle as a model with FDI preoccupation as an import substitution vehicle, Kojima (1973) further criticized Vernon's (1966). Companies

transferred mature production lines to countries that were somewhat less developed than their home country, focusing on more valuable activities in the more advanced domestic environment, in response to fast growing economies (Kojima & Ozawa, 1984). Furthermore, firms ostensibly do not adhere to the product life cycle model when the country of initial production lacks a domestic market.

The product life cycle model is often referenced by writers in the field of international business literature for many reasons, primarily because of its dynamic character resulting from the robust interplay between customers, producers, and market structure. The correlation between technology and knowledge was influenced by market considerations, as well as the economic environment and market situations in different nations. The main deficiency of Vernon's (1966) thesis was its excessive focus on the product life cycle (Moreira, 2009). Evidently, this idea is not applicable to the ongoing inquiry. For example, thanks to information technology, new products released in one state may quickly become accessible to customers in another nation. Hill (2007) noted the concurrent introduction of laptops, CDs, and digital cameras in the United States, Japan, and other developed countries.

As alluded to hitherto there is a lack of explanation from the product life cycle model to justify the relocation of operations OECD and non-OECD countries to Kenya. It has been further stated that this theory is more effective in offering explanation to licensing and franchising rather than the motives behind firms investing abroad (Chee & Harris,1998 and Osei,2014). This research does not adopt the product life cycle the theory based on these facts.

2.9.1.4 Oligopolistic Rivalry (Follow the Leader) Model

According to Knickerbocker (1973), another factor in business decisions on where to locate is to follow a competitor's move. According to his claim (Head et al., 2002), firms in oligopolistic industries have a propensity to mimic one another's decisions. Hoenen & Hansen (2009) and Hansen & Hoenen (2016) characterised FDI as a defensive strategy, drawing on their extensive knowledge of complex legal markets.Knickerbocker (1973) argued that risk-averse enterprises imitate their main competitors in order to maintain a stable oligopolistic equilibrium and avoid disruptions. Firms operating in oligopolistic markets tend to emulate the actions of the market leader. Therefore, if the market leader chooses to invest overseas in order to preserve equilibrium, other companies will also do so (Schenk, 1996; Das, 2007).

The adoption of the "follow the leader" conduct pattern was a rational response to oligopolistic competition. Additional study, such as Flowers' (1976), has shown similar

patterns in the actions of multinational enterprises (MNEs) in other countries. Furthermore, extensive investigations, such Chwo-Ming and Ito's (1988), and others, have corroborated Knickerbocker's findings. Graham (1978 and 1990) further contended that foreign direct investment (FDI) might manifest as a "exchange of threat," whereby rival enterprises intrude into each other's home markets. The construction of this model is similar to the "reciprocal dumping models" that have been prominent in subsequent strategic trade theory (Krugman, 1990). Knickerbocker's theory consists of three essential elements: oligopoly, uncertainty, and risk aversion. Knickerbocker's theory remains true since FDI choices were strategically complementary owing to a significant aversion to risk. Head et al. (2002) shown that in a foreign market with unclear costs, a risk-averse oligopolist is more likely to create a manufacturing site if their rivals have already invested there. The authors also proposed that ambiguity and risk aversion were crucial elements in achieving an oligopolistic reaction. During periods of uncertainty, the temptation to go overseas was comparable to the appeal of investing in foreign markets. The presence of uncertainty and risk aversion has increased the attractiveness of imitating a competitor in a foreign market.

Several academics, such as Kogut & Chang(1996), have asserted that Knickerbocker's research provided the impetus to include variables in regression models that elucidated the factors influencing foreign direct investment. The significance of the oligopolistic response theory goes beyond the economic literature that identifies the origins of strategic complementarity in investment decisions. The oligopolistic response hypothesis is applicable not just to the international business literature but also to the economic literature that identifies the origins of strategic complementarity in investment decisions.According to Head et al. (2002), enterprises benefit more from clustering, when they are positioned near together and have positive spillovers known as agglomeration economies, than from dispersing. According to Fauli-Oller and Sandonis (2016), the motivation for firms to merge decreases when there are more outside firms in a Cournot oligopoly. They build upon Caves' (1971) assertion that mergers are a strategic complement. The merging of two corporations has heightened the likelihood of future mergers involving more enterprises. According to Flaherty and Raubitschek (1990), they anticipated the emergence of follow-the-leader conduct when the leader's investment reduced the fixed costs of the competitors' resulting from investments.

Research such as Banerjee's (1992) study shown that when a leader provides accurate information on uncertain investments, it may lead to the development of herd behaviour. This highlights the importance of uncertainty in influencing imitative investment choices. Information cascade, as described by Bikhchandani et al. (1998), refers to the situation when

individuals rely on the visible actions of others to deduce hidden signals about a decision. These cascades aided FDI students in understanding the concept of imitation. The payoffs were determined based on the rank-order position, using the payoff model presented by Aron & Lazear (1990). The intense competition to be the first to achieve a certain goal prompted the trailing firms to take risky investment decisions, which the leading firm also replicated.

Because firms raise their profit expectations through copying, this section of the literature serves as the foundation for anticipating the strategic complementarity of corporate imitation. According to Head et al.'s (2002) interpretation of Knickerbocker's theory, the firms still selected the same locations regardless of the outcome and even if their actions still reduced their predicted earnings. When a high-risk adverse company tries to avoid situations where its rivals have a cost advantage, this happens. Hence, the level of risk aversion shown by a firm's decision-making process influenced the practical significance of an oligopolistic response.The creation of internalization theory may have resulted from this.

2.9.1.5 Internalisation Theory of FDI

Coase (1937) first broached the concept of internationalization but internationalization specific advantage (ISA) was first incorporated by Buckley & Casson(1976) into the main FDI's analysis by asserting that internationalization of operations through FDI who was chosen by firms when internationalization costs were lower than the transaction costs. Internationalisation theory emphasises the establishment of transnational hierarchies and alternative methods to coordinate value-added processes across national boundaries in order to facilitate market activity.

Hence, firms are inclined to participate in FDI when they believe that the advantages of owning both domestic and international operations, along with the resulting transactions, could exceed those provided by external trading relationships (Piggott & Cook, 2006; Das, 2007; Dunning & Lundan, 2008; Assunção et al., 2011). As shown by the studies conducted by Buckley and Casson in 1976, as well as Piggott and Cook in 1999 and 2006. Based on the studies conducted by Buckley & Casson (1976) and Piggott & Cook (1999 and 2006), it was observed that after the inception of this idea, FDI saw significant growth in industries that need sophisticated technology and extensive production. The integration of R&D with marketing tactics was essential in addressing market flaws for intermediate items, especially those that are protected by patents and depend on technical expertise and skilled labour.

In contrast to the commonly held belief among researchers such as Penrose (1959),

MacDougall (1960), and Kemp (1961), who maintained that multinational corporations moved wealth to other countries, Casson (1979) asserts that multinational organisations mainly transmit knowledge. If capital was moved, it was done so with the purpose of protecting knowledge and recovering revenues from its global exploitation. Rugman (1990), who argued that the key concern of the internationalisation thesis was the flaws in the intermediate market, got involved in the debate. The theory delineates the information flow that connects R&D with the manufacturing process and the procurement of raw materials, spanning from the upstream production facilities to the downstream production facilities. The theory primarily focused on the application of knowledge flow. As a result of the inadequate protection of intellectual property rights during that period, including patents and trademarks, it was easy to replicate valuable information.

In order to safeguard the firm's knowledge, market knowledge was internalized (Dunning & Lundan, 2008). Because knowledge is a public good,transnationalism results from internationalization (Buckley & Casson, 1976).Because of the concentration of the development of a new technology in a single R&D facility, the expertise was transferred to subsidiaries abroad. Multinational corporations indicate that firms own manufacturing in several nations (Casson, 2015). Firms do not always internalize markets because internalization only happens when projected advantages outweigh costs. When a corporation engages in foreign investment via internalisation, it may encounter political and economic risks as a consequence of doing business abroad (Hymer, 1976). These risks are attributed to the "liability of foreignness" (Zaheer, 1995).

