

ABSTRACT.

The paper investigates the main drivers of real Gross Domestic Product growth in Kenya as well as those that drive the foreign direct investment (FDI) in Kenya. It is widely acknowledged that FDI has potential benefits that accrue to host countries. The view suggests that FDI is important for economic growth as it provides much needed capital, increases competition in host countries and helps local firms to become more productive by adopting more efficient technology. Kenya's record in attracting FDI from the 1980s has been poor though it was a favoured destination in the 1970s. The study findings show that FDIs in Kenya are mainly market-seeking and these require growing GDPs, political stability and good infrastructure, market size as well as reduction in corruption levels. The prevalence of crime and insecurity would be impediments to FDI inflow. The policy implications of this study are that Kenya's FDI's tend to be mainly market seeking and for this reason policy makers in Kenya should focus on improving political stability, emphasize the development of good infrastructure and growing the country's GDP. This should be coupled with a serious attempt at reducing corruption levels as well as a serious assault on the prevalence of crime and insecurity which are major impediments to this type of FDI inflows.