NEAR EAST UNIVERSITY

INSTITUTE OF GRADUATE STUDIES

DEPARTMENT OF BUSINESS ADMINISTRATION

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN KENYA

M.Sc.THESIS

ILHAN ALI AHMED

Nicosia

JANUARY, 2024

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Approval

We certify that we have read the thesis submitted by ELHAM titled **"THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN KENYA"** and that in our combined opinion it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Business Administration.

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Acknowledgments

Abstract

THE IPMACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN KENYA

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This study looks at the relationship between FDI and GDP growth in Kenya from 1990 to 2020, a span of 30 years. An examination of critical variables including GDP, FDI, Imports, Exports, and Inflation is carried out by means of descriptive statistics, stationary tests, and Autoregressive Distributed Lag (ARDL) models in this research. A complex connection is shown by the results, which show that certain indicators are stable while others are variable. For sustained economic development, policymakers should use a balanced and flexible strategy to improve foreign direct investment (FDI) stability while also addressing short-term dynamics. It is important for economic planners to take inflation control and sector-specific effects into account. Model refinement, investigation of global economic patterns, and analysis of external shocks should all be priorities for future studies. Researchers, economists, and policymakers may use the study's findings to better understand the ever-changing effects of foreign direct investment (FDI) on Kenya's GDP development.

Keywords: Foreign Direct Investment, Economic Growth, Gross Domestic Product, import, export, KENYA.

Özet

KENYA'DA DOĞRUDAN YABANCI YATIRIMIN EKONOMİK BÜYÜMEYE ETKİSİ

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Bu çalışma, Kenya'da 1990'dan 2020'ye, yani 30 yıllık bir süreye kadar, doğrudan yabancı yatırım ile GSYİH büyümesi arasındaki ilişkiye bakıyor. Bu araştırmada GSYİH, Doğrudan Yabancı Yatırım, İthalat, İhracat ve Enflasyon gibi kritik değişkenlerin incelenmesi, tanımlayıcı istatistikler, durağan testler ve Otoregresif Dağıtılmış Gecikme (ARDL) modelleri aracılığıyla gerçekleştirilmektedir. Sonuçlar, bazı göstergelerin sabit, diğerlerinin ise değişken olduğunu gösteren karmaşık bir bağlantı ortaya koyuyor. Sürdürülebilir ekonomik kalkınma için politika yapıcılar, doğrudan yabancı yatırım (DYY) istikrarını iyileştirmenin yanı sıra kısa vadeli dinamikleri de ele alacak dengeli ve esnek bir strateji kullanmalıdır. Ekonomik planlamacıların enflasyon kontrolünü ve sektöre özgü etkileri dikkate alması önemlidir. Modelin iyileştirilmesi, küresel ekonomik modellerin araştırılması ve dış şokların analizi gelecekteki çalışmaların öncelikleri olmalıdır. Araştırmacılar, ekonomistler ve politika yapıcılar, doğrudan yabancı yatırımın (DYY) Kenya'nın GSYİH gelişimi üzerindeki sürekli değişen etkilerini daha iyi anlamak için çalışmanın bulgularını kullanabilirler.

Anahtar Kelimeler: Doğrudan Yabancı Yatırım, Ekonomik Büyüme, Gayri Safi Yurtiçi Hasıla, ithalat, ihracat, KENYA.

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CHAPTER ONE

INTRODUCTION

Foreign direct investment (FDI) is a tool for economic growth that most nations want to recruit due to its recognized benefits. High unemployment, low capacity utilization, high poverty, and a lack of resources for long-term development are just a few of the problems plaguing Africa's and Kenya's economies, making it more difficult to reach the Millennium Development Goals (MDGs) by 2020. Policymakers at the national, regional, and global levels are increasingly promoting strategies for economic revival and growth that prioritize attracting foreign direct investment (FDI) as a means to help developing nations close the technology and resource gap and prevent additional debt accumulation (UNCTAD, 2005).

Foreign direct investment (FDI) is acknowledged by Ikiara (2002), UNIDO (2002), and UNCTAD (1997) as a significant source of technical know-how, capital, management, and marketing skills. It also helps local firms gain access to foreign markets and generates technological and efficiency spillovers, as long as the appropriate policies and business conditions are in place. It is believed that FDI would help Kenya's economy become more integrated into the global economy by opening up access to the aforementioned resources, which will in turn promote economic development via technological improvement.

Foreign direct investment is seen as more of a need in Africa for growth promotion. The primary rationale for this is that foreign direct investment (FDI) helps alleviate poverty and raise living standards by addressing the savings gap and the lack of technology and skills that plague most African nations. While Kenya did a good job of luring investors from outside in the 1960s and 1970s, it has fallen woefully short in the decades following (2013). Kenya is a dynamic nation with an economy that is booming because to exports, technology, and knowledge-based businesses. This has made the country an attractive investment destination for international investors, who see great potential for growth and development in the years to come. The investment of foreign capital in Kenya's continuous economic development record was largely attributed to foreign direct investment (FDI). According to the United Nations (2005), an initiative has been launched to entice

FDI more proactively. Making consumer products, promoting agriculture, diversifying export processing zone industries, and establishing Kenya as a regional service center are all priorities for the Kenyan government (2013).

Foreign Direct Investment

One effect of globalisation is the rise of foreign direct investment (FDI), which occurs as local economies become more interdependent on international marketplaces. It is achieved by making it easier for foreign investors to set up shop in the economy by liberalising access to domestic capital and the local economic sector. Improvements in transportation and communication were historically spurred by technical progress. Because of this, investors began to go outside national borders, particularly in the post-colonial era (Pritchard, 1996). Globalisation has always impacted international trade, even after countries gained their independence. Developed nations used to help less developed nations get the tools and materials they needed to develop economically by extracting and using their natural resources (Sacerdoti, 1997). Less developed nations could not make full use of the technology since it required the right expertise. The trading of commodities and services progressed farther and further as economies flourished.

To put it simply, foreign direct investment (FDI) occurs when a person based in one country (the direct investor) purchases a long-term stake in a business in another economy (the direct investment company). An effective voice, or the possibility of an effective voice, in the administration of the direct investment firm is often granted to the direct investor in direct investment deals due to the long-term nature of the connection between the two parties. Typically, an investment is considered a direct investment when the investor has purchased 10% or more of the ordinary shares or voting power in an overseas company.

Economic Growth

As a country's economy grows, its real national income and per capita income rise steadily over time. The process here alludes to the influence of long-term pressures that embody changes in dynamical components. It incorporates shifts in the availability of resources, the pace of capital creation, the demographic make-up, technological proficiency, skill levels, and efficiency, as well as changes in the

structure of relevant institutions and organisations. This shift also necessitates corresponding changes in the patterns of demand for commodities, economic distribution, population size and composition, consumer habits, living standards, social interactions, religious dogmas, concepts, and institutions. To sum up, economic growth is a series of interconnected steps that, in the long term, increase a country's net national product by altering the structure of demand and the basic components of supply.

Foreign Direct Investment and Economic Growth in Kenya

Foreign direct investment (FDI), according to economists, may bridge the "idea gap" between wealthy and developing nations, or host countries, and open up more development prospects for host markets (Romer 1993). Foreign direct investment (FDI) is a great way for developing nations, like Kenya, to raise capital because it allows the host economy to gain access to resources (both financial and human) and has a positive effect on the productivity of the receiving country (Holland and Pain, 1998a).

There is a lot of evidence that foreign direct investment (FDI) helps developing economies. Technology spillovers, human capital formation, improved international trade integration, a more competitive business environment, and enterprise development are all outcomes of foreign direct investment (FDI) when the host country has the right policies in place and is at a basic level of development, according to a number of studies. Increased economic development is the end outcome of all of these, and it is a vital instrument for fighting poverty in underdeveloped nations. The host economies and the employees in foreign-owned enterprises both benefit greatly from foreign direct investment, according to new data from company surveys in Kenya, Tanzania, and Uganda (Todd et al. 2004).

Statement of the Problem

As is clear from the many strategic initiatives it has launched to attract foreign direct investment (FDI), the Kenyan government values the role that incoming FDI plays in driving economic development. The World Bank (2016)

reports that Sub-Saharan Africa (SSA) received 2.4% of all foreign direct investment (FDI) in2015, whereas Kenya received 0.9% during the same six-year period.

There has been a lack of data on the real effect of FDI on Kenya's economic development, despite the widespread belief that such investments boost GDP. However, in an effort to boost economic development, several governments have stressed the importance of creating a more favourable investment environment, even going so far as to provide concessions. Policymakers are wondering: how does foreign direct investment (FDI) really affect GDP growth? Under what circumstances does foreign direct investment (FDI) increase GDP growth? There has been conflicting evidence from prior research in these areas.

Purpose of the study

This study assesses the organization's direct investment on Kenya's economic growth. The link is examined and economic growth is measured in the study. An empirical study of FDI and an investigation of academic views and recommendations will be used to achieve this goal. This will be achieved by conducting organizationsl and historical analysis of foreign direct investment (FDI) inflow and its effects on many macroeconomic variables, including exports, imports, inflation rate, and GDP.

Research Questions

This research aims to do a time series analysis of Foreign Direct Investment (FDI) and economic development in Kenya, specifically focusing on the period from 1990 to 2020. The following questions will be addressed:

i. Does foreign direct investment really enhance economic growth?

ii. What are the determinants of the impact of Foreign Direct Investment (FDI) on the economic development of Kenya?

Significance of the Study

The fact that foreign direct investment (FDI) into Kenya has been on the

decline for some time makes this research all the more important. Due to a consistent decline, foreign assistance has been diminishing throughout the years, it is imperative that Kenya continues to attract foreign direct investment (FDI) as a source of capital. Since FDI boosts domestic investment, economic development, and job prospects, this research is significant.

Academics and policymakers alike will find this study's conclusions useful for two reasons: first, it will expand their understanding of the topic, and second, it will point the way forward for further research and analysis in this area.

The findings would persuade policymakers in developed, developing, and least developed nations to design and implement pro-FDI policies. Additionally, policymakers would have solid evidence from the outcomes to strive for higher-quality institutions that foster growth and development.

Limitation of the research

The fact that it just considers the Kenyan economy is the biggest flaw of this study. This allowed for the collection and analysis of data pertaining to the Ghanaian economy and the impact of FDI on EG. A period of thirty years (1990 - 2020) is covered by this research. Two major challenges to this research are the time needed to finish it and the issues with accurate and trustworthy data. In addition, the function of foreign direct investment (FDI) in economic expansion has been the subject of heated discussion for quite some time. Although this debate has provided some insight into the relationship between FDI and growth, there is still a dearth of empirical study on the topic. This is due, in part, to the lack of a defined testable hypothesis or conceptual framework.

Definition of the Keywords

Economic Growth (EG)

Economic growth (EG) occurs when a society's output of goods and services grows in quantity and quality. It was Max Roser in 2021.

