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RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT INFLOWS AND SELECTED MACROECONOMIC VARIABLES IN KENYA

[1*] **Titus Mosoti Ogero**
sagini2012@gmail.com

[2**] **John Almadi Obere**
aoberejanam@gmail.com

[3***] **John Ernest Odada**
johneodada@gmail.com

[1, 2, 3] *Rongo University, School of Business and Human Resource Development, Kenya*

Abstract: Foreign direct investment (FDI) is a key component of attaining sustainable economic growth and development in most developing economies. This is majorly through strengthening infrastructural system, information and communication technology (ICT) development, raising productivity and creation of employment opportunities, and supplementing the balance of payment by enriching exports. The purpose of the study, therefore, is to determine the relationship between foreign direct investments and selected macroeconomic variables. The study employs unit root test to determine the stationarity of individual variables. The causality of macroeconomic variables on foreign direct investment inflow is checked using granger causality test. Economic growth and exchange rates are significant in influencing the level of foreign direct investments and inflation and exchange rates are significant in influencing interest rates. Economic growth proxied by gross domestic product is positive and significant determinant of foreign direct investment inflows instantaneously. The study recommends for policies that enhance foreign direct investment through promoting the prospects of economic growth.

Keywords: *Foreign direct investments, economic growth, macroeconomic variables*

1.0 INTRODUCTION

Foreign direct investment is a kind of investment in which the foreign individuals or firms directly invest in the assets and resources of the host country. In this kind of investment, through physical presence at the investment place and taking the financial responsibilities, the foreign investor takes direct control and management of the units in the host country (Ostadi & Ashja, 2014). The united nations conference on trade and development (UNCTAD) report views FDI to be important for the future development of every country especially African nations, as it is a means of increasing the capital available for investment and the economic growth needed to reduce poverty and raise living standards in any given country. FDI is an important factor in enhancing economic growth both directly, which is through the financing of development projects, and indirectly through knowledge and technology transfers (Liargovas and Angelopoulos, 2014).

Many African countries have already done much to create a more investment-friendly environment to promote local investment as well as foreign direct investment, and many have made positive progress towards political and economic stability. According to UNCTAD (2018), FDI flows to Africa slumped to $42 billion in 2017, a 21 per cent decline from 2016. Weak oil prices and harmful lingering effects from the commodity bust saw flows contract, especially in the larger commodity-exporting economies.

Foreign direct investment inflows to Kenya fluctuate as from 1988 to 2017. However, a significant increase is experienced in the period 2008 to 2011. This implies that multinationals and their subsidiaries have continued to increase production of goods and services in Kenya.

1.1 STATEMENT OF THE PROBLEM

Developing countries, and least developed countries in specific, face considerable challenges in attracting FDI inflows. These extend from structural stiffness, such as the lack of adequate infrastructure and scarce access to finance, to strategic issues such as macroeconomic policies. Kenya is dependent on Foreign Direct Investment for foreign exchange, capital and employment. Attracting FDI thus, is an important policy concern for the Kenyan government whereby FDI inflows have shown a fluctuating trend as from 1988 to 2018.Several studies have investigated the impact of various factors on foreign direct investment in the Kenyan context. Most studies done have treated FDI as a dependent variable against variables like economic growth (GDP) exchange rates, inflation, taxation and interest rates, whereas, in other studies the same variables are dependent on FDI. However, there are no strong theories that stipulates that FDI cannot influence other macroeconomic variables or that the macroeconomic variables cannot affect each other. Thereis need, thus, to understand the causal relationship between FDI inflows and the selected macroeconomic variables and investigate the direction of influence among variables.

1.1 OBJECTIVE OF THE STUDY

To determine the relationship between foreign direct investment inflows and selected macroeconomic in Kenya.

