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An Independent Study on the Impact of Foreign Direct Investment on the Kenyan Economy

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An Independent Study on the Impact of Foreign Direct Investment on the Kenyan Economy

Robert Ouko Obonyo [α] & Charles Y.Tibbs [σ]

Abstract- The researchers carried out an independent study which sought to analyze the impact of foreign direct investment on diverse economies in various countries of the world. The study reviewed a total of fifteen journal papers obtained from credible peer reviewed journals. Foreign direct investment (the independent variable) was measured in log form to enhance accuracy and the economy (the dependent variable) was measured by the gross domestic product, inflation rate and the balance of payment. There was a unanimous agreement by the authors that foreign direct investment affect host country's economic growth through physical capital accumulation, technology spillovers, creation of employment opportunities and enhancing productivity by bringing competition to the economy through skills and knowledge transfer. The review noted that no recent research has been done on the trends, determinants and pattern of foreign direct investment in Kenya and published in a credible peer reviewed journal. This study therefore recommends that a study should be done on the same to fill this glaring gap.

Keywords: foreign direct investment, economy, gross domestic product, inflation, balance of payment.

Chapter One

I. Introduction

a) Background of the study

This study looked at the role played by foreign direct investment in the economy of various countries like India, Kenya, Pakistan, Australia, Turkey, Venezuela, Ireland, Poland and other European Union nations. The study sought to explore whether FDI has a positive or negative impact or no effect at all in the nations' economy. The key independent variable in the study was foreign direct investment which is made up of capital that foreigners invest in various sectors. The economy was measured by a number of variables which for the purpose of this research was limited to gross domestic product, inflation and balance of payment. The components of gross domestic product as used in the study is as shown below:-

$$Y=C+I+G+(X-M)$$

Where

Y=GDP
I=Investment expenditure
C=Consumption expenditure
G=Government expenditure
(X-M)=Net imports

Various studies have been done on the relationship that exists between foreign direct investment and diverse economies in the world. After reviewing fifteen papers published in peer reviewed journals, there was unanimous agreement by (Arisoy, 2012; Zorska, 2005; Jaffri, Asghar, Ali & Rooma, 2012) that foreign direct investment can affect host country's economic growth through physical capital accumulation, technology spillovers, creation of employment opportunities, enhancing productivity by bringing competition to the economy, skills and knowledge transfer. The interest in foreign direct investment is generally attributed to its employment generation capacity, its effect on the productivity development growth and its dynamic link to competitiveness (Arisoy, 2012).

Foreign Direct Investment was defined by (Rizvi & Nishat, 2010) as not only a simple transfer of money but as a mixture of financial and intangible assets such as technologies, managerial capabilities, marketing skills and other assets. Multinational enterprise was identified by (Grosse, 1988) to be an important vehicle for effecting international transfer of funds, technology, management skills and products. He (Grosse, 1988) further noted that the impact of foreign direct investment is on employment, national income and balance of payment. Developing economies are facing shortage of capital and are racing against each other to attract more and more of foreign direct investment (Ullah, Haider & Hashim, 2012)

In their ground breaking study on the impact of foreign direct investment on sectoral adjustment of the Irish economy, (Ruane & Gorg, 1997), underscored the fact fdi produced roughly 69% of the net output and 45% of jobs in Irish manufacturing industries in 1993.They further noted that in terms of regional employment, FDI became a vehicle for dispersing manufacturing employment across the country and away from the manufacturing bases in Dublin and Cork. The paper concentrated on the manufacturing sector as the sector where hitherto fdi has the most impact.

b) Problem specification

Kenya as a nation is endowed with various resources & minerals like oil, natural gas, coal & renewable energy. At the same time the country faces numerous problems like that of unemployment, inflation,

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slow economic development & inadequate distribution of wealth. These challenges were further aggravated by the enactment of interest cap law which has effectively denied local investors in Kenya access to cheap credit. These challenges have created a lacuna in the economy which ultimately requires a solution which should be thought outside the box. Developing countries should aim to make the political and economic environment conducive to the inflow of foreign capital as this will contribute considerably to enhancing domestic employment opportunities (Mudida, 2002). According to a new Africa Attractiveness Survey 2017 report by Ernst and Young, Kenya which is the region's anchor economy had its foreign direct investment projects drop by 57.9 per cent while capital investment declined by 55.5 per cent in 2016. Kenya should therefore move very fast to reclaim her position as the region's most attractive FDI destination hence the timeliness of this study.

