THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN

AZERBAIJAN STATE UNIVERSITY OF ECONOMICS

INTERNATIONAL GRADUATE AND DOCTORATE CENTER

MASTER DISSERTATION

ON THE TOPIC

“ASSESMENT OF THE İMPACT OF FOREİGN DİRECT İNVESTMENT TO THE MANUFACTURİNQ SECTOR İN THE KENYA ECONOMY”

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BAKI – 2020

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MASTER DISSERTATION

On the topic

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Elm andı

Mən, Faith Nangunda Wangila and içirəm ki, “Assesment of the impact of foreign direct investment to the manufacturinq sector in the Kenya economy” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

KENYADA İSTEHSAL SEKTORUNDA XARİCİ İNVESTİSİYA ƏMƏLİYYATLARININ TƏQDİMATI

XÜLASƏ

Tədqiqatın aktuallığı: İstehsal sektoruna birbaşa xarici sərmayə Keniyanın iqtisadi böyüməsi və inkişafı üçün çox vacibdir. Demək olar ki, bütün NİC ölkələri bundan istifadə etdikləri yerləri bu gün olduğu yerlərdə iqtisadi cəhətdən istifadə etdilər

Tədqiqatın məqsədi: Tədqiqat Keniyadakı FTİ-nin vəziyyətini müəyyənləşdiricilərə baxaraq istehsal sektorunda indiyə qədər nə edildiyini öyrənməyə çalışır. Tədqiqat, istehsal sektorunun yola getməməsinə səbəb olan əngəlləri tapmaq üçün çalışır. Bu tədqiqat, eyni zamanda, iqtisadiyyatın kənd təsərrüfatı və turizm olan ənənəvi sektorlarının azalması səbəbindən istehsal sektorunun vacibliyini vurğulayır.

İstifadə olunmuş tədqiqat metodları: Metod istifadə edilən tədqiqat dizaynı, case study və tarixi modellərdən istifadə etməklə keyfiyyət təhlili idi. Tədqiqatçı tezis vasitəsilə təsviri və deduktiv yanaşmadan istifadə etmişdir. Məlumat müşahidə və məzmun təhlili vasitəsilə toplanmışdır.

Tədqiqatın informasiya bazası: Bu tezisdə istifadə olunan mənbənin növü ikinci və üçüncü mənbələrdir. Buna görə tədqiqatçı şərhlərdən, elmi jurnallardan, jurnallardan, qəzetlərdən və internet saytlarından istifadə etdi. Əsasən ilkin və ikincili məlumatlardan şərh olunan üçüncü mənbələrə faktlar kitabı, bələdçi kitabçaları, indekslər və verilənlər bazaları daxildir.

Tədqiqatın məhdudiyyətləri: Əsas məhdudiyyət tədqiqat sahəsinin tədqiqatçının yaşadığı yer arasındakı coğrafi məsafə idi. Bu araşdırmaya faydalı ola biləcək məlumatların çoxu, bəzi ölkələr də Keniyanın "təsnif edildiyi" səbəbiylə mövcud deyildi, çünki bir ölkə bu yaxınlarda statistikalarını yığmağa başladı. Ondan əvvəl heç bir məlumat yox idi. Təhlil üçün dəqiq məlumat əldə etməyi çətinləşdirir.

Tədqiqatın elmi yeniliyi və praktiki nəticələri: Tədqiqatın nəticələri, həm Keniya, həm də FTİ və İstehsalatın üzləşdiyi problemin əslində zəif siyasət deyil, ölkənin mövcud siyasətlərinin həyata keçirildiyi müəyyən edilmişdir. FTİ-nin istehsal sektoruna təsiri korrupsiya, hökumətin siyasət və siyasi qeyri-sabitlik istəməməsi səbəbindən çox olmamışdır. Nəhayət, hökumət istehsal sektorunu inkişaf etdirmək və böyüməni stimullaşdırmaq üçün geyim alt və polad alt sektoruna daha çox diqqət ayırmalıdır.

Nəticələrin istifadə oluna biləcəyi sahələr: Nəticələr bu mövzuda daha çox yazmaq istəyən alimlər, iqtisadiyyatı inkişaf etdirmək istəyən hökumət, Keniyaya investisiya qoymaq istəyən xarici investor və çevrilmədə iştirak etmək istəyən geniş ictimaiyyət üçün əhəmiyyətli olacaq.

Açar sözlər: Fdı, Keniya, istehsal sektoru, Keniya vision 2030, böyük dörd gündəlik.

ASSESMENT OF THE İMPACT OF FOREİGN DİRECT İNVESTMENT TO THE MANUFACTURİNQ SECTOR İN THE KENYA ECONOMY

SUMMARY

The actuality of the subject: Foreign Direct Investment in the manufacturing sector is very important for economic growth and development of Kenya. Almost all the NICs countries have used this model to be economically where they are today.

Purpose and tasks of the research: The research seeks to find out the state of FDI in Kenya by looking at the determinants and establish what has been done so far in the manufacturing sector. Also the research seeks to find out the main hindrances that are making the manufacturing sector not to take off. This research also highlights the importance of the manufacturing sector due to the imminent decline of the traditional sectors of the economy which are Agriculture and Tourism.

Used research methods: Method The research design used was qualitative analysis using case study and historical models. The researcher used descriptive and deductive approach through the thesis. Data was collected through observation and content analysis.

The information base of the research: The type of source used in this thesis is secondary and tertiary sources. The researcher therefore used commentaries, scientific journals, magazines, newspapers and internet sites. The tertiary sources which are basically interpreted from primary and secondary data include facts book, guidebooks, indexes and databases.

Restrictions of research: The main restriction was geographical distance between the areas of the research the place of residence of the researcher. Most of the data that would have been beneficial to this study were not available due as some were "classified" also Kenya as a country had started collecting their statistics just recently. Before that there was no data. Making it hard to obtain the exact to data for analysis.

The novelty and practical results of investigation: The results of the research were established that the problem facing both FDI and Manufacturing in Kenya were not actually weak policies but implementation of the policies that the country already has. The impact of FDI in the manufacturing sector has not been much due to the corruption, unwillingness from the government to implement policies and political instability. Lastly, the government should put more emphasis on the clothing subsector and the steel subsector to improve the manufacturing sector and stimulate growth.

Scientific-practical significance of results: The results will be significant to the scholars who would want to write more on this topic, the government who would like to improve the economy, the foreign investor who might want to invest in Kenya and the general public who might want to be involved in transforming the country.

Key words: FDI, Kenya, Manufacturing Sector, Kenya Vision 2030, Big four Agenda.

ABBREVIATIONS

BAT	British American Tobacco
CBK	Central Bank of Kenya
CIF	Cooperate Finance Institute
EABL	East African Breweries Limited
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
GoK	Government of Kenya
KNBS	Kenya National Bureu of Statistics
LAPSSET	Lamu Port and Southern Sudan-Ethiopia Transport Corridor
MNC	MultiNatinational Company
MoITED	Ministry of Industrialization, Trade and Enterprise Development
NICs	Newly Industrialized Countries
OECD	Organization for Economic Co-operation Development
TVET	The Technical and Vocational Education and Training
VDS	Vision 2030 Delivery Secretariat

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INTRODUCTION

Relevance of the research topic: The topic seeks to improve the Kenyan economy of the country so as to achieve the vision 2030 of becoming a middle income industrialized country. This could only be done through foreign direct investment, and the most promising and sustainable sector of the economy is manufacturing. Therefore the topic seeks to find out so far what has the country done to attract FDI for the manufacturing sector and what has been done so far in the manufacturing sector to stimulate economic growth needed to achieve the vision 2030 of becoming a newly industrialized middle income country.

Statement of the problem and learning level: Kenya has already been upgraded to a lower middle income country. There is a danger for the country to experience the 'middle income trap' whereby the economy just stagnates. Also the country main pillars of economy which are Agriculture and tourism have not been stable and in the future they might be able to sustain the economy. Also due to the desire of the country to be industrialized. These two sectors cannot be used as a roadmap to help the country achieve their goals.

Agriculture is not sustainable for the country to depend on it as core sector of the economy. The main reason includes increasing erratic climatic changes. In the recent past there has been a lot of floods and prolonged drought. Recently there has been an invasion of desert locust which has been ravaging the country's agriculture. This has affected the productivity of the produce mostly in the horticulture industry which Kenya depends on exports. Another problem experienced by this sector is fierce competition from other countries such as China and India in the main export which is tea. China for example, uses better technology and has more trade connections and bargaining power than Kenya, This has led to the loss of some of her market share in the world market. Also due to population influx most of the land is now being used for settlement rather than agriculture. Tourism is among the main pillars that the VDS thought will play a major role in industrializing the country due to revenues. However there have been more and more terrorist attacks which have made the many countries to issue travel alert against Kenya. The places where the government thought of upgrading to woo more tourists are now the breeding ground for terrorist. Also weather conditions the erratic weather conditions such as flooding and drought have also affected the tourism industry.

There is a need to diversify the economy. In as much as the Kenyan economy is relatively diversified. Manufacturing sector is one of the best sectors that the government could stimulate to bring growth and prosperity to the Kenya Economy. Manufacturing sector is one of the sector the almost all the generations of NICs countries used to became industrialized.

Manufacturing is a capital intensive sector. Almost all the NICs country developed their manufacturing sector through FDI as most of them were poor. Through good leadership and government policy. These countries were able to build their own economy and diversified and were even able to come up with their own MNCs. Looking at the example of the Asian tigers rapid economic growth. Also the industrialization revolution in Europe started in with moving away from agriculture to manufacturing.

As seen above for Kenya to enhance her manufacturing sector there is need for FDI. This research will therefore look at the determinant of FDI to assess what Kenya has or has not done to attract FDI into the country. This research will also assess the manufacturing sector and look at the policies to see what has or has not been done.

Purposes and objectives of the research: The purpose of this research is to assess the economy of Kenya’s growth, prospects and problems and ways in which Kenya can strategically position herself to attract foreign direct investment.

The research also highlights problems facing the manufacturing sector and provide some solutions and recommendation.

Object and subject of the research: The subject of this research is FDI, Manufacturing sector and the Economy of Kenya. The subject of the research includes interdisciplinary subjects such as International Relations, World Economy, International Trade, growth and development among others.

Research methods: The research design used was aligned with the mixed method scientific approach. The researcher used descriptive and deductive approach throughout the thesis. Data was collected through observation, archival materials and online sources. The researcher analyzed the data through used using content analysis and longitudinal models of research.

Research database: The type of source used in this thesis is secondary and tertiary sources. The researcher therefore used commentaries, scientific journals, magazines, newspapers and internet sites. The tertiary sources which are basically interpreted from primary and secondary data include facts book, guidebooks, indexes and databases. The researcher also used official government documents and also websites for analysis.

Research limitations: The main restriction was geographical distance between the areas of the research the place of residence of the researcher. Most of the data that would have been very beneficial to this study were not available as some were "classified" government materials. Kenya as a country had started collecting their statistics just recently. Before that there was no data. Making it hard to obtain the exact to data for analysis. The scope of the study was only limited in the manufacturing industry in Kenya and also financial constraints to undertake the research.

Scientific novelty of the research: the impact of FDI in the manufacturing sector has been very minimal.This can be mainly be caused by the periodical political instability that is caused occurs mainly during the electioneering years.Foreign investors usually seek locaions that are secured not only for their lives and also for the sustainablity of their businesses.Kenya has very good laws already already enshrined in the new constitution.Also been in place to attract foreign direct and the country has also planned for the future of the country through the vision 2030 and the big four agenda.

However there has been alot of delay from the government. In such that most of the projects that were set aside by the governent which some of them were to be completed many years ago.The main aim of this projects were to initiate the process of growing the economy especially the manufacturing sector.This has not been implemented due to lack of capital to invest in the sector.The capital can only came from the foreign direct investors.

As seen in the exaples of the Asian tigers, there is a positive corelation between the the growth of the manufactuirng sector and the economic growth.Therefore, it is very essential for the governement to ensure that there is lasting peace and security in Kenya not only for the the wellbeing of the general population but to attract foreign direct investment which is very vital for the growth of the manufacturing sector and the economy at large.

Scientific and practical significance of the results: The results will be significant to the scholars who would want to research more on this topic, the government who would like to grow the economy and to improve the lives of their citizens, the foreign investor who might want to invest in Kenya and the general public who might want to be involved in transforming the country.

CHAPTER I. CONCEPT AND NATURE OF FOREIGN DIRECT INVESTMENT

1.1. Introduction

The dissertation will majorly focus Inward direct investment which focuses on the host country/ recipient country rather than what the foreign investor/ sending country stands to benefit (World Bank, 2017). This chapter gives a description of foreign direct investment in details. The detailed description of the term foreign direct investment is very vital as it is the backbone of the whole dissertation, providing the missing link between economic growth and the manufacturing sector in Kenya.