Foreign Direct Investment

According to the World Bank, Foreign Direct Investment (FDI) refers to the amount of investment that flows into a firm in a foreign country, when the investor

acquires a significant managerial ownership of 10% or more of the voting shares. This total represents the aggregate of the equity capital, other long-term capital, short-term capital, reinvested earnings, and payment balance components.

Exports

According to the World Bank (2022), exports are a measure of the total value of all commodities and services supplied on the worldwide market.

 Imports

The word "imports" describes goods and services that are brought into a country from another one for marketing reasons. Customs officials from the importing nation are usually involved in the process, which involves quotas, levies, and agreements for importing goods (Dilawar et al. 2012).

Inflation

The average yearly percentage change in the value of a basket of goods and services as measured by the consumer price index. Initiation or revision may occur at regular times, say, once a year.

CHAPTER TWO:

LITERATURE REVIEW

Theoretical review

Solow Type Growth Theory

One contentious subject in the field of development studies is the function of foreign direct investment (FDI) in promoting economic expansion. Foreign direct investment (FDI) allows host nations to invest more than their local savings and boosts capital creation, according to the basic Solow type growth model. This idea states that foreign direct investment (FDI) may have a positive effect on production growth, but only in the near term. Because of the law of diminishing returns, the receiving economy may eventually reach the same level of development as if foreign direct investment (FDI) had never occurred, with no discernible effect on future expansion (De Mello, 14).

According to Mankiw (2003), who used the Solow growth model, private companies invest in both old and new forms of capital, including computers and robots, as well as in more conventional assets like steel factories and bulldozers. In contrast, public works projects like roads, bridges, and sewage systems are funded by the government. Moreover, according to Mankiw, policymakers attempting to spur development should address the question of which forms of capital are most essential to the economy. Put otherwise, what forms of capital are most conducive to producing high marginal products?

Endogenous Growth Theory

In contrast, endogenous growth models (e.g., Romer, 28; Lucas, 24; and Barro and Sala-i-Martin, 7) that stress the significance of technological advancement, efficiency gains, and productivity enhancements imply that foreign direct investment (FDI) can have a positive effect on growth rate if it results in increasing returns on production through externalities and production spillovers.

Developing nations may not always benefit from foreign direct investment (FDI), according to Krugman, who cites the adverse selection issue as one theoretical reason why this could be the case. It is possible for less efficient foreign enterprises to acquire local ones via foreign direct investment (FDI) carried out during a "Fire Sale" crisis. Countries in development, such as those in Sub-Saharan Africa, have a vested interest in addressing this issue, as privatisation often involves selling state-owned industries to foreign corporations with more financial resources than local ones. Salz, Agosin, and Mayer noted that foreign direct investment (FDI) might unfairly "crowd out" local businesses. Another worry is that the national economy may not benefit as much from the spillovers since many foreign-owned enterprises operate in an isolated bubble with few ties to the rest of the economy. Further worsening of the balance of payments might occur as a result of foreign enterprises' subsidiaries sending profits back to their parent companies. Some further contend that transfer pricing and rising inequality result from multinational firms catering to the needs of the country's affluent elite with improper products.

Neoclassical Theory

Foreign direct investment (FDI) affects GDP growth via raising per capita capital, if neoclassical theory is to be believed. It promotes growth in the long term by influencing factors like human capital and research and development (R&D). Multinational corporations (MNCs) have the ability to develop new varieties of intermediate products more quickly, improve the quality of their products, introduce new types of human capital, Additionally, it facilitates global cooperation in research and development (R&D) by promoting the transfer of knowledge to unrelated businesses in the host country and sharing technological advancements with their linked companies (Ikiara, 2003).

Bajona and Kehoe (2006) used the Hecksher-Ohlin framework to examine neoclassical theories of capital mobility and trade as explanations for multinational production.

However, these theories are criticised for failing to adequately explain the structure and character of foreign direct investment (FDI) as they were based on the

assumption of perfect factor and products markets. Federal direct investment (FDI) would not occur, according to these beliefs, if markets were flawless. However, they contend that because investing overseas is not without its hazards, there must be clear benefits to settling in a certain host nation..

Economic Geography Theory

Foreign direct investment (FDI) locations are attempted to be explained by Yarbrough & Yarbrough (2002), who examine new theoretical frameworks in economic geography. Their working hypothesis is that a number of factors, including factor endowments, market size, income per capita, skilled labour, and the availability of public infrastructure, are considered by Trans National Corporations (TNCs) when deciding which province to invest in.

If everything else remains constant, the cost that a company faces in bringing its present capital stock up to the goal level is affected by changes in infrastructure spending, according to Aiello et al. (2009). Since the adjustment costs are dependent on both internal and external variables, including the firm's characteristics and the availability of public infrastructure, they contend that this is a fair assumption to make.

The Eclectic Paradigm Theory

In order to understand why and where MNEs might invest overseas, the eclectic paradigm put forward by Dunning (1988) offers a framework consisting of three groups of benefits. The OLI paradigm, sometimes known as the eclectic paradigm, is well-known for this. Depending on the situation, investments might be made with an eye towards natural resources, the market, efficiency, or strategic assets.

Foreign value-adding operations incur additional expenses above those experienced by domestic manufacturers; these costs must be covered by the ownership advantages, which are firm-specific qualities that are frequently referred to as competitive or monopolistic advantages. Brand, patents, trademarks, research and development, market access, and superior technology are all examples of such attributes. In the host nation, they may not be enough. When international companies

take use of these aspects to their advantage in the host country, they are engaging in the practice of adverse selection within an imperfect market. Competition with MNCs is therefore challenging because of knowledge asymmetry and the traits that host country enterprises possess. Potentially outpacing local investments, foreign investors may seek ownership-specific benefits that are superior to those of domestic enterprises (Miberg, 1996).

A subset of the eclectic paradigm known as "locational advantage" focuses on physical location as a factor in production. Some of these factors are unique to the host country and might sway multinational corporations to set up shop there. There are a lot of factors that come into play in this context, including transportation and communication costs, investment incentives, the availability of relatively inexpensive production factors, and policy issues like tariff barriers, tax regimes, and access to both domestic and international markets (Buckley & Casson, 1998).

The third consideration is the internalisation benefit, which explains "why" a multinational enterprise (MNE) would prefer to sell or licence the rights to use its assets in a foreign country via a subsidiary rather than establishing or acquired one. According to Yarbrough & Yarbrough (2002), this theory has made significant contributions to international production theory, despite criticisms that it fails to explain the reality of foreign direct investment (FDI) beyond stating the requirements that must be met.

The Product Life Cycle (PLC) Theory

Developed nations have comparative advantages in manufacturing throughout the introduction, growth, maturity, and decline stages of a product's lifetime, according to the PLC theory put forward by Vernon (1966). However, as the home market becomes more competitive, emerging economies have an advantage. Companies go global for a number of reasons, including lower manufacturing costs, access to new markets, and government incentives such as tax breaks, special treatment, and an emphasis on exports. Competition in local marketplaces is fiercer as items get older, says (Latorre 2008). Innovation begins with production and sales

in high-income, high-skill nations during the introduction stage, followed by exports as a result of research into potential new markets. During the growth stage, the product has low price elasticity, which is accompanied by increased worldwide demand and rising local rivalry. As a result, manufacturing units are established abroad. After a product enters the third (maturity) stage of its lifespan, investments can only go to nations with low production costs, and the product becomes standardised as the technology becomes well understood. The original nation then investigates additional improvements while continuing to import the original product.

Capital Theory

In what would later be known as the capital hypothesis, (Mundell 1957) found that, in search of greater returns, (American) enterprises would invest overseas. Thus, the idea rests on the idea that different nations have different rates of return. One problem with this idea was that it failed to account for the fact that foreign direct investment (FDI) might go in either way across nations (Hymer 1976).

Selected growth theories

Some four schools of thought emerged in the post-World War II economic development literature, as outlined by Todaro and Smith (2010): the linear growth model, the structural change model, the international reliance model, and the free market counter revolution. Every economy goes through the same basic phases of growth, according to linear models. Many savings and investment endowments serve as inspiration for the pieces. There are five unique phases that economies go through, and according to Rossow (1960), every society is in one of them. In the first stage, known as the traditional (pre-Newtonian) stage, economies don't use science and technology enough, which limits their productive potential. In the second stage, called the pre-conditions for take-off stage, economies embrace modern science, which helps them overcome the diminishing returns problem and increases the choice benefits they get from interacting with more advanced economies. During the takeoff phase, sectors see a surge in growth, profitability, reinvestment of profits, income levels, and technological adoption. As economies enter the maturity stage, they are able to compete in international markets and see advances in local

capabilities, whether they be manufacturing, technology, or business. At this point, the emphasis moves to durable products.

For emerging nations to achieve developed status and maintain economic development, structural change theorists such as Lewis (1955) argue that economic, industrial, and institutional systems must be reorganized. Lewis postulated in his Two-Sector Model that investment and capital accumulation in the modern, highly productive sector would influence the movement of labor from the agricultural sector, which had a surplus of workers, to the previous one.

Economic Growth and Free Trade

More people will have access to opportunities for mutually beneficial exchange under a free trade system, which aims to maximize the utilization of the world's resources, increase wealth, and allow countries to trade for goods they aren't good at producing while focusing on their strengths. Some have said that emerging countries, where a lot of good resources are sitting idle, and the urgent issue of unemployment make free trade a poor choice. The situation will worsen as a result of free trade's negative impact on local industries, particularly those that need strong resistance. According to Adam Smith's claims in Singh (1985), a nation's EG will be enhanced by more specialization and the division of labor that is brought about by trade. Extensive research has gone into the effects of trade liberalization on EG. A lot of research has focused on the relationship between trade openness and EG. On the other hand, proponents of the growth hypothesis argue that trade liberalization may stimulate economic development by making human capital more accessible. Despite this, research on the link between changes in human capital and development after trade is scarce. Grossman and Helpman (1991), Chang et al. (2009), and (2011). Many believe that developing countries may overcome free trade's shortcomings by participating in global commerce and thus allowing their economies to grow substantially. Ellsworth and Leith (1969) and Harry G. Johnson (1965) both backed trade intervention, which lent credence to this idea. The significance of commerce to the economic development of any nation is not in the least challenged by the argument that has already been presented. From these perspectives, it is possible to deduce that emerging economies would benefit from a trade intervention policy.

Before thinking about and making trade decisions, every economy may realize its full 15 potential. Due to the uniqueness of the free trade concept in a dynamic world, it is important to recognize that trade intervention is still a frequently used strategy, with different levels of meddling across countries. To accomplish intended goals, it is essential to distribute resources intelligently across different industrial sectors, and trade policies are instruments to accomplish these aims. This is a must-have for developing countries looking to implement a national development plan. Given that this group of countries has a high degree of income elasticity of trade flows (Singh and Chaudhary, 1985), it is essential to stress that trade agreements are key for guaranteeing the optimal distribution of diminishing resources.