Casson (2015) postulated that when there are high cost of doing business abroad, a firm may have options of either licensing, subcontracting independent foreign firm in production or producing at home and exporting to the country. Firms do this to ensure the quality and consistent flow of components and raw materials. If there are tax benefits associated to transfer pricing, internationalization may be viable for firms without specialized skills. The appropriation argument served as an additional justification for globalization. According to the theory of appropriation, FDI was brought about by the firm's main specialized advantages, which included its managerial expertise and patents/inventions, in key input markets. This particular advantage enabled the corporation to acquire economic rent without resulting in market monopolies. The firm's decision to engage in FDI was driven by the recognition that retaining control and ownership of the advantage was the most effective approach to capitalise on its potential benefits. This argument might also account for how prevalent technology is in global corporations. The theory's recommended course of action is for the host countries to

either completely avoid FDI or to actively support it (Piggott & Cook, 1999).

Internationalization theory can still be considered as a broad idea even though it helps forecast how firms would internationalize to foreign markets. Buckley (1990), one of the main protagonists, argued that it is more appropriate to label it as a paradigm rather than a theory. In essence, although market failure defines one kind of value-adding activity, the nature of this added value might vary significantly from another form. If an intermediary lacks sufficient control over the quality of items using the company's brand, forward integration might be responsible for market displacement.Conversely, the perceived need to reduce the likelihood of unpredictable supply disruptions or increasing expenses may prompt firms to engage in backward integration, such as acquiring control over natural resources.

The governance of several operations in various locations may also be influenced by the desire to acquire financial advantages not only within the firms that own them but also outside of linked activities. Dunning & Lundan (2008) argue that internationalisation theory should prioritise understanding the firm's exchange function and intermediate product markets, rather than focusing on the value added function that arises from a single firm coordinating several activities. Dunning (1979 & 2003) embraced the internationalisation theory's logic when constructing the eclectic paradigm. However, he challenged the theory's adequacy in comprehensively elucidating the extent and configuration of production by domestic firms beyond national boundaries, as well as the production activities of foreign-owned firms in close proximity. While both Buckley (1987) and Casson (1987) recognised this critique, they individually stressed the need of including location-specific attributes and internalisation factors to provide a thorough explanation of multinational corporations' operations. Dunning & Lundan (2008) disputed the notion that the firm's growth may be attributed to time-related factors.

Furthermore, OLI has been deemed more comprehensive when compared to Buckley & Casson's (2009) internalisation theory. The OLI paradigm was considered more appropriate for this study compared to the internalisation theory due to the fact that it aligns with Dunning's (2001) assertion that the OLI framework remains valid regardless of the investment motivation. Hymer (1976) formulated his thesis by incorporating the concepts of ownership and location. While he emphasised the significance of these two factors, they do not seem to be exclusive to FDI. The OLI paradigm, developed by Dunning (1977 & 1979), encompasses three key attributes: ownership, location, and internalisation.

2.9.1.6 The Eclectic (OLI) Paradigm

Dunning (1977 and 1979) posits that the eclectic paradigm remains a very comprehensive analytical framework for understanding the factors driving foreign direct investment (FDI). The OLI paradigm integrates the objectives of domestic firm functioning with the modes of entry for foreign direct investment (FDI), by merging internalisation theory and classical trade theory. According to the paradigm, multinational enterprises (MNEs) had a competitive edge over local corporations in the countries they operated in due to their ownership (O), internalisation (I), and location (L) advantages (Demirhan & Masca, 2008; Kinuthia & Murshed, 2015). In the absence of these benefits, the foreign business would be compelled to export its products to other markets.The individual firm's reaction to the succinct design of OLI parameters is highly contingent on context and is influenced by factors such as the industry, the investing firm's qualities, and the attributes of both the host and home countries. The qualities varied depending on the classification of the economies as either developing or developed, big or small, and industrialised or non-industrialized (Dunning, 2001).

Dunning (1993 & 2008) improved the understanding of the appeal of FDI locations by categorising them into four types: market-seeking, resource-seeking, efficiency-seeking, and strategic-asset seeking. These categories are based on the purpose of the investment as seen by the investing company. Market-seeking FDI, also known as horizontal FDI, aimed to establish manufacturing facilities in the host country in order to cater to local and regional markets. This strategy allowed firms to take advantage of factors such as labour and supply costs, market size, government regulations and import controls, as well as investment incentives. The kind of FDI being referred to here is known as tariff-jumping or export substitution. The primary objective of horizontal foreign direct investment in the current context was to augment domestic manufacturing capabilities in order to cater more effectively to the local market. Consequently, the size and expansion potential of the host country's market were crucial factors to be taken into account.The presence of barriers such as tariffs and transportation costs led to the occurrence of horizontal foreign direct investment in the local market (Demirhan & Masca, 2008).

FDI may be categorised into three orientations: resource-seeking, vertical, or export. Resource-seeking FDI refers to when companies invest overseas to get resources that are not accessible domestically, such as natural resources and related transportation. Additionally, companies may also consider factors like low labour costs, tax advantages, and other benefits while making these investments. It was common for foreign businesses to invest directly in the

manufacturing sector with the express purpose of exporting their products. This kind of foreign direct investment required the transfer of some stages of the manufacturing process to the host country because of the presence of inexpensive workforce. FDI in the oil and natural gas industry naturally flowed towards nations that had a lot of natural resources (Dunning & Lundan, 2008).

Efficiency-seeking FDI occurs when a firm can gain advantages from managing geographically dispersed activities together, taking advantage of economies of scale and scope. This strategy involves utilising inexpensive labour, government incentives to encourage local production, and a favourable business environment. The strategic asset sought FDI to gain access to R&D, innovation, and advanced technology. The focus was on projects that benefited large multinational corporations, particularly in knowledge-intensive industries with high fixed-to-overhead cost ratios, which offered substantial economies of scale (Dunning & Lundan, 2008).

Over time, certain elements of the location (L) categories in the OLI paradigm evolved. For instance, many variables may belong to several categories, and certain variables that Dunning identified as location factors (such as inexpensive labour) have been christened as market-seeking variables. The eclectic paradigm, which has been generally recognized and approved among researchers, has contributed significantly to the corpus of FDI literature through the synthesis of numerous complimentary theories and identification of the elements influencing the activities of multinational enterprises.

The fundamental drawback of the eclectic paradigm is the inability to understand dynamic processes. The most well-known dynamic approach to FDI were the models of the internationalization process based on Uppsala School's work (1977 & 1990). The game-theoretic analysis conducted by the Leuven School, as well as the works of Porter (1990) and Krugman (1990) on the rediscovery of economic geography, the integration of multinational enterprise into models of international trade by Helpman & Krugman (1985) and Markusen (1991), and other subsequent approaches such as Meyer (1998), have all been effective.

Another critique of the paradigm was that it involved so many variables that operational usefulness was lost.Dunning (2008) responded to the critique by asserting that the flaw was an inevitable result of attempting to combine many FDI motives into a single paradigm. Dunning (1981) employed the Investment Development Cycle Path (IDP) to address concerns regarding the dynamics of eclectic theory. This framework elucidates the impact of different stages of economic development, as indicated by GDP per capita and foreign investment positions, on the positions of countries in international direct investment (Dunning, 1988; Dunning &

Narula, 1996). Based on the theory, as a nation's economy progressed, the difficulties faced by both foreign and local enterprises evolved, thus affecting the flow of FDI into and out of the country, as well as the country's economic structure. The new theory acknowledged the government's role in shaping the nation's stance via policies, which had an impact on both FDI flows and the benefit of local firms' ownership. This was in contrast to the eclectic paradigm, and the two factors had a dynamic interaction. The inclusion of the dynamic approach, a novel concept, was included into the eclectic paradigm (Nayak & Choudhury, 2014).