Therefore, this chapter will describe the different types, approaches, modes and motives of foreign direct investment. In the literature review, the chapter will analyse different scholarly work, experts and official journal views on the topic. This will be divided into three globally, regionally (Africa) and the nationally (Kenya). The chapter will conclude by looking at examples of countries that achieved economic prowess through FDI in the manufacturing sector to give a perspective of the importance of this thesis to Kenya and other developing countries by extension.

1.2. What is foreign direct investment?

FDI as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise) (IMF, 2003). Investopedia simply puts it as an investment made by a firm or individual in one country into business interests located in another country. Foreign direct investment must have a lasting interest thus differentiating it from portfolio investments (CIF, 2015).

It's not all about fully controlling an oversea company but also, having a voting share of 10% or more, is enough to define the relationship as FDI (IMF, 2003). The aim is not only to have a lasting interest and have a significant amount of voting power but also to have dominance in the managerial position (Duce M, 2003).

Foreign direct investment can be done by the following foreign investors which include; an individual, a corporation, a public enterprise, a private enterprise. Government enterprises, trusts, societies or combinations of some of them. However, they are categorically divided into four depending on the amount of voting power they possess (Duce M, 2003 p 3) (OECD, 2009). They include namely:

1. Direct investment enterprise
2. Subsidiary
3. An associate
4. A branch

1.3. Types of foreign direct investment

Different sources have different interpretations of types of foreign direct investments (Amit K, 2010). There are those who describe foreign direct investment in terms nature of business/approach, mode of entrance etc. (EDUCBA, 2020). Others define foreign direct investment types into majors and minors. Whereby brownfield and Greenfield are the main types followed by minor types such as vertical, horizontal, platform and conglomerate (Business Matters, 2019). Yet others give only two types of foreign direct investment which are only horizontal and vertical (CIF, 2015). Therefore due to the many difference and variations in the categorizing of types of FDI. The researcher opted to derive from the many variations a framework personalizes specifically for this particular research and within also the laws of investment in Kenya.

1.3.1. Approaches to FDI

There are different approaches of FDI namely horizontal, conglomerate, platform and vertical FDI (CIF, 2015). Horizontal: is whereby, a firm from country A expands a business and chooses to do business in another country B performance similar business in Kenya such MNCs include KFC, BAT company, Standard Chartered Bank, Serena hotels, Google, Oracle among other international companies.

Vertical approach is whereby a firm in country A does business In country B but at different capacity not exactly what the mother company is doing but rather or maybe provide a service needed for the firm in country A to function. Most of this in done through investment in natural resources which provide raw materials such as titanium in Kwale, Mombasa.

Conglomerate FDI is whereby a firm or individual invest in another country but a different trade than the one than they are doing in the mother country usually done through mostly joint ventures. Such examples in Kenya include Safaricom PLC, EABL and Unilever Kenya among others (Investopedia, 2020).

Platform foreign direct investment is whereby foreign investor uses a country to produce a product which is to be sold in a third country. This is mostly popular in the clothing industry in countries such as Bangladesh, Vietnam and china. These clothes are later sold in other countries mostly the developed countries. Such companies include Zara, Nike and Adidas. Another example is Investors from USA (Apple) Invest in other countries like China who can provide plenty of cheap skilled labor due to their population and has favorable laws which is conducive for FDI. The Apple Electronics manufactures in China are in turn sold to other countries or resold back to the USA.

Figure 1: Platform foreign direct investment

Source:https://corporatefinanceinstitute.com/resources/knowledge/economics/foreign-direct-investment-fdi/

In Kenya, such MNCS are mostly found around the EPZ area in Athi River such include manufacturing sectors such as lather tanning, apparels and other agricultural products such as tea and flowers which are processed in here only to be sold in other countries.

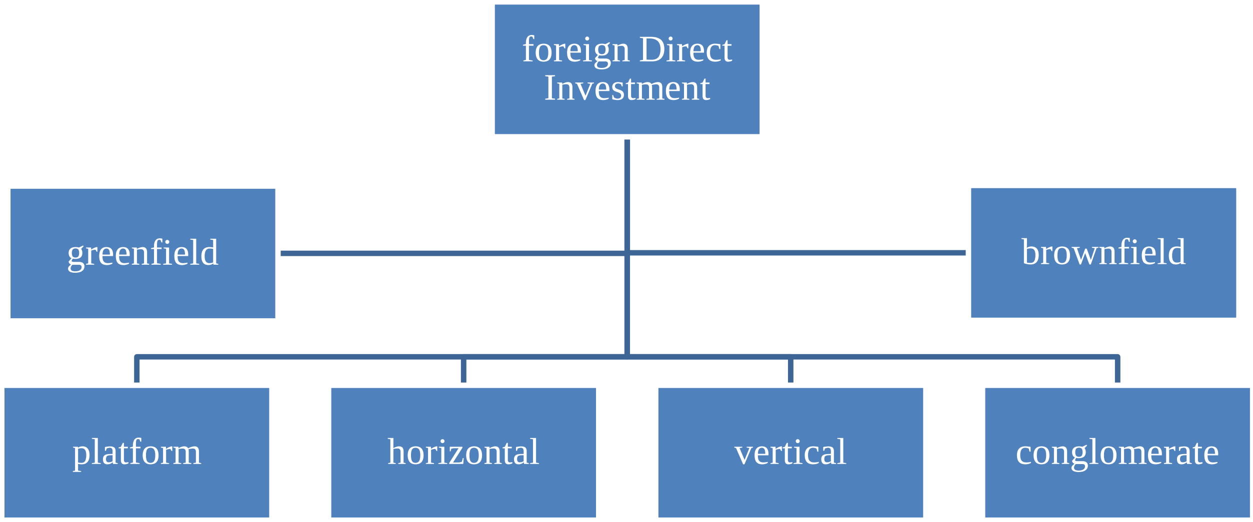
Del monte and Bata are also great examples of platform FDI in Kenya. Del monte an American company is a great example of whereby they invested in the Kenyan agricultural sector due to availability of large tracts of land and cheap labour whereby thy grow variety of fruits for juices which they will later sell to other countries. BATA a Swiss footwear company, is also another good example of a company which has set a company in Limuru, Kenya because of the availability of cheap labour and raw material thus they manufacture wide range of lather products which they later sell to other countries.

Greenfield FDI is whereby foreign investor invests in foreign countries but builds everything from scratch such as looking for vendors, building etc. This gives an opportunity for the investors to build the company matching their standards. This is gives the firm opportunity to control the supply chain and gives room for future expansions (Coesera, 2015). These types of investment are mainly determined by the state and attractiveness of the host nation in matters such as state laws and political landscape of the host country.

The Brownfield whereby the foreign investor will partner with a local company to establish a company. This might be to reduce the risks that the foreign investor might incur. They can do this by partnering with a local company through equities or lease part of their facilities. This can be made possible by reasons such regulation by the government in countries such as India and china (ibid 1).

It might also be beneficial to the foreign investors as the local companies will do the groundwork for them which they might be not familiar with the culture or the laws of the country, such include translation, licenses, location logistics, hiring and etc. Some of other advantages are: they will be able to maintain or appeal to the consumers as a firm that is not that is not that foreign and they are able to maintain local market. It is also very easy and faster for them to enter the market. In Kenya such Kind of example includes Safaricom who when first entered the market they partnered with Telkom Kenya a government company.

Figure 2. Types of Foreign Direct investment



Source: Author's own creation

1.3.2. Motive for foreign direct investment

According to neoclassical economics, firms are looking for a cheaper ways to produce so as to get higher profits, Even if it means to reduce cost of production, through cheap labor etc. as long they are able to maintain profits, which is the main if not the sole purpose of investors (Dunning H., 1993).

The main motives of these types of FDI include

a) market seeking
b) efficiency seeking
c) strategic assets seeking
d) Resource seeking

<u>Resource seeking</u>

There are different types of resources such as Land resources which include natural resources such as oil and gas which are the most common and most sought after natural resources. Others include precious metals such as gold, diamonds, uranium, cobalt among others. Other land resources include trees which can produce various things such as medicine, timber etc. Water also is another form of natural resources.

Another resource includes human resources to provide either physical labour or mental skill depending on the needs the firm. A firm might need cheap labour as their own countries might have high labour costs with strong labour laws and powerful trade unions. Then they may decide to go to developing countries where there is a lot of population cheap labour, weak labour laws and weak or non-existent trade unions. The firm might need skilled or semi-skilled labour which also might determines their location of investment. Human resources is one of the main motivators of both service sector and manufacturing industry (Kudina A and Jakubiak M, 2008).

These resources or factors of productions are sometimes not in their own country or they can find it in other country but at a lower cost, or but are found in other countries which are very beneficial to their home country or they can sell to other countries for profits or to have an edge in the overall global competition (Amit K, 2009).

Market seeking

If the firm is to make profits then it needs market. There are many factors that influence the markets this includes marketing strategy, to have its presence near competitors and be able to have a larger global market share, to enter a new market as they might have potential new customers (Kudina A and Jakubiak M, 2008).

Efficiency seeking

Economy of scale is very important in efficiency of the running of the company. The foreign investor seeks a market that has offers flexibility in such a way that they are able to go about their business smoothly at the same time make profits. The firms therefore, (ibid1) will look into countries economic policies incentives among other factors.

Strategic asset seeking

Business if normally very competitive therefore a company might simply just want to dominate a specific asset and deter their competitor. Therefore they might look for an asset that is needed for their competitors and buy it or lease it so that their competitors would not have access to it. Such assets include land for agricultural MNCs or natural resources such as oil fields. This plays a major role in determining attraction of foreign direct investment. For a firm to be able to function. These strategic assets might include infrastructure such as roads, building etc.

1.3.3. Mode/strategic/methods

This refers to in what manner a firm or an individual would able to enter a market to ensure that their motive is met. This is mainly done through increasing the voting share of the company. Different countries have their own standards and procedure regarding the percentage of ownership that an MNC or foreign investors might get due to the own internal politics or the sensitivity of the sector in question. The following are the main strategies of a company to enter a prospective market. This includes:

1) Equity joint ventures
2) Contractual joint ventures
3) Wholly foreign owned enterprise

Join ventures is whereby companies have to came together to achieve their business goals most of the time is due to the fierce competition by their competitors (Cytonn, 2020). This will enable them have a wide market share; complement each other in their different contribution. In Kenya, this is mostly common in the real estate and the manufacturing sector. In real estate, foreigners are not allowed by law to own land for more than 99 years. Therefore, it is easier for them to use these two methods of FDI to enter this market especially during this time of real estate boom and prospective manufacturing sector (Olingo A, 2016).

The two types of joint ventures include Equity joint ventures and Contractual joint ventures. Equity joint ventures are the most common strategies although other modes also are equally gaining prominence in this competitive globalized era. Equity joint ventures occur when the company buys stakes of an existing or a newly created firm. In, a separate legal entity is created under which various parties provide for the required resources to fulfil their objectives. Most of the investing company of individual are required to buy 25% of the stakes in the company in countries like China. This type is the most common as it has more the least risks as they share the losses and profit according their percentage investment and they are able to engage in various other activities (Beijing, 2020).

Contractual Joint Venture, most of the time is not permanent therefore just for a short while. Like the name suggests, there is a contract which stipulates all manner of their business engagements, depending on their agreement they both parties have signed. This includes how the business will be run from management, marketing to the aftermath of termination of the business contract. In such a case the local companies or the government my provide land, buildings or logistics while the investors may provide capital and sometimes of managerial skills and others. (ibid 1) (Olingo A, 2016).

The difference between this contractual joint venture and Equity joint ventures the latter contribution cannot be converted to shares. They can also not share liabilities of the as one, each has their own. This is easy for the investors who want flexibility. Wholly foreign owned enterprise is where by a company is owned fully by foreign investors. This gives them room to implement their managerial control on the business.

1.4. Literature review

1.4.1. Global foreign direct investment and its impact in the manufacturing sector

There is a correlation between countries who invest expansively in other countries they tend also be reciprocated by also receiving more FDI (Lipsey R, 2000). Developed countries are the only countries that are rich enough to be able to benefit from this FDI. Trade usually rotates among this countries. From the top ten countries who has the highest FDI outflow almost three of them still are among the top ten countries with the highest FDI inflows, they include USA, Hong Kong, China and France (Plecher H., 2019) (Hananto A., 2020).

Due to globalization FDI has become on the most leading engine in development and economic growth of many countries as much as it was not always like this before the 80s.There are many variables that are considered before choosing a country or a region in which a firm decides to invest in that particular region. Also warns that FDI is not the ultimate solution to underdevelopment on the contrary it simply aids in growth (Balasubramanyam V., 2002)

The world is very competitive, All countries are self-seeking each looking out for their own interest. That is the unspoken rule of the International relations and Trade. Therefore it does not really matter if a country is developed or developing. Each must strive to attract FDI for their growth of their economies (Nyamwange M, 2007).