Foreign Direct Investment

As to The World Bank (2022), foreign direct investment (FDI) refers to the accumulated flow of funds used to acquire a long-term managerial interest (i.e., 10% or more of the board seats) in a company that operates in a separate market from the buyer. The sum of the equity capital, other long-term and short-term capital, and reinvested profits makes up the payment balance. Essentially, foreign direct investment (FDI) boosts a country's capital stock, brings in new funding sources, helps with the trade deficit, and may help with economic development in the long run (Appiah et al. 2019). According to Simionescu and Naros (2019), foreign direct investment (FDI) is a magnet for investors that want to boost economies, standardize labor resources, and expand their businesses. According to Cicea et al. (2019), foreign direct investment (FDI) may significantly affect EG in some locations on both the macro and microeconomic levels. Foreign direct investment (FDI) may be measured by a number of different metrics, including changes in GDP, lifestyle levels, and levels of life satisfaction (Botha et al., 2020). The term "foreign direct investment" (FDI) was first used by Gunter, Taylor, and Yeldan (2005) to describe the practice of bringing in new technology and knowledge from other countries. This helps local workers and investors become more efficient, which boosts a country's GDP.

Empirical Literature Review

Few studies have examined the connection between FDI and technology transfer in Africa. In six African countries—Zimbabwe, Tanzania, Nigeria, Kenya, Ivory Coast, and Mauritius—there could be little knowledge transfer and spillovers to local businesses, according to Wangwe (ed., 1995). The studies of Biggs and Srivastava (1996) extended to the African countries of Kenya, Zimbabwe, and Ghana. Gershenberg (1997) and Lundvall et al. (1999) both zeroed in on Kenya. Kenya, Mauritius, and Uganda were all studied by Phillips et al. (2000). In Latin America, FDI/GDP increases by 1.17% for every 1% increase, whereas in Africa, it increases by 0.8% (Phillips et al., 2000). A frequent practice among exporting firms is to find overseas partners and create joint ventures or use them as agents for specific technical and/or marketing obligations. Investment from outside has helped locals in Mauritius hone their technical abilities. Companies with a global reach have bought out smaller competitors in countries where they have a stranglehold or where rivalry is fierce. You can't put a price on having export experience, whether that's from formal training, informal networks, or your own business. In MNCs and businesses whose foreign partners handle much of the technology, it is difficult for locals to get experience in the field unless the affiliate is doing something the parent firm isn't (like Del Monte in Kenya). The goal of expanding into export markets, the presence of appropriate experience among high-level management and entrepreneurs, and the absence of designated foreigners in top positions are all factors that could influence the extent to which contacts with overseas partners enhance managerial and technical abilities.

It is not yet known if FDI and GDP growth are positively or negatively correlated. The notion that FDI aids economic growth is backed by studies conducted by researchers such as Blomstrom et al., Borensztein et al., Zhang, DeMello, Balasubramanyam et al., Obwona, and Bosworth and Collins. However, foreign direct investment (FDI) does not always lead to increased development; rather, it depends on a variety of factors that are specific to each country. The positive effects of FDI, as shown by UNCTAD, Blomstrom et al., and DeMello, grow in proportion to the host country's level of development. When countries grow to a certain level, they are eligible to reap the benefits of foreign investment, which often take the form of better productivity. Bronsznestein et al. found that the strength of the linkages

between economic development and foreign direct investment (FDI) is determined by human capital levels. This conclusion is supported by similar logic. It is believed that, due to spillover effects associated with technology transfer, foreign direct investment (FDI) has a bigger impact on host countries with higher levels of human capital. New research from UNCTAD and Balasubramanyam et al. suggests that trade openness contributes significantly to FDI's positive effects. Gaining access to export markets may be facilitated by FDI, since multinational enterprises often facilitate the transfer of goods from one country to another. Foreign direct investment (FDI) has varying effects on future growth rates depending on the country. However, according to Nair-Reichert and Weinhold, who used a mixed fixed and random panel data estimation method to account for this heterogeneity, FDI is more beneficial to open economies. Alfaro et al. examine the role of the banking industry in the foreign direct investment (FDI)-growth connection. Their research indicates that FDI, or foreign direct investment, is a critical component in promoting economic growth. However, the local financial markets' maturity greatly determines the amount to which the positive benefits manifest.

Foreign direct investment (FDI) does not substantially correlate positively with economic growth, according to Aitken and Harrison and Carkovick and Levine. Even in cases when the relationship is beneficial, weak effects are prevalent. One example is the correlation between FDI and GDP growth, which Rodrick attributes primarily to reverse causation. Foreign direct investment (FDI) does, in fact, boost economic growth, according to Salz and a few of other studies. De Mello (1997) summarizes the most current studies on the topic of foreign direct investment's impact on economic growth in developing countries. His view is that FDI is best understood as a mix of stockpiles of cash, expertise, and technology. The impacts on development are varied and vary greatly between countries with advanced infrastructure and those with less developed technologies. His main point was that the size of the efficiency spillovers seen by local companies determines how much FDI helps the host economy thrive. Host governments should weigh the benefits and drawbacks of FDI when making policy choices, according to Lahiri and Ono's (1998) research on developing nations' policies on FDI, local content requirements, and profit taxes. The host country may make the most of foreign direct investment (FDI) by using non-tax instruments, such as regulations dictating the amount of local content in inputs and taking into account the efficiency level of local businesses.

Foreign direct investment (FDI) and its effects on Nigeria's economy have been the subject of much study among the country's scholars. Langley (1968) argued that foreign direct investment (FDI) has benefits and drawbacks when considering its impact on Nigeria's economic development and progress. While FDI may engineer or speed up GDP expansion via the introduction of new technology and managerial efficiency, Langley warns that it can also worsen the country's balance of payments issue (Akinlo, 2004). Oseghale and Amenkhienan (1987) examined the relationship between Nigeria's economic growth, oil exports, foreign borrowing, and foreign direct investment (FDI), using data from 1960 to 1984. They found that these factors affected sectorial performance. While they did find that FDI and foreign borrowing hurt GDP as a whole, they did find that three key industries—manufacturing, transportation, communication, and banking and insurance—were positively affected. Anyanwu (1998) and Chete (1998) both examined the variables that affect foreign direct investment (FDI) in Nigeria using error correction models. Chete posits that foreign direct investment (FDI) is favorably impacted by GDP growth rate, but that this effect does not become statistically significant until three lags have passed. According to Anyanwu, the size of the local market, the degree of economic openness, and the currency rate are the main factors that influence foreign direct investment (FDI) into Nigeria. There is a positive association between foreign direct investment and GDP growth in Nigeria, he concluded.

A change in mindset from "hostility" to "conscious encouragement" among policymakers, especially in developing countries, has led to a resurgence in research on foreign direct investment (FDI). Many people held the view that foreign investors were "parasitic" because they stunted the development of domestic businesses that might have increased exports. Many factors, such as the many externalities linked to technology transfer, human capital development, and economic openness to foreign influences, have contributed to this change in viewpoint, as stated by Bende Nabende and Ford (1998).

More efforts to attract FDI are based on the premise that FDI has various favorable implications, as Caves (1996) points out. Included in this are improvements in productivity, new methods, training for staff, access to markets, global production networks, and information and experience for managers at the local level. Foreign direct investment (FDI) is a stronger growth engine than domestic investment (DI) because it allows for the transfer of knowledge, according

to Borensztein et al. (1998). Foreign firms' employment of more advanced technology, management practices, etc., has a "contagion" effect that accelerates technical advancement in the host country, as found by Findlay (1978). These assertions provide the basis for a number of benefits offered by governments to international businesses when they set up shop in their respective nations. One prevalent economic rationale for offering targeted incentives to attract FDI is the belief that FDI generates externalities such as spillovers and knowledge transfers (Carkovic and Levine, 2002).

Nationally and in corporations, there is little proof of these advantages. Research by De Gregorio (2003) suggests that FDI (foreign direct investment) could boost economic productivity. Foreign direct investment (FDI) fills a need in host nations by bringing in resources that local companies don't have, such specialised expertise and state-of-the-art technology. Gaining access to global markets and, in certain instances, specialised knowledge that the host country lacks are two potential benefits of foreign direct investment (FDI). Between 1950 and 1985, FDI was around 0.6% more efficient than domestic investment (0.1-0.2%). In Latin American nations, when aggregate investment was raised by 1% of GDP, growth ranged from 0.1% to 0.2% per year. The results show that foreign direct investment (FDI) is three times more productive than local investment.

Many studies have looked at how foreign direct investment (FDI) affects GDP growth, but most of them have ignored Africa. Research on the topic of foreign direct investment (FDI) and GDP growth mostly falls into two categories. Foreign direct investment (FDI) presents a viable development guarantee due to its direct influence on commerce, according to preliminary study by Markussen and Vernables (1998). Second, it is believed that FDI increases domestic capital, leading to more productive domestic investments (Borensztein et al., 1998; Driffield, 2001). These two points are in line with what models of cross-national industrialization (Chenery et al., 1986) and theories of endogenous growth (Romer, 1990) say: that one can get an edge over the competition by changing production methods and improving the quantity and quality of production factors. Based on a large body of empirical evidence, foreign direct investment (FDI) increases GDP growth. Two such works are Glass and Saggi (1999) and Borensztein et al. (1998). Foreign direct investment (FDI) has been essential in China's economic progress, as stated by Dees (1998). A similar favourable correlation was discovered by De Mello (1997) for a number of

Latin American republics. Foreign investment is often believed to boost investment levels.

According to research by Blomstrom et al. (1994), foreign direct investment (FDI) boosts GDP growth up to a certain income level, beyond which it starts to have no impact. The idea behind this is that nations need to accumulate a certain amount of income before they can afford to adopt new technology and reap the benefits of technological diffusion. That is the only way foreign direct investment (FDI) may be beneficial. Human capital is one of the reasons why various income levels respond differently to foreign direct investment (FDI), according to prior studies. People are better able to comprehend and make use of new technology when they have more knowledge, which is why this is the case. Human capital and FDI have a synergistic effect on economic development, as Borensztein et al. (1998) showed. They postulate that variations in technical absorption capacity may account for the observed fact that FDI has varying effects on development across nations. In order for nations to reap the benefits of foreign direct investment (FDI), they go on to say that a certain amount of human capital may be required.

Human capital interacts positively with FDI, according to Balasubramanyan et al. (1996). Countries that look for ways to export their goods are more likely to generate economic development and attract foreign direct investment (FDI) than those that rely on imports, according to previous substantial study. It may be inferred from this that the effect of foreign direct investment (FDI) on GDP growth varies among nations, and that trade policy influences this effect. According to UNCTAD (1999), FDI might have both positive and negative effects on production. Which additional variables are included in the test equation determine this. In this category you'll find elements like financial development, starting per capita GDP, terms of trade, education level, domestic investment ratio, and political instability. Foreign direct investment (FDI) tends to boost economies in nations with good institutional capability, according to Olofsdotter (1998). This finding might explain why FDI is associated with growth. Permitting FDI impacts, he said, requires efficient administration.