A major critique of the eclectic paradigm is its failure to account for the recent emergence of multinational enterprises from developing countries. These firms may not possess the same competitive advantages as multinational enterprises from developed economies, despite the eclectic paradigm being a highly influential approach for studying the international activities of multinational enterprises. Therefore, investment abroad may not be made solely on the basis of their special O-advantages. Thus, in most situations, internationalization is seen as a strategy by companies to accumulate previously unobtainable resources (Sanfilippo, 2010; Amighini et al., 2014). Barney (1991 and 1996) created resource based view theory, based on the pioneering contributions of Penrose et al. (1959), to address some of the criticisms of the OLI paradigm.

2.9.1.7 The Behaviour Theory of Uppsala School

The Behaviour Theory of Uppsala School/Internationalization Process Model was developed by Johanson & Vahlne(1977), drawing inspiration from Penrose's (1959) research.The thesis defined the sequential steps involved in entering the foreign market. Step 1: The rise of regular companies in a neighbouring market is due to their extensive understanding of the industry and greater control over resources. Following the acquisition of more resources and the accumulation of more expertise, businesses proceed to grow into more remote markets. This expansion occurs in four steps: Step 1 involves entering the new market by exporting via independent representatives. Step 2 entails establishing a foreign sales subsidiary. Finally, in Step 3, enterprises engage in overseas manufacturing (Zohari, 2008). The Uppsala model may provide an explanation for some instances of FDI in Kenya, particularly when it involves international companies investing in former colonies. Several British companies operate in Kenya. Firms used the benefits of shared language, cultural commonalities, and political relationships between the home and host nations (Meyer, 1998).

Johanson & Vahlne (1990) rejected the idea that this model was only relevant to small,

open, and affluent Nordic nations. This is due to the empirical evidence supporting the stage model of internationalisation found in research conducted outside of Scandinavia. A primary limitation of several Uppsala models was their ability to only elucidate the phenomena of market and horizontal seeking foreign direct investment (FDI). Explaining the current developments such as the growth of Chinese FDI in Angolan oil exploration and the relocation of office-based services from the UK and the US to India is challenging using this paradigm. This technique has difficulties in effectively incorporating the significant amount of asset enhancement that occurs in the present day (Dunning & Lundan, 2008). This model inadequately depicted the managerial structure of the corporation. Hiring managers who have already worked in international management positions may enable companies to bypass the Uppsala phase (Zohari, 2008). Franchising, which is more difficult to include into the model's scale and is considered a less risky method of market entrance, was not taken into consideration in the sequential four-step market entry process (Doole & Lowe, 2008).

Recently, advancement in technology and the massive changes in the environment of international trade has been witnessed and the emerging economies and now becoming key players globally. The World Trade Organization(WTO) 's efforts to lower trade barriers, make other concessions to trade, and boost cultural deterritorialization have had a significant impact on consumer behavior and market conditions, necessitating the avoidance of the stages of the Uppsala model. The model also fails to account for retreating during other stages. Therefore, a corporation that has information but fails to use it in the market may be compelled to withdraw. Amankwah-Amoah, Zhang, and Sarpong (2013) have presented similar cases involving Best Buy and Bertelsmann AG, two corporations that first entered the Chinese market but then departed.

The service sector currently experiences the most rapid expansion among industries worldwide. The Uppsala model, on the other hand, focused on the manufacturing of products and could not successfully predict or explain the actions of the service industry. Altinay et al. (2007) and Knight & Cavusgil (2009) found that Born Global enterprises were the first to internationalise, in contrast to typical firms that progressively join the global market. This discovery contradicts the Uppsala model's assertion that market knowledge can only be gained via market operations, often known as experimental knowledge. Moreover, experimental data might be obtained via imports. In addition, Saarenketo (2004) noted that Born Globals placed high importance on integrating experience learning with other forms of information acquisition, such as imitative learning, grafting, and searching.

For instance, the internationalisation process in the music and fashion industries has undergone a complete reversal. American and European artists and designers now prioritise entering the Tokyo, Japan market before releasing their music or products in their own home markets. Similarly, designers now aim to establish a presence in the markets of Paris, London, and New York before releasing their products in their home markets (Tohari & Retnawati, 2010). Another deficiency was the ambiguous comprehension of the institution's role in Uppsala School ideology. This research incorporates institutional theory.

2.9.1.8 Institutional Theory

FDI has also been explained using institutional theory. Based on this theory, firms function within a complicated, unpredictable, and sometimes contentious setting. Consequently, their decision-making is impacted by institutional factors, including rules and incentives (Francis et al., 2009 and Assunção, 2011). Peng et al. (2009) argue that institutions such as governments, public organisations, trade unions, and NGOs have a significant influence on the strategies and performance of firms. Hence, foreign investment may be seen as a strategic endeavour involving multinational firms and the governments of both the home and host countries, or as a rivalry to attract FDI (Faeth, 2009). Government policies such as tax incentives, subsidies, facilitating the transfer of funds, and promoting state-owned firms to invest overseas may influence the choice between exporting, FDI, and licencing (Faeth, 2009; Assunção, 2011, and Kang & Jiang, 2012).

Theories of internalization based on firm-level analyses of transaction costs may be regarded as institutional because the internalization component is always institutionally orientated in relation to the advantages and disadvantages of different governance strategies. During this time, scholars such as Kogut (1993), Westney & Zaheer (2009), and others played a crucial role in promoting the widespread acceptance of institutional analysis. They achieved this by developing theories and conducting sociological analyses that explored the influence of culture on work organisation within firms (Dunning and Lundan, 2008).Additional research on culture, which expanded upon Hofstede's seminal works (1983 and 2001), such as the studies conducted by Kirkman, Lowe, and Gibson (2006) and Jing and Graham (2008), may now be considered for their valuable insights into institutional theory.

Management researchers often use the three institutional dissemination mechanisms of coercive, normative, and mimetic behaviour, as outlined by DiMaggio and Powell (1983), in their typology. This may be somewhat derived from Scott's (2001) conceptual framework.The

concept of mimetic pressure, which refers to the tendency of firms to adopt procedures or structures that are similar to those often seen in their social or physical surroundings, has been the focus of scholarly investigation (Dunning & Lundan, 2008).

Scott (2005) defines genuine firms as those that have been established and operated in adherence to relevant legal and quasi-legal regulations. The decision of multinational enterprises (MNEs) to choose a site is impacted by a favourable environment where the legislative and institutional restrictions on FDI are less burdensome. This allows corporations to easily comply with the regulatory requirements of the host country. Foreign corporations are more vulnerable to assaults from local interest groups when compared to domestic ones. Hence, it is essential for them to create social legitimacy, which might be more arduous compared to regulative legitimacy (Kostova and Zaheer, 1999). According to Scott's (2005) assertion, normative controls have a higher likelihood of being internalised compared to regulative controls. This is because normative controls place more emphasis on a basic moral basis.

According to Yiu & Makino (2002), cultural differences are the main obstacle for foreign enterprises to gain acceptance in a host country, whereas Du (2009) found that these differences greatly influence the choice of site for FDI. Hence, the task of a firm to gain normative legitimacy in the host nation becomes more difficult as the cultural disparity between the home and host countries increases. In an attempt to integrate institutional elements into the OLI paradigm, Dunning (2004) explored the impact of these variables on the operations of multinational corporations in emerging countries and economies in transition.

Dunning and Lundan (2008) argue that to properly understand the reasons that drive multinational enterprise (MNE) activities, it is necessary to take into account the institutional effects both inside the organisation and between the company and its operating environment. Given that this study focuses on the factors that drive foreign direct investment (FDI) in both OECD and non-OECD countries, it is important to examine theories that have attempted to explain FDI from developing economies. However, it should be noted that the institutional theory does not specifically address the problem of emerging markets.