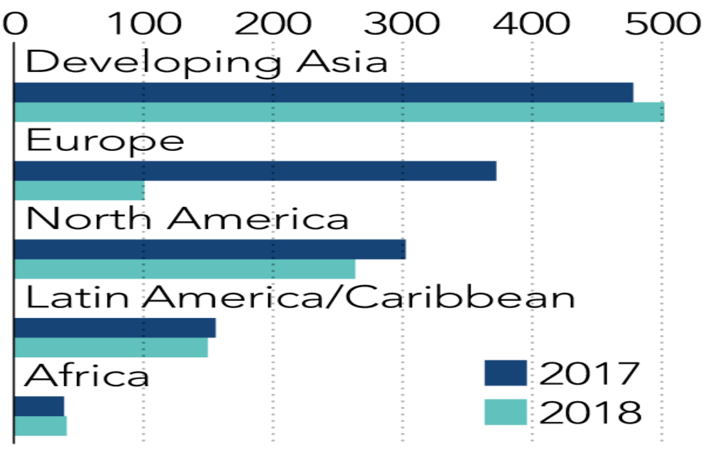
UNACTAD notes that there has been a significance increase of more 1000 EPZs across the world in the at least 5 past years this is due to the need to attract FDI to their countries and fierce competition between countries. They also note the FDI that this EPZS are actually not only for the traditional manufacturing sector. Mukhisa Kituyi head of UNCTAD, warns that countries should infect be careful while investing in EPZs so that it does not became wasted resources (UNACTAD, 2019). What we call the industrialized or developed country today started with manufacturing sector which had a ripple effects to other sectors and led to emergence of new sectors such as technology and others (Otieno D, 2018).

Writes that in the FDI boom in the 80s not only directly promotes economic after looking at the analyzing the economies of 10 Asian countries such as mainland china, they credit the boom to foreign direct investment in the manufacturing sector (Li X, & Liu, 2005).

Asia is the world's largest FDI recipient, they received 39% of global inflows in 2018, up from 33% in 2017 followed by Europe, and North America the least recipient is Africa. This is credited to their positive economic outlook. Asia is credited to have 4000 of the 5,400 special economic zones (SEZs) in the world. China leading the pack with more than a half (2,500) (UNCTAD, 2019).

These zones are industry specific depending on the vision and the capabilities of the country. Some attract manufacturing industries, Natural resource processing, or technology-intensive industries and services, to support countries' structural transformation. South East Asia seeks to attract manufacturing sector. These countries include Singapore, Indonesia, Vietnam and Thailand (ibid 1).

Graph 1: FDI inflows by regions in billion dollars



Source: https://www.statista.com/statistics/963936/fdi-global-inflows-region/

Manufacturing sector is the engine that's started industrial revolution in most of the European countries. This industrial revolution started in Britain which later on spread to other countries like USA, France and Germany. Industrial revolution happened when this countries who today are referred to highly industrialized countries moved from being an agricultural state to a manufacturing countries in the in the 1820s (Otieno D, 2018)

Technically, this makes Africa to be more than 100 years behind the developed European countries. The NICs also used this approach especially the Asian Tigers during the 80's who also developed through not only through manufacturing but also through the heavy inflow of FDI. Therefore, with this in mind there is a need to initial an aggressive approach to the manufacturing sector in all African countries to be specific in Kenya.

1.4.2. Regional (Africa) foreign direct investment and its impact to the manufacturing sector

Africa is rich in both natural resources and human resources. Geographically it is the second largest continent after Asia. Africa is endowed with numerous types of natural resources. These resources include precious minerals and metals such as uranium used for nuclear energy, gold, stainless steel, aluminum cobalt among many others. Africa has a population of 1.3 billion people within her 54 states (Jacques M., 2000).

Africa has one the youngest population and also fastest growing population around the world. And is said to have one of the fastest growing economies in the world. The continent is divided using trade blocks such as Western Africa, Eastern Africa, Central Africa, Northern Africa and Southern Africa (National Geographic, 2019).

Adesua writes that in as Much as in the recent decades there has been a lot of movement of foreign direct investment globally. Africa does not have the access to the international capital markets therefore they have to depend on FDI or loans. However, not much FDI has been received in Africa (Adesua E, 2002). Unlike her other counterparts such as Europe, Americas and Asia. She attributes this to low income levels and low saving levels affecting the macroeconomics of the countries across the continent. Therefore there is no enough money to supplement what is needed for growing the economies (Adesua E., 2012 p.329).

S. Ibi Ajayi writes that in as much as one of the most parts of Africa have numerous natural resources and availability of cheap labour it stills lags behind other continents and occupies a very small percentage in the global scene (S. Ibi Ajayi, 2000). The myriad of explanations varies though he agrees with Adesua E. that there might be some biasness against Africa because of its risks. There are reasons forwarded by various scholars of why this is so. Some of the reasons include unconducive environment, unskilled labour, and political instability in most of the countries especially where there are precious metals such as gold and diamonds (Adesua E., 2002).

Countries that receive a significant amount foreign direct investment in Africa include Egypt, Nigeria, Angola and South Africa. The FDI in Africa is mainly the in the mineral resources. For example FDI in the mineral resources in Africa accounted for about 36% of the total FDI received in the year 2018.This means that countries with no natural resources especially in Africa have a very limited chances of attracting FDI. The recent days there is some diversification whereby, there is also some FDI in the manufacturing sector and service sector (Africa Attractiveness Report, 2019).

SSA governments have put in efforts to try and attract FDI to the extent of partnering with NEPAD to attract FDI but to no avail, but their efforts have borne no fruits (Nyamwange M., 2007 p 15). Adesua E After analyzing the determinants of the foreign direct investment (which are the policies put up by the government) to understand there measure of effectiveness. She concluded that most rating companies rate the continent as Risky and the final reason she says is that general unfamiliarity of many other countries especially the western countries who are mostly the investors. She also refutes the idea that infrastructure influences FDI, she gives an example of Nigeria and extraction of oil in the most remote places with no access to electricity or roads but still they are among the top recipient of FDI in the continent (Adesua E, 2002 221).

FDI in africa is mostly connected to historical and colonazation ties mostly the the Fracophone countries.The colonial masters are usually the highest contributor of FDI in their former colonies. Whch most of the time, there ay of doing business has been termed as more of neo-colonialism rather than business investment.However this is gradually changing due to globalizaton especially with China who has becomeone of the top sources of FDI in the continent.Also due to the rise of the the panafricanism and developent of education and changing leadership across Africa. most of the the SSA countries are now looking for other foreign investors not just their traditional partners.

Table 1: Foreign direct invetsment overview in Africa

Foreign direct investment (FDI) overview, selected years

(Millions of dollars and per cent)

FDI flows	2005–2007 (Pre-crisis annual average)	2015	2016	2017	2018	as a percentage of gross fixed capital formation 2005–2007 (Pre-crisis annual average)	2016	2017	2018
Africa									
Inward	**38 375**	**56 874**	**46 482**	**41 390**	**45 902**	**14.0**	**9.8**	**8.7**	**9.4**
Outward	***7 103***	***9 654***	***9 497***	***13 252***	***9 801***	***2.5***	***2.0***	***2.8***	***2.0***
Memorandum									
North Africa									
Inward	18 768	12 256	13 833	13 353	14 307	17.4	8.4	8.9	9.3
Outward	*2 275*	*1 364*	*1 514*	*1 384*	*2 218*	*2.1*	*0.9*	*0.9*	*1.4*
West Africa									
Inward	7 909	10 185	12 721	11 194	9 565	14.6	12.1	11.3	9.4
Outward	*784*	*2 224*	*2 188*	*2 171*	*2 367*	*0.8*	*2.0*	*2.2*	*2.3*
Central Africa									
Inward	2 898	8 307	5 390	9 102	8 848	18.8	18.6	32.1	28.5
Outward	*65*	*333*	*290*	*291*	*171*	*0.4*	*1.0*	*1.0*	*0.5*
East Africa									
Inward	2 864	6 873	7 694	8 665	8 966	12.9	11.1	11.3	11.2
Outward	*105*	*353*	*196*	*347*	*254*	*0.5*	*0.3*	*0.5*	*0.3*
Southern Africa									
Inward	5 935	19 254	6 844	- 925	4 217	8.0	6.5	-0.8	3.6
Outward	*3 875*	*5 379*	*5 308*	*9 058*	*4 791*	*5.3*	*5.0*	*7.6*	*4.0*
World *									
Inward	1 414 425	2 033 803	1 918 679	1 497 371	1 297 153	11.4	10.2	7.5	6.0
Outward	*1 450 912*	*1 682 584*	*1 550 129*	*1 425 439*	*1 014 173*	*11.7*	*8.3*	*7.1*	*4.7*

Source: https://unctad.org/sections/dite_dir/docs/wir2019/wir19_fs_ke_en.pdf

Of all the sub regions of Africa, East Africa is the lowest recipient of FDI. Compared to its other counterparts exhibited the lowest in-flow of FDI when compared to other African Regions, in as much as they have they have a relatively better policies compared to the rest of the regions. They also have relatively well developed integrated community in such as they share the same language among other reasons (Karau J. and Mburu T., 2016).

As of 2019 Africa is the only region that has continued to experience a continuous growth in FDI three years in a row as the global graph continues to slump. The investment is still on minerals such as gold. In the year 2013 to 2017, China has increased her FDI in the continent by 65% becoming number three investor which is led by France and Netherlands (Aljazeera, 2019).

1.4.3. National (Kenya) Foreign direct Investment and its impact to the manufacturing sector

Kenya faces a very tough competition not only regionally but also from developed countries such as China, USA and others. There has been a downward trend of foreign investment in the country in his analysis (Nyamwange M, 2007). Foreign Direct Investments is one of the most important tools that the Kenyan government can use to stimulate growth. There are many benefits that emanates from FDI such as bringing foreign capital exchange, technological advancement, improvement of skills and others. This is very crucial especially for the manufacturing sector (Ateng B. and Arunga R., 2017).

Kenya actually is considered among the best contenders with many experts and industry players, to follow the steps of the Asian tigers in terms of economic growth spurred by manufacturing sector. At least of the four presidents of Kenya, three presidents of them prioritized manufacturing sector just under different names. As evidenced in the regional level not many SSA countries have invested heavily on the manufacturing. Evidenced in the global perspective most countries grow by investing in the manufacturing sector (Ndemo B., 2019).

Kenya has received FDI worth $1.6bn in areas manufacturing, hospitality and chemicals. This is attributed to the countries openness to receive investment. (Therefore the study will continue in chapter 2 looking at determinants of FDI and the economy and in chapter 3 the researcher will look at the correlation between FDI and the manufacturing sector and what Kenya stands to achieve by investing in the manufacturing sector. Also the researcher will also look at some of the examples of the other countries that have grown their economies through (Aljazeera, 2019).

1.5. Effects of FDI in Selected Countries' Economies and theoretical framework

1.5.1. FDI Theoretical Framework

UK essays defines Internalization theory definition as "*the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries*." (Beamish, 1990 p. 77). The transfer is its intangible assets to make company more profits abroad (Yeung B., Morck R., 1993). To this intangible assets can be transferred either vertically or horizontally (Hennart J.F. 1982). From the Internalization theory, another theory comes up with a combination of the three other theories thus being called The Eclectic Paradigm theory. The theory is also known as OLI framework theory. The three theories are ownership advantage theory, location advantage theory and Internalization advantage theory. For a firm to consider investing in another country they must take into consideration the OLI framework (Low S. P, & Jiang H. 2006).

From the Internalization theory, Ownership advantage puts across reasons as to why not all companies can afford to do business in other countries while others cannot One of the main tenets of this theory is that fruitful international companies has company -specific advantages which allow them to overcome the costs of operation in another country. Ownership advantage answers the question why company A can invest in company country X and why company B cannot invest in the same country (Dunning, J. H. 1973).

Location advantages focus on the question of where a company's chooses to locate. This is where the company looks at aspects available in a geographical place. Such include market available, efficiency and resources at their disposal (Makoni P.L, 2015).

Internalization advantages influence how a firm chooses to operate in a foreign country. It must be more profitable for the firm. The firm may decide to invest in foreign countries or they might decide to outsource services in that country if it makes economic sense to them. This OLI framework is unique to each firm.

Ownership advantage puts across reasons as to why not all companies can afford to do business in other countries while others cannot. They consider if the country has an open economy, f they have working institutions that governs their business among many others. Dunning, J. H. and says that a successful foreign companies has company -specific advantages which allow it to overcome the costs of operating in another country. Location advantages focus on the question of where a company's chooses to locate. Finally, internalization advantages influence how a firm chooses to operate in a foreign country (Dunning, J. H, 1973).

According to wilhems and Witters' Institutional foreign direct investment fitness theory. A country has a mandate to create a conducive environment in the country that is suitable for the attraction and retention of FDI. It is the country's internal measure to ensure that the investors' expectations are met (Wilhems and Witter 1998).

This is the main idea of most Asian countries took to ensure that they still maintain the foreign direct investment for their development. They opened their economies, put the right government and institutional structure. They also came up with their own economic model for their own economy that has enabled them to achieve the great economic strides.