2.0 LITERATURE RIVIEW

Theoretically, there are several models that link the selected macroeconomic variables (inflation, exchange rates, economic growth and real interest rates being linked through the rational expectation theory, standard trade theory, growth hypothesis and the international Fisher effect model respectively).. John F. Muth developed the rational expectation theory in 1961. This doctrine can be used to give a clear understanding of the anticipated inflation rates. Given high levels of inflation, risk averse investors are likely to demand high price levels in order to offset their exposure to inflationary risks that are bound to lower the volume of investment. According to the PPP theory, exchange rates will not be constant but adjust to match purchasing power parity such that, the proportional change in the foreign currency should seek to maintain parity between the new adjusted price indexes of the two given countries. This theory does not fully explain exchange rates because the assumption that all goods are identical as well as the fact that trade barriers and transportation costs is low are not realistic in two different countries, hence, PPP is important as it helps us to observe the ideal situation. According to Asiedu (2008) different currency areas are responsible for the generation of FDI, whereas, Dunning (1993) stated that higher fixed capital stakes of an investment shows the possibility that future movements in exchange rates should be taken into account. Charkrabarti (2001) states that, the growth hypothesis developed by Lim (1983) maintains that, a rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or not growing at all. The rational expectation theory is often used to explain people's current expectation of the economy and how they are able to influence what the future state of the economy will be. Irving Fisher designs the International Fisher Effect (IFE) model in the 1930s whereby, it is a theory of market expectations. Fisher provides that an unexpected increase in interest rates would attract foreign investors who may wish to invest in the local market to take advantage of

high interest rates. Where there is no flood of inward investment, the market must be expecting that the value of the home currency will fall, as it should if the foreign exchange market is acting efficiently.

2.1 EMPIRICAL REVIEW

According to Vesarach (2014), who conducts a study on the role of interest rates in attracting FDI in the Asian economies; the results shows that the determinants of FDI are interest rates, inflation, GDP, exchange rates, labour cost, money growth and political rights. The researcher concludes that countries should offer competitive interest rates to attract foreign direct investments in their country. Ancharaz (2003) finds a positive effect with lagged growth for the full sample and for the non-Sub-Saharan African countries, but an insignificant effect for the Sub-Saharan Africa sample as well, Gastanaga *et al*., (1998) and Schneider and Frey (1985) find positive significant effects of growth on FDI.

Wanjala (2001), in his study, macroeconomic instability, uncertainty, high exchange rate due to depreciation increase foreign direct investments if investors are export projected. Adding to that, Muema (2013) in analysing FDI determinants in Kenya establishes that there is a significant positive relationship between the rate of FDI and the exchange rate change indicating a strong link between higher FDI inflows and the weakening shilling. This study's conclusion is that the main factor determining changes in FDI in Kenya is the Kenyan Shilling exchange rate to the other currencies proxied by the speed of change to the US dollar.Similarly, Njuguna (2013) studies the relationship between exchange rates and foreign direct investments in Kenya. Exchange rates (KES/USD), inflation determined by consumer price index and economic growth (GDP) are the independent variables whereas FDI is used as the dependent variable for a period of 10 years. Regression analysis result suggests that, there is a strong positive relationship between FDI, exchange rates and economic growth while a negative relationship is exhibited between FDI and inflation rates.

Wanjiru (2013) examines the effect of economic growth and inflation volatility on FDI in Kenya. FDI are used as the dependent variable whereas inflation and GDP are taken as independent variables. A linear regression analysis is used on the data to determine the association between inflation, GDP and FDI flows. The results suggest that no association exists between FDI and inflation, whereas a negative association exists between foreign direct investment and gross domestic product. Nduati (2018) as well examines the effect of inflation rate on FDI inflows in Kenya. The study used inflation as the independent variable while exchange rate and GDP as control variables and FDI as the dependent variable. A multiple linear regression analysis is used to determine the relationship between the independent variables and the dependent variable. The results suggested that GDP and exchange rates are not significant determinants of FDI inflows while inflation is a significant determinant which is contrary to the result of Wanjiru's study.

Mbui (2017) did a study on the effect of interest rates on foreign direct investments inflows in the energy and petroleum industry in Kenya. The study employs a descriptive research design and a multiple linear regression model is used to analyze the relationship between the variables. The results of the study revealed that, interest rate, exchange rates, economic growth and inflation rates are not significant determiners of FDI inflows into the energy and petroleum industry in Kenya. This study recommends that there is need for central bank to regulate the interest rate levels prevailing in the country bearing in mind that they influence FDI inflows in the energy and petroleum industry. Different to that, Ndanu (2018) explores the effect of real interest rates, exchange rates and competitiveness on FDI in Kenya. Regression analysis indicates that real interest rates and exchange rates have a negative and significant influence on FDI inflows in Kenya while competitiveness had a positive significant impact.