2.9.1.8.1 LLL Theory

The Uppsala model might be useful for FDI between non-OECD countries.But emerging MNEs also grew in OECD nations. Instead of following the typical pattern of MNEs from developed nations, this may be seen as an upward investment. This FDI from non-OECD to OECD posed a challenge to established FDI theories. According to Mathews (2006), this kind

of investment provided access to resources not found at home. These firms, although not having a distinct competitive edge, managed to overcome this by strategically locating, consolidating, and effectively using resources from different parts of the world. The Linkage, Leverage, and Learning paradigm (LLL) was devised by him to clarify this investment made in the early stages. Multinational enterprises (MNEs) used the strategy of linkage on a worldwide scale to acquire the necessary resources for their integration. The selected approach to acquire these resources was via the use of leverage. To optimise resource utilisation, it is advisable to establish connections with partners or existing industry players. Consistently using the techniques of connecting and leveraging led to the acquisition of knowledge. The iterative dynamics of leverage and learning enabled emerging multinational enterprises (MNEs) to acquire competitive advantages, enabling them to effectively compete in both domestic and multiple foreign markets. The dragon multinationals, albeit a very small group, are corporations that have experienced substantial growth despite operating in a limited home market and facing resource constraints.

According to Mathews (2017), these dragon multinationals were able to accomplish this by focusing their global operations on their core competencies, harnessing resources that were complementary to their own, and maximizing the value of their international network links. Nevertheless, the LLL framework faced scrutiny for its focus on firms from the fast-growing economies of the Pacific Asia region (Narula, 2006). Furthermore, Dunning (2006) argues that certain latecomer firms may possess distinct advantages, such as ownership advantages specific to a particular country (Dunning & Lundan, 2008).

Cuervo-Cazurra and Genç (2008) proposed that MNEs from emerging economies have a competitive advantage over MNEs from established countries in difficult institutional environments. MNEs originating from developing nations effectively turned their inherent disadvantage of operating in countries with poor institutional frameworks into an advantage, enabling them to smoothly adapt to increasingly demanding business environments. The LLL paradigm has been criticised for its limited ability to explain South-North FDI flows without providing specific guidance for South-South FDI (Sanfilippo, 2010). Hence, this paradigm can only adequately explain the differences between south-south and south-north FDI when used in combination with other theoretical approaches like as institutional theory.Nevertheless, the Springboard Perspective model may have included an expansion of this perspective.

2.9.1.8.2 Springboard Perspective

The Springboard Perspective of Luo and Tung (2007) was comparable to the LLL paradigm. This strategy states that freshly formed MNEs continuously and methodically exploited international expansion as a launching pad to acquire crucial resources.Due to less sensitivity to institutional and market constraints at home, they were able to compete more successfully with international rivals both at home and abroad. The non-sequential internalization structure of South-North FDI is another distinction. From an IDP perspective, this course was independent, and from an Uppsala perspective, it represented radical behaviour.

Additionally, weak domestic institutions and underdeveloped domestic markets may exert pressure on emerging MNEs. The institutional framework was not a "wall-paper" because of this institutional difference. One benefit of addressing imbalances may be the international expansion of emerging MNEs if they lacked firm-specific advantages(FSAs). Therefore, unlike MNEs from mature economies, rising MNEs moved outside to cover resource gaps rather than because they had a resource advantage. Both the LLL and Springboard viewpoint theories acknowledge that newly formed MNEs have to adapt to the environment shaped by industrialised countries.

CHAPTER THREE

RESEARCH METHODOLOGY

3 Introduction

This chapter presents the systematic approach for carrying out the research. The study highlights and illustrates the research methodology, data gathering techniques, data analysis, and reporting procedures.

3.1 Research Design

Research design, as defined by Bryman and Bell (2007) and Blumberg et al. (2008), is a systematic framework that establishes the link between variables in a study. It outlines the overall structure of the research and provides a logical basis for inferring causal relationships between the variables being examined.To generate a new theory or precisely test an existing theory, it is necessary to use evidence, which is outlined in a research design. A research design is a comprehensive strategy (Quinlan et al., 2019).

The primary focus of the research design is in the examination of the techniques, philosophies, procedures, and tactics employed throughout the survey process (Creswell, 2009). Research design options are significantly influenced by research interests. The book "Research Interests" by Walliman (2017) offers a detailed analysis of the many sorts of inquiries that arise from the aims and objectives of a research project. The study's design elucidates the researchers' perspective on the social environment as an object of investigation. As per the works of Hall & Hall (1996) and Bryman (2016), the study design entails the examination of the fundamental nature of reality and knowledge (ontology), as well as the researcher's comprehension and approach to acquiring knowledge.

For example, a qualitative research design may include experimental, quasi-experimental, descriptive, and correlational research methods (Hussein, 2015). Quantitative research designs include the use of methodologies that generate numerical data and enable the assessment of relationships between different factors, with the aim of making predictions and exerting control over outcomes (Hussein, 2015). Therefore, it is anticipated that the researcher would choose a study design that is better adapted to tackle the unique research concerns at hand (Bono & McNamara, 2011). This is achieved by providing a framework for using appropriate research approaches to collect, measure, and analyse data (Quinlan et al., 2019).

The investigation was conducted using a descriptive study design. A descriptive research design is a scientific methodology which entails objectively watching and

documenting the behaviour of a subject without exerting any kind of influence on it. The main goal of using this technique is to get a thorough comprehension of the subject matter under consideration (Mugenda & Mugenda, 2003).

3.2 Target Population

The study population comprised the whole economic performance data spanning from 1976 to 2020, as recorded by the Kenya National Bureau of Statistics (KNBS). The objective was to examine the impact of foreign direct investment (FDI) on the economic growth of Kenya. The population consists of actual inflows of foreign direct investment (FDI), gross domestic product (GDP), government expenditures, balance of payments (BOP), and private investment. Data was gathered for each of the five variables over a span of forty five years, given their continuous characteristics.

3.3 Data Collection

The study collected data from pre-existing sources. The data included foreign direct investment (FDI), government expenditure, interest rates, and currency exchange rates from 1976 to 2020. The Kenya National Bureau of Statistics and the Central Bank of Kenya provided the information on GDP, while the World Bank and KNBS supplied the data on FDI, government spending, interest rates, and currency rates. The inquiry extended from 1976 until 2020. Publicly available secondary data, mostly in quantitative form, may be easily obtained via annual releases and publications in both print and internet formats. The researcher really profited from using this kind of information for later examination owing to its cost-effectiveness in terms of both time and money. Acquiring data of superior quality is a difficult undertaking, particularly when contrasted with receiving the same data straight from the primary source.

3.4 Data Analysis

Data analysis is the transformation of collected data into a suitable format for deriving conclusions that are consistent with the original notions and theories that motivated the inquiry (Babbie, 2010). The obtained secondary data was carefully examined to evaluate its suitability, dependability, adequacy, and accuracy. both quantitative and qualitative was gathered by the researcher. Before doing data analysis in R software, the acquired data was sorted, coded, and structured. The tasks to be executed included analysis of variance (ANOVA), multivariate

analysis of multi-factor ANOVA, univariate analysis, and partial correlation analysis. This allowed for the structuring and thorough examination of data sets acquired from the study, enabling well-informed decision-making. The information may be easily shared with the other participants in the study.

3.4.1 Analytical Model

Kaaya and Pastory (2013) utilised a multi-linear regression model employing ordinary least squares analysis (OLS) to econometrically assess the correlation between the dependent and independent variables. The data was subjected to tests to assess for serial correlation, multicollinearity, and heteroscedasticity. The researcher persevered in using R software, a programming language used for data visualisation and statistical analysis. The study used a regression model to analyse FDI 's influence on economic growth. The literature analysis established a clear correlation between the dependent and independent variables, which influenced the decision to use a linear model in the study. The study investigated FDI's impact on economic development via the application of a regression model.