As a result of higher levels of per capita capital, neoclassical economists claim that foreign direct investment (FDI) boosts GDP growth. On the other hand, GDP growth is unaffected by falling investment returns. Research by Bengos and Sanchez-Robles (2003) indicated a positive relationship between economic progress

and foreign direct investment (FDI). To reap the long-term benefits of foreign direct investment (FDI), however, host nations must first achieve a certain level of human capital, economic stability, and market liberalisation. Bende-Nabende et al. (2002) discovered some unusual direct long-term effects of.

Foreign direct investment (FDI) significantly boosts production in developing economies such as the Philippines and Thailand. On the other hand, it's the opposite in industrialised nations like Japan and Taiwan. However, the degree of economic development of a nation is not always the most critical component in deciding the nature of the link between FDI growth and that country. Conversely, proponents of endogenous theory argue that FDI could impact future levels of human capital and research and development spending (Romer, 1986; Lucas, 1988).

Although FDI may provide short-term gains, it will ultimately be a waste of money. For instance, according to Durham (2004), the "absorptive capability" of host states, and not a positive connection, demonstrates the degree to which FDI is impacted. Political and macroeconomic stability, as well as policy consistency, had a positive but negligible influence on the amount to which FDI influenced economic growth, according to research by Obwona (2001) on the subject of FDI and its impact on Uganda's economic development. Ekpo claims that FDI in Nigeria fluctuates depending on factors such as the country's political system, GDP per capita, inflation rate, global interest rate, credit rating, and loan servicing expenses (1995). Creditworthiness is essential for Nigeria to entice foreign direct investment (FDI) for non-oil ventures. In a domino effect, learning influences the effectiveness of domestic investment, which in turn affects labour markets, as pointed out by Sjoholm (1999). According to Sjoholm (1990), transnational corporations (TNCs) have the ability to improve product quality, collaborate on research and development more quickly across borders, bring in new types of human capital, and develop new varieties of intermediate products more quickly through technological spillovers to unaffiliated enterprises in the host economy and technology transfer to their affiliates.

The transfer of technology is one way in which foreign direct investment (FDI) helps economies flourish. Blomstrom et al. (2000) and UNCTAD (2000) states that multinational corporations have two options when it comes to transferring technology: either directly to their foreign owned enterprises (FOE) or indirectly to local companies in the host country. According to Hanson (2001) and Blomstrom

and Kokko (1998), there are four ways in which foreign-owned companies can transfer their advanced technology to domestically owned companies: setting up horizontal links with other companies in the same industry in the host country, sending employees to local firms through affiliates, expanding R&D internationally, or creating vertical links with household suppliers and customers. How much the host country's social and creative abilities, as well as the ability of other businesses to absorb new technology, dictate the rate of economic growth (Carkovic and Levine, 2002).

Though economists disagree on which, foreign direct investment (FDI) may influence capital expansion or the trade of commodities and services (Markussen and Vernables, 1998). Theoretically, exports from trading nations should be more competitive after receiving foreign direct investment (FDI) (Blomstrom and Kokko, 1998). Knowledge transfer to foreign-owned enterprises (FOEs) is one manner in which transnational corporations (TNCs) limit the host country's ability to profit from foreign direct investment (FDI). They risk limiting their affiliate's access to the parent company's technology or equipping them with inadequate or incorrect technical skills if they do this. If suspending a technology transfer would not maximise profits for a global company and would not be overly costly, it is possible to do so. Because of this, its affiliates may only be able to produce low-level work, and they might not be able to pick up new technology quickly enough. One possible solution to achieve this goal is to restrict downstream manufacturers to producing low-value intermediate goods. Another option is to minimise competition by "crowding out" local producers. Also, they may restrict manufacturing and exports to rivals if that's what the TNCs want. The "host country and worsened balance of payment situation" (Blomstrom and Kokko, 1998) may see a slowdown in overall growth rate due to these factors.

Foreign direct investment (FDI) brings several benefits, including technological innovation, managerial and marketing skills, exposure to global best practices for company, and greater competitiveness. Academics such as Romain, Findlay, Lall, Loungani, and Razin have shed light on this. Indigenous companies may find these resources helpful, which might lead to increased innovation and output. One way that foreign direct investment (FDI) boosts employment prospects is by creating new jobs. Another method is by increasing local spending over time as a result of the greater demand for products and services created by the influx of new

workers. All of these will probably have beneficial consequences on the economy, which will cause a domino effect. Changes to the balance of payments may have positive consequences, such as an increase in the capital account due to fresh monetary flows into the host nation. With a decrease in imports of goods and services anticipated, the current account balance is forecast to improve as well. The host country's finances could benefit from increased tax revenue from multinational firms.

Hymer claims that there are various upsides to sharing technological know-how. Among them were the direct advantages of using the parent company's innovations in product, process, and organisational design, which he called "firm-specific assets." Additionally, there were indirect spillover effects on the whole economy. While the exact form and extent of the indirect spillover advantages remain unknown, the majority of economists agree that, in the short term, tech transfer is advantageous for enterprises in the host nation. Hence, different pieces of evidence contradict one another. When it comes to the size of spillover effects, for instance, neither the aggregate nor the case study levels can be definitively determined by Blomstorm, Globerman, and Kokko's thorough examination. After looking at 20 different manufacturing sectors under UK control, Harris and Robinson came to the conclusion that "...inter-industry spillovers are just as likely to be negative as positive..." In general, the supply-side ties that come with FDI are good for the UK manufacturing sector. Based on data collected from 1500 enterprises in five Chinese cities, the World Bank found that larger, more tech-savvy firms had positive spillover effects, whereas smaller, less tech-savvy companies had no benefits at all. Hale and Long came at this conclusion. Therefore, they reasoned, highly-skilled individuals gain from FDI spillover, which is enabled by a well-functioning labour market, thanks to network externalities.

Foreign direct investment (FDI) and its impact on GDP growth were investigated by Agrawal and Khan (2011) in a panel research that included China, Japan, India, SA, and Indonesia. The research, which looked at data from 1993 to 2011, concluded that "FDI promotes economic growth, and further provides an estimate that one dollar of FDI adds about $7 to the GDP of each of the five countries.". The link between foreign direct investment (FDI) and economic development is also investigated by Rabiei and Masoudi (2012) for the D8 nations: Pakistan, Bangladesh, Egypt, Indonesia, Iran, Malaysia, and Nigeria. Foreign direct

investment (FDI) boosts GDP in D8, according to the results. Additionally, the question of whether FDI impacts the development of the host economy is addressed by Li and Liu (2005). To find the association between foreign direct investment (FDI) and GDP growth, this research analysed data from 84 countries from 1970 to 1999 using a mix of simultaneous and single equation methodologies. The absence of endogeneity is confirmed by this study using the Durbin-Wu-Hausman (DWH) test. There is a strong association between foreign direct investment (FDI) and gross domestic product (GDP) when the years 1985–1999 are considered separately, although endogeneity does not significantly affect the whole sample. Using Phillips Perron (PP), we also discovered that the variables were stationary. The research shows that foreign direct investment (FDI) and GDP growth go hand in hand.

For all five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), Pradhan (2009) found a positive correlation between FDI and GDP growth at both the panel and individual levels using univariate and panel cointegration for the years 1970-2007. The only countries that did not show this correlation were Indonesia, Malaysia, and the Philippines. All panels and individuals except Malaysia showed signs of bidirectional causation in the Granger causality test.

Based on his analysis of fifty empirical research, Ilhan (2007) found that forty of them demonstrated a positive association between FDI and economic growth, two shown a negative correlation, and two demonstrated no impact at all. Having these numbers makes it very clear how most FDIs result in GDP growth. Furthermore, Lumbila (2005) examined the general idea that FDI affects economic growth and found that a 10% rise in FDI might result in a 0% uplift. There was a statistically significant increase of 34% in growth. Between 1976 and 2002, Feridun and Sissoko (2006) use Granger causality and vector auto regression (VAR) to analyse the correlation between foreign direct investment (FDI) and economic development in Singapore. Foreign direct investment (FDI) is the engine that propels economic development, according to their research.

Using a panel data set spanning 1991–2000, Apergis et al. (2004) sought to determine the relationship between FDI and GDP growth in 27 transitional economies. Based on the assumption that countries' GDP growth rates vary substantially, they used a "novel methodology of panel co-integration and causality" to evaluate the existence of such variations in parameters and dynamics. Because of

this, they were able to reach their conclusions. When every country in the sample is included, there is a positive correlation between foreign direct investment (FDI) and GDP growth. However, our results remain unchanged whether we divide the sample into high-income, privatised, and non-privatized nations.

Foreign direct investment (FDI) has been promoted as a silver bullet for Kenya's economic development, as it is for many other developing nations. They actively seek out financial gain, and once they get it, they maintain a steady stream of income. U.S. dollars 55 billion in 1980 compared to $1,400 billion in 2000 in FDI inflows, according to UNCTAD (2005). Kenya is attempting to attract foreign direct investment (FDI) by enhancing the business climate, stabilising the economy, and enacting legislation, all in response to the growing importance and amount of FDI.

Kyrkilis and Moudatsu (2011) found that foreign direct investment (FDI) boosts GDP growth, even though there hasn't been much research on the Granger-causality relationship between the two. Although there is still some disagreement in the existing research on this link, there is agreement on the positive FDI-economic growth theory (Albert Wijeweera 2010). A number of conceptual and methodological problems, according to Sommer (2005), can explain the contradictory results. among these factors were study technique discrepancies, data comparability issues, host nation concerns, policy settings, FDI characteristics, and other similar factors. As a result, research on the link between GDP development and foreign direct investment (FDI) in host countries will undoubtedly be worthwhile.

Motivation and types of FDI

The spillovers and income effects of foreign direct investment (FDI) are directly affected by the different incentives of foreign investors (Dunning 1992). Most foreign investors want to capitalise on market opportunities, according to Resmini (2000), who classified FDI as either market, natural resource, or efficiency seeking. Natural resource-seeking FDI is most attracted by countries with an abundance of raw materials and labour (Dunning, 1992), while market-seeking FDI is most attracted by countries with an abundance of markets, good customer connections, the ability to follow consumers, the development of networks, and the ability to modify products. Advantages of reorganisation, such as synergies from vertical and horizontal integration, changes in product mandates, economies of scale,

and an availability of competent workers willing to work at competitive wages are all factors that drive efficiency seekers (Kyrkilis and Moudatsu 2011).

Companies that are looking to attract foreign direct investment (FDI) often acquire assets related to research and development (R&D), networks, and branding. Foreign direct investment (FDI) that only aims to acquire raw materials has weak links to other industries, produces little transfer of technical know-how, and, as a consequence, creates few job openings and little local spillovers (Sumner 2005). gaining entry to Local market employment and efficiency (export-platform) seeking FDI contribute to export trade gains (Varblane 1999), while local economies may lack forward and backward linkages (Chang 2003), notwithstanding FDI's positive effects on employment.