Devolution in Kenya had been billed to be a success story for counties which efficiently utilized the devolved funds for spurring economic growth. However, on the other hand it has turned out to be a den of impunity effectively devolving corruption to the grassroots level grossly undermining its objective of bringing equity in wealth distribution. It is against this background that this study is seeking to explore the role that foreign direct investment in Kenya can play in addressing the aforementioned challenges of unemployment, inflation, slow economic growth and inequality in wealth distribution.

c) Objectives of the study

i. To explore the impact of foreign direct investment on the economy of Kenya.
ii. To identify existing study gaps and recommend areas for further study.

d) Significance of the study

This research will seek to compliment the literature available on the impact of foreign direct investment on the Kenyan economy. This study will also fill the gap on the trends, patterns and determinants of foreign direct investment in Kenya as the empirical literature reviewed hereafter show that no research study had been done on the same in Kenya and published in reputable peer reviewed journals. This study will explore the advantages and disadvantages emanating from Greenfield investments thereby increasing the knowledge of economic policy makers. This will help them make sound economic policy decisions as they seek for solutions to the challenges facing our developing nation of Kenya. Exploring the impact of foreign capital on economic growth has important policy implications i.e. if FDI is found to have a positive impact on growth, then this will weaken arguments for restricting foreign investment (Jimborean & Kelber, 2017). If, however, FDI is found not to exert a positive impact on growth, then this would suggest the need to reconsider the measures adopted by countries to attract FDI (Jimborean & Kelber, 2017). If FDI is mainly driven by domestic factors, policy makers are better able to affect it, whilst if FDI mainly reacts to global factors, recipient countries are vulnerable are vulnerable to global shocks even if domestic policy makers maintain prudent macroeconomic policies (Jimborean & Kelber, 2017).

The global economy is in turbulence due to various reasons some of which are unrest in the Middle East (Syria, Iraq, and Yemen), the zika virus in Latin America and the slowdown in the economic growth of China. Kenya too has not been left out and as correctly pointed out by various citizens in the country; there is a popular view among the people that the much touted economic growth has not translated into jobs for the common citizens. This study therefore seeks to look at the significance of foreign direct investment in relation to the role it can play in the creation of job opportunities.

Kenya has got one of the highest unemployment rates in the world which is currently standing at 40 % (Ieconomics, 2017).Unemployment comes with numerous effects to the economy and the society as it reduces the purchasing power of an individual & the community at large (Ieconomics, 2017). The unemployed young people tend to look for alternative sources of income like crime. Unemployment also leads to distrust in the administration and the government which can in turn lead to political instability. Foreign direct investment will address this and therefore the importance of this study need not to be overemphasized.

Kenya is currently experiencing a very high inflation rate which is slowing down the economic growth of the nation. As was observed by (Focus Economics, 2017), Kenya's inflation rate climbed to 9.0% in February 2017 from 7.0% marking the highest level in over five years. This figure went above the Central Bank's inflation target range of 5.0% plus/minus 2.5 percentage points (Focus Economics, 2017). The prices of goods and services are rapidly on the rise and as a result of this the purchasing power of the Kenyan shilling is falling. For the economy to run smoothly the inflation rate should be checked by the Central Bank of Kenya (Focus Economics, 2017).

The Kenyan president, signed the 2015 Banking (Amendment) Bill into law on August 24, 2016 (Simiyu, 2016). On the streets, Kenyans felt liberated. At the Nairobi Securities Exchange (NSE) investors were gnashing their teeth as all the 11 counters dropped in prices and bled a record Shs.45 billion in one trading session (Alushula, 2017). Even the Central Bank of Kenya's monetary policy committee admits that this law has complicated its work. Currently, credit to the private sector is at a 10-year low (Alushula, 2017). The private

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sector in Kenya plays a very important role in the growth of the gross domestic product which is a pointer to growing economy. Reduction of profit to the private sector implies that there is very little or no capital at all. This therefore leaves a big gap that can only be bridged by the foreign direct investments.

Kenya still suffers from inadequate distribution of wealth because the good intentions of sessional paper number 10 of 1965 which aimed to adequately address it were marred endemic issues (Gates, 2007). Even though the government has made great progress in tackling this issue, foreign direct investment through the establishment of special economic zones will crown it with success. This study will demystify avenues that the government can explore to provide an out of the box solution to the perennial problems of unemployment, inflation, slow economic growth, inadequate capital to the private sector and unequal distribution of wealth.

e) Scope of the study

This paper will have only one independent variable i.e. foreign direct investment and three dependent variables namely the gross domestic product, inflation and balance of payment which will be used to measure the topic of the 'economy'. The word economy is very wide and the study has narrowed down to use the three variables which can efficiently and conveniently measure it. This study will be done in Kenya and the data will be obtained from fifteen papers published in various journals. The study will involve panel data spanning forty years i.e. from 1976 to 2016 that will be analyzed using regression analysis. Statistical analysis software of eviews version eight will be used. Both the independent and dependent variables shall be used in their log forms to enhance accuracy and efficiency.

f) Limitations of the study

This study will be very complex and it will require a lot of time and financial resources to conduct it to its final conclusion. As these limitations are anticipated, the researcher will develop a thorough and comprehensive implementation schedule and budget to carry out the same. The issue of time will also be addressed by setting aside three hours every day for the study until final completion, submission and publication of this independent study paper.

g) Organization of the paper

This independent study paper comprises of chapter one which has the background of the study, problem specification, the objectives of the study, significance of the study, scope of the paper and limitations of the study. Chapter two presents review of the conceptual literature and contains an introduction, conceptual review and research gaps. In chapter three there is a review empirical literature that deals with impact of foreign direct investment. It also contains summary table of empirical review and research gaps. Chapter four gives the conclusion, recommendations on the research gaps, proposed conceptual framework and the research design. References are listed in the final page.