The study model is based on the Augmented Cobb-Douglas production function, which includes FDI as one of the factor inputs. The structure of it is as follows:

$$\text{Log GDP Growth} = f(FDI, GE, OP, PI)$$

The mathematical formulation for the linear model showing the correlation between the dependent variable and the independent variables is as follows:

$$\Delta\text{GDP} = \beta_0 + \beta_1 FDI_t + \beta_2 GE_t + \beta_3 OP_t + \beta_4 PI_t + e$$

GDP= Annual change in Gross Domestic Product in Kenya.
FDI= Annual change in Foreign Direct Investment in Kenya

GE= Annual change in government expenditure in Kenya.
OP= Annual change in balance openness to trade in Kenya
PI= Annual change to private investments in Kenya
$\beta_{0=}$ Constant
$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4 =$ coefficients of independent variables

e = Error term

Operationalization of the variables is expounded on as follows:

i. *Gross Domestic Product:* In the entire economy, the gross output of all finished goods and services was recorded. Gross domestic product (GDP) has been vouched as a yardstick for measuring economic development and the data was obtained from KNBS statistical abstracts for the period 1976 to 2020.
ii. *Government Expenditure:*Normally it is presumed that government expenditure has a direct correlation with economic growth. The provision of most social capital rises with an increase in government expenditure and the government reduces operating costs in order to promote FDI by spending money in development infrastructural development (Moody,1992. Productivity of investments is increased by infrastructure thereby leading to economic growth. Critical human development in areas of education/training is done by the government in order to promote technology and skill development which in the long run announces value addition in production. The data was obtained from CBK and KNBS statistical abstracts for the period 1976 to 2020.
iii. *Foreign Direct Investments:* It is anticipated to show the net inflows of foreign investments into the nation, and if FDI is used productively, it leads to economic growth. The CBK and KNBS statistical abstracts for the years 1976 to 2020 were used to obtain the data.
iv. *Host nation openness to trade:* This can be illustrated by calculating the difference between a country's exports and imports. The variable is a measurement of a country's openness to international trade. The data was gleaned from the statistical abstracts for the years 1976 to 2020 from CBK and KNBS.
v. *Private Investments:* By showcasing how the private sector contributes to economic growth in a nation, it demonstrates the net amount of money invested by the nation's individual businessmen. The CBK and KNBS statistical abstracts for the years 1976 to 2020 were used to get the data.

3.4.2 Test of Significance

The statistical measures of correlation coefficient (r), coefficient of determination (r^2), coefficient of multiple correlation (R^2), univariate analysis, bivariate analysis, partial correlation, and ANOVA (using F-Test) were evaluated as parametric tests to determine the significance of the relationship. The correlation coefficient, symbolised as r, measures the magnitude and direction of the linear association between two variables. Regression analysis quantifies the extent of linear correlation between variables

by using the coefficient of determination (r^2) to evaluate the "goodness of fit". The coefficient of multiple correlation (R^2) measures the extent to which a dependent variable may be properly predicted by a linear function of a set of other variables (covariates).

Bivariate analysis was used to determine the empirical relationship between two variables by detecting their correlations. Partial correlation analyses were performed to examine the association between the dependent variable and the independent variable, while factoring in other factors that could be linked to the dependent variable. ANOVA is a statistical test that may be used to ascertain the comparability of means across different groups. The F-test was used to evaluate the equality of variances between two variables, whereas the two-tailed test was utilised to investigate the alternative hypothesis that the variances are not equal. Through the use of univariate analysis, an investigation into the dependent variable and control factors reveals correlations between the dependent variable and control variables.

3.5 Data Validity and Reliability

Validity refers to the extent to which a study properly measures the particular concept it intends to analyse. Validity, as per the definition provided by Borg and Gall (1989), pertains to the degree to which a collection of test items properly represents the particular concept that the test aims to evaluate. Material effectiveness is evaluated by the use of specialist techniques that collect data pertaining to material relevant to a certain topic or notion. Reliability refers to the degree to which a measurement technique produces consistent results over several attempts (Neuman, 2000).The researcher conducted a thorough examination of the statistical reports to ascertain their dependability.

CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION OF FINDINGS

4 Introduction

The researcher's results are discussed in this chapter along with the analysis of field data that was gathered. In light of the study's objectives, the data is then interpreted.

4.1 Findings

Foreign direct investment served as the independent variable in the regression analysis. The dependent variable was economic growth. As control variables, inflation, interest rates, and government policy have all been used. The World Bank's World Development Indicators were utilized to compile the raw data, which was then cross-checked against economic survey data from the library of the Kenya National Bureau of Statistics for different time frames (1976–2020). Results of the regression analysis were obtained after transferring the obtained data as variables to the R software.

The results are displayed in Tables 4.1–4.9. The study's findings include descriptive statistics, a univariate analysis of both the dependent variables and the control variables, the results obtained prior to the incorporation of control variables, the outcomes seen after accounting for the impacts of control variables, and the interpretations derived from these findings. The adjusted R-square quantifies the extent to which the dependent variable may vary in response to a change in the independent variable. The study variables underwent a two-tailed significance test at a significance level of 5% and a confidence level of 95%.

A significant correlation between the analysed variables was deemed to be present if the p-value exceeded 0.05; otherwise, the correlation was regarded to be negligible. All data dispersion may be categorised into three groups: residual variance, regression-explained variance, and unexplained variance. The coefficient of determination, R^2, quantifies the proportion of total variance that is accounted for by the variation described. The standardised coefficient and the F statistic provide measures of the strength of the correlation between variables and the suitability of the data set for the regression model and/or test.

4.1.1 Descriptive Statistics

Table 4.1: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Max
FDI (%)	45	0.751	0.728	0.005	3.095
GDP (%)	45	3.926	2.413	-0.799	9.454
Government Expenditure (%)	45	15.799	2.453	11.742	19.803
Openness to Trade (%)	45	16.739	7.027	6.939	39.691
Private Investment (%)	45	1.697	1.083	0.285	4.535

Source: Researcher (2023)

Table 4.2: Descriptive Statistics of all the Variables

Statistic	N	Mean	St. Dev.	Min	Max
GDP (%)	45	3.926	2.413	-0.799	9.454
FDI (%)	45	0.751	0.728	0.005	3.095

Source: Researcher (2023)

The table presents a summary of the minimum, maximum, mean, standard deviation, skewness, and kurtosis of the data used for variable analysis. The study's 45-year time series included variables with a minimum, maximum, mean, and standard deviation from the mean. Data skewness in distribution analysis signifies the presence of asymmetry and divergence from a normal distribution. Kurtosis measures the degree of peakedness or flattening of data in a distribution.

4.1.2 Inferential Statistics

The following are the findings derived from the regression analysis. The first presentation showcases the FDI's impact on Kenya's economic development. Subsequently, the correlations between all variables are examined. Finally, the regression analysis incorporates control variables to assess the influence of foreign direct investment on Kenya's economic growth.

4.1.2.1 Findings before Control Variables are Included

The results demonstrate an ANOVA of Y (Kenyan economic growth) and X1 (foreign direct investment) before control variables are included.

Table 4.3:The ANOVA table for the fitted model

	Df	Sum Sq	Mean Sq	F value	Pr(>F)
Regression	4	43.137	43.137	8.098	0.821
Residuals	40	213.070	5.3268		
Total		256,207			

Source: Researcher (2023)

The fitted model's ANOVA table is shown in Table 4.3 above without the inclusion of control variables. The F test's value of 8.098 and 95% confidence level significance demonstrate the suitability and significance of this test. The P value being less than 0.05 explains why. The implication is that economic growth is predicted by foreign direct investment, trade openness, private investment, and governmental spending.

4.1.2.2 Univariate Analysis of Dependent Variable and Control Variables

A univariate analysis establishes the correlation between the control variables and the dependent variable. Table 4.4 illustrates the impact of three control variables, namely X2 (public expenditure), X3 (private investment), and X4 (BOP), on Y (economic growth in Kenya). The results demonstrate the comparisons between the dependent variable and control variables using the F test, R squared, and Adjusted R squared.