Looking at many other progressive countries today most were able to do so using the manufacturing sectors enabled by foreign direct investment. Numerous research suggests that the main sector of economy that can improve the overall economy of Kenya is the manufacturing sector. Due to economic issues in the county and financial constraints that the country is facing including shortage of technological know-how of improving their manufacturing sector. Therefore, there is need attract foreign direct investment to the country especially the manufacturing sector.

The growth of Malaysia to an economic powerhouse is due to foreign direct investment. The economic growth that took place is referred to East Asian miracle. Which saw most Asian countries achieve great strides in terms of economic growth. Using the OLI framework theory both countries attracted FDI for economic growth.

He suggests that the difference is that Kenya did not have the right economic policies to accelerate the economy. Therefore, there is need to review the Kenyan economic policy (Kinuthia B, 2017).

Attributes Malaysian economic is attributed to growth to their open economic policies mostly during the 80's however during this time Kenya was still grappling with the structural adjustment programmes and political tension; and to by extensions the rest of Africa. It is also worthwhile to know that most Asian countries refused the Structural adjustment programs and came up with their economic models which attracted more foreign direct investment as most African countries were still dealing with internal disputes, unrest and economic readjustments. Which was to some extent an opportunity for most Asian countries who took the opportunity with both hands.

1.5.2. The Four Asian tigers

They include South Korea, Taiwan, Singapore and Hong Kong. They are also called first generations they were like any other developing country experiencing poverty, underdevelopment like many other developing countries today. Due to their good internal dynamics with visionary leaders they were able to receive FDI from countries such as Japan who were looking for poor countries to invest to increase their operations. South Korea and Taiwan are one of the beneficiaries of this FDI whereby the Japan invested factories for manufacturing (Ngui D., Chege J. and kimuyu P.2016).

These countries had advantages such relatively developed infrastructure, both skilled and unskilled cheap labour, they also had some level of education, geographical advantage, favorable laws and good government leadership among other reasons. This brought about helps transfer of managerial skills and technology. Through their own government support for their own local companies they were able to develop and even coming up with their own companies that today are also referred to MNCS for example South Korea's Samsung.

Analysing the Asian tigers, one factor that cuts across all the four countries which was a catalyst for the rapid economic growth that was witnessed is the willingness and the involment of their governments to see economic growth in their specific countries. To put this into perspective, a Country like South Korea was poorer than countries like Zimbabwe and Gabon. Their economy was equal to Ghana's. In their words they say that they were among the poorest countries in the world.

However they came up with their own model for growth through research and development and invested on the education of the people especially in the stem subjects. Also they purged corruption and ensured good leadership hence forms being one of the poorest countries in the world to one of the most industrialized countries. Today, they manufacture high tech products. Such include Samsung and Hyundai cars. The government is also very supportive to their own MNCs (Korea Foundation, 2013).

As for Taiwan it only took only one manufacturing company to revolutionize the whole economy of a country. Due to its cheap labour the American company moved its operation from Japan to Taiwan. By the time the American company was moving to china due to raising cost of labour. Taiwan had already benefitted from the manufacturing company through transfer of managerial skills and technology. Currently they produce high-tech products.

Singapore was not different from other Asian Tigers, through their government after their independence embarked on attracting FDI into their country. Within years they had a manufacturing export oriented economy. Due to its strategic location they are now highly trade oriented country. Due to globalization they have actually moved from being only a manufacturing based economy but currently they Singapore attracts FDI due to her location advantage, skilled labour, low tax rates and availability of tax heavens, highly developed infrastructure and zero-tolerance against corruption.

Singapore is actually ranked as one of the most incorruptible countries in the world. Level of corruption is extremely low compared to other countries. Combined with their cultural values such as hard work and meritocracy and the country being an educational hub which has contributed to the highly skilled labour force. Singapore developed their own unique to their country model of economy which has made it to be very successful compared to her other Asian counterparts (Ngui D., Chege J. and kimuyu P. 2016).

Hong Kong has also become a force to reckon with in terms of development. From the revenues they got through manufacturing sector of textiles for export. The government of Hong Kong used to invest in other sectors of economy which led such as infrastructure and other sectors which led the country to even attract more foreign direct investment. Due to its previous history of colonization with the British, the country is more open to trade and has more flexible rules than the mainland China making the country to be ranked one of the highest recipient of FDI in the world.

The Asian Tigers were the first countries after Japan to industrialize through FDI in the manufacturing sector. They are called the first generation NICs, after their economies improved including wages the MNCs went looking for cheaper labour with skilled worker thus bringing about the second generation of NICs for countries such as Malaysia and Thailand and when the same thing happened they went ahead to other countries which are now the 3rd generation NICs which include China and India in the 1990s (Kinuthia B., 2017).

Currently, these countries might also have the same fate as others after improving their wages (China and India). Therefore looking at this trend, the example of these Asian tigers and Other NICs countries. It is prudent for the Kenyan government to prepare to be among the 4th generation of NICs. This is already enshrined in the vison 2030 manifesto of becoming an industrialized country.

CHAPTER II. DEMYSTIFYING FOREIGN DIRECT INVESTMENT IN THE KENYAN ECONOMY

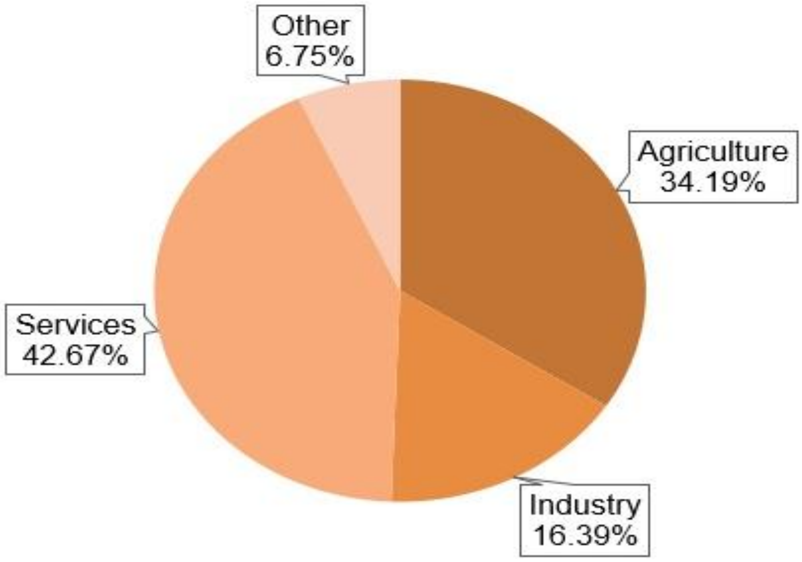
2.1. Overview of the economy

With the promulgation of the 2010 new constitution from the 1963 one, the economy of Kenya was expected to soar to greater heights due to its modernity and reforms which collectively were supposed stimulate the economy Kenya has a population of 47 million people with a total GDP 74.94 billion US dollars making the country the largest economy in the Eastern and Central African region. Out of the recent national census conducted in 2019, out of the 47. 5 million people with an economy of 10 trillion shillings. According to the World Bank report and classification of the poor and those who are at the threshold of becoming poor, These citizens account for 94 percent while only 4 percent of the population can be said to be having a comfortable lifestyle (IMF, 2020).

The Kenyan economy has been on the rise since 2017. From 4.9 percent; in 2017 the economy rose to 6.3 percent and as of 2019.The World Bank had suggested that as after 2020 there might be slowing down of economy. As of 2020 IMF has announced that the Kenyan Economy has grown leaps and bounds and toppled Ethiopia and became the biggest Economy in the Eastern and Central Africa regions with a GDP of 10 trillion ksh. The main sector that has contributed to this growth is accelerated manufacturing sector,

Good weather conditions sis one of the major reason that currently affect the economy of the country. In the history of Kenya the main key points that can affect the economy either negative or positive is the weather conditions and the political stability of the country. For example in 2018 the economy grew because of good weather conditions and also the growth of the economy affects also the stability of the macroeconomics of the country which is also good for the attractiveness of the country to foreign investors (World Bank, 2018).

Pie Chart 1: GDP of Kenya by sector in Percentage



Source: HKTDC Research group 2019 https://research.hktdc.com/en/article/MzU3OTc0NDE2

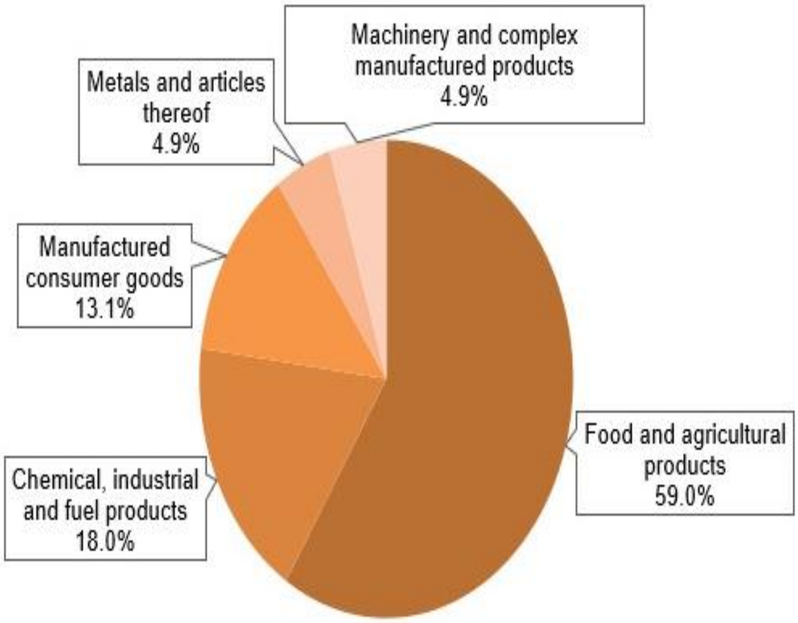
2.1.1 Agricultural sector

The agriculture sector is the primary and the contributor to the economy of Kenya which contributes the largest percentage to the GDP, making Kenya an agricultural based economy. According to the analysis, 75 percent of Kenyans earn all or part of their income from the sector. Agriculture accounts for 33 percent of the nation's gross domestic product (KNBS, 2019). World Bank mentions that the agriculture sector has been the dominant source of income of Kenya since the 19th century they still projects that Kenya should improve the agriculture sector of Kenya as it will lead to the reduction of poverty and inequality in wage gaps and gender in the rural areas. The agriculture sector has products such fishing, forestry and animal husbandry (World Bank, 2019).

2.1.1.2 Kenya exports

The agriculture is the dominant exports product of the Kenyan economy mostly in horticulture as seen in the figure below. Horticulture sector produces and exports Coffee beans, wheat flour, fruit such as avocado and mangoes and vegetables such as French beans. However the main exports that really contributes to the economy is tea and coffee. Through this the government is able to get more revenues and get more foreign exchange revenues and also indirectly gives the farmers a source of income thus reducing the poverty level.

Pie Chart 2: Major Export Commodities in Kenya in % Share



Source:HKTDC Research group, 2019 https://research.hktdc.com/en/article/MzU3OTc0NDE2

2.1.2 Service Sector

Service industry accounts for around 42 percent because it is a combination of many major sectors that are different form each other. Such include tourism, banking, Information, technology and communication and various government services amongst others. Trading and financial services have also been important in driving the country’s economic development, supported by a relatively mature financial system and banking sector compared to other sub-Saharan African countries.

2.1.2.1 Tourism sector

Tourism is one of most important Service industries in Kenya. It is one of the most important contributor of foreign exchange earner to the economy. Contributing 1.6 billion USD into the economy as of 2019. Kenya has an array of many diverse tourist attractions such as lakes, beaches, mountains, desserts, national parks, game reserves other among other natural attractions, in 2018, and there were around 2 million tourists who visited Kenya (HCKTDC, 2019).

The government has put a lot of emphasize in this sector, because they believe that the tourism sector will be the principal sector of the economy, which will lead the country into achieving vision 2030.The government actually writes in the vision 2030 that to attract more tourist in the country they have identified areas such as north and south coast of Kenya as the ideal place to "aggressively implement the strategy of development". They looked at this places as a hotbed of tourism (Vision 2030, 2007).

In as much as this is among the ideal places in Kenya for tourist attraction during the time of the drafting of the vision 2030, as of now this has become among one of the breeding places of terrorism also due to its close proximity to Somalia and other factors that makes this place conducive for terrorist. This has led to the significance reduction of the tourism in the area and the whole of Kenya in general (Philips M, 2014)

2.2 Why does Kenya need foreign direct investment?

Kenya has relatively diversified its economy, unlike her other African countries. There is no one sector that dominates even a half of the economy but rather they have some a fair share. The economy and long history of private sector development has made it the most attractive investment destination in the region. Kenya is the second largest foreign direct investment (FDI) recipients in East Africa, with its total FDI stock stood at US$14.4 billion in 2018, trailing behind its neighbour Ethiopia and as of 2019 it's behind Tanzania.