Chapter Two

II. Review of Conceptual Literature

a) Introduction

i. *Foreign Direct Investment*

Foreign direct investment is derived from the idea of a company redirecting a portion of its activities/capital to a chosen foreign country (Blackhurst & Otten, 1996). It is an investment made by an entity or a person in business concerns in another country in the form of either establishing business operations or acquiring business assets in the other country such as ownership or controlling interest in a foreign country (Aminews, 2014). It involves capital investment, transfer of management skills or technological expertise (Aminews, 2017). It can take various forms which include opening a subsidiary or associate company in a foreign country, acquiring a controlling interest in an existing foreign company or by means of amalgamating (merger) with a foreign company(Investopedia,2017). As per the guidelines of the Organization of Economic Cooperation and Development (OECD), controlling interest is achieved by acquiring at least 10% of ordinary shares in a foreign company (Investopedia, 2017).

There are various categories of foreign direct investment; FDI can either take the form of horizontal foreign direct investment which occurs when a company establishes a similar business in a foreign land (FDI Report, 2016). Another category is the vertical form which occurs when different but related business activities from the investor's core business are established or acquired in a foreign country (FDI Intelligence, 2016). The importance of the Greenfield sector as a factor influencing economic growth and development need not to be overemphasized. According to (Fingar, 2016) a total of 1.89 million jobs worldwide were created by FDI alone in 2016. This therefore implies that Greenfield investments are a big time employer that needs to be tapped. Unemployment is a major problem in Kenya because the progressive economic growth is not translating in to jobs for the citizens. A solution outside the box is required to tackle this issue and hence foreign direct investment can help provide a solution for this menace.

FDI has the most tangible impact on economic development and is the most solid indicator of a country's competiveness. FDI may boost the productivity of all firms not just those receiving foreign capital (Jimborean & Kelber, 2017). In 2015, FDI injected 713 billion dollars into the global economy with India

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taking 63 billion dollars worth of FDI projects (FDI Report, 2016). In 2016, India became a big story in the FDI industry after trailing China for a long period of time. India has developed friendly tax policies, streamlined permit requirements, easened land acquisition rights, provided affordable labour and adequate infrastructure to international investors. Of significance is that these investor friendly policies were accelerated by the current premier Narendra Modi who formed the government in 2013. Kenya too underwent political transition around this time hence the relevance of this study.

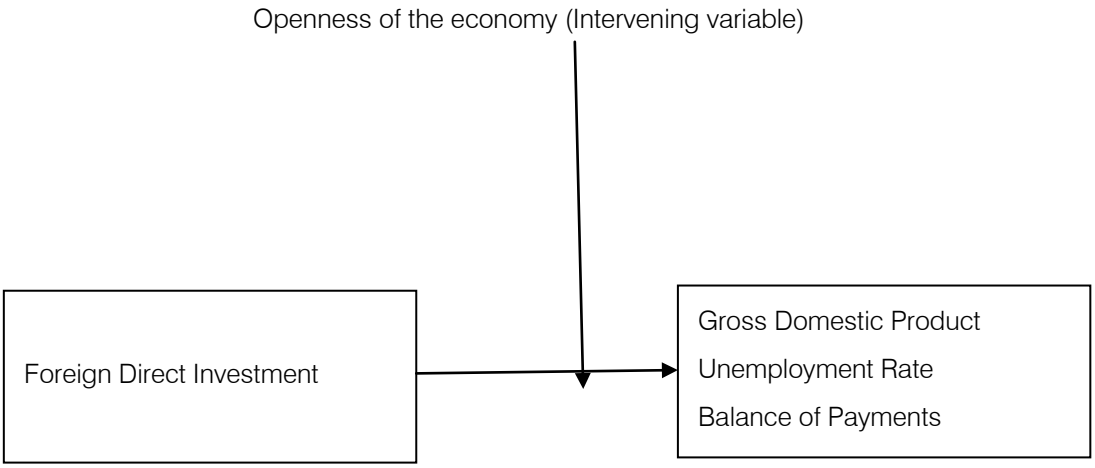
What is it that is attracting foreign investors to India? According to the FDI report of 2016, investors were interested in coal, oil, natural gas and renewable energy sectors. This strikes attention because Kenya too is well endowed with these resources. The government should intensify her efforts of aggressively marketing Kenya as a destination for foreign direct investment. Foreign Direct Investment is important because it is considered to be a catalyst for future economic growth (FDI Report, 2016). This form of investment is also less volatile as income compared to other forms of investments(FDI Report, 2016). Inflows from FDI provide a valuable source of foreign exchange and long term capital to finance the balance of payments (FDI Report 2016).