3.0 METHODOLOGY

The study adapts Sims modeling theory that any predetermined causal relationship is ad hoc and that identification assumptions may be too rigid. Sims (1980) argues that the economic theories and results seem to come and go and always in dispute. He argues that, what the economic theory tells us is that any variable that appears on the right-hand side of the equation belongs in principle on the right-hand side of all the models. To him this is against the fact that, the cyclical fluctuations of macroeconomic variables are of interest and that the fluctuations of those variables are interrelated and thus, macroeconomic theories confront reality and thereby each other. Therefore, Sims encouraged the use of VAR models in estimating large macroeconomic models.

The starting point, therefore, we have five macroeconomic variables; foreign direct investments inflows (FDI), exchange rates (XR), economic growth (GDP), inflation (INF), and real interest rates (INT) and the model used in causal relationship checking is as follows:

$$\boldsymbol{FDI_t} = \sum_{i=1}^{p} \boldsymbol{\beta_{1i}} \boldsymbol{FDI_{t-i}} + \sum_{i=0}^{p} \boldsymbol{\beta_{2i}} \boldsymbol{GDP_{t-i}} + \sum_{i=0}^{p} \boldsymbol{\beta_{3i}} \boldsymbol{INF_{t-i}} + \sum_{i=0}^{p} \boldsymbol{\beta_{4i}} \boldsymbol{INT_{t-i}} + \sum_{i=0}^{p} \boldsymbol{\beta_{5i}} \boldsymbol{XR_{t-i}} + \boldsymbol{c_1} + \boldsymbol{\mu_{1t}} (\mathbf{3.1}) \qquad (1)$$

Where: GDP_t is gross domestic product annual growth rate at year t;

INF_t is the real inflation rate in year t;

INT_t is the real interest rate in year t;

XR_t is the real exchange rate for year t;

B and c are the parameter estimates;

and μ is the residuals treated to be normally distributed.

3.1 DATA ANALYSIS

The objective of the study is to determine the relationship between foreign direct investment, inflation, Real GDP, real interest rates and the real exchange rates. The study checks for the integration properties of stationarity on time series. With the knowledge of stationarity of variables, causality test is carried to check for the direction of influence employing Granger causality test.

3.2 MEASUREMENT OF THE VARIABLES

Foreign direct investment is an investment owned and operated in an economy by an organization based in a foreign country. FDI stocks will be taken as a total level of investment measured annually. The FDI inflow stock is the value of the foreign investors' liabilities and assets transferred between resident direct investment enterprises and the foreign investors. It also covers transfers of assets and liabilities between resident and non-resident fellow firms if the ultimate controller is non – resident.

Inflation is the rate at which the general level of prices for goods and services rise and, as a result the purchasing power of currency falls, that is, a loss of real value in the medium of exchange. The consumer price index (CPI) for the specified period is used. CPI measures the ratio of the total cost of a given basket of goods today compared to a base period, holding prices constant. The study employs Laspeyres price index, whereby, 2010 will be set as the base year.

Laspeyres price index $= \sum(Pt) \times (Q0) / \sum(P0) \times (Q0) \times 100$ (2)

Where: P0 is the price of the basket of goods at the base period;

Pt is the price of the same basket of goods at the observation period;

and Q0 is the quantity in the basket of goods at the base period.

Economic growth is measured as gross domestic product. Real GDP is inflation adjusted market value of goods and services produced in an economy over time. Due to inflation, GDP increase does not reflect the true growth in an economy. Therefore, there is need to transform the nominal GDP into an index of total output (real GDP).

Real GDP = Nominal GDP/(R)   (3)

Where R is the GDP deflator givens as $nominal GDP / real GDP$

Exchange rate is the value of one economy's currency against the currency of another country. They are determined in the foreign exchange market, which is open to trade among economies therefore very useful in foreign direct investments. Exchange rates measured by the average of Kenyan shilling against the United States Dollar (KES/USD) exchange rate annually with control against inflation. The US dollar is taken due to the fact that most of foreign transactions are commonly quoted in the US dollar currency.

$Real exchange rate = nominal exchange rate \times prices of domestic goods / prices of United states$ (4)

The above variables are measured using the 2010 constant prices, the reason being that, the economic performance of Kenya in 2010 is considered to be the middle ground between high performance and low performances.

