

**EFFECTS OF TRADE LIBERALIZATION ON MANUFACTURING IN KENYA: A
CASE STUDY OF THE TEXTILE INDUSTRY**

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**A DISSERTATION SUBMITTED TO THE DEPARTMENT OF POLITICAL SCIENCE
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2021

DECLARATION

Declaration by Candidate

I declare that this dissertation is my original work and has not been submitted for a degree in any other university. No part of the research work can be reproduced without prior permission from the author and/or University of Nairobi.

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Declaration by Supervisor

This dissertation has been submitted for examination with my approval as a university supervisor.



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ABSTRACT

The textile industry is a critical component of the manufacturing sector. In the 1980s, the value addition of the textile industry to the manufacturing sector averaged 10.8%. However, as the country embarked on a trade liberalization campaign, the textile industry exhibited a consistent decline in its performance. In light of this, the study sought to ascertain the effect of trade liberalization on manufacturing in Kenya, focusing on the textile industry. The specific focus was on the impact of trade openness, foreign direct investment and tariff measures on the textile industry in Kenya. The study relied on the technology spillover theory. Further, the study utilized both primary and secondary data. For the primary data, the study targeted 23 textile export firms in Kenya. On the other hand, the study sourced secondary data from the World Bank Development Indicators. The study relied on the ex-post factor research design. The secondary data indicated that textile value addition to manufacturing was at 13.8%, showing a sustained increase in textile industry value addition to manufacturing. The findings from the textile export firms indicated that trade openness and foreign direct investment positively influenced textile industry performance in Kenya. However, tariff measures did not influence the textile industry. The conclusion was that textile firms are taking advantage of an open trade regime to enhance their access to international markets. Also, through FDI inflows, the textile exports firms have access to new technology that boosts their productivity levels. However, there is no clarity on the tariff measures on textile exports from Kenya to international markets. The study recommended that the government implement open trade policies and ensure that textile export firms have a supportive business environment. Also, there is a need to reduce tariffs on production inputs to boost the production levels of the textile industry in Kenya. Finally, the government should have the legal and regulatory framework in the country to facilitate inflows of foreign investment in the textile industry.

DEDICATION

I dedicate this work to my beloved parents, Mr. and Mrs. James Kariuki, and my brothers Samuel and Moses. Without their unwavering support, love, patience and kindness this dissertation would have never seen the light of day.

FOR YOU, WORDS CAN NEVER BE ENOUGH.

I AM BECAUSE YOU ARE.

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Finally, I take full responsibility for any shortcomings that might occur in this document.

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ACRONYMS

ASAL	Arid and Semi-Arid Land
COMESA	Common Market for Eastern and Southern Africa
EAC CU	East African Community Customs Union
EAC	East African Community
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
MFA	Multi Fibre Agreement
NARC	National Rainbow Coalition
SAPs	Structural adjustment programmes
SME	Small and Medium Enterprise
USA	United States of America
WTO	World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The goal of trade liberalization is to enhance productivity and promote exports through the exploitation of comparative advantage that is an outcome of enhanced technical development and exposure to foreign competition. Emphasis on the removal or reduction of barriers to trade between different countries is key. In a bid to diversify their economies, countries embark on trade liberalization with the aim of boosting their overall economy.

Manufacturing has largely been impacted by liberalized trade. Notably, the elimination of quotas by USA on textile and clothing imports resulted in increased textile supplies from both China and India (Seyoum, 2017). In this regard, liberalized trade afforded both India and China the opportunity to increase their textile exports to the USA.

In Asia, Pakistan to be specific, the manufacturing sector exhibited dismal performance after its independence. This was largely attributed to trade policies that were geared towards protecting cottage industries. However, between the 1970s and 1990s, the country shifted its focus to an outer oriented trade regime that made it possible to realize an improvement in manufacturing value addition and consequently growth in the economy (Haq, Perveen, & Amin, 2017). Not only has Pakistan benefited immensely in the post-liberalization period but also Sub-Saharan countries. Specifically, the reduction in import tariffs led to increased exports of textile and textile articles from Sub-Saharan Africa (Van Biesebroeck, & Zaurino, 2019). Nevertheless, countries such as China that have capitalized on technological transfer have made it difficult for Sub-Saharan countries to capitalize from liberalized trade.

Despite the importance of manufacturing, the economies of developing countries still remain largely agricultural. As such, the textile industry is often neglected (Njiiri, 2018). In spite of this, the industry is of key significance to both the developed and developing economies. The reason for this is that its end products, fabrics are used in vehicles interiors, furniture, coverings and health gadgets such as face masks and gloves. As well, the textile industry has a capacity to generate huge employment. Particularly, Rivatex East Africa limited has been key in the manufacture of personal protective equipment that have aided in combating the coronavirus pandemic and creating employment opportunities in the country.

In the periods after liberalized trade, the manufacturing sector in developing countries have declined in production and competitiveness (Kawaz, 2012). In Kenya, the decision to implement more trade openness has coincided with poor production in the sector. In this period, the textile industry which is a subsector of manufacturing faced stiff competition from the importation of second-hand textiles.

Efforts were made towards regionalization so that Kenya could benefit from preferential access to regional markets and those of the developed worlds. There was also massive privatization in the textile sector though the country was incapable of attaining the production levels realized in the import substitution period. Despite this evidence, there is still scanty literature on the nexus between trade liberalization and the performance of textile sector. This research therefore intends on finding out the effect of trade liberalization on manufacturing in Kenya with emphasis on the textile industry.

1.2 Statement of the Research Problem

The Kenyan government in view of the role of manufacturing in steering the overall economic growth has implemented policies in a view to benefit from trade liberalization. Particularly, the policies have been targeted in the textile subsector so as to diversify the productive base and increase the output for both the domestic and international markets. Even though these policies were well intentioned and conceptualized, they are yet to attain the desired goals. Before trade liberalization when Kenya's focus was on import substitution, the textile sector registered of up to 70,000 bales with the country having up to 52 mills (Chemengichet *al.*, 2013). After the liberalization of trade, the country realized a decline in the textile sector. Even with regionalization and globalization, the industry had a sustained decline and failed to capitalize on technology diffusion among other advantages associated with liberalized trade.

The negative gains of trade liberalization in Kenya were attributed to poor infrastructural facilities of textile industries that have intensified the over reliance on foreign industries (Chemengichet *al.*, 2013). As well, the textile industry in the country is exposed to poor fiscal conditions in export markets. The situation has been worsened further by poor governance and corruption as well as limited access to investible funds and the costs associated with the acquisition and adoption of technology. The textile sector has also suffered from insufficient protection as characterized by the influx of cheap imports into Kenya markets, low quality of cotton produced within the country leading to the importation of superior quality cotton at a

higher cost. It is on this basis that the research sought to find out the effect of trade liberalization on manufacturing in Kenya with focus on the textile industry.

1.3 Research questions

- i. Does trade openness have an influence on textile industry performance in Kenya?
- ii. What effect do tariff measures have on textile industry performance in Kenya?
- iii. What effect do foreign direct investments have on textile industry performance in Kenya?

1.4 Objective of the Study

The broad objective of the study is to analyze the effect of trade liberalization on manufacturing in Kenya: a case of the textile industry. The specific objectives are:

- i. To find out the effect of trade openness on textile industry performance in Kenya.
- ii. To establish the influence of tariff measures on textile industry performance in Kenya.
- iii. To establish the effect of foreign direct investments on textile industry performance in Kenya.

1.5 Justification of the Study

1.5.1 Policy Justification

The manufacturing sector is key to economic growth and instrumental in creating wealth. It can spur economic activities through its forward and backward linkages with the other sectors of the economy. However, not all countries have a comparative advantage in manufacturing despite its significance. Therefore, international trade is of utmost necessity in ensuring that countries have access to raw material or end products from countries that can produce at a cheaper cost. For instance, in the textile industry, a sub-sector of manufacturing, the reduction in trade barriers by high-income countries, particularly the United States and the European Union, resulted in a significant increase in textile and apparel exports from Sub-Saharan Africa (Van Biesebroeck, & Zaurino, 2019). The same scenario was evident in India, where the removal of restrictions on imported raw materials and imports used by the textile industry resulted in the profitability for textile firms through an increase in the volume of sales (Mukherjee & Chanda, 2016).

In Kenya, Esaku(2020) found that liberalizing trade improves productivity in the manufacturing sector. Given the importance of the sector in attaining the Big 4 Agenda and employment generation, a study intended to establish how trade liberalization affects the performance of the textile industry, a subsector of manufacturing, has implications on the trade policy the country will pursue. The findings of the study offer key insights to Kenya's Ministry of Trade in handling

both bilateral and multilateral negotiations and managing the administration of tariffs. Also, the findings are of utmost significance to the county governments in Kenya as it highlights the potential of the textile industry. Notably, the counties would see the potential market of textile and textile articles in both the East African region and developed economies such as the USA. In addition, the findings are of relevance to the Kenya Association of Manufacturers as it offers vital alternatives to improving the activities of firms in the textile industry. The study adds to the existing literature on the association between trade liberalization and textile industry performance in Kenya.

1.5.2 Academic Justification

The research findings offer future scholars' information on how trade liberalization impacts the manufacturing sector in Kenya, emphasizing the textile industry performance. Particularly, since the bulk of the studies on the relationship between trade liberalization and the manufacturing sector are heavily reliant on secondary data, the present research incorporates the perspectives of both primary and secondary data to give a holistic picture of how the opening up of trade affects the textile industry in Kenya. Also, the research provides scholars with information on trade liberalization indicators that are either beneficial or detrimental to textile industry performance in Kenya. Further, since there is no common consensus on how to measure tariffs, the current study utilizes both the direct measure of tariff imposition, which is the total taxes on international trade over the total imports and the tariff measures in the textile industry. In that way, there is rich information that future studies could utilize to explore further how tariff impositions affect the textile industry.

1.6 Scope of the Study

The study was limited to the effects of trade liberalization on manufacturing in Kenya: a case of the textile industry. The focus was only on trade openness, tariff measures and foreign direct investments as proxies of trade liberalization. The study covered textile manufacturing firms within Nairobi County and major textile firms that have their offices in Nairobi County. Finally, the study utilized a questionnaire as the data collection tool and secondary data from the World Bank Development Indicators.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter introduces the concept of trade liberalization as well as the empirical relationship between trade liberalization measures and the performance of Kenya's textile sector. In addition, the chapter presented the theoretical framework and the hypotheses formulated in the study.

2.2 Concept of Trade Liberalization

Different authors have given varied definitions of trade liberalization. For instance, Omollo (2011) defined trade liberalization as the process by which there is the elimination of trade barriers. Through this process, goods and services move freely from one nation to the other. On the other hand, Osa (2014) opined that trade liberalization is a trade policy that ensures minimal tariffs, reduced quantitative restrictions and the ease of movement of goods between nations. Besides, Asongo, Jamala, Joel and Waindu (2013) espoused that the meaningful reduction in restriction while engaging in global trade makes up liberalized trade. From the above definitions, it is clear that trade liberalization encompasses the removal/elimination of barriers to trade. Such barriers comprise quotas as well as tariff and non-tariff barriers. Countries engage in trade with each other with the goal of benefiting from comparative advantage. As such, countries liberalize their trade with the aim of spurring their economic development.