In their recent study that looked the foreign direct investment drivers and growth in Central and Eastern Europe in the aftermath of global 2007 financial crisis (Jimborean & Kelber, 2017) showed that fdi inflows are driven by both external (i.e. macroeconomic and financial conditions in the euro area, global macroeconomic conditions and global risk environment and domestic determinants (past fdi, human capital, market size, infrastructure, competitiveness, corporate tax system, risk premium, trade openness, geographical proximity to Western Europe, accession to the European Union and progress in implementing structural reforms). By using panel data analysis they (Jimborean & Kelber, 2017) also found out that fdi has a positive impact on economic growth. This study although it is good, relevant and recent, it looked at the foreign direct investment drivers and determinants in the European Union which is a more developed region compared to Africa. This therefore shows that there is need for replicating the same study in Kenya which is an upcoming middle class economy and also underwent a post election crisis in 2007.

For fdi to occur the firm must have both ownership advantage and internalization advantage while the foreign market must offer locational advantage (Jimborean & Kelber, 2017). According to existing literature, the main determinants of foreign direct investment are past foreign direct investment, human capital, market size, infrastructure, competiveness, the corporate tax system, risk premium, trade openness, progress of implementation of structural reforms and the growth potential of recipient countries (Jimborean & Kelber, 2017).

b) The conceptual background

Table 1.1: Conceptual framework



Source Author, 2017

The International Monetary Fund (IMF) defines foreign direct investment as "… investment made to acquire lasting or long term interest in enterprises operating outside of the economy of the investor."It is an important source of external finance which implies that Kenya with its limited amount of capital can receive foreign exchange beyond her national borders from wealthier nations.FDI will be the antecedent variable.

i. *Gross Domestic Product*

Gross domestic product is the dependent variable implying that it will measure the economy which is considered to be a very broad topic. Mudida (2003)

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defines Gross Domestic Product as the 'total monetary value of all final goods and services produced within the geographical boundaries of a country'.

ii. *Theoretical background*

a. Ricardo's theory of comparative advantage

In his theory of comparative advantage, David Ricardo imagined two countries England and Portugal producing two commodities cloth and wine using labour as the sole unit of production. Ricardo further assumed that the productivity of labor varied between industries and across countries. This theory is all about two countries and two trade items that make it not to be in line with common sense because several countries and items are involved in international trade.

b. Production Cycle Theory of Vernon

This theory was developed by Vernon in 1966 and he used it to explain certain types of FDI made by US companies in Western Europe after the Second World War (Denisia, 2010). This investment was done in the manufacturing industry. Vernon believed that innovation, growth, maturity and decline are the four major stages of production life cycle (Product Life Cycle Stages, 2017). According to him, first the United States transnational companies created new innovative products for export and the local market. Vernon further hypothesized that as the American products landed in the foreign markets other companies imitated them and supplied the same in the local markets. They were thus forced to build production facilities in these countries to maintain their market shares. This theory has a loophole because America is not a sole player in international trade as there are over 200 countries engaged in same including even underdeveloped countries.

c. The theory of exchange rates on imperfect capital markets

Informational imperfections cause external financing to be more expensive than internal financing so that the changes in wealth translate into changes in the demand for direct investment (Froot & Stein, 1991). When the wealth of domestic agents goes down, that depreciation of the domestic currency can lead to the acquisition of domestic assets by foreign companies.

Chapter Three

III. Review of Empirical Literature

a) Introduction

The hot topic of Greenfield investments and its impact on world economies has been discussed by a number of scholars at various levels and forums. This chapter contains a comprehensive review of existing literature, emerging issues emanating from the empirical review and research gaps.

b) Empirical Review

The fact that foreign direct investment has a positive influence on various sectors of the economy was noted by (Sharma & Satinderpal, 2016: Makki & Somwaru, 2004) who found out that there is a positive correlation between wages paid and foreign direct investment inflow and that one per cent change in wage rate causes positive changes in FDI. The fact there is a negative elasticity coefficient between FDI and deficit in balance of position means that one per cent increase in the deficit level in the balance of payment causes a reduction in percentages of FDI inflows in the country (Sharma & Satinderpal, 2016). Chege, 2015 carried out a study on the impact that foreign direct investment has on economic growth in Kenya based on a sample of thirty observations and noticed that there is a positive relationship between foreign direct investment and economic growth in Kenya. From a sample of 30 observations, he further opined that the coefficient of variation (R squared) was at 72.5% which means that the explanatory variables explain about 72% of all changes in the dependent variable (Chege, 2015). The p value (f statistic) was found to be 0.0485 which was less than 5% making it significant meaning that explanatory variables jointly influence the dependent variable (Chege, 2015).

In their study on foreign direct investment and current account balance of Pakistan that employed the use of autoregressive distributive lag model over a period of twenty eight years (Jaffri, Asghar, Ali & Asjed, 2012) postulated that in the case of Pakistan, foreign direct investment has worsened current account excluding current transfers (CABECT). They (Jaffri et al:Grosse,1988) further observed that foreign direct investment helps to build up capital, create employment, develop productive capacity, enhance skills of local labour and managers through transfer of technology and helps the country integrate with the rest of the world. In their unique study that looked at the trends, patterns and determinants of Australian direct investment, (Sharma & Bandara, 2012) found out that countries which are open, have large domestic market and have a similar language and culture to Australia's attract most of its foreign investment. Countries in regional blocks tend to attract Australian investments (Sharma & Bandara, 2012).