Table 4.4: Univariate Analysis of Dependent Variable and Control Variables

Dependent Variable:Y

Source	Type III sum of Sq.	Df	Mean Sq.	F	Sig.
Corrected the model	6.384a	4	2.143	2.965	.130
Intercept	.987	2	.987	1.347	.294
X2	1.031	2	1.031	1.435	.276
X3	.694	2	.694	.976	.372
X4	.024	2	.024	.035	.863
Error	4.341	7	.731		
Total	1657.063	11			
Corrected Total	10.859	10			

a.R Squared = .595 (Adjusted R Squared = .397)

Source: Researcher (2023)

In Table 4.3 above,, presents the correlations between the dependent and control variables. The adjusted R squared value is 0.595, indicating that control variables may explain up to 39.7% of the variations between the dependent and control variables. The findings of significance tests, with a threshold of 0.05, suggest that not all control factors have a meaningful impact on explaining the variation between the dependent variable and the control variables.

4.1.2.3 Bivariate Analysis of Variables

This displays the outcomes of the connection between any two variables in order to demonstrate their empirical correlation. The variable X1, representing real FDI inflows, together with the control variables X2 (public expenditure) and X3 (private investment), are both statistically significant and suitable for explaining the associations with the dependent

variable Y, which represents economic development in Kenya. This is seen in table 4.4. The tests of 0.24, 0.019, and 0.028, respectively, show a significant relationship with Y when regressed.

The table displays the interconnections among variables X1 (real foreign direct investment inflows), X2 (public expenditure), X3 (private investment), and X4 (balance of payments), illustrating the presence of multicollinearity among these variables. In addition, the significant test result of 0.547 for control variable X4 in the regression analysis with the dependent variable Y indicates that it is both inappropriate and unimportant. This indicates that there is no significant linear relationship between the balance of payments (BOP) and foreign direct investment.

Table 4.5: Bivariate Analysis of Variables

	Y	X1	X2	X3	X4
Y Pearson correlation Sig.(2-tailed)	1	-.705*	.729*	-.684*	.219
X1 Pearson Correlation Sig.(2-tailed)	-.706* .024	1	-.731* .016	.707* .024	.203 .573
X2 Pearson correlation Sig.(2-tailed)	.729* .019	-.732* .017	1	-.688* .028	.322 .364
X3 Pearson correlation Sig.(2-tailed)	-.685* .028	.706* .023	-.689* .027	1	-.053 .886
X4 Pearson correlation Sig.(2-tailed)	.219 .547	.203 .576	.322 .368	-.052 .887	1

* At a 2-tailed significance threshold of 0.05, correlation is significant.

Source: Researcher (2023)

4.1.2.4 Findings when Effects of Control Variables are Included

The following presents the regression outcomes of the dependent variable and independent variables, considering the inclusion of control variables.

Table 4.6: Partial Correlations when Control Variables are Included

Control variables		Y	X4
X1& X2 & X3	Y Correlation	1.000	-.405
	Sig.(2-tailed)	.	.367
	Df	0	5
	X4 Correlation	-.405	1.000
	Sig.(2-tailed)	.367	.
	Df	5	5

Source: Researcher (2023)

The results of both the independent and dependent variables are shown in Table 4.5, factoring in the effect of control factors. Upon evaluating the control variables X1, X2, and X3, it has been shown that there is a negative (-) 0.405 correlation between economic growth in Kenya (Y) and X1 (actual FDI inflows). This implies that even after accounting for control factors, the relationship between foreign direct investment and Kenya's economic progress can still be explained by the balance of payment (X4).

4.1.2.5 Correlation Coefficient GDP and FDI

Table 4.7: Correlation Coefficient GDP and FDI

	GDP	FDI
GDP	1	0.184
FDI	0.184	1

Source: Researcher (2023)

The economic development of Kenya is strongly correlated with foreign direct investment, as shown by the Pearson Correlation analysis conducted on the GDP and FDI inflow data series. The correlation value obtained was 1, with a significance level of 0.184 (2-tailed).

4.1.2.6 Correlation Coefficient for all the variables

Table 4.8: Correlation Coefficient for all the variables

	GDP	FDI	Government Expenditure	Openness to Trade	Private Investment
GDP	1	0.184	0.072	-0.266	-0.277
FDI	0.184	1	-0.374	-0.034	0.056
Government Expenditure	0.072	0.374	1	0.176	-0.541
Openness to Trade	-0.266	-0.034	0.176	1	0.148
Private Investment	-0.277	0.056	-0.541	0.148	1

Source: Researcher (2023)

Table 4.7 exhibits a substantial and favourable correlation between GDP and FDI, along with the trade openness, government expenditure, private investments, and human capital of the host country. Foreign direct investment (FDI) has a robust correlation with the level of trade openness, government expenditure, and private investments in the nations where it is received. This illustrates that an increase in foreign direct investment has a beneficial impact on both economic growth and the private industry. The correlation analysis suggests that the relationship between economic growth and FDI may be expressed using a linear equation:

$$\Delta\text{GDP} = \beta_0 + 0.184FDI_t + 0.072GE_t + (0.266)OP_t + (0.277)PI_t + e$$

4.1.2.7 The Model Summary

Table 4.9:The Model Summary

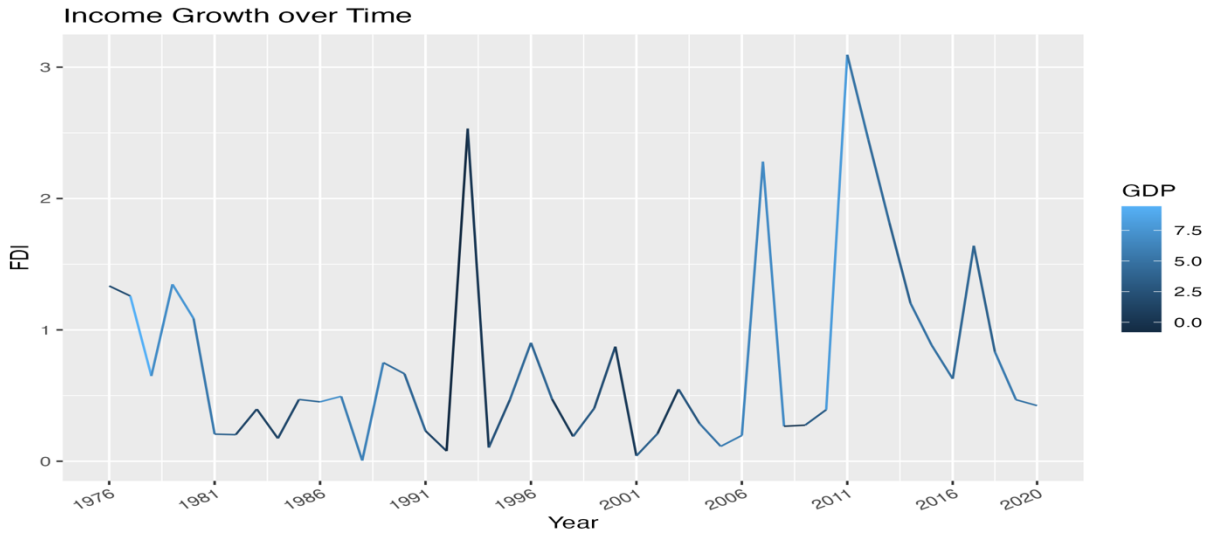
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	4.4983	0.1684	0.0852	4.7303	0.1684	2.025	4	5	0

Source: Researcher (2023)

The correlation between economic growth and each independent variable may be elucidated by the extent to which it contributes to the variance in the dependent variable. The researcher's coefficient of determination (r^2) was calculated using the supplied model description. The research reveals that the independent variables, namely foreign direct investment, trade openness, private investment, and government expenditure, together explain 16.84% of the variability in economic development. The association is clarified by an adjusted r^2 value of 8.52%. Furthermore, 1.2% of the variance may be ascribed to exogenous factors and the residual term.

4.1.2.8 GDP and FDI Graphical Trend Analysis from 1976 to 2020

Graph 4.1: GDP and FDI Graphical Trend Analysis from 1976 to 2020



Source: Researcher (2023)

Graph 4.1 above depicts the visual representation of the economic development and foreign direct investment in Kenya. There is a direct relationship between the two.