Trade liberalization has also been referred to as the increased integration of markets for key production inputs, including physical capital and labour. Through liberalized trade, countries have access to international markets, enabling individuals to tap into other viable markets worldwide, access better technology, more capital, and an expanded export market. Besides that, countries are exposed to better ideas, new products, and the potential to attain efficiency in using production resources. Without a doubt, Kenya has experimented with both a restricted trade regime and an outward-looking trade regime. In the post-trade liberalization period, the country was more integrated with the world market with the elimination of barriers to trade.

2.3 Empirical Review

2.3.1 Trade openness on Textile Industry Performance

Empirically, trade openness refers to the intensity of trade regulation and restrictions by a given country to other international trade partners (Fujii, 2019). Open trade in an economy is likely to stimulate textile industry performance. Several channels through which trade openness could improve the textile industry's performance exist in the literature. These channels included access to cheaper and better technology, attaining economies of scale by firms in the textile industry and accessing broader markets.

Among the studies that have attempted to find a nexus between open trade and the textile industry's performance is Haq, Perveen, & Amin (2017), which analyzed trade openness and value addition in the manufacturing sector in Pakistan between 1972 and 2012. The study utilized the Autoregressive Distributive Lag Bounds test to ascertain whether openness to trade influences manufacturing value addition. As opposed to the Kenyan case, the manufacturing sector in Pakistan was considered weak after independence. To stimulate the sector's growth, the government embarked on a trade liberalization regime in the 70s that gained traction in the mid-90s once the country joined the World Trade Organization. The implication was that open trade enhanced manufacturing value addition which in turn positively impacted the economy. The current study differs from that of Haq, Perveen, & Amin (2017). It considers the effect of trade liberalization on the textile industry as a sub-sector of manufacturing.

Similarly, Ullah et al., (2020) investigated the influence of trade openness on the profitability of the textile industry in Pakistan. The research relied on secondary data from 1997 to 2019. The study sourced the data from the World Bank Development indicators and Pakistan Securities Exchange. The data on the profitability levels of the firms in the textile industry were collected from their annual reports. The findings indicated that trade openness had no effect on the profitability of the firms in the textile industry. The current study adopts a different approach by looking at the overall textile industry performance as opposed to the individual performance of the textile firms. Also, in the measurement of textile industry performance, the study captures the value addition of the textile industry to the manufacturing sector in Kenya.

Further, Anwar, Shaukat and Hussain, (2010) examined the effect of open trade on the export of cotton lint from Pakistan. The period of interest was between 1971 to 2008. The study investigated the openness of the agricultural sector and how the policy reform towards an open economy had impacted on cotton lint exports and the competitiveness of the sector. The findings

indicated that the implementation of open trade policies positively impacted on the export of cotton lint. The sector experienced a higher demand from the commodity with the opening up of trade. There was, therefore, a consistent rise in the volumes of cotton lint from Pakistan to the rest of the world. Rather than exploring cotton, the study examines the performance of textile and textile articles in the period Kenya had liberalized its trade.

In India, Maity and Sinha (2021) explored the growth in the ready-made garments industry under an open trade regime. India is a global powerhouse in the manufacture of textile and boasts of an extensive base of raw materials. Global statistics indicated that the country's share in the global textile averaged 5% in 2017. Besides that, the country is the second largest exporter of textiles after China. Therefore, Maity and Sinha (2021) deemed it essential to explore the growth trends of ready-made garments exports. Also, the authors investigated the effect of an open trade regime on the ready-made garments industry.

The study relied on secondary data from published sources on the growth patterns of the ready-made garments industry in India. The years of focus were between 1987 and 1988 as well as the period between 2018 and 2019. The findings from the analysis indicated that the garment industry is eliciting a decline in its growth. Despite that, the industry benefited from the trade openness. The present study is similar in approach with that of Maity and Sinha (2021). Nevertheless, there is incorporation of both primary and secondary to give an in-depth picture of textile industry performance in Kenya.

He (2020) explored the effects of Chinese imports on African textile exports. The study targeted 53 African states and fourteen textile subsectors within these countries. The period of interest was from 1990 to 2017. The findings indicated that from the period between 1990 to 2008, the Chinese imports had positive influence on African textile exports. However, as from 2009 to 2017, the imports negatively influence the textile exports from Africa. He (2020) argued that during the first period, the imports from China intensified competition in the textile sector which boosted the overall productivity and exportation of African textile exports.

However, in the second period, there was an increase in the crowding-out effects which contributed to the decline in African exports with the rising Chinese imports. Besides, the textile industries in Africa were facing stiff competition from countries such as India and Pakistan that had comparative advantage in the textile industry. Thus, some of the textile firms within Africa found it cheaper to import raw materials as opposed to sourcing it from the cotton producers

within their countries. Eventually, the textile industries experienced a considerable decline in the production with Chinese textile imports offering a cheaper alternative.

In Ecuador, Wong (2007) examined the consequence of open trade on industries' performance in the manufacturing sector. The emphasis was on finding out whether Ecuador's open trade regime led to either an increase or decline in manufacturing performance between 1997 and 2003. In the post-liberalization period, the study established that the manufacturing firms elicited an increase in their overall productivity. The findings indicated that an improvement in the performance of manufacturing industries was attributed to open trade. Specifically, the firms that were export-oriented were the biggest beneficiaries of the open trade regime. Nevertheless, after the year 2000, the manufacturing sector exhibited a decline in their performance resulting from intensified competition in the global markets. The implication, therefore, is that open trade simulated the growth in manufacturing while the firms were unable to sustain these benefits in the long run. The current study adopts a similar approach though the focus is on the textile industry. The study intends to uncover if open trade has a role in the collapse of Kenya's textile industry.

More specifically, Khan & Yousef (2012) analyzed factors determining the demand for textile exports from Pakistan. The study utilized cointegration analysis to ascertain if a nexus exists between the demand for textile exports and its determining factors. The findings indicated that the main determining factor of textile exports demand is the global income followed by trade openness. Besides, there is a nexus between open trade and the demand for Pakistan textile exports. Evidently, with the elimination of trade restrictions, there is more demand for textile exports from Pakistan. The current study focuses on the link between open trade and textile industry performance in Kenya. The divergence from Khan & Yousef (2012) is that focus is on how open trade influences the textile industry's performance instead of the demand for textile exports. Besides, the current study relies on primary data, giving a more accurate depiction of how an outward-oriented trade regime impacts the textile industry's performance.

Similarly, Ekanayake (2016) sought to examine the determinants of textile export demand from Sri Lanka. The period for the study was between 1999 and 2013. The analysis focused on a cointegration approach. There was a significant relationship between the demand for textile exports and the textile industry's performance from the results. The study, however, indicated that trade openness negatively impacted the demand for textile exports from Sri Lanka. It appears,

therefore, that liberalized trade was detrimental to textile exports demand. The literature gap is that emphasis is on the demand for textile exports rather than the overall performance in the industry. Besides, Ekanayake (2016) focuses on a 15-year period which may be inadequate in giving an accurate picture of the influence of open trade on the textile industry.

In the African context, Umoh & Effiong (2013) conducted a study on the influence of open trade on Kenya's manufacturing sector performance. The ARDL model was utilized in the analysis. The period was from 1970 to 2008. The findings indicated that openness to trade positively impacted production in manufacturing. It was concluded that the focus needs to be on more open trade regimes to facilitate the sector's performance. The reduction of trade restrictions was also recommended as the appropriate policy path to pursue in improving manufacturing performance. The present study focuses on an extended period and particularly on the textile industry's performance. Umoh & Effiong (2013) did not establish the textile sector's contribution to the overall manufacturing sector in Kenya. The current study intends to address this gap.

Okeowo & Aregbeshola (2018) studied the influence of trade openness on textile industry performance in Nigeria. The time-series data utilized was between 1986 and 2015. The period focused on was after the country embraced liberalized trade. The method used was the Autoregressive Distributed Lagged model. The findings revealed that an increase in trade openness would result in declined textile industry performance. The implication is that open trade brings about a decline in the productivity of the textile industry. Evidently, the textile industry performed poorly in the trade liberalization period. The current study adopts a similar approach but in the Kenyan context.

Besides, Nwanosike (2019) delved into the impact of open trade on value addition in manufacturing. The case study was Nigeria, with the period being between 1970 to 2014. The study was quantitative with the utilization of the cointegration approach. The results revealed that Nigeria's export structure had not exhibited any change over the study's period. Over the same period, the only difference evidenced was a shift from agro-industry based exports to crude oil. The weedy manufacturing sector in Nigeria was attributed to its overreliance on the importation of machinery and equipment. Similarly, the industry was incapable of responding positively to expanded global markets inherent in open trade. It might have been attributed to the high costs of production in the manufacturing sector. The current study adopts a similar approach but in the Kenyan context. It will highlight if Kenya was affected by the intensification of

competition in the global market. Also, it will highlight whether the downfall in the textile industry is due to the high production costs in the industry.

Finally, Keregero (2016) analyzed textile industry performance in Tanzania. The research gave a historical perspective of the textile industry performance in the periods before and after implementing open trade policies. The findings indicated that the textile industry had performed dismally in the post-liberalization period, mainly due to the country's influx of cheap second-hand clothes. Therefore, trade openness was detrimental to textile industry performance in Tanzania. The study will build on this research by adding insights into how trade openness has affected the textile industry in Kenya. The present study employs quantitative analysis instead of the qualitative approach by Keregero (2016). The current research can blend the insights from the quantitative analysis with the historical analysis.

2.3.2 Tariff measures on Textile Industry Performance

Tariffs are customs levied on imports that offer an advantage to local producers and, at the same time, are a source of revenue for the government (WTO, 2015). Trade restrictiveness is most often measured with tariffs since it is the most direct of all measures and tends to have available data. Setyorini & Budiono (2020) delved into the influence of tariffs on the importation of raw materials and the exportation of textile and clothing. The focus of the study was on the United States Market. The study collected data from textile exporters to the USA. The analysis was done with the aid of the gravity model. The findings indicated that with an increase in tariffs, there is a reduction in textile exports to the USA market. The results revealed that the tariffs were a burden for the countries exporting textile to the USA, particularly those not subject to a special tariff rate. In that regard, tariffs restricted the export of textile to the USA. Nevertheless, the current study focuses on textile industry performance as opposed to textile exports. Also, the study gets perspectives from the management of the textile firms in Kenya if there are any restrictions to the exportation of textile from the country.

Also, Wang (2013) delved into the factors influencing textile exports' performance from Asian countries. Emphasis was on the emergent trends and factors determining textile export performance between the years 2000 and 2011. The vector autoregressive (VAR) approach was utilized to analyze the secondary data gathered from the developing countries government databases. The results indicated that tariffs negatively influenced the volume of textile exports from targeted Asian countries. It mainly was the case after the elimination of preferential market

access. The present study also used tariffs, but the focus is on how tariffs influence the textile industry's performance other than export performance. By focusing on the textile industry, the intention is on ascertaining the contribution of the textile sub-sector to manufacturing.