The researcher has looked in details the economy of Kenya and the challenges that faces the main sector of the Kenyan Economy. As evidenced by the research. The main foreign exchange earner of Kenya is agriculture followed my tourism. In the recent past both sectors have been hit by myriads of challenges. For example due to increasingly erratic climatic changes there has been a lot of floods and prolonged drought. This has affected the productivity of the produce mostly in the horticulture industry, which is very vital for exports. Due to fierce competition from other countries such as China and India, Kenya has also lost some of her market share in the world market (KNBS, 2019 p 130).

Tourism sector is the second largest foreign exchange earner of the country. Per year the country might receive more than one million tourists. However, in the recent past there has been a decline in the number of tourists due to political unrest that has rocked the country. Due to strings of terrorist attacks that have hit several places in the country has also led to a major decline in the number of tourists. Competition from our neighbours and other Asian and Caribbean countries has also contributed significantly to the decline of tourist in Kenya.

Due to the progressive decline of the two major foreign exchange earners of the country and also to avoid the middle income trap (Kenya is a lower middle income country). There is needed to come up with another sector that will stimulate economic growth for the country. Also due to globalization and the changes of attitudes towards the MNCs who they are seen as something positive for the country unlike in the 80's reduced amount of foreign aid which the country used to get when it was still a developing country and technological awakening which is sweeping across countries, and the positive demonstrable development of most of the Asian countries. Kenya has no choice but to look for another alternative choice (Balasubramanyam V., 2002).

The researcher believes that the main sector of economy that can improve the overall economy of Kenya is the manufacturing sector. Manufacturing sector needs a lot of capital which Kenya does not have. Therefore, there is a need to attract foreign direct investment.

This topic will in deal in details the determinants of foreign direct investment. And how to actually be able to attract foreign direct investment in Kenya. What the country stands to benefit from the foreign direct investment and what measure the country has put aside to ensure that they are able to attract maximum foreign direct investment.

Foreign Direct Investment (FDI) not only provides the African countries with much needed capital for domestic investment, but also creates employment opportunities, helps transfer of managerial skills and technology, all of which contribute to economic development. Recognizing that FDI can contribute a lot to economic development (Lipsey R, 2000).

2.3 Determinants of Kenya foreign direct investment

It is important to note that FDI is not the ultimate solution to underdevelopment on the contrary it simply aids in growth. This simply implies that for a country to attract FDI they should understand that foreign investor seeks to build upon of the country already has. It is up to the country to ensure that it has what it takes to attract FDI (Balasubramanyam, V. 2002).

The determinants of foreign direct investment different from country to country and firm to firm. Kenya as a country has its own unique pros and cons which might differ from other countries. According to the FDI model there are four motives that influence foreign direct investment which include resource seeking, strategic seeking, market seeking and efficiency.

Some scholars refutes the notion that foreign direct investment is majorly follows countries or areas with a lot of natural resources however there is a need to improve other areas which play a major role in attracting foreign direct investment. Having natural resources no matter how valuable is simply not enough to attract foreign direct investment (Ajayi S., 2000).

The greatest contributors of foreign direct investment in Kenya include China, India, United States, United Kingdom and Pakistan. As from the recent past, Kenya has been trying to diversify her trading partners from her traditional western countries such as United Kingdom and the United States. Among the many countries that Kenya has struck up economic friendship the most notable friend, China.

China has recently knocked of other trading partners to become number one trading partner of Kenya Also it is also noted that the trade is not equal as Kenya imports more from China that it exports to China (Kimutai C. 2018).

Table 3: Kenya's main trading partners 2017 in billions US$

Kenya trade with main partners in 2017 (billions US$)				
Area	Exports	Imports	Total	Share of Kenya's trade with world
World	5.8	16.98	22.8	
Africa	2.2	1.97	4.2	18.3%
China	0.01	3.8	3.9	17.3%
EU	1.2	2.0	3.3	14.3%
US	0.5	0.6	1.03	4.5%

Source: https://www.knbs.or.ke/foreign-investment-survey-2018/

China is one of the most strategic countries that Kenya aims to strike a strong friendship with. The opposite is also true as China also seeks to get strike economic strategic friendship with Kenya due to their desire to revive their old silk road. Kenya also seeks to benefit from this one belt movement which means that they will get more foreign direct investment (Low S. P. & Jiang H., 2006).

As much as Kenya has recently hit the highest foreign direct investment of Sh164.8billion shillings in the recent financial year (2019) (Daily nation, 2019). More has to be done to done to secure more foreign direct investment. With a very stiff competition by the neighbouring countries such as Ethiopia which is leading the pack, by receiving a total of 726.6 billion shillings in 2018 followed by Tanzania which raked in a total of 103.8 billion shilling. As evidenced by the both counties have created thousands of jobs from the foreign direct investment (Business daily; 2019).

For Kenya to have a competitive edge in terms of attracting foreign direct investment so as to grow her industries. More needs to be done. The top ten countries that receive the highest amount of foreign direct investment are mostly those that have either minerals or are oil based economies such as Nigeria and many others. As seen above Kenya is an agricultural based economy which attracts very little foreign direct investment. Most of the investors prefer to invest in minerals resources and oils. Also most African countries are also agricultural based economies which mean that the supply is more than the demand.

For Kenya to be able to attract more foreign direct investment they need to be able to use their competitive edge and strengthen those areas that needs improvement. The following are some of the major areas determine attraction of foreign direct investment.

2.3.1. Political stability

Most scholars agree that political stability play a very critical role in determining the attraction of foreign direct investment. The latter concludes that this is the main reason why most African countries do not attract foreign direct investment unlike their Asian counterpart, is because of the political unrest or a threat of political unrest either form within or without. In as much as they have been endowed by different types of resources and enough population to provide cheap labour. Investors do not only want to be sure that they are safe but also their investment is safe and in the future, their assets and investments will still make profit in many years to come. Political unrest not only affects the investors' cash flows but also their market and production. Political unrest affects business environment negatively by disrupting chains of production from production, logistics and marketing (Njoroge S., Namusonge G., Sakwa M, 2015)

Kenya is a relatively peaceful country compared to other African countries. Sometimes there is a bit of political unrest here and there but it has never gone to the point civil war or lasted for a very long time such that the economy does not recover.

2.3.1.2. Kenya's General Elections Vis a Vis the economy

The researcher analyses the importance of political instability. Of all the determinants of FDI, political instability affects almost all the determinants. It is one of the most important determinants that the investors will be looking for before even other determinants. Kenya is known to be one of the strongest democracies in Africa however it is known to be divided ethnically. This is usually seen during electioneering period which occurs after every five years. The researcher will look at four general elections two in a decade that is from 1990 to 2000 which the country had two general elections that is in 1992 and 1997. Then the following decade from 2000 to 2010 .Whereby the country had also two general elections occurred in 2003 and 2007 respectively.

In the figure shows the annual growth of Kenya from 1990 to 2000. Shows that 1992, 1993 and 1997 had the lowest GDP in the decade.1993 being the aftermath of the 1992 general elections. As the general elections were held on the 29th of December just three days to 1993. During this period, since the dissolving of the parliament in August by then then President.

The country experienced campaign violence around different parts of the countries. After elections the country experience ethnic violence within different parts of the country. There was this great fear that since as that was the first elections to be held after more than ten years of Kenya being a single party state country. There was also this great fear that Kenya might experience civil wars, coupe de tat and ethnic cleansing like what other African countries were facing. This are also among the reasons why investors prefer to choose another location which might not be as well developed in terms of infrastructure but at least there is peace and security guaranteed.

Graph 2: Economic Growth in Kenya from1990-2000

Source:https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2000&locations=KE &start=1990.

This seems to have led to the sharp economic decrease with that year having one the lowest economic growth of the decade which was at -0.8% growth rate from 5.0% in the previous year. From 1993 the economy continues to rise consecutively up to 1995 which is followed by a downward in 1996 which is due to anticipation for the 1997 general elections. IN 1997 there is a sharp downward trend. This is due to elections which were held in that year. The elections were marred with violence and accusation of elections rigging which led to political unrest thus affective the economy negatively as seen in the graph. It became the third lowest in the decade.

In the following diagram shows a decade between 2000 to 2010.in this period, Kenya has had two elections in 2003 and 2007. In 2002 the economy was at its lowest as it was the camping period. Kenya known for her pre and post elections unrest. This is indicated by the drastic fall in the 2002.As this elections was one of the most anticipated election the history of Kenya which could either end very bad for the country over well for the country. There was fear of violence as many though the sitting president would not exit power after 24 years. Or the ruling party, KANU which has been in power since independence in 1963 .This fear and anxiety was seen in the decline of the economy.

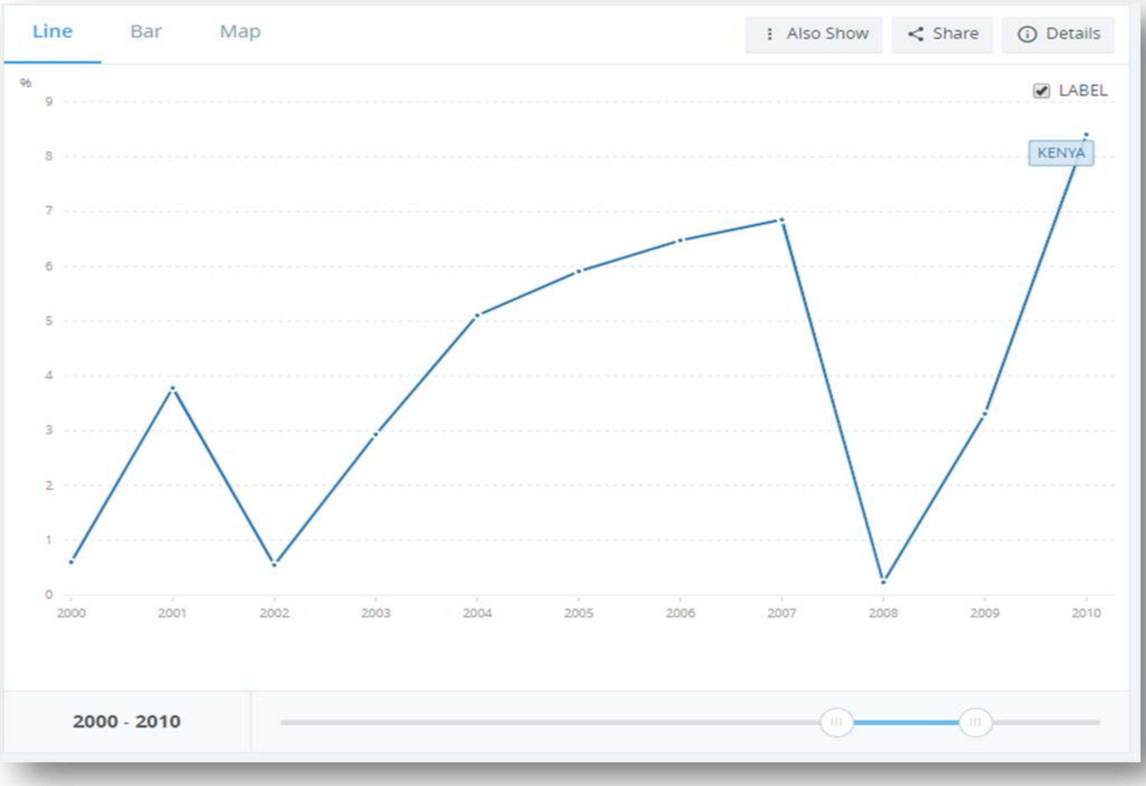
In 2003 there was a slight increase in the economy as the old regime went out peacefully. During that time also economy was mismanaged due to lack of technocrats, ignorance, political tension, sanctions, withdrawal of AID, Corruption and many other ills had crippled the economy to the lowest in the decade.

It is during this time that the new government came to power. The then president H.E Mwai Kibaki was a very educated having received his education in BA Economics. During his reign he introduced the facing east policy. HE Made many adjustments in the economy. He introduced free primary education, opened the economy to investors, and came up with the first Kenya economic strategic plan. Led to the improvement of infrastructure so as to attract investors in Kenya. Came up with many positive strategies that led the economy of Kenya to the positive directions.

During his first five years in office. The economy was soared as seen in the graph from 2003 to 2007.This is the golden age of the Kenyan history as many development took place especially economic liberations, and political freedom which to some extent they are interrelated. There was less unemployment rate and positive development.

In 2007 there is a sharp decline in the economy of Kenya. This election was marred with one of the worst violence experienced in the history of Kenya. This was reflected in the economy with a sharp decrease of 7% which was felt in the following year in 2008.

Graph 3: Economic Growth in Kenya from 2000 to 2010



Source:https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2000&locations=KE&start=1990.

Therefore for every 5 years the investors have to worry about at least two or three years about the political stability of the country. This makes Kenya to lose points when it comes to the OLI paradigm.

