

**Title: FOREIGN DIRECT INVESTMENT AND THE PERFORMANCE OF MANUFACTURING SECTOR IN KENYA**

**Author: Willy Ngumbi Stephen**

**ABSTRACT**

*The purpose of this study is to examine the (Aitken, B and Harrison, A, 1999) relationship between foreign direct investment (FDI) and the performance of manufacturing sector in Kenya. In the methodology, annual data of aggregate foreign direct investment, manufacturing quantum index, manufacturing value add and manufacturing exports were used. In the analysis test for stationarity was carried out using augmented Dickey- Fuller test and cointegration test using Johansen cointegration test. Vector Error Correction Model was used for causality test. In empirical findings after the data satisfied the stationarity test, a long-run relationship between FDI and the performance of manufacturing sector in Kenya was established. However, there was no short-run relationship between FDI inflows and the indicators (manufacturing quantum index, manufacturing exports and manufacturing value add) used to measure the performance of manufacturing sector.*

*The practical implications of the study is that since there is a long-run relationship among the variables, policies to attract FDI into the manufacturing sector should have a long range view and should be sustainable. The policy direction should focus on improving productivity and innovative capabilities of the manufacturing sector and strengthening the supporting industries and institutions. Specifically, policies like provision of tax relief to manufacturers on importation of new technology and expatriate that will bring about efficiency and effectiveness in production*

*This paper is one of the few studies that attempt to examine the relationship between FDI and manufacturing sector in Kenya. The study draws attention of policy makers in Kenya to the fact that diversification of the economy can be achieved through a viable manufacturing sector.*

*Testing For the Significance of Gender as Unused*