On the other hand, Manoj (2014) delved into the performance of textile exports from India in the period after the implementation of the Multi Fibre Agreement (MFA). This agreement dictated international trade in textiles until the year 2005. Since the country had a comparative advantage in textiles, the suspension of MFA was expected to benefit the cotton industry in India. The period under consideration in the study was between 1992 to 2012. The findings revealed that in the period between 2005 and 2006, India exhibited a robust growth in textile exports. In the post MFA period, the biggest gainers were human-made textile followed closely by ready-made garments.

Nevertheless, in the succeeding years, the textile industry was incapable of maintaining the same growth momentum. Consequently, in the post-quota regime, the textile industry has faced numerous changes, which necessitated policy changes to enhance the volume of Indian textile exports. Notably, Manoj (2014) did not directly focus on the impact of trade liberalization on India's manufacturing sector. Therefore, the present study emphasizes on tariffs as a measure of trade liberalization rather than agreements within the sector aimed at improving the sector's performance.

Van Biesebroeck and Zaurino (2019) explored the effects of market access liberalization in developed economies on exports from Sub-Saharan Africa. The study examined how the dismantling of trade barriers impacted on the volume of exports from Sub-Saharan Africa. The finding indicated that the reduction in import tariffs for the textile exports from Sub-Saharan Africa resulted in an increase in the volume of exports to the European and United States markets. Also, the presence of Chinese imports to these markets did not adversely affect the textile exports from Sub-Saharan Africa. The findings suggested that the removal of barriers to trade increased the export earnings from the textile exports from Sub-Saharan Africa which in turn contributed to the increase in the volume of textile exports. The implication is that import tariffs are not only a barrier to trade but they also contribute to the decline in the growth of the textile industry. The present study concentrates on tariff measures rather than the tariff rates for textile exports from Kenya to ascertain how it influences textile industry performance.

In the United States, Seyoum (2010) investigated the contributions of the textile and clothing sector to the USA economy and developing economies of the world. Emphasis was on effects of elimination of tariffs on exports from the developing countries to the USA. Focus was also on the impact of tariff elimination on textile exports from China which is largest exporter of textiles globally. The findings revealed that the elimination of tariffs would largely benefit the dominant players in the textile industry which are China and India. The study suggested that the majority of developing countries lacked the capacity to expand their production processes to serve more markets in the liberalized world. Therefore, efforts at elimination tariffs are beneficial to India and China who happen to have comparative advantage in the sector. The present study adopts a different approach by assessing the tariff measures on textile exports from Kenya and how it impacts on the textile industry performance in the country.

In Pakistan, Ahmad and Kalim (2014) investigated the impact of quota elimination on the export competitiveness and performance of textile and clothing from Pakistan to the European market. The study adopted a cointegration approach in ascertaining the effects of quota elimination on the competitiveness and performance of textile and clothing from Pakistan to Europe. The results indicated that the elimination of quotas did not benefit the textile and clothing sector. The implication is that quota elimination for textile and clothing exports was not enough to enhance the competitiveness of exports and the performance of the sector. The current study focuses on tariffs which are custom duties on textile and textile articles. By doing this, the present research establishes if the reduction or elimination of tariffs contributes to the growth of the textile industry in Kenya.

Similarly, Jamil and Arif (2019) examined the performance of textile exports from Pakistan with the reduction in tariffs for production inputs. The findings indicated that there is wider availability of intermediate inputs for the textile industry with the reduction in tariffs. Also, there are relatively limited constraints in the importation of these production inputs with the reduction in tariff rates. Further, there is an increase in the volume of importation of intermediate inputs such that the costs of producing textile in the country declined by a big margin. The resulting outcome was an increase in the textile exports from Pakistan to international markets, The implication is that the firms had the capacity to increase their production thereby serving more markets. Jamil and Arif (2019) offer different perspectives on tariff impositions by looking at production inputs rather than the final goods. The presents study builds on this information by

assessing how tariff measures on textile and also production inputs affect textile industry performance in Kenya.

In the Indonesian scene, Irvansyah, Siregar and Novianti (2020) explored the factors influencing the performance of Indonesia textile exports in USA, Turkey, South Korea and Japan. The study utilized time series analysis in examining how import tariffs affect textile exports in the four export destinations. The results indicated that import tariffs only affected textile exports to the USA, China and Turkey. It appears that these countries have protected their textile industry making it difficult for textile exports from Indonesia to enjoy price competitiveness in these markets. The present research focuses on tariff measures as opposed to import tariffs due to the scarcity of time-series data on import tariffs of textile exports from Kenya to its major trading partners.

Ayoki (2016) looked into the performance of the textile industry in Lesotho and the outcomes of the elimination of quotas on global trade of textile and clothing. The move to remove quotas had a detrimental effect on the textile exports from Lesotho to its major trading partners, particularly, the USA and Europe. The volume of exports to these markets declined together with the value of textile and clothing from Lesotho. Further, with the decline in textile exports from Lesotho and Sub-Saharan Africa, Europe and USA did not experience an increase in the textile and clothing exports from the developing countries in Asia. However, the study did not clearly delineate if the elimination of quotas contributed to the decline in textile and clothing exports from Sub-Saharan Africa.

On the other hand, Ayoki (2016) established that the removal of quotas contributed to a rise in textile and clothing exports from China to African market. As such, the influx of cheap Chinese imports to the African markets lead to a decline in the growth of the textile industry and subsequently a decline in the volume of textile and clothing exports. It appears that the end of quotas did not achieve the goal of fostering free trade and better terms of trade. Also, the developed economies such as the USA utilized safeguard mechanism such as tariffs to protect their industries while the African economies had eliminated the barriers to trade. Rather than benefiting the industry, it intensified the competition in the industry such that the textile and clothing no longer enjoyed price competitiveness in the global markets, The findings mirror that of Ahmad and Kalim (2014) which concluded that the removal of quotas did not enhance the competitiveness of textile exports from Pakistan to the international market. As opposed to focus

on quotas, the presents research intends to find out if the elimination or reduction of tariffs on textile exports from Kenya had the same effects as that of quota elimination.

In Botswana, Motswapong and Grynberg (2014) explored the opportunities and challenges in the clothing and textile industry in the country. The focus was on incentives aimed at improving the overall performance of the textile industry, The findings indicated that preferential trade agreements between Botswana and its major trading partners was key to sustaining the operations of the textile industry. Besides, domestic policies ensured that there is a conducive environment for the trade of textile and apparels within and outside the country (Motswapong&Grynberg, 2014). However, the textile industry failed to capitalize on the trade preferences leading to stagnant performance in the textile industry. Notably, the country enjoyed preferential trade though it had not taken advantage of this incentive. It appears that these measures were not geared towards ensuring the long-term commercial viability of the sector. The present study focuses specifically on tariff measures as one of the dimensions of preferential trade agreements and how it impacts on the textile industry performance in Kenya.

In Ethiopia, Bigsten, Gebreeyesus andSöderbom (2016) examined theinfluence of tariffs on manufacturing sector performance in Ethiopia. Commodity data on tariffs was utilized. The results suggested that tariffs influenced the productivity of manufacturing firms in Ethiopia. Notably, a reduction in tariffs for inputs positively impacted manufacturing. The implication was that policy measures to facilitate the access of inputs by manufacturing firms can lead to productivity gains in the manufacturing sector. The present study delves into the tariffs on both goods and inputs to accurately depict how tariffs impact the textile industry performance.

Bukachi, Gitonga, and Kosgei (2020) looked into the impact of custom duties on the financial performance of Kenyan textile and apparel enterprises. The study adopted an explanatory research design and relied on primary data. The data was sought from the senior management of the firms. Bukachi, Gitonga, and Kosgei (2020) indicated that custom tariffs contributed to 64% of the variation of the financial performance of the textile firms. Besides, a unit increase in custom tariffs led to the improvement in the performance of the textile firms. Thus, custom tariffs were instrumental in boosting the performance of firms in the textile and apparel industry. The authors argued that the import tariffs of fabric and apparel fostered the growth of the textile and apparel firms in Kenya. Notably, with the imposition of custom tariffs, there was an increase in the domestic market for textile and clothing since it was costly to import (Bukachi, Gitonga,

&Kosgei, 2020). As such, with the increase in demand, the textile firms were in a position to expand their production levels to serve these markets and in turn it boosted their financial performance. However, Bukachi, Gitonga, and Kosgei (2020) did not indicate how the imposition of custom tariffs impacted on the export of textile and clothing. The presents study fills this gap by assessing how tariff measures on textiles impacts on the performance of the textile industry.

2.3.3 Foreign Direct investments on Textile Industry Performance

The long-term investments made by foreigners in a firm that is resident in a country that the investor is not based on is the foreign direct investment. Inflows of investment, whether by domestic investors or foreign, are instrumental in a country's development. In the least developing economies, FDI fills a gap by affording these countries skilled labour, technology and access to international markets. Nevertheless, the downsides of foreign direct investment are often felt by the infant industries of the host state. Kenya should, therefore, emphasize the advantages of FDI by eliminating its negative implications.

The study examined the literature on the link between FDI and textile industry performance. Notably, Sun & Anwar (2017) analyzed the impact of FDI on Chinese textile firms' performance. The research made use of the Meltz firm heterogeneity model. The specific focus was on how FDI affects how textile firms generate income in local and international markets. In the presence of FDI, the textile sector in China elicited improved performance. Consequently, with the increase in FDI, the textile firms had an increase in the revenue generated. The present study conceptualizes FDI as a measure of trade liberalization. It argues that, with an outward-oriented trade regime, foreign direct investment's inflows are a positive externality of opening up trade. The study, therefore, interrogates FDI as a proxy of trade liberalization, which is not the case with Sun & Anwar (2017).

In Bangladesh, Hossain (2015) analyzed the influence of FDI on the textile industry. Primary data was collected from textile firms in Bangladesh, while secondary data was gathered from publications. The findings indicated that FDI firms had taken advantage of the global textile market while the local firms could not increase their sales. The study implies that FDI firms were more productive compared to domestic firms. The study, therefore, recommended a more open FDI policy regime in the textile industry since it is likely to enhance the overall economic growth

in Bangladesh. The present study broadens the scope by focusing on the value addition of the textile industry to manufacturing.

Konara and Wei (2017) examined the influence of FDI on the development of domestic firms in Sri Lanka. The study relied on industry data and survey data from the World Bank. The findings indicated that FDI had both positive and negative spillover effects on the local firms in Sri Lanka. Concerning the positive effects, FDI is key to improving the competitiveness of domestic firms. The competition from the FDI ventures forces the local firms to improve on their production processes to maintain and increase their market share. However, the FDI ventures tend to be more productive because of their technology capabilities and their focus towards research and development. As well, since they are more export-oriented they tended to capture a larger market share compared to domestic firms therefore making more revenue. Thus, Konara and Wei (2017) argues that domestic firms can benchmark in FDI ventures to learn on how to improve on their performance and increase their market share. The only difference with the current study is that focus is on textile firms. Also, there are no comparisons with foreign ventures since the study targets textile exports firms.