2.3.2. Working institutions

Working institution is one of the most vital keys in attracting foreign direct investment. There is a positive relation between working institutions and attraction of foreign direct investment in the country. (Alfaro et al. (2004) cited by Njoroge S., Namusonge G., Sakwa M.2015) agrees that where the no working institution there will be a possibility of low inflow of foreign direct investment that low institutional quality is the leading factor in explaining the slow capital. Kenya has been working on strengthening its institution by creating institutions that will govern trade and investment unlike in the past. Such institutions include KENIVEST which is set to help and guide companies that wants to invest in Kenya. The government through its arms of the government has also reformed and are continued to do so since the implementation of the 2010 new constitution. Through these reforms, Kenya is able to tackle bureaucratism and corruption that were once a hindrance to FDI.

2.3.3. Trade Connections

International Relations play a very big role in attracting foreign direct investment. During the 1980 and 1990, the then government had very sour relationships with most western powers and also it was the height of the cold war. There was a need to trade carefully with which country the state decides to do business with. The country did not choose either capitalism or socialism but rather pan Africanism but in real sense the ideology that suited the interest of the then ruling government.

During this period there was a rampart corruption, misuse of power, political instability, and poor government policy which was all done by those in power which eventually led to the country being sanctioned. It was also during the 1990s that Kenya was experienced Structural Adjustment programmes and the government did not hold its end of the bargain as the government was non-committal which also severed the relationship with the western countries which were supposed to be a potential contributor to the foreign direct investment to the country (Mwega M and Ngugi T, 2006).

It is during presidency of his Excellency President Mwai Kibaki that the trade connections of were improved with most western countries as he promised to improve all sectors of the economy. He himself being an economist, during his term he brought about many economic, political and social changes such as he came after founding of the vision 2030 which has the vison of the direction of the economy in by 2030, brought about infrastructure, free education. He also led to the establishment of key economic bodies such as KNBS and Kenya Invest, Through his government, the Foreign Policy of Kenya was changed from only being political but also they added the Economic aspect to it .Therefore, all the embassies, high commissions and consulates were not only to advance Kenya's political agendas but now they were to advance Kenya's Economic agendas and also try to woo investors o the Country. It was during his tenure that the Kenya foreign policy was drafted the ministry of foreign affairs during his time changed from simply being Ministry of Foreign Affairs to the Ministry of foreign Affairs and International Trade. (Jolene S, 2006).

2.3.4. The cost of doing business

Some of the firms or investors efficient seeking companies. This company's look for a stable investment climate. Of course all companies want to lowers their cost of doing business so as to maximize on the profits. As seen in chapter one foreign direct investment is a long time process not just a short time stint. Therefore, Companies have to put into consideration many things such as costs such as entry and exit fee, credit, taxes, labour regulations, the government bureaucracy and among other factors.

(The cost of doing business differs from investor to investor depending on what they are looking for. All the market, strategic and efficiency seeking have their own pros and cons. It will largely depend on the investor cost benefit analysis to ensure maximum profit (Ateng' B., Arunga R., 2017).

The costs of doing or starting a business in Kenya is at least 25% which is of the income per capita and takes more than three weeks than other countries such as their main competitors such as Rwanda (World Bank, 2020).

Kenya generally has a very flexible labour market regulation and there is availability of cheap labour. Kenya has been ranked 61st in terms of ease of doing business which is an improvement from the previous ranking of 85 in the world. This is mainly due to the technological advancement that has made the majority of the process to be automated. Also majority of the population is educated unless the investor wants a specialized form of education then then they will have to budget either to source the skill from abroad which is expensive both in terms of salary and also to get the relevant work permit or invest on the education of their workers. However in the manufacturing sector mostly the unskilled labour that is needed.

2.3.5. Policy incentives

Kenya is always trying to improve her policy to increase and attract more foreign direct investment from independence sessional paper 10 of 1965 and has continue to improve with the changing times . One of the main reasons of Kenya's relatively low attraction of FDI in the region is poor business environment.

According to World Bank report of the Ease of doing business in Kenya loss of FDI competitiveness relative to other countries in sub-Saharan Africa is due to the new policy incentives Kenya is number 3 in Africa and number 56 in the entire world (World Bank, 2020). Which is an improvement from previous year which it was number 61 in 2018 and 2017 it was ranked position 80.In 2017 it was position 92 (Ndolo D, 2017).

As evidenced by the continuous ascending in the ladder. This is only possible by continuous government improvement of the business environment through initiating good policies. The World Bank credits this improvement to measures taken by the government such as;

1) Offering protecting for investors.

2) The government has also eases taxes by integration all documentation and permits needed into a simplified single business permit.

3) Kenya also made it easier to enter and exit without too much problems resolving insolvency easier by facilitating the continuation of the debtor's business during insolvency proceedings (World Bank, 2020).

However, the report also highlights some areas that the government needs to improve; these areas include issuing of construction permits, registering property and starting a business which is an uphill task for the government of Kenya considering most major internal issues that the country faces came from issues of land (Wandiri G, 2019).

In 2017 the government through the Ministry of Ministry of Industry, Trade and Cooperatives launched the new Trade policy of Kenya which articulates the future of the foreign direct investment and trade.

2.3.6. Availability of Infrastructure

As mentioned earlier, one of the motives of the investors is to seek a country that will provide efficiency to their business. Not only in business but also for leisure of their employees and the management of the firms (Balasubramanyam V., 2002). Investors want to make profit at the lowest possible price with much efficiency. Infrastructural development also influences location decisions the investors. One of the most important determinants of foreign direct investment in availability of good infrastructure such as roads, ports and railways. Most of the Asian Tigers developed first their infrastructure so as to be able to attract foreign direct investment (Shah M, 2014).

Kenya has one of the most developed infrastructure in the East African region. Almost all the sectors in the economy either directly or indirectly depend infrastructure. Such include agriculture, telecommunications, manufacturing, tourism and others. Therefore impacting on the economy. It is the spillover effect of the infrastructure development that has positively affected on all other sectors thus stimulating the economy. Development of Infrastructure is one of the underlying reasons why Kenya has continued to scale higher and higher four years in a row in the world ranking of ease of doing business in the world (World Bank, 2020).

The biggest major project that the government has ever undertaken since independence is the standard gauge railway. Which was meant to connect the all of the East African countries. This railway was constructed at a cost of US$3.6 billion. Making it the most Kenya's most expensive infrastructure project since Kenya's independence. The prime contractor was the China Road and Bridge Corporation, which hired 25,000 thus creating jobs for the Kenyan people.

When it comes to investment especially in the infrastructure, Manufacturing and Construction. China is one of the biggest investors in these sectors. China Road and Bridge Company has been able to able to build many roads in Kenya which have opened up rural areas in Kenya. This rural areas are the places where agricultural production is done thus, this roads provide an efficient way of transporting the farm produce which always tend to be perishable items like flowers to the airport for exports.

Kenya benefits from these Chinese companies in Kenya offer a quality product at a lower cost than their competitor's thus providing infrastructure at lower costs, thereby making Kenya's economy more competitive overall. Sometimes the projects are fully funded by the Chinese government through loans or grants. Which provides the country with the much needed infrastructure on credit or as AID. Chinese companies have been awarded mega construction tenders such as sky scrapers, Renovation of Jommo Kenyatta International airport and others such as various super highways in Kenya.

The Kenyan government understands that through expanding the infrastructural networks in conjunction with her neighbours such as Ethiopia and Uganda will give the country economic mileage thus the government is set to continue the mega projects such as the LAPSSET project with Ethiopia the government projects which will provide a corridor for Ethiopia and Sudan to be able to use Kenya's port for imports and exports which might also send a ripple effect to Kenya and be able to gain foreign investment. The government has already planned for many other future infrastructures (KenInvest, 2020).

2.3.7. Macroeconomic Stability

Shah M explains that: "*The stability of a country is measured by Inflation, government budget balance, interest and exchange. An economy with a good track record of fiscal prudence, financial stability and managing inflation and interest rates without sudden and abrupt fluctuations in exchange rate shall gain investors' confidence and encourage them to invest"* (Shah M, 2014).

Macroeconomic stability also gives a clue to the investors the prospective future of the effects of the economy to their profits and how much it will cost them to repatriate money back to their sending nations.

The government should keep check their inflation rate of the country with regards to imports and exports. The currency of the country is a major player in determining how expensive it will be for imports and exports. Therefore the CBK should put measures into place to ensure stability of the foreign exchange. As seen earlier that FDI is a long time investment therefore the investors would need stability.

2.3.8. Geographical Location and Language

China main trade agenda is to renew the old Silk Road route that they used more than 600 hundred years ago to trade with other countries. Kenya is one of the very few African countries that participated in this trade. Therefore China is spending millions of US dollars to open up her old trading routes. If successful, this will open up Kenya as a trade route country such as Singapore.

Kenya is also a getaway to East and Central Africa. For example to get raw materials from the Congo has to use the Kenya ports to find its way to China. Therefore they will have to use Kenya for transport. China has loaned Kenya 722.6 billion to build the largest single project that Kenya has undertaken from independence. Kenya has also taken loans from China to build roads and bridges. This will help china use Kenya as a route to open up the many landlocked eastern and central African countries for trade which Kenya stands to benefit. Through taxes and business.

Still on the geographical location, Kenya has one of the most developed shipping and air frights in the region. At least for the countries in the east African region, Kenya has some advantages of over other countries that have a coastal line. As for Somalia there is a threat of Terrorism, As for Tanzania, their sea port and airport is not as developed. Kenya has well-developed sea shipping and air freight services and still has plans for expansion.

Compared to her neighbours who also boarders the Indian Ocean. Kenya is a better choice to invest in. Her main competitors are Tanzania, Somalia, and Ethiopia. Kenya has an upper hand because of few but vital reasons. The national language of Kenya is English and Kiswahili. Therefore, majority of Kenya can speak, write and understand English. Compared to her neighbours for example Ethiopia main language is Amharic, Tanzania is Kiswahili and Somalia is Somali. Therefore, Kenya is a best place to invest as the language barriers is not that huge compared to her neighbours.

Kenya is also a hub to many international organizations such as United Nations, UNEP, UNHABITAT, UNICEF among others sub-organs of the United Nations. Kenya has more than 50 MNCs whose regional or sub regional headquarters are based in Nairobi. Which is a positive indication that has a very conducive environment for investment.

Kenyans are also bilingual, an average Kenyan speaks at least 3 languages. The official languages in Kenya is English and Swahili. Though in schools students learn other languages such as Mandarin, French, Spanish and German. Swahili which is the lingua franca of almost the whole of the eastern and central African countries. Which makes it easier for the foreign investors who wants to set up their regional or sub regional offices in Kenya. Which is also a plus for investors who would want to set up their main base in the Kenya to oversee other businesses interest across the region.

2.3.9. Size of Market

Kenya has a population 47.5 million people. Also being part of the greater East African region and the free trade area agreement among the member states thus bringing the number of population of more than 440+ million people. This number is quite suitable for market seeking firm or efficiency seeking firm which is good for profit maximization.

Some of this countries have restriction on imports barriers such as tariffs from countries who are not members of the region therefore, a firm can simply put also due restrictions in some countries .Therefore firms could use any of the suitable modes or strategies of FDI to enter into the Kenyan market and set up their business there and they will be able to take advantage of FTA agreement and be able to export to other countries. Kenya should actually see population as an economic advantage; as a potential market so as to be able to attract investors rather than a burden (Balasubramanyam V., 2002).

All governments usually have a shadow of fear of the amount of power that these MNCs wield in the States and they are capable of with such great powers. The Kenyan government has to consider the implications of mergers and acquisitions which can lead to a total takeover and be able to influence the people or the state. In the recent elections Safaricom one of the biggest MNCs in Kenya was accused of helping to manipulate the elections results. Some of this international investors have also been accused of using funds that on face value are meant for FDI but are for political dissidents (Ibid 2).

CHAPTER III. NEXUS BETWEEN FOREIGN DIRECT INVESTMENT AND MANUFACTURING

3.1. Manufacturing sector in Kenya

In Kenya, the Manufacturing sector makes a total of 10% of GDP but it has been on the decline in the recent past. It is also worth noting that the manufacturing sector had at one time in the history of the country contributed to more than 20% of the GDP. Developing this sector remains an important strategy for Kenya's economy and be to be able to diversify the economy. Taking examples of the NICs roadmap to development (HTDC, 2019) (KAM, 2019).

Manufacturing sector is supposed to catapult the economy forward and bring about both direct and indirect benefits to the economy. Such include infrastructural development, job creation and poverty alleviation. Manufacturing sectors projected if all goes well to rise to 15% by 2022(ibid 1). The government projects that this sector will be a catalyst for make Kenya prosperous and increase their competitiveness globally (GOK, 2019).