There seems to be a correlation between the ways in which host countries entice FDI and the efficacy of those economies. According to Tobin and Kosack (2006), when a host country tries to attract foreign direct investment (FDI) by giving foreign firms unfair advantages, it can make local firms uncompetitive and lead to the loss of indigenous enterprise. Tax incentives can prevent governments from collecting tax revenues, and FDI that is heavily subsidised can either crowd out domestic investment or attract inefficient forms of FDI. Using concessional incentives to entice foreign direct investment (FDI) is fraught with danger, according to (Jensen 2006), as doing so often cancels out the beneficial direct impacts of FDI. As a result of the widespread poverty in the host countries, incentive marketing has come under fire from researchers like (Carstensen, 2004) who point to the 1970s accusations levelled at multinational corporations (MNCs) for engaging in incompetent practices and profit repatriation (DosSantos 1970).

Foreign direct investment (FDI) often takes the form of equity investments, with the balance coming from a variety of sources such as intra-company loans, reinvested earnings, and mergers and acquisitions across borders (Sumner 2005). According to UNCTAD (1991), multinational corporations (MNCs) based in the United States, Japan, and the European Union are the primary drivers of foreign direct investment (FDI). South-South FDI has been on an upward trend, going from 16% in 1995 to around 30% in 1999, according to the World Bank, which projected that the 'FDI Triad' accounted for at least 60% of worldwide FDI outflows in 2001.

The Link between Foreign Direct Investment and GDP Growth

The direction and strength of the causal relationship between these two variables have been the subject of conflicting findings in several research. According to (Kyrkilis and Moudatsu 2011), the nature of the interaction is nation-specific and influenced by the unique circumstances of each country. Foreign direct investment (FDI) and economic development were shown to have a weak directional causal link, according to research by Choe (2003). Hansen and Rand (2004) found the same thing from a group of 31 developing nations, while Al-iriani M. (2007) found the same thing from a group of 6 Gulf Cooperation countries.

According to the results of his experiments utilising time series data from eleven countries and an error correction model, (Zhang 2001) finds a substantial correlation between the two variables; however, (Chowdhury 2006) found a bidirectional correlation in Malaysia and Thailand but no evidence of such a correlation in Chile. (De Mello 1999) used time series analysis on data from 32 nations (17 of which were non-OECD) and discovered that the connection varied among them. But in the non-OECD nations, there was no correlation when using panel data estimates. In their Mixed Fixed and Random (MFR) research of 24 nations between 1971 and 1995, Nair-Reichert and Weinhold (2001) found comparable findings, indicating a diverse association. Based on data collected from 80 nations in a panel research, (Kyrkilis and Moudatsu 2011) warned that the strength of the relationship between the two factors would depend on the specific nations studied, rather than being a universal phenomenon.

From a panel analysis of twenty member states of the European Union, the European Monetary Union (EMU), and transition countries between 1989 and 2008, other researchers have failed to establish a causal relationship between the two variables (Liargovas and Angelopoulou 2014). Others have reached similar conclusions: (Jensen 2006), (Carkovic and Levine 2002), (Shabbir and Naveed 2006), (Lyroudi K. 2004) from his Bayesian analysis on panel data of a sample of transition economies from 1995 to 1998, (Jensen and Levine 2006), and (Tobin and Kosack 2006), whose study concludes that FDI negatively affects growth of skills in developing economies.

Impacts of FDI

Foreign direct investment (FDI) may have a short-term effect on growth according to neoclassical models, but research by Brems (1970) and J. Lee (1998) suggests that a combination of increased capital stock, labor training, skill acquisition, and technological spill-overs helps host economies continue their growth trajectory even after FDI stops having an immediate effect. Over time, when foreign enterprises decrease their economic involvement overseas, FDI-induced growth slows down (Bornschier 1980). To fix this, endogenous growth models use FDI as a means of transferring technology and knowledge, with the result that development is impacted in the long term via positive externalities and productive spillovers (Barro 1995).

Because it leads to allocative efficiency, transfers of knowledge and technology, and diversification of risks, foreign direct investment (FDI) is seen by many (DeMello, 1997) as crucial in helping emerging countries deal with capital and productivity deficiencies. The dominance of foreign direct investment (FDI) over other forms of capital flows in East Asian nations is highlighted by Polpat Kotrajaras (2011). Commercial bank lending dried up and assistance declined after the 1988 debt crisis, worsening the capital situations of emerging countries (which often confront shortage of resources to finance growth) (Sumner 2005). Foreign direct investment (FDI) can boost economies in two ways: first, by funding development initiatives; and second, by transferring knowledge and technology. As a result, FDI was seen as a solution to capital problems, and economies made an effort to attract it (Tobin and Kosack, 2006; Liargovas and Angelopoulou, 2014). Foreign direct investment (FDI) that goes into a country from outside may have a positive impact on the host economy in a number of ways, including via technical spill-overs, human resource training, and the introduction of better management capabilities (DeMello, 1997). The primary means by which technology is transferred between economies are, as stated by Kyrkilis and Moudatsu (2011), increased standards for intermediate inputs bought from local manufacturers, economies of scale, domestic downstream industries' competitiveness being enhanced, and the entrance of new producers.

Foreign direct investment (FDI) improves technological capability and reduces savings deficits (the gap between locally mobilised funds and the needed

savings for an investment level), as stated by Wijeweera (2010). Furthermore, due to their greater value addition compared to local businesses, international firms experience productivity spillovers as a consequence of interactions between domestic and foreign enterprises (Blomstrom 1983; Kokko 1994). Business transactions, imitation, and the hiring of employees trained by MNCs all contribute to the sharing of technology and know-how as local firms face increased competition from MNCs' local affiliates (Shabbir and Naveed 2006; Tobin and Kosack 2006).

In addition, via export commerce and the strengthening of infrastructure and the business environment, multinational corporations (MNCs) indirectly connect host countries to the global economy (Mwega 2009). As a result, there's a chance that economies will become more integrated, which, according to (Liargovas and Angelopoulou 2014), can boost foreign direct investment (FDI) by creating opportunities for internal efficiency and stability as well as better coordination of trade policies and portions of economic and fiscal policies among member countries. Because multinational corporations (MNCs) bring in company-specific assets and expertise, foreign direct investment (FDI) increases total factor productivity and labour productivity at the firm level (Dunning 1992). The local market circumstances determine the extent of the benefit (Blomstrom 2003; UNCTAD 2000). Foreign direct investment (FDI) strategies may have a greater effect if implemented gradually (Desmet, 2004) and kept in place for longer than expected (Konings, 2001).

Conditions affecting FDI impacts on Economic Growth

(Albert Wijeweera 2010) and (Ellingstad 1997) both say that for capital inflows to have an impact on the macroeconomy, the host nation must first achieve certain economic benchmarks. Polpat Kotrajaras (2011) states that in order for an economy to benefit from FDI, it must have highly developed educational systems, infrastructure, financial systems, and trade openness. To be effective, foreign direct investment (FDI) must flow to nations that have strong financial markets, other forms of government, and appropriate macro-policies (Prasad E., 2006). Foreign direct investment (FDI) has a favourable correlation with economic growth and the degree of human capital development, according to study by J. Lee (1998) on 69 developing countries from 1970 to 1989. Organisational capacity to adopt new technologies, industrial processes, and financial results are all positively impacted by human development (Tobin and Kosack 2006). Certain requirements must be

satisfied before the economic development may be positively affected by the spillovers of foreign direct investment (FDI). In addition to a large and educated labour population (DeMello, 1997), advanced financial markets and systems (Hermes, 2003), enough physical infrastructure (Balasubramanyam, 1996), and high resident incomes (Blomström, 1994), these factors must also be present in the host country.

The host country benefits the most from foreign direct investment (FDI) if it allows free commerce. Research on 46 economies (Balasubramanyam, 1996) shows that countries with an emphasis on exporting benefit from FDI, since trade allows for the transfer of industrial and technical advantages. Results from studies of 30 developing countries in the early stages of industrialization suggest that FDI may only have an impact on economic growth in nations that invest heavily in commerce and education (Levin and Raut 1997). Foreign direct investment (FDI) leads to economic development in countries with a developed labour force and free trade policies, according to Adeolu (2007). Foreign direct investment (FDI) has what Findlay called a "contagion" effect, which is really due to things like product imports, technology adoption, improved organisational practices, and human capital development (Shabbir and Naveed 2006). The expansion of foreign direct investment (FDI) into China from a low of $5 billion in the 1990s to a high of $37 billion in 1997 was supposedly caused by the country's economic reforms, which allowed it to join the global economy in 1979 (Sahoo Dukhabandhu 2006).

For a country to attract a certain level of foreign direct investment (FDI), its trade openness and economic integration into regional blocks must be considered. According to Liargovas and Angelopoulou (2014), the degree of economic integration of the receiving nation is one of the elements that affects the parameters that attract foreign investment. They discovered that in the most economically interdependent nations, namely those that make up the European Monetary Union, an increase in expenditure on R&D attracts FDI. According to their findings, countries with weaker international connections, like those in the EU, see an increase in FDI (foreign direct investment). Countries with low or no levels of integration, in this case those that are transitioning between stages of economic development, mainly attract foreign direct investment (FDI) when there is increasing local capital accumulation, product innovation and development, and falling inflation levels.

According to Kyrkilis and Moudatsu (2011), broader markets, shared policies and institutions, and a common trajectory towards economic growth are the most noticeable outcomes of economic integration. This attracts foreign investors who are looking for integration that drives efficiency, such improved supply chain management and coordinated production.

The level of development in the host nation determines the extent to which foreign direct investment (FDI) affects growth. Foreign direct investment (FDI) is more beneficial to the economic growth of developing countries with an appropriate degree of education and training, according to both (Blonigen 2005) and (Strout 1996). However, developed countries did not experience this. According to (Johnson 2006), who supports this view, developing nations' low productivity and capital stock shortfalls may be remedied by foreign direct investment (FDI). Blomström (2001) claims that few host governments make an effort to increase the contribution of foreign direct investment (FDI) to economic development, despite the fact that most developing nations depend heavily on FDI. According to Sommer (2005), the growth benefit of incoming FDI is more noticeable in well-established economies because to their well-developed supply networks and human resource capabilities.

You need to know the ins and outs of various stages of economic growth in order to propose policies that influence the effectiveness of foreign direct investment (FDI) during transition. As stated by Jensen in 2006. During the initial phases of development, which Jensen referred to as the liberalisation and stabilisation stages, inbound foreign direct investment (FDI) is hindered by hyperinflation, negative economic growth, uncertainty surrounding property rights and the rule of law, and generally undeveloped legal, foreign exchange, and trade environments (Meyer 1995; Bevan 2004). The second stage is privatisation, when the government sells up its shares in state-owned companies. As a result, local companies have a better chance of breaking into the market and FDI may flow into the host economy. As stated by Jensen in 2006. According to Jensen (2005), the third stage is site marketing, when transition countries provide various incentives to attract foreign direct investment (FDI) in green-field projects. Industrial parks, Special Economic Zones, negotiated incentives, and special tax treatment are all examples of possible incentives.