Further, Adarov and Stehrer (2019) assessed the influence of FDI on the textile and clothing industry in selected countries in Europe. The study relied on secondary for the period between 2000 and 2014. The findings indicated that FDI inflows contribute to the growth of the textile and clothing industries in Europe (Adarov&Stehrer, 2019). FDI is key in enhancing the competitiveness of the textile firms in the global markets. FDI also contributes to capital accumulation among firms in this sector. The divergence with the present study is that focus is only on the textile industry in Kenya. Other than that, the study incorporates time series data on FDI as well as primary data on FDI form tedtile export firms in Kenya.

Besides, Djulius, Juanim and Ratnamiasih (2018) investigated the effect of FDI on knowledge spillovers in the textile industry. The study adopted a mixed method approach. The findings revealed that FDI contributes to knowledge spillovers in the textile industry. Further, the demonstration effect spurs innovation among the firms which subsequently leads to an improvement in productivity among the firms. The present research investigates how FDI influences textile industry performance in Kenya. Besides, it incorporates knowledge spillovers as a consequence of FDI inflows in the textile industry in Kenya. Other than that, there is an

exploration of time series data on FDI which assesses the percentage contribution of foreign investment to the overall GDP in Kenya.

Adugna (2018) analyzed factors influencing textile firms' export performance in Ethiopia. The study collected primary data with the aid of a questionnaire and a focus group discussion. The analysis was done with OLS regression. The study established that the previous year's growth in the economy proxied by FDI and GDP was attributed to the improved export performance of textile firms. The relationship was shown to be statistically significant. The firms incurred considerable costs in exporting textiles to global markets. Hence, they found the prices at the international market to be less competitive. However, in the domestic market, their textile products were profitable. As such, the textile firms were reluctant to export their produce to the rest of the world. It is, therefore, necessary for textile firms to capitalize on the positive externalities of FDI, such as new knowledge and technology. The current study addresses the methodological gap by utilizing primary data and collecting first-hand information on the inflows of investment into textile firms in the country. Besides, Adugna (2018) delves into textile firms' export performance, therefore missing out on data on textile industry performance.

Similarly, Habtamu (2015) delved into the impact of FDI on textile industries performance. The research made use of secondary data from the government databases in Ethiopia. From the analysis, it was established that there are both benefits and downsides to foreign direct investment. Moreover, a gap exists in Ethiopia's sector as to how technology accrued from FDI can be transferred to the sector. As well, there are policy gaps on how to minimize the adverse effects of FDI. The present study indicates whether a direct relationship exists between FDI and textile industry performance.

Habtamu (2015) studied the effect of FDI on textile manufacturing firms in Ethiopia. The author argues that FDI is instrumental in spurring the growth of the Ethiopian economy. Notably, through FDI inflows, developing countries are in a position to capitalize on advanced technology, foreign capital inflows, skilled labour and access to wider markets (Habtamu, 2015). The author further notes that domestic investors also benefit from FDI through access to new technology and an opportunity to access broader international markets.

However, Habtamu (2015) argues that there are negative effects of FDI to infant domestic firms Ethiopia. Concerning the textile manufacturing firms, FDI had both a positive and negative influence on their performance. Thus, the study argues that the firms should capitalize on the

positives such as technology spillovers, managerial expertise and access to new market to counter the negative implication of FDI to the textile manufacturing firms. Besides, there is need for the implementation of a regulatory framework that ensures that infant industries are protected from unfair competition from FDI venture (Habtmu, 2015). The presents study establishes the direction of relationship between FDI and textile industry performance in Kenya.

Further, Mwakanemela (2014) analyzed the influence of FDI inflows on the performance of textile exports from Tanzania. The period that the study focused on was between 1980 to 2012. The study utilized secondary data that was analyzed with the Vector Error Correction model. Stationarity was checked before proceeding to test cointegration. The results indicated that an improvement in the textile performance in Tanzania was attributed to foreign direct investment. The current study focuses on textile industry performance instead of exports' performance.

Mirugi (2017) looked into the contribution of foreign direct investment to the textile industry in Kenya. The study was a survey of 17 textile and apparel firms in Kenya. The research utilized a questionnaire in gathering data from the employees in these firms. The results indicated that tax incentives were a key factor in attracting FDI in the textile and apparel industry. Besides, Mirugi (2017) found out that the presence of conducive regulatory and legal framework contributed to attracting FDI inflows in the textile industry. However, there were barriers such as exchange rate fluctuations, surging inflation levels which significantly increased the cost of doing business in the textile industry.

Additionally, Mirugi (2017) indicated that corruption threatened the long-term survival of FDI ventures. Further, the findings indicated that the textile and apparel firms have extensive managerial expertise and the capacity to absorb the new technology that comes with FDI. The study concluded that the government should ensure that there are tax incentives in the textile industry to attract FDI. The current study examines FDI as a measure of trade liberalization. The argument is that, with an open economy, the country is likely to attract FDI to the textile industry. Thus, FDI is a consequence of trade liberalization. As opposed to Mirugi (2017), the focus is on both primary and secondary data to ascertain the trend in FDI inflows right from 1980 to 2019. Besides, there is emphasis on the effect of FDI on the textile industry in Kenya.

2.4 Summary and Gaps in the Literature

The extant literature has tried to establish the link between trade liberalization and textile industry performance. However, some gaps necessitate the current study. Notably, the bulk of studies (Haq et al., 2017; Umoh & Effiong, 2013 & Wong, 2007) have primarily focused on the relationship between trade openness and manufacturing sector performance with a narrow focus on the textile industry. There is thus a general view on how open trade impacts manufacturing with less emphasis on the specific sub-sectors such as the textile industry. For the studies that have narrowed their focus on the textile sub-sector, their concentration is mainly on how trade openness impacts textile exports (Khan & Yousef, 2012; Ekanayake, 2016) instead of textile industry performance. The current study fills a gap in the literature by investigating the impact of trade openness on the textile industry performance in Kenya. Also, in this investigation, the study uncovers the value addition by the textile industry to the manufacturing sector.

Regarding tariffs, the literature concentrates mainly on how tariffs impact textile exports, especially in countries with a comparative advantage in the sector (Setyorini & Budiono, 2020; Wang, 2013; Manoj, 2014). Consequently, information is lacking on how the imposition of tariffs affects the textile industry, especially for developing economies such as Kenya. Further, due to the unavailability of data on tariffs, most studies fail to capture how tariffs impact the textile industry accurately. The current study overcomes these limitations by relying on primary data from textile manufacturing firms in Kenya. By doing so, the study benefits from first-hand information on the impact of policy measures targeted at either reducing or increasing tariffs on textile. The study also complements this information with secondary data from previous years to get a holistic picture of the implications of tariffs on the textile industry and develop policies targeted at growing the sector.

Further, studies on the effect of FDI on textile industry performance have not interrogated it as a proxy of trade liberalization (Sun & Anwar, 2017; Hossain, 2015; Adugna, 2018). The present study adopts a divergent approach in that it conceptualizes FDI as a proxy for trade liberalization. The argument is that trade liberalization facilitates international trade, which encourages FDI in an economy. Also, there is a concentration on textile exports (Adugna, 2018; Habtamu, 2015; Mwanemela, 2014) rather than textile industry performance. Emphasis is thus on how FDI contributes to positive externalities such as new knowledge and technology that enhance the textile industry's performance in Kenya.

2.5 Theoretical Framework

2.5.1 Theory of Technology Spill Over

Yuko Kinoshita developed the theory of technology spillover in 1998. According to Kinoshita (1998), trade liberalization affects domestic firms' productivity through four key channels. To start, Kinoshita (1998) termed the first channel as the demonstration effect. It arises from the differences in the level of technology that arises between domestic and foreign firms. The author noted that the entry of foreign firms into the market is epitomized by introducing new technologies to the industry in question. Through their interaction with foreign affiliates, the local firms can imitate how the foreigners operate and thereby enhance their productivity levels. The increased productivity levels by the local firms are also experienced through a labour turnover from the foreign firms to the cottage industries. In this regard, the demonstration effects highlight how foreign direct investment facilitates technology transfer from foreign to local firms.

The second channel is known as the competition effect. In this case, the entry of foreign firms brings about intensified competition in the domestic industry. In the context of the study, foreign firms' entry would result in more competition in the domestic textile industry. The firm would, therefore, have no other option but to adopt newer technologies in a bid to be more efficient and attain a competitive advantage. Besides, with intensified competition, monopolistic profits would be eliminated hence enhancing the host nation's welfare. On the flip side, there is also the possibility of the competition effect being counterproductive to the host nations in instances whereby the domestic firms are incapable of competing with foreign entrants. In such a case, there is a higher likelihood of domestic firms being driven out of the market. Consequently, there would be the transfer of monopoly rent from local to foreign monopolies.

Kinoshita (1998) termed the third channel as spillovers emanating from backward and forward linkages. The linkage occurs when there is engagement between the foreign affiliates and domestic suppliers in transactions. In fact, in instances where transportation costs are high, multinational companies are left with no other option but to source domestic producers' inputs. On the other hand, foreign firms may train the local suppliers, offer technical assistance or assisting them in the purchase of intermediate inputs to meet the quality of goods. Without the foreign affiliates' direct involvement, the domestic firms are required to meet quality standards, innovate more and deliver on time. This effect is known as the backward linkages. The forward linkages occur when the local producers, especially in developing countries, purchase

intermediaries from foreign suppliers whose products tend to be better because of technological superiority.

The fourth channel is the training effect. It refers to the cost incurred in training domestic workers to bring productivity improvement. Kinoshita (1998) noted that the training might be offered by foreign buyers or suppliers and foreign joint ventures. In most cases, domestic firms train their workers in a bid to improve the quality of products so as to cope with the competition from foreign entrants. It is only when the labour force is trained on the use of new technology that the host nation can benefit optimally from liberalized trade. Through the training, workers acquire skills that correspond with the newer technologies. As such, skill acquisition is key to benefiting from liberalized trade in the manufacturing sector. In a nutshell, the success of technology transfer is enhanced if the textile industry workforce is trained on the use of these technologies.

Generally, the theory will be best suited to explain trade liberalization on manufacturing in Kenya: a case of the textile industry. Trade liberalization as proxied by foreign direct investment, tariffs and trade openness are affected by technology spillover channels. Through foreign direct investment, there is the introduction of foreign affiliates who bring about new technology and, at the same time, intensify the competition in the textile industry. With trade openness, the host nation encourages trade with other countries, which encourages positive externalities, such as introducing new technology and the workforce's training on the use of these technologies. Measures such as tariffs force the foreign affiliates to source their intermediary inputs from the domestic producers rather than importing, which has the effect of improving the textile industry's performance, which in turn leads to a growth in the manufacturing sector in Kenya.

2.6 Operational Definition of Terms

Trade Liberalization: Trade liberalization refers to the removal/elimination of barriers to trade (Osa, 2014). According to the study, trade liberalization is the process by which trade barriers are eliminated.

Textile Industry Performance: The attainment of textile firms' efficiency, competitiveness and an improvement in their productivity levels (Mirugi, 2017). In the study, textile industry performance is the value addition of textile firms to manufacturing as a consequence of an open trade regime.

Trade Openness: The intensity of trade regulation and restrictions by a given country to other international trade partners (Fujii, 2019). The study conceptualizes trade openness as the removal of government control over trade of goods and services to facilitate global free trade.

