THE IMPACT OF FOREIGN DIRECT INVESTMENTS ON THE ECONOMIC GROWTH IN KENYA

A RESEARCH STUDY PRESENTED BY

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TO THE SCHOOL OF ECONOMICS IN PARTIAL FULFILMENT FOR THE AWARD OF THE DEGREE OF BACHELOR IN ECONOMICS AND BACHELOR IN ECONOMICS AND STATISTICS.

MAY 2012
ABSTRACT

This research paper looks at the relationship between Foreign Direct Investment (FDI) and Gross Domestic Product (GDP) per capita to ascertain FDI impact on the economic growth. GDP is the total market value of all goods and services produced in a country in a given year, it is divided by the population of a country to get GDP per capita. Its widely believed that FDI has great benefits which accrue to developing nations and Kenya is a developing nation. FDI affects the investment component of the GDP equation. High levels of investments are needed to spur capital formation in Kenya. Increase in FDI can help Kenya achieve this.

FDI is seen as a way of filling in the gaps between the domestic supply of savings, foreign exchange, government revenue, human capital and the desired level of investment necessary to achieve the desired level of growth in GDP and development in a country. FDI fills in the resource gap which exists in domestic investment levels in a country.

This research paper uses data that spans from 1980 to 2010 to look at the relationship between FDI and economic growth and establishing if changes in one variable cause a change in the other variable. The findings from our study shows there is a positive relationship between FDI and Economic Growth.