4.2 Interpretation of the Findings

This study investigates FDI's influence on Kenya's economy by evaluating data on FDI and GDP inflows from 1976 to 2020. Descriptive statistics were computed to provide a succinct overview of the subjects being discussed. The data underwent further analysis utilising inferential techniques, such as Analysis of Variance (ANOVA) and correlation analysis, to establish the relationships between the variables. The empirical data we have collected shows a robust and statistically significant link between FDI and GDP. The correlation analysis yielded a correlation coefficient of 0.184, which exhibited statistical significance at the 0.01 level (two-tailed). Therefore, it is logical to deduce that FDI has a very beneficial impact on the economic advancement of Kenya. The correlation analysis revealed a favourable association between FDI and many parameters such as personal investments, government expenditures, and trade openness in the host nation.

This finding is consistent with prior research that mainly focused on the direct correlation between FDI and GDP. Ilhan (2007) conducted a thorough review of more than 50 empirical research on the subject. The results showed that 40 of these studies found a positive

correlation between foreign direct investment (FDI) and economic development. In contrast, just two investigations indicated a negative correlation, and the other studies did not demonstrate any association. Empirical studies indicate a robust relationship between the majority of FDI and economic progress. Lumbila (2005) undertook a research to investigate the notion that foreign direct investment (FDI) has a significant impact on economic growth. The results revealed a statistically significant discrepancy, indicating that a 10% increase in FDI might potentially result in a 0.34% growth increment. Feridun and Sissoko (2006) use Granger causality and vector autoregression (VAR) methodologies to investigate the correlation between FDI and economic development in Singapore over the period from 1976 to 2002. Their investigation established a one-way causal relationship between FDI and economic growth. In addition, it supports the findings of Esso (2010), who did a research on eleven countries in sub-Saharan Africa and found a strong and positive correlation between FDI and economic growth in Angola, Cote d'Ivoire, Kenya, Liberia, Senegal, and South Africa.

Aitken and Harrison, as well as Carkovick and Levine, contend that there is an absence of a substantial association between FDI and economic advancement, which contradicts the findings of our study. The influence is often constrained, despite the favourable association. Rodrick specifically contends that the correlation between FDI and economic advancement is mostly attributable to the phenomenon of reverse causation. Only a handful of studies, such as Saltz's (1992), have shown evidence of an adverse correlation between FDI and economic progress.

De Mello (1997) examines the evolution of knowledge on the FDI's impact on the developing countries' economic development. He perceives FDI as a comprehensive amalgamation of capital stocks, expertise, and technology. The impacts on development are many and vary significantly across technologically advanced and developing economies. According to him, the degree to which efficiency benefits are transferred to local enterprises determines the lasting effect of FDI on economic development in the host nation. Lahiri and Ono (1998) posited that when developing countries create policies for FDI, local content criteria, and profit taxes, they must carefully consider the trade-offs between the advantages and disadvantages associated with FDI.

In order to maximise the benefits associated with FDI, a recipient nation should use non-tax strategies, such as requiring the incorporation of local content in inputs. It is crucial to consider the efficiency level of domestic enterprises as well. Additional empirical research on the drawbacks of FDI suggests that these downsides are not entirely absent from the process. Companies often engage in excessive exploitation of existing natural resources to optimise

their profits (Colen et al., 2009). The phenomenon known as the "tragedy of the commons" results in the deterioration of the environment and the exhaustion of resources due to the competition among several entities for the use of a communal resource. The challenges are intricately linked to the subject of climate change (Sindre, 2011). The use of obsolete capital-intensive technology via imports, along with the unfair exploitation of indigenous labourers, has resulted in a rise in local labour expenses owing to multinational firm subsidiaries giving generous wages.

According to Odunga (2020), there are several potential complications that might come from FDI. These factors include a predilection for foreign inputs over local ones, resulting in economic outflow and worsening the balance of payments. Furthermore, FDI might lead to a dearth of integration with the local society or the formation of isolated "enclaves." Additionally, it might have adverse consequences on the competitiveness of the national market and facilitate the use of transfer pricing as a means to evade local taxes and deprive local partners of their rightful earnings. FDI has the potential to facilitate unethical practices and exacerbate environmental contamination, particularly in sectors like extraction and heavy manufacturing. Moreover, these elements have the potential to cause societal turmoil and disruption. Empirical evidence unequivocally shows a strong association between economic development and foreign direct investment. These studies imply that FDI boosts economic development. It is advised that the Kenyan government adopt measures to encourage more FDI, while also exercising vigilant oversight to minimise any detrimental effects on domestic enterprises. The adverse impacts may include the displacement of local enterprises, the use of transfer pricing to avoid local taxes, and the exacerbation of economic leakage via the preference for imported goods over domestic ones.

The findings also underscore the need for the government to eradicate deeply ingrained vices like as corruption and bolster security, particularly in light of terrorist threats. In order to successfully attract further foreign direct investment (FDI) to key areas of our economy, it is essential to allocate resources towards the improvement of infrastructure and create a favourable environment. In regard to the recent progress made in the mining industry, particularly in the extraction of titanium along the coast and the discovery of oil deposits in northern Kenya, it is imperative to adopt regulations that regulate the transfer of revenues from Kenya. This is particularly crucial since international corporations are competing for contracts associated with these projects. In contrast, the majority of these money should be sent to regions with greater levels of need. Instead, much of these monies should be sent to underdeveloped

areas, particularly those prioritising human development, since the growth of GDP would be inconsequential if it fails to have a good effect on the people.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5 Introduction

This chapter provides a succinct summary, conclusive findings, and well-informed recommendations derived from the study's outcomes. The summary of results elucidates the influence of foreign direct investment (FDI) on Kenya's economic growth.

5.1 Summary

Does Kenya's economic progress have a correlate with FDI? The data obtained from tables 4.1 and 4.7, which depict the FDI and GDP statistics for Kenya respectively, covering the period from 1976 to 2020, along with the Pearson Moment Correlation results presented in table 4.5, unequivocally demonstrate a significant and favourable correlation between FDI and the economic expansion of Kenya. FDI and economic development exhibit a positive correlation, implying a direct and proportional relationship between the two.

The statistics corroborate the earlier hypothesis that other variables played a role. Trade openness and inflation were discovered as crucial and significant factors in explaining variations in both economic growth and FDI. Reducing inflation rates and increasing trade openness to international investors will greatly enhance the influx of foreign direct investments and positively impact economic growth. Inflation affects FDI by introducing uncertainty and raising concerns over a prospective decrease in future investment returns.

The inverse relationship between the real exchange rate and interest rate indicates that none of these variables affects FDI or economic growth. Therefore, the decrease in the current exchange rate does not affect FDI. However, it is essential to exercise care when devaluing the home currency since it has the potential to progressively erode the trust of foreign investors. This might have detrimental consequences, especially with the importation of intermediate items used as raw materials in domestic manufacturing and capital investment goods. Increasing real interest rates lead to elevated investment expenses, which have a detrimental effect on investment. However, our study findings indicate that there is no discernible relationship between real interest rates and either FDI or economic development. This suggests that FDI and economic growth are not linked.

The unfavourable political atmosphere and macroeconomic conditions are likely to have significantly affected the observed erratic trend and restricted development over the research period, notwithstanding their effect on foreign direct investment and economic

growth. Kenya's strong reliance on agriculture is impeded by its poor weather conditions, which hamper substantial foreign investment in this sector and therefore restrict its contribution to economic growth (Kimotho, 2010).

As said before, it is crucial to increase foreign direct investment to strengthen economic growth. The findings have important policy implications, since they clearly show that FDI is vital for the progress of the Kenyan economy. The findings also underscore the need of directing resources to human development, given that economic progress, as measured by GDP, is irrelevant if it does not result in an enhancement of people' standard of life. This is in accordance with Kenya's 2030 Vision, which aims to convert Kenya into a newly industrialised, middle-income nation that ensures a high quality of life for its whole people within a secure and safeguarded environment by that specific year.