Tariffs: Tariffs are customs levied on imports that offer an advantage to local produce and, at the same time, is a source of revenue for the government (WTO, 2015). According to the study, tariffs are the total taxes on international trade.

FDI: Long-term investments made by foreigners in a firm that is resident in a country that the investor is not based (Osabuohien, 2007). In the study, FDI is the net inflow of investment from foreigners to the textile industry in Kenya.

2.7 Hypotheses

- i. Trade openness has no significant effect on textile industry performance in Kenya
- ii. Tariff measures have no significant effect on textile industry performance in Kenya
- iii. Foreign direct investments have no significant influence on textile industry performance in Kenya

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

A methodology is an approach that links the methods to results. It encompasses the tools utilized by the researcher in collecting and validation of empirical data to answer the research questions. The methodology that the study adopted is quantitative. This section covers the research design, population and sample, data collection methods, piloting of tools with emphasis on their reliability and validity, data analysis and finally the ethical considerations.

3.2 Research Design

The study utilized an ex-post factor research design. The study aimed to establish the effect of trade liberalization on manufacturing: a case of the textile industry. This design was instrumental in identifying the possible effect of the explanatory variables on the dependent variable. The research design does not expose the study variables to direct manipulation hence appropriate for the study.

Besides, the design attempts at determining the effect of a variable on another variable and test a claim using hypotheses. According to Kerlinger and Rint (1986), the ex-post factor research design attempts at revealing possible relationships through the observation of an existing condition and looking back in time possible factors that could have contributed to the phenomenon being observed.

3.3 Target Population

The entire set of units from which a sample can be taken is referred to as the target population (Lavrakas, 2008). The study's focus is on the textile industry since it is a vital component of the manufacturing sector that is a key pillar to the economic development of Kenya. The textile industry in Kenya is labour intensive and links with sectors of the economy such as agriculture. It is, therefore, an industry with the potential to industrialize the country. Cotton cultivation is predominant in the Rift Valley, Coast, Eastern, Central and Western regions of Kenya. According to Kenya Investment Authority (2016), on average, 40,000 farmers engage in cotton farming while the textile industry provides livelihood to about 200,000 households. There are 52 textile manufacturing firms in Kenya though only 23 are operating at their optimum levels due to constraints such as the high cost of electricity and the cost of imported fibres (Konishi et al., 2015).

The study population comprised 23 textile export firms in Kenya, focusing on those based in Nairobi and those outside Nairobi but have their offices in Nairobi County. The list of the targeted textile export firms is attached in Appendix III. The justification for the choice of the targeted textile firms is that they have varied production levels, with some dominant in textile and apparel export. In contrast, others are new entrants in the export market. In each of the targeted textile export firms, the study targeted managers, assistant managers, general secretaries, and supervisors, making up a population of 92 respondents. Since the survey was measuring employees' perceptions of the effect of trade liberalization on the textile industry, the population size is ideal for capturing their different perspectives on the issue. Besides, the population size is appropriate for attaining accurate results for regression analysis since it requires a minimum sample size of 30 (Knofczynski & Mundfrom, 2008).

3.4 Study Sample

The study sample represents a significant portion of the population with characteristics that are similar to those of the underlying target population (Allan & Skinner, 2020). To avoid an insufficient sampling frame, the study included all the elements from the population. The sampling frame was representative since it included the managers, assistant managers, general secretaries and supervisors from the targeted textile export firms. Since the population is small and manageable, the study was a census involving the entire population of 92 respondents from the textile firms. The justification for the sample size is that the study satisfied internal and external validity and did not miss a relevant subgroup of the population. Also, the regression analysis estimates did not carry a bias, and the findings can be generalized to reflect the entire population.

3.5 Data Collection Methods

Data collection methods enable a researcher to collect information on study variables from a target audience in a consistent manner (Paradis et al., 2016). On the other hand, the tools that are utilized in collecting the data are referred to as research instruments. Interviews, observation schedules, and questionnaires are standard data collection methods in social science research (Paradis et al., 2016). The study relied on structured questionnaires to collect data on the effect of trade liberalization on the textile industry in Kenya. The questionnaire is best suited for the study since it is accurate in capturing information from the respondents and can easily be analyzed.

Primary data was therefore collected using the questionnaire in appendix two. Section one of the tool comprises information on the firm profile with specific emphasis on the firm size and age. Section two looks into the influence of trade openness on the performance of the textile industry in Kenya, section three on the influence of tariff measures on the textile industry, section four on the effect of FDI on the textile industry and finally section five on textile industry performance. The study also relied on secondary data from the World Bank Development Indicators and published articles that have a bearing on the study.

3.6 Pilot Testing of the Research Instruments

A pilot study is instrumental in ascertaining the reliability and validity of the research instruments. Before undertaking the main study, there was a small-scale pilot study to enhance the accuracy and appropriateness of the research instruments. The pilot study was conducted in Thika Cloth mills limited in Thika town. A total of 10 respondents from the senior management in the firm were targeted for the pilot study. These respondents were not part of the main study.

3.6.1 Instrument Reliability

Piloting examines the aspect of instrument reliability, which is based on ensuring that research instruments are free of error and bias, and that they measure the study variable consistently (Blumberg, Cooper & Schindler, 2014). The study used the Cronbach's alpha in assessing the reliability of the instruments. The Cronbach's alpha for internal consistency is based on a single test administration to assess the consistency of findings over a range of items (Sijtsma, 2009). A Cronbach's alpha value of 0.7 or higher, according to Nunally (1978), is ideal. As a result, when checking for reliability, the current research used a threshold coefficient of 0.7. The reliability findings indicated that tariffs had the highest reliability ($\alpha = 0.843$) followed by FDI ($\alpha = 0.780$), then textile industry performance ($\alpha = 0.751$) and finally, trade openness ($\alpha = 0.736$). The implication was that the research instruments were reliable and required no amendments.

3.6.2 Instrument Validity

The degree to which the findings of an analysis are representative of the phenomenon under review is known as instrument validity (Cooper & Schindler, 2014). The present study tested for face and content validity. The study incorporated the views of content experts on the subject of Political Economy consisting of lecturers from the department of Political Science and Public Administration. Their views ensured that the research instruments were a true reflection of the

study objectives. For the secondary data, the study relied on the World Bank Development Indicators whose data is credible and free from bias and errors.

3.7 Data Collection Procedure

The data was collected using a questionnaire. Before embarking on the data collection exercise, the researcher obtained a permit from the National Commission for Science, Technology and Innovation. The owners/ managers of the textile firms were issued with the permit to inform them about the study. Once the authorization to collect the data is given, the researcher familiarized with the textile firm in question and thereafter administer the questionnaires. The respondents were free to contact the researcher via E-mail or calling his cellphone number.

3.8 Data Analysis

Data analysis entails data cleansing (eliminating redundant or missing data, editing), data summarization, pattern detection, and applying statistical techniques (Cooper & Schindler, 2014). Therefore, the researcher reviewed the collected data to check for any possible errors. The researcher contacted the respondents to rectify on mistakes and fill missing information. Data was then prepared in readiness for analysis with the statistical package for social sciences (SPSS) version 24. Data was analyzed using descriptive and inferential statistics. The regression model that was adopted, as expressed below, took the form of the X and Y regression equations.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

Y = Textile industry performance

X₁ = Trade openness

X₂ = Tariff measures

X₃ = Foreign direct investment

β_0 , = constant term or y intercept

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of the regression model

ϵ = the error term

3.9 Ethical Consideration

The study adhered to ethical guidelines in conducting the research. To start with, the researcher obtained a permit from NACOSTI before undertaking the study. Secondly, the researcher explained to the respondents why the study is being conducted and their role in facilitating the study. Thirdly, the respondents signed an informed consent before participating in the study. The researcher informed the respondents that their participation in the study was voluntary and they could withdraw their consent if they so wish. Also, the data obtained from them would be used only for academic purposes. The study ensured that the respondents remain anonymous. Finally, the respondents were free to clarify on any issue.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of the data and discussion of the findings. Data were collected by the use of questionnaires. The collected data was analyzed using SPSS version 23 and presented in the form of figures and tables. Results were presented for each of the themes drawn from the objectives and were interpreted. Emphasis was on descriptive results, correlation and regression analysis.

4.2 Response Rate

Table 4.1 highlights the findings on questionnaire response rates. The study distributed 92 questionnaires to 23 textile export firms in Nairobi and those outside Nairobi but have their offices in Nairobi County. However, out of the 92 questionnaires, a total of 78 were adequately completed representing 84.8% which was considered high enough to provide in-depth information on the effect of trade liberalization on textile industry performance in Kenya.

Table 4.1: Response Rate of Questionnaires

Responses	Sample Size	Percentages
Returned questionnaires	78	84.8%
Unreturned questionnaires	14	15.2%
Total	92	100%

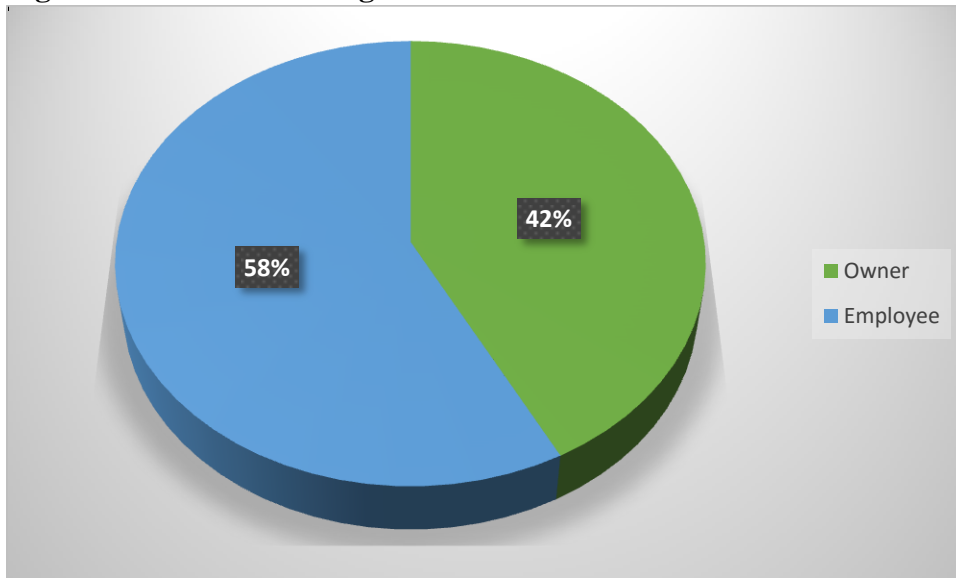
4.3 Background Information

The background information is key to understanding the effects of trade liberalization on the textile industry performance in Kenya. The emphasis is on the respondents' role in the organization, firm size and age. The sub-sections below highlight the findings.

4.3.1 Role in the Organization

The study inquired about the respondents' role in the organization. Figure 4.1 illustrates the results. Notably, 58% of the respondents were employees of textile export firms, while 42% of them were owners. The implication is that the study benefited from varied perspectives from both the owners of the firm and employees on how trade liberalization impacted the textile export firms.