Foreign direct investment is positively associated with currency (Rupee) depreciation and exchange rate volatility deters Greenfield investment as was found out by (Ullah, Haider & Hashim, 2012) in their research that looked at the impact of exchange rate volatility on foreign direct investment in Pakistan. Foreign direct investment affects host country's economic growth via two channels which are technology spillovers and physical capital accumulation as was argued by (Arisoy,2012) when he published his study that dwelt on the impact of foreign direct investment on

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total factor productivity and economic growth in Turkey. He (Arisoy, 2012) further reasoned that the interest in fdi is generally attributed to its employment generation capacity, its effect on productivity development growth and its dynamic link to competitiveness.

Some drawbacks in foreign direct investment have been seen as was concluded by (Rizvi & Nishat, 2010) that whatever other benefits which may accrue from fdi, it should not be expected to create employment opportunities in any of the three countries i.e. Pakistan, India & China directly and fdi enhancement policies must be supplemented by other measures to stimulate employment growth. It has been noted that in terms of regional employment, foreign direct investment can be used as a vehicle for dispersing manufacturing employment across the country and away from the manufacturing bases in Dublin and Cork (Ruane & Gorg, 1997). Foreign direct investment brought transition and transformation to the Polish economy (Zorska, 2005). When labour management bargaining industry is wide, (Zhao, 1998) identified two effects of foreign direct investment which are the collusion effect and the threat point effect. He (Zhao, 1998) further stated that foreign direct investment reduces the negotiated wage, union employment and competitive wage if the union cares more about employment than wages. (Barrel & Pain, 1997) found out that the acquisition of knowledge based specific assets to be an important factor behind the growth of foreign direct investment suggesting that investments are likely to be an important channel for the diffusion of ideas and technologies.

There is no generally accepted foreign direct investment theory with every new evidence adding some new elements and criticisms to the other ones (Denisia, 2010). The extent to which foreign direct investment is growth enhancing depends on the degree of complimentarity and substitution between fdi and domestic investment (De Mello Jnr, 1999).

c) Emerging Issues

Research on foreign direct investment its trend, determinants and impact on the Kenyan economy is relatively new and out of the papers reviewed only one was from Kenya. There is an urgent need to carry out a current study on the same. It was noted in the review that research on the topic has been done extensively in the developed like United Kingdom, Australia, China, Poland, Ireland & India making them not very suitable in understanding the Kenyan situation.

Table 1.2: Empirical review table

Author(s)	Findings	Research gaps
1. Mamta Sharma and Dr.Satinderpal studied on the impact of fdi on the Indian economy. Their work was published in the International Journal of Innovative Research and Development volume 5 issues 2 on January 2016.The study used economic growth variables of GDP, currency, stock market, foreign exchange reserves, interest rate, current account, exports, imports and unemployment rate.	The study revealed the following:- i)There is a positive correlation between wages paid and FDI inflow.1% change in wage rate causes positive changes in FDI. ii)There is negative elasticity coefficient between FDI and deficit in balance of position reveals that 1% increase in the deficit level in the balance of payment causes a reduction in percentages of FDI inflows in the country.	-The study was carried out in India and not in Kenya hence there is a necessity of carrying out a similar study in the country. -The study is not well structured. Introduction, literature review, methodology, findings and conclusion not clearly arranged. -There is no conceptual framework indicating clearly the dependent and independent variable and how they affect each other. -The abstract is disorganized and not informative.
2. Isaac Chege. Studied the Impact of foreign direct investment on economic growth in Kenya. It was published in the International Journal of economics, commerce and management vol.III issue II of November 2015. The dependent variable was economic growth and independent variable FDI.	Found out that there is a positive relationship between foreign direct investment and economic growth in Kenya. From a sample of 30 observations, the coefficient of variation (R squared) was at 72.5% which means that the explanatory variables explain about 72% of all changes in the dependent variable. The p value (f statistic) was found to be 0.0485 which was less than 5% making it significant meaning that explanatory variables jointly influence the dependent variable.	-The study period was from 1984 to 2013 making the study old. A current study covering up 2016 should be done. -The sample size of thirty is very small.
3. Atif Ali Jaffri, Nabila Asghar, Mahnaz M Ali & Rooma Asjed. Foreign Direct Investment and current account balance of Pakistan. The period of	The study found out that in the case of Pakistan foreign direct investment has a worsened CABECT both in the long run and short run i.e. increase	-The study was carried out in Pakistan leaving a gap for the same study in Kenya. -The study period was between

