

**RELATIONSHIP BETWEEN MACROECONOMIC FACTORS AND FOREIGN
DIRECT INVESTMENT IN EAST AFRICAN COMMUNITY**

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**A PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMETRICS AND
STATISTICS IN THE SCHOOL OF BUSINESS, ECONOMICS, AND TOURISM IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE
DEGREE OF MASTER OF ECONOMICS (ECONOMETRICS) OF KENYATTA
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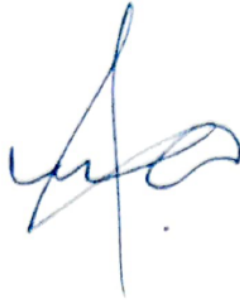


November, 2023

DECLARATION

This project is my original work and has not been presented for a degree in any other university or any other award.

Signature:



Date:

20/11/2023

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I confirm that the work reported in this project was carried out by the candidate under my supervision.

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ABSTRACT

Foreign direct investments (FDI) are key for the growth of a nation's economy, since it transfers money, technology, and knowledge to the receiving nation. Governments of many countries actively seek FDI to promote economic growth and development and may offer incentives. FDI has resulted from globalization through the integration of local or domestic markets with international markets across the globe. However, the inflows of FDI into the East African Community (EAC) remain low compared to other regions. Therefore, the goal of this research was to examine how macroeconomic factors (exchange rate and GDP) affect FDI in EAC countries, through infrastructural development, trade openness, inflation, resource endowment, ease of doing business as control factors. The study sought to address two specific objectives; to examine the effect of exchange rate on FDI in the East African Community; and to establish if there is an endogeneity of exchange rate and GDP with respect to foreign direct investment in the East African Community. The target population included Burundi, Kenya, Rwanda, Tanzania, Uganda, and DRC. However, South Sudan, one of the EAC countries, was excluded from the study because it had not been reporting its data to the World Development Index. The study used non-experimental research design, and theories such as eclectic paradigm, Keynesian, and Classical to support study variables. The study used published annual data from 2000 to 2021 to estimate Pooled Panel Ordinary Least Square (OLS) to answer the first objective and estimated Instrumental Variable (IV) method and Control Function Approach (CFA) to address the second objective. Diagnostic tests, namely normality test, multicollinearity, and heteroscedasticity were conducted. The study found that several factors, such as GDP, infrastructural development, trade openness, resource endowment, and Foreign direct investment (FDI) in the East African Community depends on how easy it is to do business there, whereas the exchange rate was a drag on FDI. Additionally, the results revealed that there was an endogeneity of exchange rate and GDP with respect to FDI in the EAC. The research suggests that policymakers in the EAC need to prioritize improving economic growth in the region by promoting policies that stimulate economic development. EAC countries can foster an environment favourable for business growth by reducing regulatory burdens, promoting transparency, and enhancing the region's ease of doing business generally. Moreover, policymakers in EAC countries should work to stabilize the exchange rate by adopting policies that promote macroeconomic stability. Further research is suggested to be conducted in other regions to compare the results obtained from this study with those obtained from other regions.