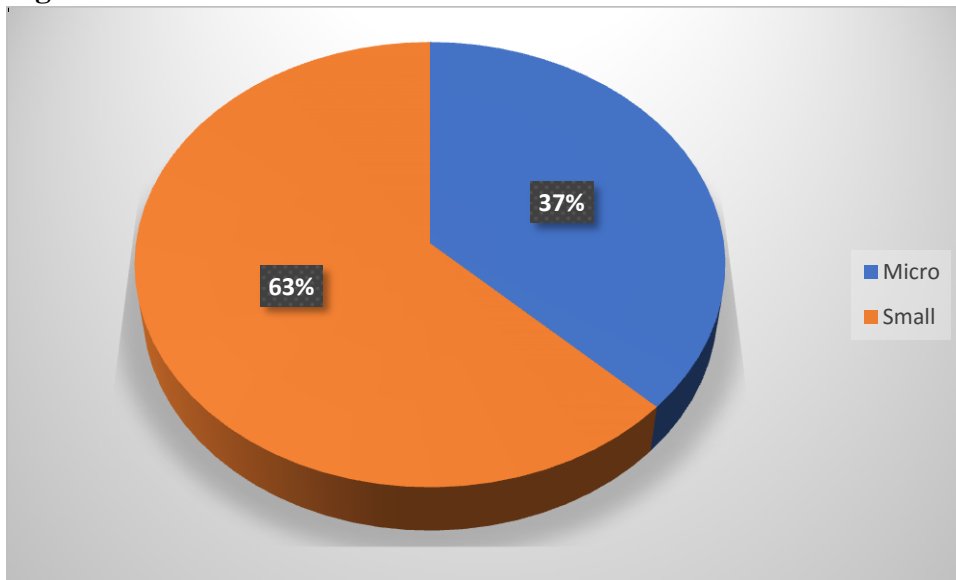
Figure 4.1: Role in the Organization



4.3.2 Firm Size

The firm size is an indicator of the volume of operations for textile export firms in Kenya. As indicated in Figure 4.2, 63% of the respondents stated that the firm is small while 37% micro. The size of the textile export firms fit the profile of small and medium enterprises (SME) that are key drivers of the Kenyan economy. Thus, the knowledge of firm size is of the essence in formulating policies that would encourage better terms of trade for SMEs in the textile industry and enhance the industry's overall performance.

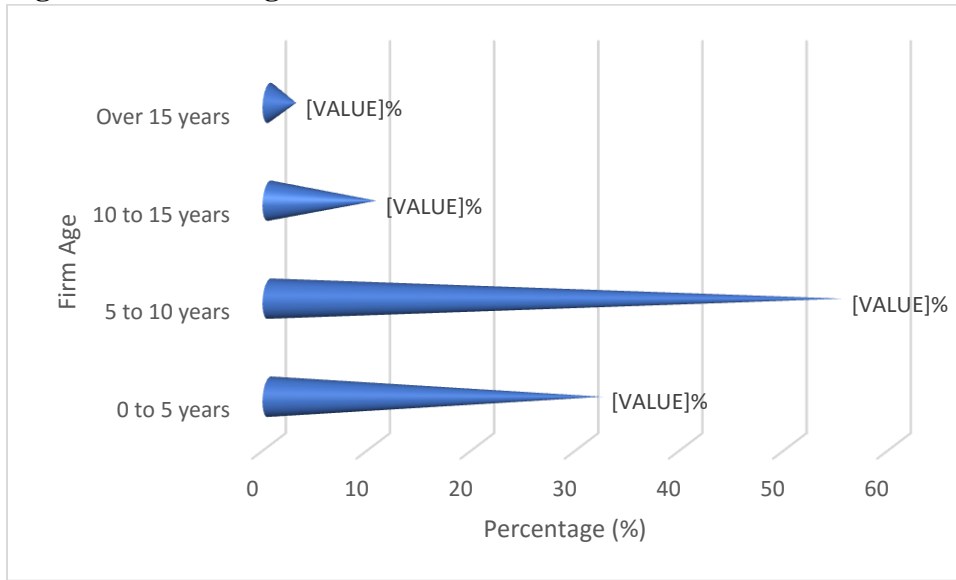
Figure 4.2: Firm Size



4.3.3 Firm Age

The firm age offers details of the organizations' experience in the textile industry and the form of the trade regime the firms were exposed to. Figure 4.3 illustrates the results. Remarkably, 55% of the respondents noted that the firm had operated for a period ranging from 5 to years and 32.1% for up to 5 years. Additionally, 10.3% of them noted that the firm had operated for 10 to 15 years and 2.6% for over 15 years. Notably, most of the firms had operated for more than five years, indicating vast experience in the textile industry. Also, it appears that these firms had operated within the period the Kenya government had implemented trade liberalization policies. Thus, the firms are likely to offer valid information on how an open trade regime had influenced the performance of the textile industry.

Figure 4.3: Firm Age



4.4 Trade Liberalization Trend: 1980 to 2019

4.4.1 Trade Openness

Trade openness is a measure of trade liberalization, and it refers to the intensity of trade regulation and restrictions by a given country to other international trade partners. Trade openness is measured in terms of the ratio of total trade (exports/imports) to GDP. Figure 4.4 highlights the trend of trade openness in Kenya from the year 1980 to 2019. The implementation of the structural adjustment programs (SAPs) and the subsequent diversification of Kenyan export in the global market contributed to an improvement in Kenya's external trade. Notably, in 1980, the trade openness index was at 46.38% an indicator of an increase in the share of exports as compared to imports.

However, with the opening up of the Kenyan economy, the country faced stiff competition in the global market. As such, Kenya exhibited a decline in trade openness to a low of 36.84% in 1983. The following year, the country realized a 19% increase in exports, which contributed to a rise in trade openness to 41.07. In the period between 1980 to 1990, trade openness was at an average of 39.52%, suggesting that the country experienced a relative increase in the volume of international trade.

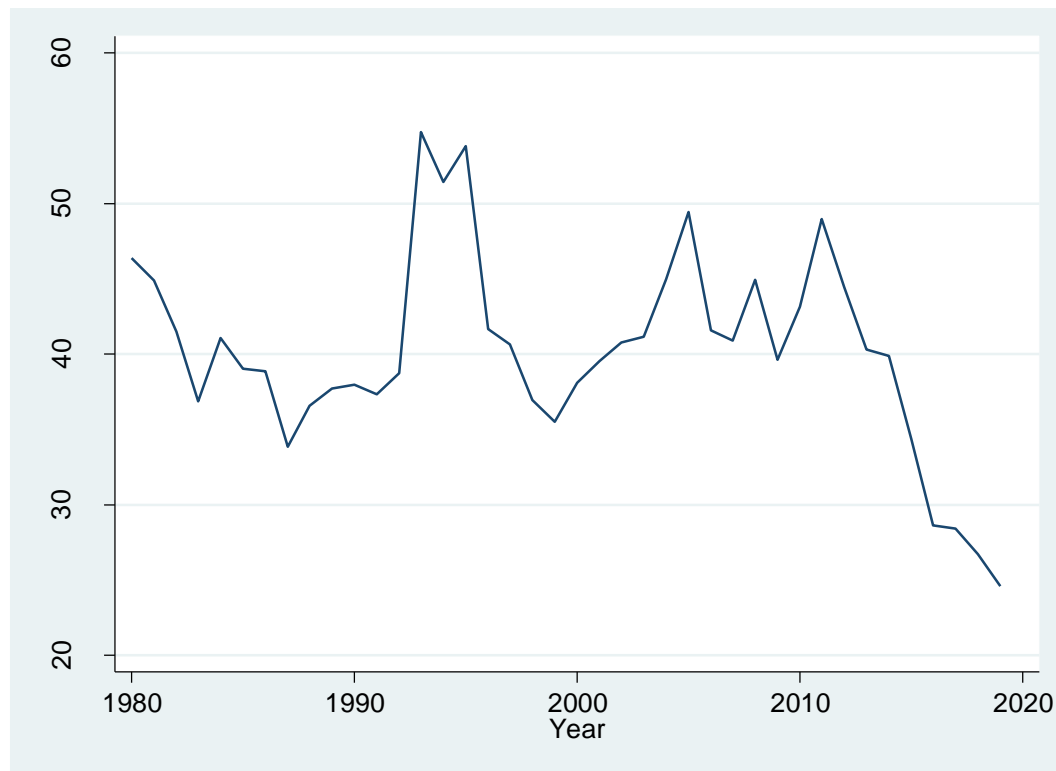
Key among the measures that contributed to this trend was the introduction of the manufacture under bond incentives (MUB) in 1985. The incentive allowed domestic and foreign manufacturers to import raw materials utilized to produce exports without any tax imposition. In

1990, Kenya introduced the Export Processing Zone (EPZ) aimed at attracting local and foreign investors to manufacture their products for exports. The resulting outcome was a rise in the trade openness index to 54.73 in 1993. The increase could also be attributed to the formation of the Export Promotion Council whose mandate was removing the bottlenecks facing Kenyan exporters and increasing the share of Kenyan exports in the global market.

In the period between 1994 to 1995, trade openness was at an average of 52.64. It was the same period that Kenya joined the World Trade Organization (WTO). Arguably, Kenya's policy of advancing an open trade regime was at its peak in 1995. Under WTO, there was more interconnectedness and interdependence throughout the globe with free transfer of both capital and products across different nations. Preferential treatment was extended to the textile industry enabling the sector to exhibit improved performance. However, Kenya was unable to accrue the benefits of special and preferential treatment due to trans-shipment challenges. The country's failure to take advantage of the global outsourcing production arrangement led to a sharp decline in trade openness to a low of 35.51% in 1999.

At the turn of the new millennium, there was a slight increase in trade openness to 38.1. With the Economic Recovery Strategy (ERS) initiation under the new political regime between 2003 and 2007, there was a consistent rise in trade openness. In this period, trade openness was at its highest in 2005 at 49.45. ERS was specifically targeted at the manufacturers. The government intended on reducing the cost of conducting business in the sector and infrastructural development. With the promulgation of the 2010 Kenyan constitution, there was more recognition of the utility of foreign policy in enhancing global trade. Consequently, trade openness was at 48.95 in 2011. However, from 2012, the country elicited a consistent decline in trade openness to a low of 24.6 in 2019. The findings are indicative of a decline in the volume of exports with an increase in imports, thus contributing to a decrease in trade openness.