4.0 RESULTS AND DISCUSION

4.1 Stationarity Tests

Kwiatkowski – Phillips-Schmidt-Shin (KPSS) test is used to examine the null hypothesis, that a given time series is stationary. A time series with seasonality or trends usually results in unreliable estimates and, thus, spurious and misleading. KPSS tests are employs to testing the following null hypothesis

H_0: that an observable time series is stationary

The tests are carried out at 1% level of significance. The results for KPSS test are shown in table 1 below

Table 1: Stationarity Test

VARIABLE	ASYMPTOTIC CRITICALVALUES		KPSS TEST STATISTICSVALUE	REMARK
FDI	1% level	0.216000		Non-stationary
	5% level	0.146000	0.219422*	
	10%level	0.119000		
GDP	1% level	0.216000		Non-stationary
	5% level	0.146000	0.287885*	
	10%level	0.119000		
INF	1% level	0.216000	0.061200*	stationary
	5% level	0.146000		

	10%level 0.119000		
	1% level 0.216000		
	5% level 0.146000		
INT	10%level 0.119000	0.151035*	stationary
	1% level 0.216000		
	5% level 0.146000		
XR	10%level 0.119000	0.108431*	stationary

Asterisk (*) 1% level

Source: Author, 2021

The results in table 1 indicates that the null hypothesis that FDI is stationary is rejected as the KPSS test statistic 0.219422 is greater than the asymptotic critical value 0.216 at 99% confidence interval. Therefore, the study treats FDI as non-stationary. The null hypothesis that GDP is stationary, as well, is rejected as the KPSS test statistic 0.287885 is greater than the critical value 0.216 at 1% level of significance. The study, therefore, treats GDP non-stationary.

The null hypotheses that; INF is stationary, INT is stationary and XR is stationary are not rejected as the KPSS test statistics of 0.01612, 0.151035 and 0.108431 respectively are less than the critical test statistic of 0.216 at 1 % level of significance. The study, thus, treats INF, INT and XR stationary.

Non-stationary variables, if estimated, yield unreliable estimates and, thus, spurious and misleading. Given that the stochastic processes have a mixture of stationary and non- stationary variables, the study employs common logs on FDI and GDP to make them stationary as documented in table 2 below.

Table 2: Stationarity Test for Common logs

VARIABLE	ASYMPTOTIC CRITICALVALUES	KPSS TEST STATISTIC VALUE	REMARK
	1% level 0.216000		
	5% level 0.146000		
log(FDI)	10%level 0.119000	0.202273*	stationary
	1% level 0.216000		
	5% level 0.146000		
log(GDP)	10%level 0.119000	0.183780*	stationary

Asterisk (*) 1% level

Source: Author, 2021

The results in table 2 above showed that, the null hypothesis that, log (FDI) is stationary is not rejected as the calculated KPSS t-value 0.202273 is less than the asymptotic critical t-value 0.216000 at 1% level of significance. As well the null hypothesis that log (GDP) is stationary is not rejected as the calculated KPSS t-

value 0.183780 is less than the asymptotic critical t-value 0.21600 at 1% level of significance. This indicates that the common logs of FDI and GDP aretreats stationary.

The study employs common logs on all the variables except on interest rates as it contained negative values in its variables, whereas, common log is a non-negative factor. This is to increase the level of efficiency in the analysis.

4.2 GRANGER CAUSALITY

The objective of the study is to show the causal relationship between FDI inflows and the selected macroeconomic variables. The study employs Granger causality test to determine whether one time series is significant in forecasting another, through measuring the ability to predict the future values of a time series using prior values of another time series. The study observed two causalities for every pair of time series. That is,

H0: Y does not granger cause X

H0: X does not granger cause Y

Whereby the rejection of the null hypothesis is done at 0.1 level for the study to capture all the possible causalities. The null hypothesis is rejected on the basis that the calculated p-value is greater than the critical p-value (0.1) and, failed to reject when the calculated p-value is less than the given p-value (0.1).

Table 3: Pairwise Granger Causality Tests

Pairwise Granger Causality Tests
Date: 01/20/21   Time: 20:51
Sample: 1974 2018
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
log(GDP) does not Granger Cause log(FDI)	43	9.22417	0.0005
log(FDI) does not Granger Cause log(GDP)		2.71241	0.0792
log(XR) does not Granger Cause log(FDI)	43	2.70759	0.0796
log(FDI) does not Granger Cause log(XR)		1.51286	0.2333
log(INF) does not Granger Cause log(FDI)	43	1.99437	0.1501
log(FDI) does not Granger Cause log(INF)		3.88286	0.0292
INT does not Granger Cause log(FDI)	43	0.47347	0.6265
log(FDI) does not Granger Cause INT		0.45536	0.6376

Source: Author, 2021

Granger causality results in table 3 indicates that, the null hypothesis that log (FDI) does not granger cause log (GDP) is rejected as the p-value 0.0792 is less than the critical p-value of 0.1. The study, therefore, treats log (GDP) as a function of log (FDI) at 10% level of significance. The null hypothesis that log (GDP) does not

granger cause log (FDI), as well, is rejected since the p-value 0.0005 is less than the critical p-value 0.1 and the study treatslog (FDI) a function of log (GDP). This shows that there exists a feedback relationship between log (GDP) and log (FDI).