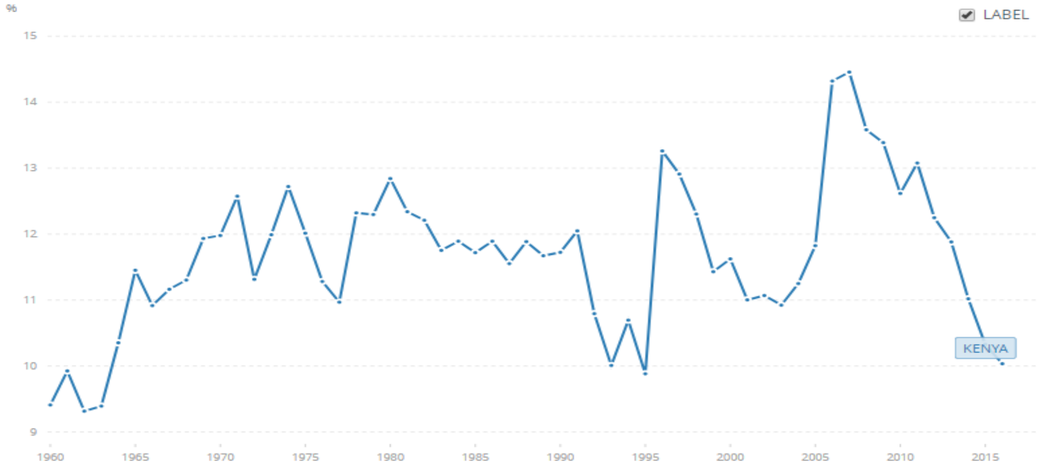
Manufacturing in Kenya, is consumer based and this product is heavily dependent to agricultural products in Kenya such as dairy products tea and coffee. According to the survey, in the 2018 there was significant improvement in the manufacturing sector attributed to improved weather conditions. This also means that the manufacturing sector is also dependent on weather conditions (KAM, 2019 p 35).

As seen in the previous chapters, as years go by the weather in Kenya is becoming more and more erratic due to climate change. There is more and more flooding, prolonged droughts and an increase in human population which require land more land to settle. It is also worth noting that they type of water used for the plants is rain fed water which even makes it more risky for the sustainability of the manufacturing sector. Since all the sectors of the manufacturing sector are highly dependent on agricultural products it is faced with myriads of challenges.

Therefore there is a need for other product to manufacture.

The government of all the regimes in the past has had a strategy to improve the manufacturing sector such include Industrial transformation strategy of the second regime, the third regime was vision 2030 and the fourth regime was the big four agenda. The researcher will look vision 2020 and the big four agenda as they were both build on the Industrial Transformation Strategy (1995).

Graph 4: Manufacturing sector in Kenya from 1960 to 2015



Source:<ahref='https://www.macrotrends.net/countries/KEN/kenya/manufacturing output'>Kenya Manufacturing Output 1960-2020. www.macrotrends.net. Retrieved 2020-06-01.

3.1.1. Manufacturing and Vison 2030

According to Vision 2030, a blue print of the nation's strategic plan to bring Kenya by 2030 to become an industrialized country. One of the main areas that was singled out for growing the economy was manufacturing. However, the main points are still touching on the agriculture .The VDS came up with eight pillars which they deemed fit to stimulate the manufacturing sector. Half of them focus on agriculture and horticulture production. Two focuses in human capital and the other two mainly focus in location.

3.1.1.2. Implementation of the Vision 2030 in the Manufacturing sector

According to the vision, the government plan was to first penetrate the Eastern and Central African regions markets and became a powerhouse by starting to export products such as beverages and processed goods. The government was to put up the first two flagship project. This flagship project was which creation of two economic clusters of industries related to each other to gain from economies of scale, and the other one was creation of 5 small industrial parks which was to done in period of four years. Which was supposed to be due in 2012.Therefore, the researcher will look so far what the government has achieved in the implementation of this vision (Jolene S, 2006).

The VDS and MoITED have come in partnership to achieve the following; strengthen locally made manufactured products, to utilize research and development, raise their market share in the regional market and develop to develop niche products for existing and new markets. As of 2014, according to the progress report of the VDS the government has started implementing some of the vision in all the three pillars which include political pillar, social pillar and economic pillars. However, according the researcher’s assessment, nothing much has been done concerning the manufacturing sector. Though some of the economic sector had made many strides which include agriculture, tourism, infrastructure and other social and political pillars. In as much as they still contribute positively indirectly to the manufacturing sector (VDS, 2014).

3.1.1.3. Development of Small and Medium Enterprise (SME) Parks, Industrial and Technology Parks, Industrial Manufacturing Clusters

This is among the first flagship projects that the government had set aside for completion by the year 2012. However 12 years down the line, little has been done.

The government has as of now has only identified the location. The government has so far come up with partnership with local universities such as JKUAT to come up with Nairobi Industrial and Technology Park among other prospective parks.

The main aim of these parks is to give room for knowledge based enterprise to have a conducive environment to grow to a medium size level and after hitting the ground running and then give room for other upcoming ones. The duration should be about 3 to 6 years. Analysis of the industrial park which is still in the proposal stage seems to be very visionary, with objectives such as to open a museum within the complex to show the metamorphosis of the various technologies which in turn will in turn bring in revenues. The trajectory of the park is that in 10 years, they should have increased the capacity from the current 450 to 500 manufacturing and processing companies. Currently the industrial park is still at the very initial stage as the MoITED has only identified land which is basically part of the university land. They have already marked and fenced off the land. That is just about it (MoITED, 2020).

Since the inception of this industrial park, whatever has been done is very minimal considering that the project was supposed to be at least competed 7 years ago. Even if the work was still in progress. This has been a very slow process. The ministry say cites lack of financial resources for the delay. It is very expensive for a country to build industrial parks. This is where foreign direct investment comes in. Prospective projects like this should not be stalled. As much of the economic increase came with investment in such types of industries. The government can woe investors to partner with them through joint ventures, etc.

3.1.1.4. Skills Development for the Technical Human Resource for the Manufacturing Sector

The government acknowledges that there is an educational and skill gap between what is taught in school and what is needed for this industry. In the vision 2030 manifesto, the government set aside a specialization schools as one of the flagship projects. The government has started the implementation of the vision 2030 educational programme by changing first the education system Kenya into CBC learning and introduction of the specialized higher earning education besides the traditional university bachelor of arts and other courses which are also very overpopulated (Bajrami H. & Zeqiri N, 2019).

Through this new educational curriculum the government has also created and come up with different strategies and policies to fill in this gap. Such include TIVET Act and Industrial Training Act 237 among others. The main aim is to fill the gap in disciplines such as engineering and technology. The government has been on a campaign to attract students in this schools which are very important for the manufacturing industry. The government has built new TIVETs schools, offering bursaries among other strategies to attract students to these institutions.

In the table 5 below shows the number of enrolment in the technical and the TVET institutions. In some school there has been almost a double increase in the intake of new students from the last.

For example Meru National polytechnic which from the year which in 2017 they had an increase of enrolment of more than three times the previous year.

The government acknowledges the fact that a lot of financial resources are required to build such kind of institution and to train such kind practical disciplines. It will also take a long time as they have to incorporate this type of syllabus from the will the lowest levels of education. And for the realization of the skilled personnel to get the education and the training required including the wok experience and the numbers to fill in the gap (GOK, 2019)

Also for the manufacturing sector to grow from shortage of skill to a war of talent" whereby the there is no shortage of skills but there is a stiff competition between the talents pool that is available in that specific discipline.

3.1.2. Manufacturing and the Big four Agenda

President Uhuru Kenyatta, during his second term came up with his final plan for the growth of the economy which he dubbed "the big four agenda" which was derived from the 2030 strategic plan to grow the economy. One of the agendas includes manufacturing. According to his manifesto there will be special economic zones to boost manufacturing which In turn will increase employment and reduce the trade deficit.

The governments is to offer more incentives thus to stimulate and make it more attractive by offering incentives like reduction of taxes and creation of more EPZs. The government will try to reduce the imports which could be manufactured in the country such as leather and stop importation of products that hurt the local markets such as fish. The government also pledges to create special economic zones for these industries to bud. There is also a great stress on increasing the quantity of exports (KAM, 2017).

Table 5: Enrollment in the technical and TVET institutions 2014-2018

Table 15.11: Enrolment in Technical and TVET Institutions by Sex, 2014 – 2018

Number

Institution	2014		2015		2016		2017		2018*	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Technical University of Kenya[1] … … … … … …	4,432	2,769	3,911	2,517	2,425	1,249	3,226	1,432	1,898	919
Technical University of Mombasa[1] … … … … …	3,250	1,708	2,835	1,633	1,789	1,236	1,859	1,257	765	450
Kenya Technical Trainers College	858	597	913	1,119	2,806	2,114	1,750	1,219	1,730	1,374
Kisumu National Polytechnic … … … … … … …	2,926	1,551	2,078	1,325	2,941	1,415	3,608	1,887	5,137	3,113
Eldoret National Polytechnic … … … … … … …	3,194	1,977	2,726	1,484	3,793	2,174	4,965	3,215	7,875	6,040
Meru National Polytechnic … … … … … … …	..	..	..	..	744	287	2,727	1,990	4,730	3,113
North Eastern National Polytechnic … … … … …	..	..	..	..	613	428	256	200	690	449
Kenya Coast National Polytechnic … … … … …	..	..	..	..	736	1,142	822	1,318	4,033	2,957
Kitale National Polytechnic … … … … … … …	..	..	..	..	907	512	978	673	2,860	1,998
Kisii National Polytechnic … … … … … … …	..	..	..	..	1,733	1,217	2,219	1,810	3,654	3,137
Kabete National Polytechnic … … … … … … …	..	..	..	..	2,048	979	2,607	1,051	7,034	3,642
Nyeri National Polytechnic … … … … … … …	..	..	..	..	1,218	646	1,874	1,282	2,625	1,807
Sigalagala National Polytechnic … … … … … …	..	..	..	..	1,001	762	2,399	1,868	4,140	3,208
Sub Total … … … … … … … … … … … … …	**14,660**	**8,602**	**12,463**	**8,078**	**22,754**	**14,161**	**29,290**	**19,202**	**47,171**	**32,207**
Total		**23,262**		**20,541**		**36,915**		**48,492**		**79,378**
Other TVET Institutions										
Public Technical and Vocational Colleges[2]	29,632	21,232	32,221	23,087	17,589	9,569	29,584	17,982	49,454	34,948
Private Technical and Vocational Colleges[2]	..	..	..	..	27,280	30,298	35,951	38,689	41,623	43,997
Vocational Traning Colleges[3] … … … … … …	45,473	28,222	47,625	29,840	46,340	34,565	59,756	44,685	66,894	47,590
Sub Total	**75,105**	**49,454**	**79,846**	**52,927**	**91,209**	**74,432**	**125,291**	**101,356**	**157,971**	**126,535**
Total		**124,559**		**132,773**		**165,641**		**226,647**		**284,506**
Grand Total		**147,821**		**153,314**		**202,556**		**275,139**		**363,884**

Source: Technical Vocational Education and Training Authority (TVETA)

* Provisional

[1] Diploma and Certificate courses only

[2] Formerly Technical Training Institutes

[3] Formerly Youth Polytechnics

.. Data not available

Source: https://www.knbs.or.ke/download/economic-survey-2019/

Theoretically speaking this is a very ambitious strategy if the ruling party implements it, it will revolutionize the economy of Kenya. As this is still in progress, only time will tell (Executive office of the President, 2017) (Jolene S, 2006).

When the researcher analyzed all the manufacturing pillars that have been formulated by the vision 2030 working hand in hand with MoiTED.The researcher found out that most of the policies are either in their very infancy stages of they have not been embarked at all. The policies are well laid down however due to lack of funding as seen in the examples above or lack of interest the government, they have all been stalled.

3.2. Subsectors with the highest potential of stimulating Growth

Looking away from the traditional manufactured goods such as agricultural products, and to diverse the manufacturing sector. The government may want to put more focus in these two areas of manufacturing which may offers better returns and increase growth in this sector. These subsectors include are the clothing subsector and the Iron and steel subsectors.

3.2.1. The clothing sub sector

One of the oldest manufacturing sub sector in Kenya is the clothing industries, from the days of the *KIKOMI* and other clothing industries that went under due to the cheap imports of the second hand clothes. The government is keen or reviving this sector however, there is so much emphasis on boosting these sub-sectors such as agro-processing. The best however is and textiles and clothing to boost the manufacturing sector. As seen in Chapter one, some of the NICs started with this subsector which in the end had ripple effects to other sectors of the economy (Bajrami H. & Zeqiri N, 2019).

As seen in chapter 2, a big part of the population of Kenya is leaving under poverty. This is caused by widespread unemployment. This sector is will create a lot of employment .Due to Kenya’s high population and both skilled and semi-skilled relatively cheap labour force. Kenya will be able to reduce the rate of employment and be able to diversify the economy.

The AGOA agreement will play a very important role in setting into motion the expansion of the clothing industry. The AGOA agreement allows agricultural and non-agricultural product to access the United States market. Kenya should grab this opportunity with both hands considering that the United States has one of the biggest consumer markets in the world as well as Kenya stands to gain foreign exchange from this trade (UNCTAD, 2012).

The expiry of the AGOA trade ends in 2025, just like the Asian tigers and the second generation NICs who developed through the clothing manufacturing. The Kenyan government should be keen in this area and use it to the maximum to be able to build their economy before the expiry. Kenya still has five more years to go.