Figure 4.4: Trade Openness



Source: World Bank Development Indicators

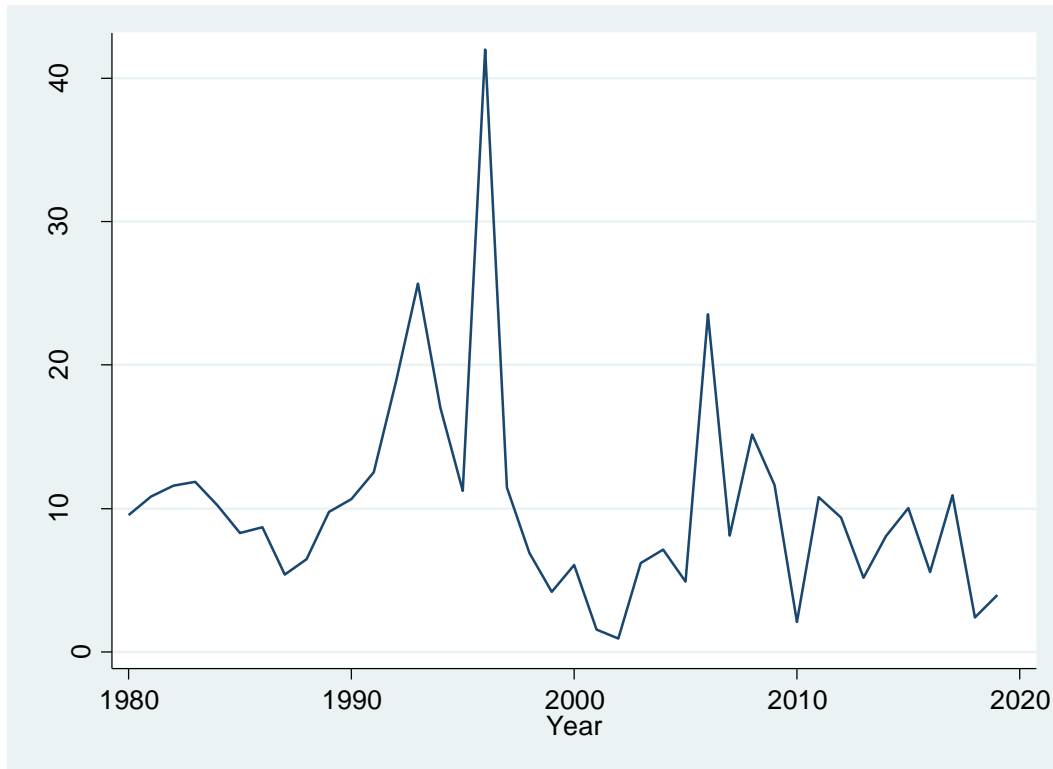
4.4.2 Tariff

Tariffs are customs levied on imports that offer an advantage to domestic producers while at the same time a source of government revenue (WTO, 2015). Tariffs are derived by dividing the total taxes on international trade over the total imports. Figure 4.5 illustrates the trend in tariff imposition from 1980 to 2019. During the 1980s, the tariffs were at an average of 9.39. In this period, the IMF and World Bank spearheaded the SAPs in a bid to stop the economic deterioration. The SAP policies focused on privatization and opening up the economy to trade, which were reflected in the low tariffs.

In the 1990s, there was a subsequent increase in the tariff levels with the year 1996 with the highest tariff (41.9). It appears that during this decade, the country had not fully implemented an open trade regime. With the change of the political regime in Kenya in 2002, tariffs were at their lowest at 0.93. During the National Rainbow Coalition (NARC), the tariffs averaged 8.47. In this period, the Kenyan government implemented a mix of protectionist and open trade policies, with protectionist policies having predominance. In the period between 2010 and 2019, the imposition

of tariffs averaged at 6.84. The tariff in that decade were relatively low compared to the period between 2000 to 2010.

Figure 4.5: Tariff



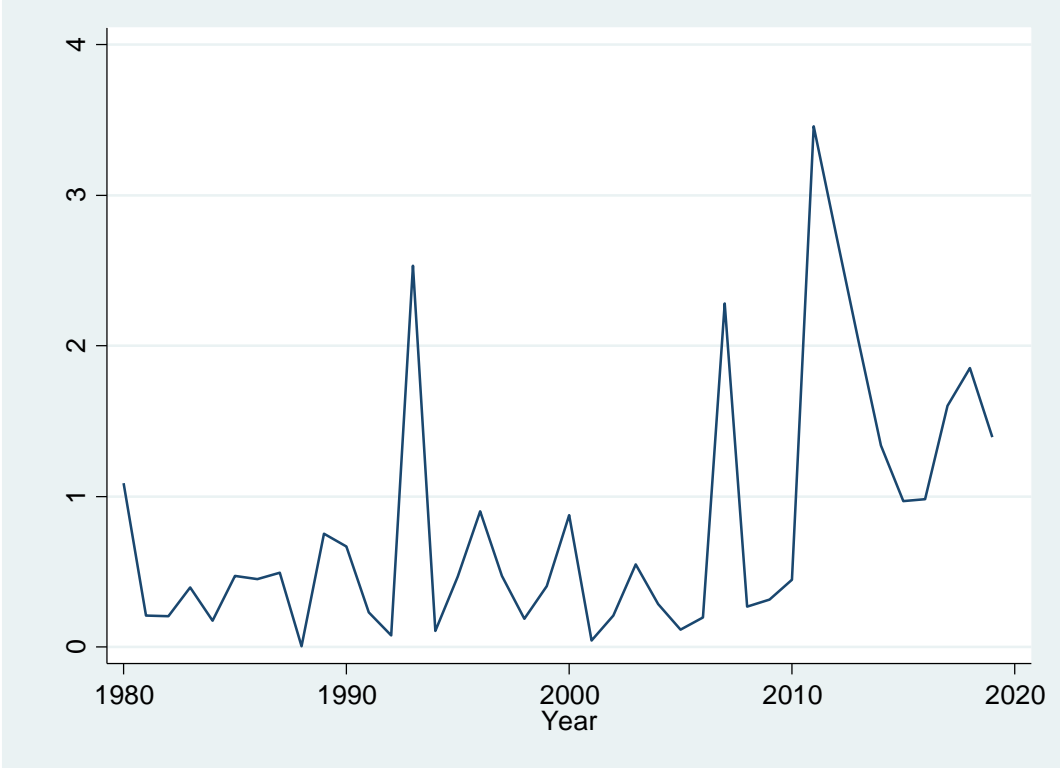
Source: World Bank Development Indicators

4.4.3 Foreign Direct Investment

Foreign direct investment refers to the long-term investments made by foreigners in a firm resident in a country where the investor is not based. It is measured in terms of the net inflow of investment from foreigners to the economy as a share of the GDP. The findings are as presented in Figure 4.6. In 1980, when Kenya implemented an open trade regime, the FDI inflow to the country was at 1.09%. However, the open trade policies did not reflect in the FDI as the country exhibited declined FDI in the next three years. In 1983. The country elicited an increase in the FDI to 0.4%. In this decade, the FDI was at its highest (0.75%) in 1989. The rise in FDI was attributed to the government's implementation of MUB, which contributed to attracting foreign investors. Further, the introduction of EPZs attracted domestic and foreign investors, which increased trade openness and FDI. Thus, there was a rise in the FDI to 2.53% in 1993.

In the period between 2000 to 2010, FDI was at an average of 0.51%. Particularly, in 2009, Kenya's net FDI inflows were at US\$116 million while that of Tanzania was at US\$789 million and Uganda US\$415 million (Koskei, Buigut& Kibet, 2013). The implication is that Kenya's neighbours were attracting more FDI despite the country implementing policies to attract investors. Also, the post-election violence of 2007 could have negatively impacted the FDI attractiveness of the Kenyan economy. From 2011 to 2013, Kenya exhibited FDI inflows at an average of 2.74%, slightly higher than the previous decade. The rise could be attributed to the promulgation of the 2010 constitution which could have enhanced the FDI attractiveness of the country due to the portrayal of political stability. During the political regime of the Jubilee government (2013 to 2019), the FDI inflows were at an average of 1.61%. That notwithstanding, the FDI inflows had a rollercoaster of ups and downs during the period. Therefore, despite implementing policies to stimulate FDI, the inflows were not stable in the country.

Figure 4.6: FDI



Source: World Bank Development Indicators

4.5 Textile Industry Performance: 1960- 2016

In Kenya, the textile industry is a key component of the manufacturing sector. It is one of the sub-sectors that have been targeted as a stimulus for economic growth in Kenya. In light of the complexities in measuring textile industry performance and the scarcity of time series data on the manufacturing sector, the study's other option is the percentage of value-added in manufacturing. Textile (% of value-added in manufacturing) is the sum of gross output less the value of intermediate inputs used in production for textile industries. The contribution of textile industry to manufacturing specifies the value-added in the sector at any given time. Consequently, an increment in this share would result in the growth of the manufacturing sector. Figure 4.7 highlights the trend of the contribution of the textile industry to manufacturing between 1960 and 2016.

Following the country's independence in 1963, there was an improvement in the manufacturing output to a 10% rate per year. From 1963 when the focus was on protecting cottage industries in line with import substitution, textile (% of value addition in manufacturing averaged between 6.5% in 1963 to 9% in 1967. During this period, Kenya placed both tariffs and quantitative restrictions on imported products. Precisely, restrictions were placed on raw materials and commodities such as textiles. Textile value addition in manufacturing hit its highest in 1968 (11.2%). This period was characterized by an expansion in the production of textile. The trade policies at the time were on import substitution industrialization. Particular emphasis was on exchange rate overvaluation to cater to the importation costs of raw materials and the subsidization of interest rates for enterprises in manufacturing.

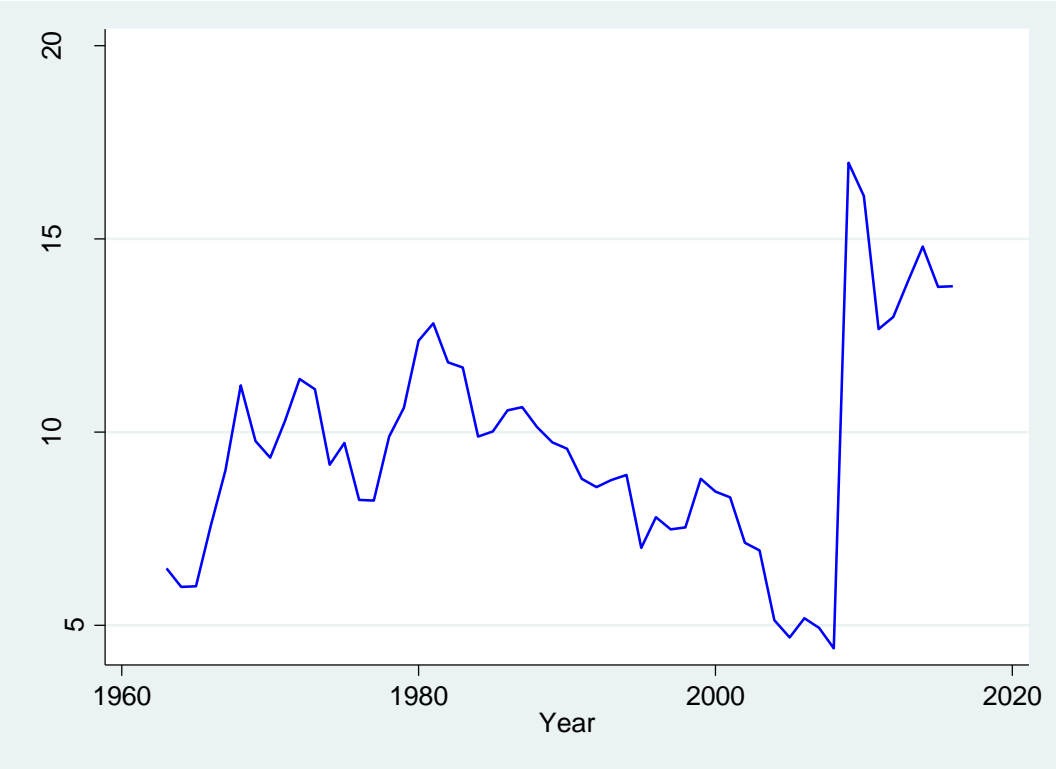
Eventually, the textile industry developed into the most productive subsector concerning its size and employment generation. The industry was capable of supporting over 200,000 households by affording a market for their cotton production. The success of the textile industry during the import substitution period was attributed to government's policy geared towards the backward integration of the textile mills in the country. From 1974 to 1979, value addition to manufacturing averaged 9.3%. In a nutshell, the import substitution period was characterized by the booming cotton and textile sector, which reached its peak in 1974 with a production to the tune of 70,000 bales.