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	study is 28 years and they employed the use of autoregressive distributive lag model and obtained data from the state bank of Pakistan. Pakistan Economic and Social Review, Vol.50 no.2 (Winter 2012), pp 207-222.Published by the Department of Economics, University of Punjab. The study used natural log of income outflow as a dependent variable and natural log of foreign direct investment as an independent variable. The study used regression analysis.	in FDI causes increase in income outflow of balance of payments of Pakistan and worsens current account balance excluding current transfers(CABECT) .Observes that fdi helps to build up capital, create employment, develop productive capacity, enhance skills of local labour and managers through transfer of technology and helps the country integrate with the rest of the world. FDI in Pakistan went to oil & gas exploration, communication & financial services.	1983 and 2011 making the study data too old. -The study did not touch on sector and company wise repatriation of profit and intensity of input imports attached with FDI inflows. -Recommended further study on sector impact of fdi on employment generation and tax collection in Pakistan.
4.	Kishor Sharma and Yapa Bandara. Trends, Patterns and Determinants of Australian Foreign Direct Investment. Journal of Economic Issues, Vol. 44 No.3 (September 2010) pp.661-676 published by Taylor and Francis Limited. Stable URL http://www.jstor.org/stable/20778708 accessed on 19.04.2017.	Found out that countries which are open have large domestic market and have a similar language and culture to Australia's attract most of its foreign investment. Countries in regional blocks tend to attract Australian investments. Though they did not prove statistically, their findings suggested that countries that are economically more stable and have strong institutional credibility tend to attract Australian investment.	-The study did not segregate Australian offshore investment data by key sectors e.g. manufacturing and services etc. -The measure for openness as a determinant of fdi was not clearly defined and measured. -The study measured knowledge capital using research and development expenditure. This is problematic as it is not accurate. -They did not prove statistically one of their assertions that countries that are economically more stable and have strong institutional credibility tend to attract Australian investment.
5.	Sami Ullah, Syed Zeeshan Haider and Parvez Hashim. Impact of Exchange Rate Volatilty on Foreign Direct Investment: A Case Study of Pakistan. Pakistan Economic and Social Review, Vol.50 no.2 (Winter 2012), pp.121-138. Published by Department of Economics, University of Punjab. This study has used time series data for fdi, exchange rate, exchange rate volatility, trade openness and inflation from 1980-2010. Used time series techniques of unit root test, volatility analysis, co integration technique and causality analysis to obtain the results. Data obtained from World Bank's reliable data source World Development Indicators.	-The team found out that FDI is positively associated with Rupee depreciation and exchange rate volatility deters FDI. They also concluded that trade openness increases fdi while the premise does not hold for inflation as it is insignificant. The study used fdi, exchange rate, exchange rate volatility, trade openness and inflation as its variables. All the variables were used in their log form.	-This study is unique in that it has not been done in Kenya.
6.	The Impact of Foreign Direct Investment on Total Factor Productivity and Economic Growth in Turkey by Ibrahim Arisoy. The Journal of Developing Areas, Vol.46 No.1 (Spring 2012 pp 17-29).Published by College of Business, Tennessee State University. Stable URL http://www.jstor.org/stable/23215420. Variables for the study are GDP, FDI and Total Factor Production (TFP).The paper argues that two main channels through fdi can affect host country economic growth are technology	The paper argues that foreign direct investment can influence the economy through technology spillover and physical capital accumulation. The study's empirical results indicated that foreign direct investment contributes positively to total factor productivity and growth through capital accumulation and technological spillovers.	-The study has not incorporated other variables and factors like macroeconomic stability, foreign trade, inflation and external economic conditions that may also have an impact on foreign direct investment and total factor production. -A similar study has not been done in Kenya. - The researcher decries the fact that very few studies have been done on the relationship between fdi and total factor productivity.