5.2 Conclusions

The correlation between FDI and economic growth is a topic that is now being vigorously discussed. The significance of the relationship can differ based on various factors, including the country where the research is conducted, the type of investments being evaluated, the characteristics of the donor country, the implementation strategy of the recipient country, the methodology employed, and the duration of the study. The association between FDI and economic growth in Kenya is very substantial and advantageous, necessitating the recognition of their deep impact on the nation's economy.

According to economic theories, Foreign Direct Investment (FDI) has the potential to significantly contribute to a country's growth plan. Foreign Direct Investment (FDI) helps to development via three main methods, as described by Jacobs (2001). At first, capital inflows like foreign direct investment (FDI) allow countries to surpass their exports, allowing them to dedicate more money towards investments than what they save. This leads to a quicker buildup of capital. Consequently, this improves labour efficiency and earnings. FDI, as discussed by Jacobs in 2001, has the capacity to provide job prospects for the surplus of highly educated workers in both informal rural and urban areas.

In order to reduce poverty, it is crucial to provide job opportunities in regions with strong potential for increasing productivity, hence helping local business owners (Watkins, 1998). Moreover, FDI has the potential to transfer information and experience, so improving the effectiveness and productivity of locally held enterprises (Jacobs, 2001). This may be accomplished by creating "forward and backward connections" with other sectors, whereby

foreign businesses provide local enterprises more advantageous input and output markets in comparison to imports and exports. Furthermore, it may be promoted via the means of education, rivalry, and emulation within sectors where foreign corporations are active. Given the direct relationship between FDI and economic development, it is recommended that the government takes steps to increase the inflow of FDI. This may be accomplished by enacting stringent rules and procedures that oversee foreign investment. In addition, the government should proactively oversee FDI by offering specific financial assistance to stimulate investment in some industries, while using laws to restrict it in other ones.

Considering the established relationship in the literature between elements that encourage economic development and FDI, it is crucial to prioritise policies that support economic growth. This would not only stimulate economic expansion but also entice FDI. The research on FDI reveals that some nations have a higher propensity to attract FDI in comparison to others. To ensure the protection of property rights, avoid corruption, and uphold the values of the rule of law and due process, it is crucial to strengthen the administrative, legal, and judicial institutions in Kenya. In light of the government's inadequate levels of FDI, it is crucial to enhance the economic environment inside the nation. Each of these factors will result in a rise in the essential FDI reaching the nation.

Moreover, given past occurrences of mishandling funds designated for free primary and secondary education, it is essential to guarantee that foreign direct investment allotted to the nation is efficiently used for its intended initiatives. Civil society organisations and authorities should proactively pursue legal recourse against politicians who fail to uphold their commitments to the electorate..

5.3 Recommendations for Policy

To optimally capitalise on the strong and significant relationship between FDI and economic progress in Kenya, the following steps may be implemented to successfully oversee foreign investments and guarantee that the wider population benefits from them:

Around 70% of Kenya's population depends on agriculture as their main means of sustenance. Hence, it is crucial for the government to devote a larger proportion of Foreign Direct Investment (FDI) towards initiatives in this specific industry. Liberalising agricultural trade is crucial since the progress of agriculture directly influences economic growth. It is necessary for aid donors and foreign investors to have a structured system for distributing help monies. Foreign investment may have a significant influence when considered within a

comprehensive framework that recognises the many factors that contribute to substantial growth. Strategic investment in Kenya enhances its capacity to effectively use the benefits of trade liberalisation, enhances the investment climate, and promotes inclusive economic progress for the economically marginalised.

From 2004 to 2008, Kenya had a consistent yearly increase of $3 billion in its GDP. Nevertheless, it is essential to acknowledge that despite this expansion, the country still occupies a position at the bottom when it comes to fundamental socioeconomic measures on a worldwide scale. Although there are other reasons contributing to the problem, corruption and weak governance are the main causes. These causes have resulted in the wasteful depletion of financial resources and impeded growth and progression. Corruption weakens institutions, therefore significantly hindering both economic development and progress. Therefore, it is fundamental to enhance and empower the Kenyan anti-corruption agency, giving it the necessary jurisdiction to efficiently carry out its duties. It is necessary to boost the array of bilateral and multilateral trade agreements, open up the economy, allocate more funds for infrastructure development, especially in the underdeveloped areas of the country, considering the Turkana oil and water discoveries, and show a stronger commitment to fighting corruption. These strategies possess the capacity to augment the allure of FDI, hence fostering economic expansion.

Multinational corporations (MNCs) have a substantial impact on foreign direct investment in the Kenyan economy, particularly within the construction sector. The rising multinational companies (MNCs) pose a substantial threat to the local firms' market domination and industry leadership, resulting in a concerning outcome. The government should reevaluate its policies on FDI and MNCs in order to tackle the challenge of enabling domestic firms to thrive and compete successfully with MNCs. The government should persist in maintaining its "open door" policy towards FDI and MNCs in order to exploit the beneficial effects that FDI has had on the Kenyan economy. To alleviate the negative effects on local companies, it is imperative to use pragmatic strategies. The foreign investment policy should be seen as a supplementary measure to the domestic development plan. The most effective strategy is to simultaneously welcome FDI and multinational corporation (MNC) investment. Multi-national firms should not get preferential treatment. It is advised to gradually remove bureaucratic restrictions on domestic state-owned companies, in order to provide local enterprises with the same privileges as their international counterparts.

The government should adopt more steps to actively invigorate our economy, with the

objective of luring foreign direct investment (FDI) and eventually forming national investment promotion agencies (UNCTAD, 2001). Kenya must have a proactive stance in attracting foreign direct investment (FDI) and aggressively seek ways to improve its technical capabilities, talent pool, and market access in order to effectively implement investment promotion laws. These strategies are especially designed to target foreign investors in certain sectors or enterprises, in order to fulfil Kenya's unique requirements in alignment with its development objectives.

5.4 Limitations of the Study

Limitations are restrictions that hinder the extent of a research and may provide further obstacles in its completion (Cooper & Schindler, 2002).The Kenyan government data lacks centralization since it is examined and held by several entities. The Ministry of National Treasury and Planning, in partnership with the Kenya National Bureau of Statistics, has provided reliable statistics on economic growth, while the Central Bank of Kenya is responsible for gathering information on foreign direct investment. The World Bank provided statistical data on the other factors. The website of the Central Bank of Kenya often has continuous technical issues, rendering it unavailable for the majority of the time. The Kenya National Bureau of Statistics is devoid of digital data, leading to a protracted procedure of sifting through several periodicals.

The inquiry was primarily constrained by the short time frame. The investigation was conducted throughout the temporal boundaries of 1976 to 2020, including a duration of at least 45 years. The decision was made based on the data's availability for the research, indicating that the findings are probably solely applicable for this particular era. Therefore, it is possible that certain issues pertaining to the topic may not be addressed if they are limited to certain years that are not included in the research. This constraint is mitigated by depending on yearly reports and journals published in both print and electronic media. The study also discovered the presence of multicollinearity among several control variables, the independent variable, and the dependent variable. Thus, it is probable that, once the control variables are taken into consideration, the calculation of the impact of FDI on Kenya's economic development may become less precise.

5.5 Suggestions for Further Studies

Subsequent investigations might broaden their reach by using more metrics to assess the correlation between FDI and the economic advancement of Kenya. Further inquiries may

examine other variables, such as real interest rates, government policies, institutions, and their influence on overall foreign direct investment as moderating or regulating factors. More research is required to evaluate the efficacy of FDI in Kenya. The objective of this research is to examine the effective implementation of all foreign investments in Kenya and assess their impact on the economy. This study examines the influence of FDI on the economic progress of Kenya, focusing on macroeconomic indicators. An investigation of investors' perspectives about the influence of different institutional factors on their firms would provide valuable insights into the perspective of multinational enterprises on FDI, representing a contrasting viewpoint.

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