3.2.2. Development of the iron and Steel Industry

This is one of the most important sub sectors in the economy as it is used internationally as an indicator of the health of the economy of a state. As seen in chapter 1, industrial revolution in Europe started in Britain through the steel industry and to date it is still contribute significantly to their economies.

Kenya has a lot of deposit of iron ore in various part of the country which is enough to make significant improvement in the economy. However the government is still importing the ores from other countries. They cite Lack of commercial interest, in other words there is no enough financial resources to undertake this technical and expensive ventures (Ndemo B., 2019).

3.3. Nexus between foreign direct investment and manufacturing

Venturing into manufacturing sector is a very expensive affair. There is a lot need to make it a success from the finances, technical knowhow to marketing. This is the reason why manufacturing sector requires and as in 2019, the government through the Ministry of Ministry of Industry, Trade and Cooperatives launched the new Trade policy of Kenya. But without FDI the policy will remain a mirage.

A lot of research interest has shown that there is a positive relationship between FDI and economic growth. Manufacturing sector has very close relations with other sector such as the service sector for middle income countries like Kenya. Which means that if the manufacturing sector takes off there will be also be growth in other sectors of economy especially the service sector (Dan S. & Yang Y., 2017).

In Global Business, foreign direct investment is very important especially developing countries to haste economic growth some of the prospective positive changes include Kenya will be able to get technological transfer which might have a spillover effect to the local companies this will improve service delivery, competitiveness, quality and efficiency of products being produced (Ngui D., Chege J. and kimuyu P. 2016).

Kenya might also be able to gain managerial styles that are used in these MNCs which can later on be transferred to the greater country. This has happened in the past whereby the government /the president have appointed technocrats in senior government positions who once worked in these MNCS. Later on, their expertise was evidence through the development that they brought.

Foreign investors bring about somewhat healthy competition to the local dominant companies hence breaking the monopoly. For example in Kenya when Coca-Cola company and broke the monopoly of the Kenyan brands such as *Softa* and others. When this foreign investors enters the market, they brought in newer technology and most of the time is at a lower cost due to advance technology which is always be appealing to the consumers.

They also have cutting edge marketing and branding skills combined ever innovating and technological improvement they tend to have better products. From the local companies not to be pushed out of the market or lose their market share, they are forced to innovate or also look for other investors who can have the same kind of managerial and technological skills or. This brings about development and growth in the sector.

FDI is very important in the growth of the economy. They supplement foreign exchange and government revenues through paying of taxes directly or indirectly. They also employ many people mostly in the manufacturing sector thus reducing the number of employment and the rate of poverty in the country. They sometimes offers more training to their employees who end up getting more knowledge and are able to use that knowledge in other local firms or other MNCs after the end of their contract.

CONCLUSION AND RECOMMENDATION

The loss of FDI to its neighboring countries

After assessing the FDI in Kenya and its impact to the manufacturing sector. The researcher found out that the impact has been very minimal. The manufacturing sector cannot grow without the FDI especially in the case of Kenya, yet Kenya is losing FDI to her neighboring countries. The loss of FDI to its neighboring countries is the one of the major reasons that has led to the decline of the manufacturing sector in Kenya.

Political instability, the main reason for low attraction of FDI

Kenya has met most of the determinants of FDI that can help the country to attract more FDI compared to her other African Counterparts and East African counterparts. However Kenya has failed to attract FDI according to her economic potential. The main reasons that the researcher established are Political instability, Corruption, lack of political goodwill and slow implementation of policies that are already put in place.

Implementation of policies

Manufacturing sector is also not doing so well because lack of willingness by the government to implement the numerous policies that Kenya has formulated which could prevent the above reasons and also policies concerning the manufacturing sector. Kenya has very many ambitious policies that if implemented will revolutionize the economy of the country.

There is no need for a new policy in regards to hindrances such as corruption, political instability, and general laws concerning manufacturing and investment. Kenya already has this policies and even went ahead to change the constitution to suit the changing times. The policy that the country have are already has is sufficient and up to date policies.

Reliance on agriculture and tourism

Most of the countries that have used the manufacturing sector as a roadmap manufacturing sector used manufacturing of non-perishable products. However the

Kenyan manufacturing sector is mainly dependent on agriculture which might not be very sustainable in the near future. The researcher has suggested that the country takes advantage of the iron ores found in the country instead of importing and maximize on the AGOA agreement and grow the clothing subsector which if properly managed might have a ripple effect to other sectors of the economy.

Diversification of the Economy

In as much as this thesis has put emphasis on the manufacturing sectors especially the textile subsector and steel. The government should also try to diversify the economy more to reduce risks and stagnation. All the developed countries and the NICs diversified their economy and did not only depend on the one sector that revolutionized their economy.

Recommendation

The government should implement all the policies that are already in place in the manufacturing sector and all other laws that directly or indirectly affect the manufacturing sector.

The government should look at encourage and educate the masses of the importance of diversifying the economy. As agriculture is more of a lifestyle or culture therefore the government should be intentional while carrying out diversification of the economy.

The people of Kenya should be on their guard against participating directly or indirectly in bad politics or in negative ethnicities because it directly affects the attractive of the country to investors.

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ADDITIONAL DIAGRAMS

FIGURE 3: MAP OF SSA AND LOCATION OF KENYA

SOURCE; https://greatlakesvoice.com/

Table 2: Gross Domestic Products by Activity 2014-2018

Current Prices, KSh Million

Industry	2014	2015	2016+	2017+	2018*
Agriculture, forestry and fishing	1,483,077.6	1,897,346.8	2,182,198.3	2,836,582.2	3,045,030.7
Growing of crops	1,066,344.4	1,446,375.9	1,700,542.1	2,314,190.1	2,476,478.5
Animal production	275,082.4	293,602.7	321,402.1	345,844.1	362,730.6
Support activities to agriculture	30,770.4	37,371.1	33,520.5	39,057.5	46,039.3
Forestry & logging	72,148.5	79,697.4	91,824.6	100,874.8	115,669.9
Fishing & aquaculture	38,731.9	40,299.8	34,909.0	36,615.7	44,112.4
Mining and quarrying	44,935.9	54,584.2	59,149.1	61,327.0	67,275.4
Manufacturing	537,999.2	588,895.6	654,456.2	655,331.8	689,341.3
Manufacture of food, beverages and tobacco	207,729.7	230,908.8	261,361.0	273,083.4	282,142.2
Other manufacturing and repair and installation	330,269.5	357,986.7	393,095.2	382,248.3	407,199.2
Electricity supply	55,190.2	89,358.4	131,617.5	145,693.3	159,217.2
Water supply; sewerage, waste management	42,102.0	46,813.7	50,500.3	56,021.0	60,110.4
Construction	262,090.2	307,562.8	360,802.6	453,475.7	483,536.3
Wholesale and retail trade; repairs	431,984.8	473,395.1	506,657.3	599,341.9	662,285.5
Transportation and storage	462,457.0	510,487.6	565,828.7	607,503.0	711,351.7
Land transport	351,796.1	379,320.1	409,406.4	425,033.9	487,723.0
Air transport including support services	16,960.5	18,896.1	26,246.6	29,477.6	41,164.0
All other transport including postal and courier activities	93,700.4	112,271.5	130,175.7	152,991.6	182,464.8
Accommodation and food service activities	49,151.4	49,356.2	51,644.8	56,589.0	66,630.1
Information and communication	65,592.1	91,200.0	104,765.0	109,864.7	117,244.6
Telecommunications	27,647.2	52,410.0	62,466.6	67,353.7	72,178.0
Publishing, broadcasting, other IT and information activities	37,945.0	38,790.1	42,298.4	42,511.0	45,066.5
Financial and insurance activities	366,764.1	423,956.1	496,333.9	500,481.5	534,882.5
Financial activities	261,281.6	326,609.0	386,056.9	386,705.6	424,013.4
Insurance activities	105,482.5	97,347.1	110,277.0	113,775.8	110,869.1
Real estate	417,828.9	474,317.6	532,668.5	575,139.0	625,711.8
Professional, scientific and technical activities	51,992.1	55,812.4	60,608.6	64,822.4	71,029.1
Administrative and support service activities	61,067.3	63,849.3	68,081.6	71,730.5	79,311.1
Public administration and defence	243,525.9	267,644.6	276,410.2	289,251.4	310,518.9
Education	279,543.5	308,128.0	309,512.8	326,680.3	383,181.0
Pre-primary and Primary education	126,156.0	137,520.8	137,030.5	163,452.5	194,974.4
General secondary education	96,580.8	107,461.7	98,028.0	84,276.3	103,424.0
Higher and other education	56,806.7	63,145.4	74,454.3	78,951.5	84,782.5
Human health and social work activities	91,968.8	108,022.7	119,775.3	125,665.4	134,760.6
Arts, entertainment and recreation	7,490.3	8,044.6	8,868.1	9,655.6	10,782.1
Other service activities	34,505.8	39,485.7	43,187.6	47,751.7	54,004.7
Activities of households as employers;	28,090.3	30,624.9	32,370.1	34,666.0	37,836.8
Financial Intermediation Services Indirectly Measured (FISIM)	-134,588.1	-163,306.1	-199,410.1	-159,989.7	-169,586.0
All economic activities	**4,882,769.4**	**5,725,580.1**	**6,416,026.2**	**7,467,583.8**	**8,134,455.8**
Taxes on products	519,878.1	558,604.8	606,936.9	676,788.9	770,528.1
GDP at market prices	**5,402,647.5**	**6,284,184.9**	**7,022,963.1**	**8,144,372.7**	**8,904,983.9**

* Provisional

+ Revised

Source: KNBS, 2019 https://www.knbs.or.ke/download/economic-survey-2019

Figure 4: The Eastern African Map

Source: Maps company, https://mapscompany.com/collections/east-africa

Table 4: Quantum Indices of the manufacturing production 2014-2018

Base: 2017=100

Industry Divisions and Groups Descriptions	2014	2015	2016	2017	2018*
Meat and Meat Products	78.2	85.4	94.7	100.0	111.7
Processing and preserving of fish	154.2	120.6	108.5	100.0	107.1
Prepared and Preserved Fruits and Vegetables	90.9	93.3	101.5	100.0	102.3
Animal and Vegetable Fats and Oils	93.8	97.8	97.9	100.0	101.1
Dairy Products	102.5	110.9	113.8	100.0	117.5
Grain Mill Products	82.9	89.8	92.7	100.0	102.2
Bakery Products	86.7	93.8	92.5	100.0	106.6
Sugar	157.3	167.7	169.4	100.0	130.6
Cocoa, Chocolate and Sugar Confectionery	65.3	79.5	85.7	100.0	101.9
Food Products not elsewhere classified	105.4	94.0	107.8	100.0	111.2
Animal Feed	86.2	90.0	92.0	100.0	103.1
Total Food Products	**103.4**	**105.1**	**111.7**	**100.0**	**108.6**
Beverages	75.6	94.7	100.0	100.0	105.6
Tobacco Products	130.5	124.7	104.6	100.0	98.6
Beverages and Tobacco	**83.1**	**98.7**	**100.6**	**100.0**	**104.5**
Textiles	96.5	110.1	102.2	100.0	101.5
Wearing Apparel	70.9	80.7	94.7	100.0	105.1
Leather and Related Products	114.5	96.6	107.6	100.0	104.1
Wood and Products of Wood	127.9	133.8	115.2	100.0	97.5
Paper and Paper Products	82.7	82.9	90.7	100.0	104.9
Printing and Production of Recorded Media	101.7	101.6	100.3	100.0	99.2
Refined Petroleum Products	101.0	99.2	100.9	100.0	104.6
Chemical and Chemical Products	93.5	100.5	100.2	100.0	100.5
Pharmaceutical Products	68.7	83.8	101.1	100.0	108.0
Rubber Products	94.0	95.7	98.2	100.0	105.7
Plastic Products	88.1	96.3	104.5	100.0	95.8
Rubber and Plastic Products	**84.6**	**89.8**	**94.4**	**100.0**	**96.2**
Other Non-metallic Mineral Products	94.3	102.7	108.6	100.0	98.6
Basic Metals	85.4	84.4	96.1	100.0	102.7
Fabricated Metal Products	137.5	128.7	102.6	100.0	106.2
Electrical Equipment	75.3	80.2	83.0	100.0	109.9
Machinery and Equipment nec	223.6	123.6	90.1	100.0	105.0
Motor Vehicle, Trailers and Semi Trailers	182.7	193.6	131.9	100.0	111.2
Manufacture of furniture	85.3	104.6	104.5	100.0	100.8
Other Manufacturing nec	85.4	102.8	99.9	100.0	103.4
Repair and Installation of Machinery and Equipment	90.3	93.5	98.1	100.0	102.6
Overall	**91.8**	**96.4**	**100.8**	**100.0**	**105.1**

* Provisional

+Revised

Source: https://www.knbs.or.ke/download/economic-survey-2019/

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