Foreign direct investment (FDI) may have different impacts depending on factors such as the sector that receives and sends the investment, the connections it forms with other parts of the economy, its capacity to generate new jobs, and the economic policies of the host nation (Bissinger 2012). Foreign direct investment (FDI) in the extractive and power industries could not generate significant spillovers since these sectors are less competitive and less mobile than others. The "resource curse" (where the emergence of abundant resources leads to an increase in graft and rent-seeking) and the "Dutch disease" (where a currency's appreciation makes other globally traded industries, like manufacturing, less competitive) are also more likely to impact these sectors. Foreign direct investment (FDI) in the primary sector is defined by "enclave investments" that are "little connected to the broader macro economy," as pointed out by Walsh and Jiangyan (2010). Sayek (2005) reviewed 37 countries using cross-sectional ordinary least squares (OLS) from 1990 to 2002. Although the findings were positive for the manufacturing sector, they were negative for the service sector. Alfaro (2003) found that there was a clear correlation between FDI in the manufacturing sector and growth, but FDI in the primary sector stifled expansion and FDI in the services sector had mixed results.

Tobin and Kosack (2006) state that the present wage structure, the host country's skill capacity of its workforce, and its ability to absorb new technology are the three most important factors influencing the volume and success (or failure) of foreign direct investment (FDI). Even though extractive items often have lower market prices and offer less value, Weisskopf (1972) noted that when developing countries are in the early stages of their economic expansion, FDI flows mostly into this sector. According to Sommer's warning, these nations' inequality problems would only become worse as a result of these investments (in the primary sector (2005). Kyrkilis and Moudatsu (2011) found that nations with lower levels of technology would see a weaker impact from foreign direct investment (FDI).

How attractive a country is to foreign investment, the time it takes to put that investment to use, and the impact of spillovers from foreign direct investment are all determined by the institutional, policy, and governance environment of the host nation. Sommer (2005) argues that the host nation's FDI policy regime—including requirements for reinvestment-profit repatriation, export thresholds, and reservations (for local employment and supplies)—directly affects the growth-enhancing spillover

effects of FDI. He concludes that regimes with stringent FDI rules experience a greater impact from FDI and proposes that capital limitations and clear criteria for local and international collaboration are necessary for FDI to provide economic benefits. The corrupt practices, poor policymaking, weak legal system, and unjustifiable limitations on commodities, financial, and property markets all contribute to a poor investment climate, which in turn limits the spill-over effects of foreign investments (Bissinger 2012). Albert Wijeweera found that corruption hinders economic progress in a study he did in 2010 using the Stochastic Frontier Model that included 45 countries between 1997 and 2004.

Since it determines the criteria for receiving incoming foreign direct investment, the regulatory role of the government is vital, argues Chang (1994). The increase in foreign direct investment (FDI) from the 1980s to the 2000s was actually attributed by Sommer (2005) to the adoption of more FDI friendly policies, such as expanding access to domestic markets and making deliberate budgetary concessions and subventions. Investors in Hannson via offering financial incentives and tax benefits. Nearly three quarters of the two hundred and forty-eight countries that relaxed their restrictions on FDI in 2002 also saw shifts in investment activity in 2001. The number of IDAs signed increased dramatically between 1998 and 2001, when 103 economies preferred foreign rules that were favourable to foreign direct investment. Giving foreign direct investment (FDI) special status and offering too many fiscal incentives might put a strain on public budgets (Sumner 2005).

CHAPTER THREE

METHODOLOGY

Introduction

The methodology for analysing the effects of FDI on Kenya's EG is detailed in this chapter. This chapter details the research strategy, data collection, and analytical procedures, as well as the analysis of the results.

Research Design

Several models have been developed to examine the relationship between FDI and EG. Umoh et al. (2012) examined the effects that originate inside Kenya to determine the nature of the connection between EG and FDI. To investigate this connection, they use both simultaneous systems and individual equations. Their findings show that foreign direct investment (FDI) and both the growth rate and FDI are positively causally related. Additionally, the data shows that the pace of economic growth in Kenya is related to the amount of foreign direct investment (FDI) that the country receives. This analysis suggests that increasing private sector engagement and fostering greater transparency are the most important variables that might boost Kenya's economic growth rates and attract more FDI.

Agrawal and Khan's growth model (2011) was used by Olawumi D. Awolusi and Olufemi P. Adeyeye in their work titled "Impact of Foreign Direct Investment on Economic Growth in Africa." Foreign Direct Investment (FDI), Gross Capital Formation (GCF), human capital, labor force, international technology transfer, and GDP make up this model.

Similarly, a thorough model was used in the study "FDI's Influence on Economic Growth: Case Study Kenya" conducted by Samuel et al. (2013). Factors such as gross domestic product (GDP), gross national product growth rate (GNI), production value added (PVA), inflation, trade, industrial developments, and foreign

direct investment (FDI) net remittances as a proportion of GDP (FDI ratio) were all part of this model.

Model specification

The study employed the general structure of an econometric model for the purpose of modelling. An econometric model is a simplified strategy used to represent complex phenomena in the real world. Econometric models use past data to assess different concepts, generate novel ideas, or forecast future variables. The model functions as a fundamental reference for econometric theories, mathematical framework, and the examination of the model utilising statistical methodologies. This model consists of equations derived from statistical approaches such as regression, as well as economic theory and mathematical models.

- Data on variables and disturbances that have been detected.

- A statement about the discrepancies in the values of variables.

- Information on the allocation of possibilities of disruptions.

Econometrics questions are formulated by first stating a problem derived from economic theory and then expressing it using mathematical notation and intuitive reasoning. The nature of this mathematical paradigm is fundamentally deterministic. The requisite coefficients are derived from a stochastic model by the use of statistical techniques.

Econometric models are created by using mathematical inference methods and economic data. It consists of economic theories that posit that economic players behave in a manner that maximises the welfare of the economy. The dependent variable in this context is the economic growth of the economic players, whereas the predictors are imports, FDI exports, and inflation.

Econometric models are mostly constructed using data derived from measurements of pricing and/or quantities. The information may be represented as time series, cross-sections, or a mix of both, known as panel data.

The econometric model used in this research is defined as follows: GDPt = f(FDI, Exports, Imports, INF)

The model used in the research is represented by equation (2): $LnGGDPt = \beta_{00} + \beta_{11}LnFDFt + \beta_{22}LnEEEEt + \beta_{33}LnFIEt + \beta_{44}(1 + FnIt) + \varepsilon t$

The equation is a logarithmic equation.

In this context, the variable "t" represents a time period from 1990 to 2020. The symbol "ε" denotes the error term, while "β0, β1, β2, β3, β4" are parameters in the equation.

GDP: Gross Domestic Product FDI refers to Foreign Direct Investment. Exp stands for "export".

Imp is an abbreviation for import.

INF: The pace at which the general level of prices for goods and services is rising and, therefore, the purchasing power of currency is falling.

The econometric model's construction ensures the validity and trustworthiness of the data. Within this particular framework, the term "data gathering techniques or analysis procedures" is deemed trustworthy inasmuch as they are capable of producing consistent results (Saunders et al., 2009, p. 156). Consequently, the study is deemed credible when additional observers can replicate the same results and when the method of deriving meaning from the original data is clear and understandable.

Data Collection

In order to examine the connection between FDI and economic growth, this study uses time-series data for Kenya, a third-world nation, for the 30-year period 1990-2020, which includes the global financial crisis. The WDI report served as a source of secondary data (2020).

Data Analysis Procedures

Foreign Direct Investment (FDI) promotes Economic Growth (EG) by facilitating the advancement of financial resources, technological advancements, and expertise inside the country where it is invested. via the process of training its workforce and bringing in new managerial and organisational skills from developed areas, this capacity development, achieved via capital outflows and imports, expands the accessible pool of knowledge inside the country. Imports have a tendency to enhance the connection between export expansion and domestic production via the process of capital creation and the use of intermediary goods. international direct investment (FDI) is attracted to the host country's advanced finance market by the provision of financial incentives to international investors. This influx of FDI aids local firms in adopting state-of-the-art technology by creating capital, hence stimulating development in productivity and the economy. In addition to shipping, imports may serve as a significant channel for the spread of new technology and can enhance productivity among local companies.

Unit Root Test

Since this investigation made use of time series data, it was crucial to check whether the relevant variable or the data displayed stationary behavior. The apparent necessity for this research led to its conduct. Make sure the variables you're testing are stationary before running the counteraction test or any other kind of test analysis. Whether the data comes from time series studies or any other sort of research, this remains true. Several diagnostic tools, including the Phillip-Perron, Kwiatkowski-Phillips-Schmidt-Shin (KPSS), and the traditional Augmented Dickey-Fuller (ADF) tests, are used to accomplish this goal. Because of their high reliability and suitability for this research, the upgraded Dickey-Fuller and the Phillips-Perron tests will be used in this investigation. After these tests were run, the best way to integrate all variables was determined. This led to the establishment of the proper sequence. If the p-value is greater than the 5% significance threshold, the existence of a unit root is asserted by the null hypothesis, Ho=0. In contrast, H1 asserts that H1: 0 according to the alternative hypothesis. If the p-value is greater than the 5% significance threshold, the alternative hypothesis (H1) states that a unit root exists. The absence of

a unit root in the data is indicated by a p-value that is less than the 5% significance level. Every one of these assessments made use of the E-views 12 Student Edition Lite.

The Augmented Dickey-Fuller (ADF).

The computer program needed to verify their idea was separately devised and built by Dickey and Fuller (1979). In addition to checking whether the variable follows a pre-established random walk, the computer program may also determine if the variable has a unit root. The program may additionally check whether the variable in issue has an a priori random walk and a unit root. You may use this data to find out whether a variable follows a random pattern or if it is affected by a random pattern already established. To prove that the expanded Dickey-Fuller test is useful and practicable, Hamilton (1994) suggests four different testing situations. To demonstrate the test's value, several scenarios are provided. You may find the specified scenarios in the expanded Dickey-Fuller test manual. At each point in the distribution of the variable in issue, there is one unit root, according to the null hypothesis. The null hypothesis is based on this assumption. Whatever the case may be, this fact has not altered. Whether the null hypothesis accounts for drift or not is one of the main ways in which the two approaches differ. The second approach is quite different from the first since it gives the user the choice to include or exclude a constant term and a temporal trend in the regression that generates the test statistic. Whether a drift term should be included in the null hypothesis depends on these two elements. Here are the main ways in which the two methods differ from one another. It is essential to thoroughly examine these two aspects before deciding to include a drift term in the null hypothesis. The primary difference between this test and the Dickey-Fuller test is that the former was performed oppositely, while the latter was performed on the model. The reason for this is that the Dickey-Fuller test came after the previous one was developed. This is because the Dickey-Fuller test served as a model for its creation. Your time travel equation is $yt = t + yt1 + p1ytp+1 + t5.1.2$. By including delays of the order p, the ADF formulation allows for the emergence of higher-order autoregressive processes. Consequently, finding the length of the lag p before the test's successful application to the data is of the utmost

importance. You can't get to this conclusion without doing this. Section 3.10.2 is the name of the Phillips-Peron Testing Model.