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	spillovers and physical capital accumulation. The interest in fdi is generally attributed to its employment generation capacity, its effect on the productivity development growth and its dynamic link to competitiveness. It provides employment opportunities, enhances productivity by bringing competition to the economy. It is a tool for transferring skills, technology and knowledge stock among countries. The study covered a period of 45 years i.e. from 1960-2005.		
7.	The Impact of Foreign Direct Investment on Employment Opportunities: Panel Data Analysis: Empirical Evidence from Pakistan, India and China by Syed Zia Abbas Rizvi and Muhammad Nishat. Published by Pakistan Institute of Development Economics in 2010. Stable URL http://www.jstor.org/stable/41261350. Accessed on 10.05.2017 .Defined fdi as not only a simple transfer of money but as a mixture of financial and intangible assets such as technologies, managerial capabilities, marketing skills and other assets. The scope of the study covered three countries namely Pakistan, India and China. Panel data regression analysis was used.	-The study covered a period of 24 years, from 1985-2008. -Found out that GDP shocks explain 0.75 per cent change in employment during the second year then it gradually bottom out.	-The study is weak because it uses on one parameter of measuring economic growth i.e. employment rate and GDP ignoring other important ones like balance of payment. -The study covered India, Pakistan & China. A similar study should be done in Kenya. -The researchers did not explicitly differentiate between direct and indirect impact of fdi growth. -The data is too old.
8.	The Economic Impact of Foreign Direct Investment: A Case Study of Venezuela by Robert Grosse published by Springer sourced from Management International Review Vol. 28 No.4 (4th Quarter 1988), pp.63-78. Stable URL http://www.jstor.org/stable/40227906 accessed on 10.05.2017. Identifies multinational enterprise to be an important vehicle for effecting international transfer of funds, technology, management skills and products. The impact of fdi is on employment, national income and balance of payment.-4	The study used employment, gross domestic product & balance of payment to measure the dependent variable-economy. -Found out that fdi tends to offer net benefits to the host country that either would not be available from other sources or would be more costly to obtain from other alternative vehicles.	-Did not touch on the impact that fdi has social and political issues. -The data is too old i.e. was collected in 1988. -The study is confined just to the manufacturing sector while ignoring other sectors i.e. extractive and service sectors.
9.	The Impact of Foreign Direct Investment on Sectoral Adjustment in the Irish Economy by Frances Ruane & Holger Gorg published by Sage Publications Limited sourced from National Institute Economic Review, No.160 (April 1997) pp 76-86. Stable URL http://www.jstor.org/stable/2372418 accessed on 10.05.2017.The study employed the use of employment to measure the econonmy. Underscored the fact produced roughly 69% of the net output and 45% of jobs in Irish	-The research found out that Ireland is over dependant on foreign direct investment to the extent that if it were to experience massive outflow of fdi the result would be disastrous. -It also found out that employment in Irish owned firms declined by 14% and employment in foreign owned firms increased by 43% in the period beginning 1975-1995. -There has been significant structural changes in foreign investment with increasing share of employment in internationally traded services.	-The paper/research is old. It has existed for 20 years. -The paper concentrated on manufacturing sector ignoring other sectors of the Irish economy. -The paper has no abstract. -The methodology is not clearly spelt out.

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manufacturing industries in 1993.Noted that in terms of regional employment, FDI became a vehicle for dispersing manufacturing employment across the country and away from the manufacturing bases in Dublin and Cork. The paper concentrated on the manufacturing sector as the sector where hitherto fdi has the most impact.		
10. Foreign Direct Investment and Transformation: Evolution and Impacts in the Polish Economy by Anna Zorska published by Taylor and Francis Limited sourced from Eastern European Economics Vol.43 No.(July-August 2005),pp 52-78 Stable URL http://www.jstor.org/stable/4380430 accessed on 10.05.2017 Used the theory of international production to gain more insight on the effects on fdi. OLI theory developed by Dunning (1981:1993) identifies the determinants considered by an enterprise for fdi:- a) O-ownership of firm specific competitive advantages like capital, technology, skills, information, methods of management, organization, marketing e.t.c b) Utilizing the above advantages in a foreign location (L) c) Internationalization of the advantages within and across the borders.	-FDI led to the transition and transformation of the Polish economy. -Found out that fdi pattern is concentrated in traditional manufacturing. The technology pattern of fdi is based on international production. -FDI/TNC's contribution in facilitating Poland's economy passing to innovation stage is insufficient.	-The study is not detailed on the impact that fdi has on the Polish economy.
11. Impact of Foreign Direct Investment and Trade on Economic Growth: Evidence from Developing Countries by Shiva S.Makki and Agappi Somwaru published by Oxford University Press sourced from American Journal of Economics, Vol.86 No.3 (August 2004) pp.795-801 Stable URL http://www.jstor.org/stable/3697825 accessed on 10.05.2017.Observes fdi and trade is often seen as a catalyst for economic growth in developing countries. Examined data from 66 developing countries over a period of 30 years.	-Found a strong positive interaction between fdi and trade on in advancing economic growth. -Fdi stimulates domestic investment. -The contribution of fdi to economic growth is enhanced by its positive interaction with human capital and sound macroeconomic policies and institutional stability.	The study is good and relevant but has no abstract.
12. The Impact of Foreign Direct Investment on Wages and Employment by Laixun Zhao published by Oxford University Press sourced from Oxford Economic Papers, Vol.50 No.2 (April 1998) stable URL http://www.jstor.org/stable/3488735 accessed on 10.05.2017. FDI brings increased demand in the international market for domestically produced intermediate goods through their foreign branches, and thus raises domestic employment. Concerning trade and factor prices, the most well known theoretical constructs are the factor price equalization theorem and the Stolpher-Samuelson theorem.	-When labour management bargaining is industry wide two effects of FDI are identified: the collusion effect and the threat point effect. -It is shown that fdi always reduces the negotiated wage, fdi reduces union employment and the competitive wage if the union cares more about employment than wages	-The study has just used one variable of the economy to measure the impact on the economy. -The scope of the study is not comprehensive e.g. the title of the study does not indicate the place where the study was done.