The null hypothesis, log (XR) does not granger cause log (FDI) is rejected at 0.1 critical p value as it is greater than the calculated p-value 0.0796. Thus, log (FDI) istreats a function of log (XR). The null hypothesis that log (FDI) does not granger cause log (XR) is not rejected as the calculated p-value 0.2333 is greater than the critical value 0.1 at 10% level of significance. This indicates a unidirectional influence of log (XR) on log (FDI).

Granger causality results between log (INF) and log (FDI) indicates that, the null hypothesis log (INF) does not granger cause log(FDI) is not rejected as the calculated p-value 0.1501 is greater than the critical p-value 0.1. Wherein, the null hypothesis that log (FDI) does not granger cause log (INF) is rejected as the critical p-value 0.1 is greater than the calculated p-value 0.0292, thus a unidirectional influence of log (FDI) on log (INF)

The null hypothesis that, (INT) does not granger cause log (FDI) is not rejected as the calculated p-value 0.6265 is greater than the critical p-value 0.1. As well, the null hypothesis, log (FDI) does not granger cause INT is not rejected as the calculated p-value 0.6376 is greater than the critical p-value of 0.1 at 10% level of significance. Therefore, there exists no causality between INT and log (FDI).

From the granger causality results, the following relationship is documented:

Log (FDI) = ƒ [log (GDP), log (XR)] (5)

The following VAR model (4.2) is obtained from the function (4.1).

$$\log(FDI)_t = \beta_0 + \sum_{i=1}^{p} \beta_{1i} \log(FDI)_{t-i} + \sum_{i=0}^{p} \beta_{2i} \log(GDP)_{t-i} + \sum_{i=0}^{p} \beta_{3i} \log(XR)_{t-i} + \mu_{t2} \qquad (6)$$

Where p represents the lags

From the VAR model above GDP and exchange rates are found to be important in determining the levels of foreign direct investment inflows in Kenya.

4.3 LAG SELECTION

The VAR model estimation requires an optimal lag selection. Therefore, an optimal lag was chosen to fit the model and this is done through the available lag selection criteria; logL, LR, FPE, AIC, HQ and SC lag selection criteria. Table 4.4 presents the VAR lag order selection criteria.

Table 4: VAR Lag Order Selection Criteria

VAR Lag Order Selection Criteria
Endogenous variables: log(FDI) log(GDP) log(INF) log(XR) INT
Exogenous variables: C
Date: 01/25/21   Time: 09:42
Sample: 1974 2018
Included observations: 40

Lag	logL	LR	FPE	AIC	SC	HQ

0	-303.7847	NA	3.489999	15.43923	15.65034	15.51557
1	-95.60096	353.9123	0.000372	6.280048	7.546708*	6.738032
2	-61.93314	48.81834	0.000256	5.846657	8.168866	6.686295
3	-40.83600	25.31657	0.000367	6.041800	9.419559	7.263091
4	-16.42840	23.18722	0.000534	6.071420	10.50473	7.674364
5	48.26693	45.28673*	0.000143*	4.086654*	9.575512	6.071251*

* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

Source: Author 2021

Form the results output in Table 4, the study employs Schwarz information criterion given that the criterion is more conservative on degree of freedom as it tends to choose lower order models. The information criterion advises a lag length of 1 as the optimum lag to be used in estimating the VAR models.