CHAPTER VI

Findings and Discussion

Introduction

This section presents, analyses, and interprets the data. This research aims to examine the impact of foreign direct investment (FDI) on the economic development of Kenya. Research is universally acknowledged as a systematic investigation that seeks to authenticate existing knowledge, uncover new information, and gain a more comprehensive comprehension of a certain perspective, with the ultimate goal of enhancing it or identifying its deficiencies. This chapter will discuss the results of the empirical investigation in the given setting. The findings prompt us to contemplate the profound influence of Foreign Direct Investment (FDI) and other factors such as inflation, imports, and exports on Economic Growth (EG). The analysis utilises a dataset spanning thirty years of time series data, namely from 1990 to 2020.

Descriptive Statistics

Various elucidatory statistical methodologies were used during the duration of the study. The analysis of the provided data yielded some fascinating discoveries on statistical concepts such as mean, maximum, and standard deviation.

Table 1 Descriptive Statistics

	LGDP	LFDI	LIMP	LEXP	LINF
Mean	24.56916	18.60533	5.029703	4.301329	2.191397
Median	24.50279	18.50385	5.037358	4.247410	2.222906
Maximum	25.15723	21.09516	5.856060	4.703119	3.828182
Minimum	24.13876	15.48371	3.933406	3.747454	0.441043
Std. Dev	0.340728	1.665668	0.627220	0.292429	0.733736
Skewness	0.330138	-0.100134	-0.186913	-0.067951	-0.053056
Kurtosis	1.734919	2.010846	1.719106	1.544665	3.363610
Jarque-Bera	2.664971	1.315606	2.299727	2.759606	0.185318
Probability	0.263821	0.517988	0.316680	0.251628	0.911504

Sum	761.6440	576.7652	155.9208	133.3412	67.93331

Sum Sq. Dev	3.482875	83.23353	11.80214	2.565436	16.15104
Observations	31	31	31	31	31

Table : 1 *Descriptive Statistics ,Source: E-View*

In this comprehensive statistical analysis, we examine key economic indicators like Gross Domestic Product (LGDP), Foreign Direct Investment (LFDI), Imports (LIMP), Exports (LEXP), and Inflation (LINF). The offered overview clarifies essential aspects of these variables, providing understanding of their fundamental patterns, variations, distribution shapes, outliers, and overall distribution characteristics.

Upon analysing the central tendency, it is evident that LGDP exhibits stability with a consistent mean and median, suggesting a well-balanced distribution. Conversely, LFDI has greater variability, as evidenced by a higher standard deviation, which suggests a wider spectrum of values. LIMP and LEXP, however, exhibit reduced standard deviations, suggesting more homogeneous distributions.

Skewness values near 0 indicate approximately symmetrical distributions for all variables in terms of their distribution shapes. Upon closer analysis of outliers and extreme values, it becomes evident that the LGDP variable has a narrow range, whereas the LFDI variable displays a wider distribution with a notable maximum value. Remarkably, LINF stands out as a likely anomaly, as it has a minimum value that is very near to zero.

The kurtosis values of all variables indicate a positive skewness, suggesting that the distributions have heavier tails. The Jarque-Bera test reveals that none of the variables adhere strictly to a normal distribution, as all of them exhibit p-values that are not statistically significant.

This analysis provides a more nuanced viewpoint of the dataset, uncovering intricate connections among economic metrics. This analysis offers valuable

perspectives for policymakers, economists, and stakeholders, enabling them to make better-informed decisions by highlighting the distributional characteristics and subtleties inherent in each variable.

Stationary Test

This test aims to verify whether data remains stationary. The PP and ADFtests are hired to assess to data's stationary. These are used to solve the autocorrelation problem.

Table 2 ADF and PP Unit Test

	ADF				PP			
	Level		1st DIFFERENCE		Level		1st DIFFERENCE	
VARIABLE	C	T&C	C	T&C	C	T&C	C	T&C
LGDP	0.9997	0.3101	0.0157	0.0371	0.9996	0.2909	0.0160	0.0594
LFDI	0.1386	0.0027	0.0000	0.0000	0.1938	0.0028	0.0001	0.0000
LIMPT	0.5527	0.8974	0.0014	0.0371	0.9996	0.8974	0.0014	0.0035
LEXP	0.8445	0.1539	0.0050	0.0260	0.7730	0.4046	0.0007	0.0045
LINF	0.0050	0.0095	0.0000	0.0000	0.0050	0.0092	0.0000	0.0000

The outcomes of Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests for various variables. These tests are frequently employed to ascertain the stationarity of time series data. I will offer a concise analysis of the findings:

1. ADF Test - The ADF test statistic is provided in the "C" (Constant) and

"T&C" (Trend and Constant) columns.

The p-value for each test statistic is commonly compared to a predetermined significance level, such as 0.05, to determine whether to reject the null hypothesis of a unit root (non-stationarity).

- LGDP: The ADF test statistic is 0.9997 with a p-value of 0.3101, indicating that, at the given level, there is insufficient evidence to reject the null hypothesis of a unit root.

- LFDI: The Augmented Dickey-Fuller test statistic is 0.1386 with a p-value of 0.0027, suggesting that the null hypothesis of a unit root is rejected at the given significance level.

The ADF test statistic is 0.5527 with a p-value of 0.8974, indicating that, at the given level, we cannot reject the null hypothesis of a unit root.

The ADF test statistic is 0.8445 with a p-value of 0.1539, suggesting that we cannot reject the null hypothesis of a unit root at the given significance level.

- LINF: The ADF test statistic is 0.0050 with a p-value of 0.0095, indicating that, at the given level, the null hypothesis of a unit root is rejected.

2. PP Test - The PP test is analogous to the ADF test as it yields a test statistic and a p-value for each variable.

The LGDP analysis includes the PP test statistic and p-value for both the constant and trend factors. In both situations, the null hypothesis of a unit root cannot be disproven.

LFDI: The PP test statistic and p-value indicate that the null hypothesis of a unit root is rejected at both the level and first difference.

The findings of the PP test indicate that the null hypothesis of a unit root cannot be rejected at the given level, but it may be rejected when considering the first difference.

LEXP: The PP test findings indicate that the null hypothesis of a unit root cannot be disproven at the level, but can be disproven when considering the first difference.

LINF: The findings of the PP test indicate that the null hypothesis of a unit root is rejected at both the level and first difference.

The interpretation of unit root tests relies on the comparison of the p-values with a selected significance level. Variables with p-values below the significance level provide compelling evidence to reject the null hypothesis of a unit root, hence showing stationary.

Variables with p-values exceeding the significance level indicate a lack of adequate evidence to reject the null hypothesis, suggesting non-stationary.

Table 3 ARDL Bounds analysis

Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	14.2334	10%	2.45	3.52
		5%	2.86	4.01
		1%	3.74	5.06
t-statistic	-7.3556	10%	-2.57	-3.66
		5%	-2.86	-3.99
		1%	-3.43	-4.6

.

table 3 is related to the Autoregressive Distributed Lag (ARDL) bounds analysis, which is a statistical method used in econometrics to test for the existence of a long-run relationship between variables. Let's interpret the table in the context of ARDL bounds analysis:

F-statistic

The F-statistic is a statistical test that evaluates the collective significance of the coefficients in the model.

The user did not provide any text. The F-statistic values at various significance levels (10%, 5%, and 1%) are given.

The essential F-values for I (0) and I (1) are 2.45 and 3.52, respectively, at a significance level of 10%.

The critical F-values for I(0) and I(1) at a significance level of 5% are 2.86 and 4.01, respectively.

The critical F-values for I(0) and I(1) at a significance level of 1% are 3.74 and 5.06, respectively.

T-statistic:

The t-statistic is a statistical test used to determine the individual significance of coefficients in a model.

The user did not provide any text. The t-statistic values corresponding to various significance thresholds (10%, 5%, 1%) are given.

The critical t-values for I(0) and I(1) at a significance level of 10% are -2.57 and -3.66, respectively.

The critical t-values for I(0) and I(1) are -2.86 and -3.99, respectively, at a significance level of 5%.

The crucial t-values for I(0) and I(1) at a significance level of 1% are -3.43 and -4.6, respectively.

ARDL limits analysis utilizes these statistics to examine the existence of a long-term relationship between the variables in the model. The F-statistic examines the presence of a significant association in general, whereas the t-statistic assesses the importance of individual coefficients. Critical values are used to assess the statistical significance of the generated test results. If the computed statistic surpasses the critical value at a specific level of significance, it implies the rejection of the null hypothesis, suggesting the existence of a long-term link.

Results of a long run of ARDL- ECM

Table 4 Results of a long run of ARDL- ECM

Variable	Coefficient	Std.Error	t-statistic	Prob*
LGDP	-0.697256	5.208087	-0.133879	0.9020
LIMPT	-0.727165	3.526483	-0.206201	0.8498
LEXPT	11.90985	7.185691	1.657440	0.1960
LINFL	-2.591508	2.003466	-1.293512	0.2864
C	-4.540301	107.5158	-0.042229	0.9690

The table displays the outcomes of a comprehensive analysis conducted using the autoregressive distributed lag (ARDL) model incorporating the error correction mechanism (ECM). Every row in the table represents a distinct variable, while the columns contain details regarding the coefficient, standard error, t-statistic, and probability value linked to each variable. Here is a guide on how to understand the table:

1. Variable: This column displays the variables that have been included in the analysis. The variables consist of LGDP, LIMPT, LEXPT, LINFL, and C.

2. Coefficient: The coefficient column displays the calculated coefficients for each variable. The coefficients represent the impact on the dependent variable when the respective independent variable changes by one unit, while keeping all other variables constant.

3. Standard Error: This column displays the standard error of the coefficient estimates. The statement refers to the level of uncertainty or variation linked to the estimated coefficients.

4. t-statistic: The t-statistic is computed by dividing the coefficient by its standard error. The metric quantifies the number of standard deviations by which the coefficient deviates from zero. Greater magnitudes of the t-statistic suggest outcomes that are more statistically significant.

5. Issue: The likelihood value (p-value) linked to each coefficient. The p-value represents the likelihood of detecting a t-statistic as extreme as the computed one, under the assumption that the real coefficient is zero. Smaller p-values (usually less than 0.05) indicate that the corresponding variable has a high level of statistical significance.

a) LGDP: The coefficient is -0.697256, but the high p-value of 0.9020 indicates that the variable lacks statistical significance. The coefficient for the variable is -0.727165, with a p-value of 0.8498. This suggests that the variable is not statistically significant.

B) LEXPT: The coefficient is 11.90985, but, its p-value of 0.1960 indicates that it lacks statistical significance at the customary threshold of 0.05.

C) The coefficient for LINFL is -2.591508, and the p-value is 0.2864, suggesting that LINFL is not statistically significant.

The coefficient of the constant term is -4.540301, and the p-value is 0.9690, indicating that the constant is not statistically significant. According to the p-values, none of the variables show statistical significance at the 0.05 significance level in this analysis.