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13. Foreign Direct Investment, Technological Change and Economic Growth Within Europe by Ray Barrel and Nigel Pain published by Wiley on Royal Economic Society sourced from the Economic Journal, Vol.107 No.445 (Nov, 1997) pp 1770-1786 stable URL http://www.jstor.org/stable/2957907 accessed on 10/05/2017.Fdi is intimately connected to the transfer of technologies between nations.	-Found the acquisition of knowledge based specific assets to be an important factor behind the growth of fdi suggesting that such investments are likely to be an important channel for the diffusion of ideas and technologies.	-The study was done in Europe. A similar study should be done in Kenya.
14. Foreign Direct Investment Theories: An overview of the Main FDI Theories by Vintila Denisia sourced from European Journal of Interdisciplinary Studies (2010). Economists believe that fdi is an important element in economic development in all countries especially in developing ones. From a macro perspective fdi is regarded as a generator of employment, high productivity, competiveness and technology spillovers. It also means higher export, access to international markets and international currencies substituting local bank loans. It also increases productivity, technology transfer, managerial skills, international production networks, reducing unemployment and access to international market.13	The study found out that there is no generally accepted theory with every new evidence adding some new elements and criticisms to the other ones.	-The study is much of theory and not empirical. -The fact that there is no generally accepted fdi theory calls for further research on the same.
15. Foreign Direct Investment-Led Growth: Evidence from Time Series and Panel Data by Luiz R.De Mello, Jnr published by Oxford University Press sourced from Oxford Economic Papers Vol.51 No.1 Sympossium on Trade Technology and Growth (Jan, 1999) pp 133-151 Stable URL http://www.jstor.org/stable/3488595 accessed on 11.05.2017.Used time series and panel data from a sample of OECD countries for a period of 10 years. The impact of fdi on growth is expected to be two fold, capital accumulation in the recipient economy is expected to be growth enhancing by encouraging incorporation of new inputs and technologies in the production function. Through knowledge transfer fdi augments existing knowledge through labour training and skill acquisition. It also introduces alternative management practices and organizational arrangements.	-Found that the extent to which fdi is growth enhancing depends on the degree of complimentarity and substitution between fdi and domestic investment.	-The study is good but 18 years old. -The title does not indicate where the study was done.

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Chapter Four

IV. Conclusions and Recommendations

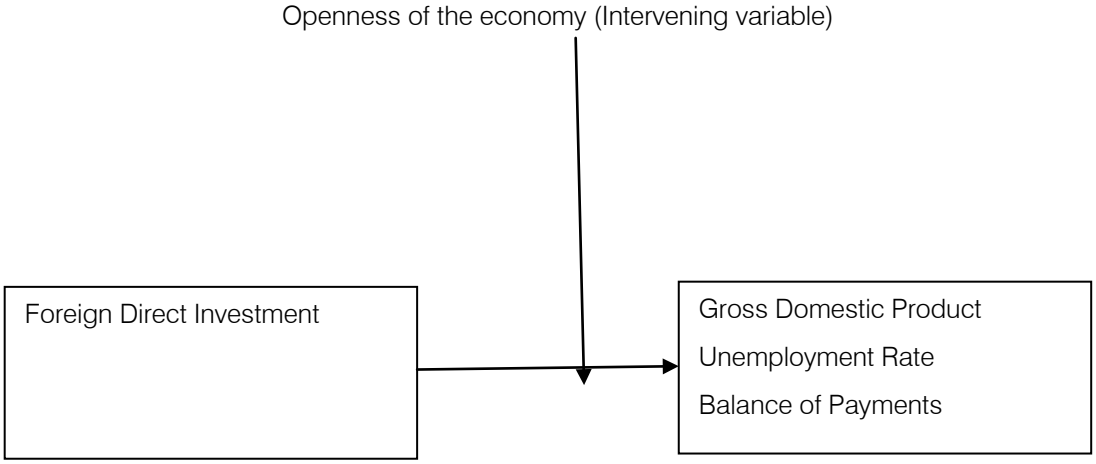
The review found out that foreign direct investment has positive influence on economic growth as it leads to creation of job opportunities, physical capital accumulation and improvement of production courtesy of technological spillovers and diffusion of ideas (Chege, 2016; Arisoy, 2012; Rizvi & Nishat, 2010; Grosse, 1988; Ruane & Gorg, 1997; Zorska, 2005; Makki & Somwaru, 2004; Zhao, 1998). It was also noted that multinational companies tend to pay better salaries than indigenous firms and that there is a positive correlation between wages paid and foreign direct investment inflow (Sharma & Satinderpal,2016). This in turn leads to improved living standards of the population. Foreign direct investment also brings competitive advantage to the host nation.

a) Scope for further study

As had been mentioned earlier, most of the studies on foreign direct investment have been extensively done in developed nations like United Kingdom, Australia, Ireland, Poland, India & China. This leaves a gap in emerging middle income economies like Kenya hence the review is recommending that an immediate study be done on the same to seal this gap. It has also been noted with serious concern that no study has been done on the trends, patterns and determinants of Greenfield investment on the Kenyan economy. The researcher is therefore recommending that a study on the same should be expeditiously done and published in a peer reviewed journal to fill the existing gap.

b) Proposed conceptual framework

Table 1.3: Conceptual framework



c) Research design

The studies reviewed embraced causal research design in their endeavor to find out the empirical association between the independent variable (foreign direct investment) and dependent variable (the economy). It is possible to replicate these studies in Kenya.

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