4.4 VAR ESTIMATION OF LOG (FDI) AS A FUNCTION OF LOG (GDP) AND LOG (XR)

The study estimated the VAR model in equation 4.9 and the results obtained shown in table 5

$$Log(FDI)_t = \beta_0 + \beta_{11}log(FDI)_{t-1} + \beta_{20}log(GDP)_t + \beta_{21}log(GDP)_{t-1} + \beta_{30}log(XR)_t +$$

$$\beta_{31}log(XR)_{t-1} + \mu_{1t} \tag{7}$$

Table 5: VAR Estimates for log (FDI)=f(log [GDP], log[XR])

Vector Autoregression Estimates

Sample (adjusted): 1975 2018

Included observations: 44 after adjustments

Standard errors in ( ) & t-statistics in [ ]

	log(FDI)
log(FDI(-1))	-0.032105
	(0.16604)
	[-0.19336]
C	-13.42108
	(3.13480)
	[-4.28132]
log(GDP)	6.201103
	(3.00583)
	[2.06302]

log(GDP(-1))	-4.190853
	(2.95676)
	[-1.41738]
log(XR)	4.977436
	(3.10755)
	[1.60173]
log(XR(-1))	-5.558262
	(3.10659)
	[-1.78919]

R-squared	0.606385
Adj. R-squared	0.554594
Sum sq. resids	51.96477
S.E. equation	1.169399

Source: Author 2021

The results in Table 5 indicate that the current year (t) FDI is not important in determining the level of FDI in the next year (t+1). This is arrived at as the calculated t-statistics, -0.19336, is greater than the critical t-value of -1.96 at the 5% level of significance hence the null hypothesis that $\beta_{11}=0$ fails to be rejected.

GDP is an important factor in influencing FDI instantaneously as the calculated t-statistics, 2.06302, is greater than the critical t-statistics of 1.96 for a positive relationship at the 5% level of significance, indicating that the null hypothesis that $\beta_{20}=0$ is rejected. Therefore, a 1 % increase in GDP leads to an instant increase in FDI by 6.201103% as indicated by the coefficient, thus, direct relationship. Whereas, GDP in current year (t) is not important in influencing FDI next year (t+1) as the null hypothesis that $\beta_{21}=0$ is not rejected given the calculated t-statistics -1.41738 is greater than the critical t- value -1.96 for an inverse relationship at 5% level of significance.

Instantaneous influence of XR on FDI is not important as the null hypothesis that $\beta_{30}=0$ is not rejected given that the calculated t-statistics, 1.60173, is less than the critical t-statistics of 1.96for a direct relationship at the 5% level of significance. As well, current year (t) XR is not important in determining the level of FDI in the next year (t+1) as the null hypothesis that, $\beta_{31}=0$ has failed to be rejected given the calculated t-value, -1.78919, is greater than the critical t-value of -1.96 for an inverse relationship at the 5% level of significance. The results reveal that the coefficient of determination (adjusted R-squared) of 0.554594 implies that 55.45% of the variation in FDI is explained by the explanatory variables in the model. The remaining variation is explained by lags and variables not included in the model.

The study finds a positive relationship of economic growth on FDI inflows. This is consistent with Gastnanga et al., (1998), Alcharaz (2003) and Njuguna 2013 who finds a positive relationship between economic growth and foreign direct investment inflows. The study, as well, is consistent with the literature as the findings are in approval with Wanjiru (2013) and Ndanu (2018) who finds inflation not being a determinant of FDI inflows in Kenya.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The objective is to show the causal relationship between foreign direct investment inflows and the selected macroeconomic variables. The causality test determines that foreign direct investment inflows is granger caused by economic growth (measured by gross domestic product) and exchange rates whereas inflation and real interest rate are insignificant in granger causing FDI inflows. The VAR estimates for the model, foreign direct investment inflows as a function of gross domestic product and exchange rate indicates that, current year level of economic growth is significant in determining the levels of foreign direct investments. The lag 1 values of foreign direct investment inflows and gross domestic product and the exchange rate are insignificant in determining foreign direct investment inflows.

5.2 Conclusion

From the findings, the study concludes that exchange rates and gross domestic products are the determinants of foreign direct investments. The study concludes that, current period's gross domestic product increase leads to an increase in the level of foreign direct investment inflows instantaneously. This indicates that a growing economy presents a conducive environment for attracting foreign direct investment inflows.

5.3 Recommendations

The study concludes that there exists a positive relationship of economic growth on FDI inflows. A rapidly growing economy shows an opportunity of enhancing income on foreign direct investment given that GDP indicates levels of economic performance. By attracting FDI, there is introduction of new technology, capital and cheaper production processes that lead to a rise in economic growth. Therefore, there is need for policies that enhance foreign direct investment through promoting the prospects of economic growth.

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