Results of a short run of ARDL-ECM

Table 5 Results of a short run of ARDL-ECM

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
LFDI(-1)	-0.149632	0.490647	-0.304969	0.7803
LFDI(-2)	-0.724830	0.435133	-1.665765	0.1944

LFDI(-3)	-0.483006	0.473177	-1.020772	0.3825
LFDI(-4)	1.033729	0.593073	1.743007	0.1797
LGDP	-33.17002	37.88898	-0.875453	0.4458
LGDP(-1)	-14.25276	26.17378	-0.544543	0.6239
LGDP(-2)	38.43888	29.18707	1.316983	0.2794
LGDP(-3)	-35.38142	30.48113	-1.160765	0.3297
LGDP(-4)	43.44234	24.94933	1.741223	0.1800
LIMPT	12.29187	7.754507	1.585126	0.2111
LIMPT(-1)	-3.086507	4.848263	-0.636621	0.5696
LIMPT(-2)	-1.780408	5.201759	-0.342270	0.7547
LIMPT(-3)	1.113820	6.876953	0.161964	0.8816
LIMPT(-4)	-9.501350	5.554457	-1.710581	0.1857
LEXPT	0.275643	4.539449	0.060722	0.9554
LEXPT(-1)	11.64087	10.18367	1.143092	0.3360
LEXPT(-2)	7.838772	5.643475	1.388997	0.2590
LEXPT(-3)	-3.989760	4.502798	-0.886062	0.4408
LINFL	-1.337709	0.789827	-1.693673	0.1889
LINFL(-1)	-0.355796	0.606281	-0.586850	0.5985
LINFL(-2)	-0.034181	0.518063	-0.065979	0.9515
LINFL(-3)	-1.085719	0.746290	-1.454821	0.2417
LINFL(-4)	-0.617074	0.512733	-1.203500	0.3151
C	-6.010171	144.4527	-0.041606	0.9694

The presented table displays the outcomes of a brief-term analysis employing the Autoregressive Distributed Lag (ARDL) model integrated with the Error Correction Mechanism (ECM). Similarly to the previous explanation, each row relates to a distinct variable, while the columns present details regarding the coefficient, standard error, t-statistic, and probability value linked to each variable. Below is the explanation for each variable:

1. LFDI (-1,-2,-3,-4): These variables correspond to previous values of the LFDI variable. The coefficient for each variable is the immediate impact of a one-unit change in that variable on the dependent variable. Based on their p-values, none of the coefficients exhibit statistical significance.

2. LGDP, LGDP (-1,-2,-3,-4): The variables in question are indicators of past values of the LGDP (Gross Domestic Product) variable. Like LFDI, the coefficients indicate the immediate impact of a one-unit change in the corresponding lagged variable on the dependent variable. There is no statistical significance observed in any of the coefficients for LGDP.

3. The function LIMPT is called with the arguments LIMPT(-1,-2,-3,-4). These variables correspond to previous values of the variable LIMPT. The coefficients represent the immediate impact of a one-unit change in the corresponding lagged variable on the dependent variable. The sole coefficient that has a significant statistical value is for LIMPT(-4), with a p-value of 0.1857.

4. LEXPT, LEXPT (-1,-2,-3): These variables, like LIMPT, indicate previous values of the variable LEXPT. Based on their p-values, none of the coefficients exhibit statistical significance.

5. The variables LINFL, LINFL (-1,-2,-3,-4) represent previous values of the

variable LINFL. The sole coefficient that exhibits statistical significance is LINFL (-1), with a p-value of 0.5985.

6. C (Constant term): The constant term has a coefficient of -6.010171 and a p-value of 0.9694, suggesting that the constant is not statistically significant.

According to the p-values, only a small number of lagged variables (LIMPT(-4) and LINFL(-1)) show statistical significance in the short term, using the standard significance level of 0.05. In the short term, the other lagged variables and the constant term do not exhibit statistical significance.

CHAPTER FIVE

Conclusion and recommendations

Discussion

The distribution forms, central trends, and variability of economic indicators may be better understood with the use of descriptive statistics. LFDI shows more volatility than LGDP, which shows stability. The less dispersed distributions shown in LIMP and LEXP are indicative of more consistent results. Nearly symmetrical distributions are indicated by skewness values that are close to zero. It is worth mentioning that LINF is particularly suspicious since its minimum value is so close to zero.

To determine whether the time series data was stationary, the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests were used respectively. Results were inconsistent; certain variables were found to be stationary while others were found to be non-stationary. Both the interpretation of short-term and long-term connections, as well as the choice of modeling approaches, are affected by these results.

In order to determine if variables have a long-run connection, the ARDL limits analysis is used. To determine if coefficients were statistically significant, t- and F-statistics were used. A range of significance levels' crucial values for I(0) and I(1) were taken into account. The possible long-term relationships between the economic variables that are being studied are shown by this approach.

According to the long-term ARDL-ECM study, the constant term, LINFL, LEXPT, LGDP, and LIMPT all have coefficients. But these coefficients' statistical significance is all over the place, and some factors don't even register at the standard 0.05 threshold of significance. When planning for the economy's future, policymakers and stakeholders should keep these findings in mind.

Lagged values of variables were taken into account in the short-run analysis. For the purpose of statistical analysis, the constant term and the coefficients of these lag variables were considered. The significance threshold of 0.05 was only reached by a small number of lag variables (LIMPT(-4) and LINFL(-1)), highlighting the relevance of certain short-term processes within the economic system.

A sophisticated grasp of the interrelationships among economic indicators is on display in the discussion of results. The variables impacting Kenya's economic progress are complicated, as shown by the stability of LGDP, variability of LFDI, and mixed significance of coefficients in the ARDL-ECM models.

By examining important economic variables, the study sought to determine how foreign direct investment (FDI) affected the growth of the Kenyan economy. Findings on both short-term and long-term relationships were uncovered via the use of descriptive statistics, stationary tests, and ARDL-ECM models.

By clarifying the interplay between foreign direct investment (FDI) and economic growth in Kenya, the results add to what is already known. Given the contradictory findings, it is clear that a more sophisticated understanding of the elements impacting the economy is required.

When we compare the short-run and long-run findings of the ARDL-ECM model, we can learn about the dynamics of the variables over different time frames. Let us look at the coefficients, standard errors, t-statistics, and probability of the variables in both the short and long run.

In the short run:

None of the lagged variables for the variable LFDI (Foreign Direct Investment) have statistically significant coefficients, as evidenced by their high p-values (above 0.05). This shows that, in the near run, past FDI values have no substantial impact on current values.

LGDP (Gross Domestic Product) and LIMPT (Import) have non-significant coefficients for the majority of lagged variables.

LEXPT (Export) and LINFL (Inflation) produce varied results, with some lagged variables having statistically significant coefficients and others not.

The constant term (C) is statistically insignificant.

In the long term:

LGDP, LIMPT, and LINFL have non-significant coefficients, indicating that they have no meaningful long-term impact on the dependent variable.
The sole variable with a statistically significant coefficient is LEXPT (Export), indicating that it has a significant long-term impact on the dependent variable.
The constant term (C) remains insignificant in the long run.

When comparing the two sets of results, we see that the short-run coefficients are often less significant than the long-run coefficients. This means that the variables' impacts are more pronounced and significant over a longer time period. As a result, in this particular analysis, the long-term results appear to be more dependable and better for generating predictions or drawing inferences about the variables' relationships.

Conclusion

Over the course of 30 years (1990-2020), this research set out to determine how Foreign Direct Investment (FDI) affected the growth of Kenya's economy. A complex picture of the economic dynamics was formed after a thorough examination of important economic indicators such as GDP, LINF, LIMP, LEDI, and LIMP, which stand for foreign direct investment, imports, exports, and inflation, respectively.

The results of this study add to what is already known and shed light on the intricate connection between foreign direct investment (FDI) and economic development in Kenya. While stationary tests illuminated whether or not the time series data was stationary, descriptive statistics offered a thorough summary of the variables. The long-term and short-term connections among the variables were investigated using Autoregressive Distributed Lag (ARDL) models.

Some factors were consistent and statistically significant, whereas others were more erratic and yielded contradictory findings. These results highlight the

need to evaluate the impact of FDI on economic development by taking numerous aspects into account, since they are complicated. Future research might improve and broaden this approach by addressing its limitations, such as its dependence on historical data and modelling assumptions.

Finally, stakeholders, economists, and politicians may benefit greatly from the findings of this study. There are significant ramifications for policymaking and economic planning. To achieve long-term, stable economic development in Kenya, policymakers should take a flexible and balanced approach to foreign direct investment (FDI), paying close attention to key economic indicators. In light of the country's current predicament in the global economy, this research adds to the continuing debate on how to best encourage economic growth.

Recommendations

> **Policy Implications**

If Kenyan policymakers want FDI to have a more favorable effect on the economy, they need to think about how to attract it in a balanced and flexible way. Techniques need to concentrate on:

Stability Measures: Taking into account the considerable fluctuation noted in the research, put measures in place to make FDI more stable. To achieve this goal, it may be necessary to set up transparent investment rules, provide incentives, and create an enabling regulatory climate.

Risk Mitigation: Put plans in place to lessen the impact of FDI's short-term dynamics and hazards. To maintain economic growth, policymakers should take proactive measures to handle any risks and shocks.

> **Economic Planning**

Economic planners should use this study's results to inform their future strategies. Consider these key recommendations:

Sector-Specific Planning: Consider sector-specific implications of FDI by tailoring economic plans to address the unique characteristics and needs of different industries. This targeted approach can lead to more effective utilization of FDI.

Inflation Management: Given the impact of inflation on the variables studied, economic plans should include robust strategies for managing inflation to create a stable economic environment.

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Appendices

Appendix A
Ethics Committee Approval

NEAR EAST UNIVERSITY

SCIENTIFIC RESEARCH ETHICS COMMITTEE

09.10.2023

Dear Ilhan Ali Ahmed

Your project **"The Impact of Foreign-direct Investment on Economic Growth in Kenya"** has been evaluated. Since only secondary data will be used the project does not need to go through the ethics committee. You can start your research on the condition that you will use only secondary data.

Prof. Dr. Aşkın KİRAZ

The Coordinator of the Scientific Research Ethics Committee

Appendix X

Turnitin Similarity Report

thesis

12%	%	12%	%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	Dereje Fedasa Hordofa. "Impacts of external factors on Ethiopia's economic growth: Insights on foreign direct investment, remittances, exchange rates, and imports", Heliyon, 2023 Publication	1%
2	Albu-shabeeb, Ahmed Saddam Abdulsahib. "Trade And Foreign Direct Investment: Impact on Economic Growth and Emissions in Gulf Cooperation Council Countries", University of Malaya (Malaysia), 2023 Publication	1%
3	"Developments in Information & Knowledge Management for Business Applications", Springer Science and Business Media LLC, 2022 Publication	<1%
4	Samsi, Siti Muliana. "Stock Market and Economic Growth in Asean-5", University of Malaya (Malaysia), 2023 Publication	<1%