From 1980, there was a dramatic shift in policy from protectionist policies to outward-looking policies. The change in policy was occasioned by the implementation of structural adjustment

programs. In this year, textile value addition in manufacturing was at 12.4%. In this period, the textile sector exhibited a decline in its overall productivity. The local textile industries faced stiff competition from second-hand imported textiles. By 1990, textile value addition in manufacturing was at 9.6%. There was a change in tact to regionalization, but it had a limited impact on the textile industry, with the sector hitting a low of 6.9% by 1995.

From 2000, there was a sustained decline, with 2008 eliciting the lowest value addition to manufacturing (4.4%). This could also be attributed to the post-election violence evidenced in 2007. As of 2016, textile value addition in manufacturing stands at 13.8%. At the moment, the country is rigorously pursuing liberalized trade to increase the productivity of local industries. The current policies are biased towards protecting domestic industries with the imposition of import duties on finished goods that directly compete with locally manufactured products.

Figure 4.7 Textile Industry Performance: 1963 to 2016



Source: World Bank Development Indicators

4.6 Descriptive Statistics of Study Variables

4.6.1 Trade Openness in the Textile Industry

Trade openness refers to the removal of government control over trade of goods and services to facilitate international trade. The results on trade openness in the textile industry are illustrated in table 4.2. The study enquired from the respondents in the textile export firms if the opening up of trade has facilitated access to cheaper and better technology. From the results, 60.3% of the respondents strongly agreed that opening up trade had facilitated access to cheaper and better technology, 15.4% strongly agreed, and 24.4% strongly disagreed. The mean value of 3.42 suggests that most firms are accessing cheaper and better technology with the opening up of trade. However, a significant portion of the firms are yet to capitalize from technology spillovers of an open trade regime. The findings point to varied production levels and capacity to access technology among the textile export firms in Kenya.

Further, 19.2% of the respondents strongly disagreed that the firms enjoy price competitiveness in the global market and 52.6% disagreed. On the other hand, 2.6% strongly agreed, 21.8% agreed, whereas 3.8% were neutral. The mean of 2.36 suggests that most textile export firms are not enjoying price competitiveness in the global markets. There is a possibility that the textile industry is facing stiff competition from other countries that can produce textiles at a relatively cheaper cost. Also, the industry is not incentivized such that the players in the textile industry face bottlenecks in the importation of machinery and equipment. For some textile firms, they find it cheaper to import raw materials as opposed to relying on the cotton produce from the country.

Besides, 55.1% of the respondents strongly disagreed that the support given to local textile firms gave the firm an advantage over foreign firms. The finding was supported by a mean of 2.03, indicating that the textile export firms are not receiving adequate support from the government. Thus, with the opening up of trade, the Kenyan firms face competition from textile firms in other countries that are likely to receive support from their governments. Such support could be in the form of an enabling environment for the textile industry and tax-free importation of machinery and raw materials for the textile industry.

However, 62.8% of the respondents strongly agreed that the firms had taken advantage of an open trade regime to enhance access to international markets. The mean of 4.15 confirms that

open trade afforded the textile export firms a market for their produce. The findings align with Kemboi and Oleche, (2020) assertion that open trade creates a situation whereby domestic producers expand their produce to serve both local and international markets. According to these authors, the positive externalities of new technology and investments enhance the capacity of these domestic firms to serve the wider markets brought about by an open trade regime.

Table 4.2: Trade Openness in the Textile Industry

	SA	A	N	D	SD		
	%	%	%	%	%	M	SD
The opening up of trade has facilitated access to cheaper and better technology	15.4	60.3	0	0	24.4	3.42	1.43
The firm enjoys price competitiveness in the global markets.	2.6	21.8	3.8	52.6	19.2	2.36	1.11
The firm has taken advantage of an open trade regime to enhance access to international markets	30.8	62.8	0	3.8	2.6	4.15	0.82
Support given to local textile firms gives the firm an advantage over foreign firms	9	10.3	10.3	15.4	55.1	2.03	1.38

4.6.2 Tariff Measures in the Textile Industry

Tariff is a direct measure of trade liberalization whose consequences are immediate when implemented. The study explored the impact of tariff measures in the textile industry. Table 4.3 illustrates the results. Notably, 47.4% of the respondents agreed that tariffs on production inputs affected the firms' production levels, and 50% agreed. The mean of 4.45 indicates that there are tariffs on input, which adversely affects the firms' production levels. Consequently, textile export firms are facing barriers in their production processes.

Further, 59% of the respondents strongly agreed that reduction of tariffs on textile and textile articles would boost the local textile industry. The item had a mean of 4.17, meaning that the respondents in the textile exports firms were in agreement that the tariffs in the industry were a barrier to its growth. As such, the Kenyan government has to ensure that the taxes in the textile industry are favourable to boost its growth. Besides, since the industry is a key contributor to manufacturing which subsequently contributes to the GDP, the focus needs to be on easing the cost of doing business in the industry.

Additionally, 33.3% of the respondents strongly disagreed that the textile exports enjoy tax exemptions to Kenya's major trading partners. On the other hand, 26.9% disagreed, 21.8% neutral, 12.8% agreed, while 5.1% strongly agreed. The mean of 2.29 confirms that the textile

exports from the majority of the textile firms do not enjoy tax exemptions. It is notwithstanding the Kenyan government signing bilateral agreements to foster trade for textile and textile articles. The textile industry is yet to enjoy preferential market access in the developed world.

Finally, 66.7% of the respondents were uncertain if there is a special tariff rate for textile exports from Kenya. The findings are supported by a mean of 2.51. It could be that there is a special tariff rate on paper that has not been implemented for the textile exporters to benefit from it. Moreover, it appears that there is a disconnect between the stakeholders in the textile industry and the Kenyan government. Consequently, the industry players are unaware of the existence of a special tariff rate for textile exports.

Table 4.3: Tariff Measures in the Textile Industry

	SA	A	N	D	SD	M	SD
	%	%	%	%	%		
Tariffs on inputs of productions affects the firm's production level	50	47.4	0	2.6	0	4.45	0.64
Our textile exports enjoy tax exemptions to Kenya's major trading partners.	5.1	12.8	21.8	26.9	33.3	2.29	1.21
Reduction of tariffs on textile and textile articles will boost the local textile industry	59	24.4	2.6	2.6	11.5	4.17	1.32
There is a special tariff rate for textile exports from Kenya	0	3.8	66.7	6.4	23.1	2.51	0.89

4.6.3 FDI in the Textile Industry

The inflows of FDI in the textile industry is a consequence of trade liberalization. With FDI in the textile industry, there is a possibility of expansion of the production processes of the textile firms. The growth is largely attributed to new technology, management expertise and capital for the firms in the industry. Table 4.4 illustrates the FDI in the textile industry in Kenya. From the findings, 38.5% of the respondents strongly disagreed that the legal and regulatory framework in the country facilitates inflows of foreign investment. The mean of 2.4 confirms that the legal and regulatory framework in the country is not supportive of FDI inflows. It could be that there is a lack of government willingness to implement policies to encourage the inflow of FDI in the textile industry in Kenya.

Further, 51.3% of the respondents disagreed that their firm elicited a significant increase in foreign investment in the firm. The mean of 2.71 is a confirmation that most firms had not attracted foreign investment in the past five years. The situation could be attributed to a non-

supportive business environment in the country characterized by a high imposition of taxes. Besides, there are cases whereby foreign investors have to part with massive financial resources to circumvent government bureaucracy. The resulting outcome is limited foreign investment in the textile industry.

However, 89.7% of the respondents agreed that the firm had the skills and capacity to handle new technology, as confirmed by a mean of 4.03. It appears that the textile export firms have the structures and capacity to adopt new technology that comes with an open trade regime. Thus, the textile export firms are receptive to new technology and require policies that encourage the absorption of new technology in the textile industry. In fact, 44.9% of the respondents agreed that technology from foreign investors had improved the quality of locally produced textiles.

Additionally, 46.2% strongly agreed that the financial bailout by foreign investors had positively affected the firm's production and demand for textiles. The item realized a mean of 3.83, suggesting that foreign capital inflows are of the essence in positively impacting firms' production and the demand for textiles. With the financial resources from foreign investors, the firms have the opportunity to improve the quality of their textile articles and serve a wider market both locally and internationally. Nevertheless, there is uncertainty about whether the textile export firms share technology with foreigners (mean = 3.32).

Table 4.4: FDI in the Textile Industry

	SA	A	N	D	SD		
	%	%	%	%	%	M	SD
The legal and regulatory framework in the country facilitates inflows of foreign investment	0	32.1	14.1	15.4	38.5	2.4	1.29
In the past five years, there has been significant foreign investment in the firm	3.8	29.5	7.7	51.3	7.7	2.71	1.09
The firm has the skills and capacity to handle new technology	7.7	89.7	1.3	0	1.3	4.03	0.46
Technology from foreign investors has improved the quality of locally produced textiles	25.6	44.9	6.4	19.2	3.8	3.69	1.17
Financial bailout by foreign investors has positively affected the firm's production and demand for textiles	46.2	26.9	1.3	15.4	10.3	3.83	1.42
The firm shares technology with foreigners	23.1	38.5	2.6	19.2	16.7	3.32	1.45

4.6.4 Textile Industry Performance

The study enquired from the respondents on the textile industry performance. The findings are as presented in table 4.5. Notably, 52.6% of the respondents agreed that the textile industry had benefited from the opening up of trade between Kenya and its major trading partners. On the other hand, 10.3% strongly agreed, while 33.3% strongly disagreed and 3.8% disagreed. The item had a mean of 3.03, meaning that not all firms had benefited from the opening up of trade between the country and its major trading partners.

Further, 61.5% agreed that the firm could meet the local demand for textiles as well as export to global markets, as confirmed by a mean of 3.63. The implication is that the textile export firms require a conducive business environment and limited barriers to the textile trade. In the presence of limited or no barriers to trade, firms are in a position to expand their production to meet the demand of local and global markets. In fact, 67.9% of the respondents confirmed that the firms meet the demands of the domestic market (mean = 4.1).

Additionally, 80.8% of the respondents strongly agreed that the importation of foreign textiles into the Kenyan market had contributed to declined growth in the textile industry (mean = 4.74). The reason for this is that the cost of producing cotton in Kenya is high such that the entrance of foreign textile results in the declined demand for local textile. Specifically, in certain instances, the textile firms would prefer sourcing foreign textile rather than domestic since it is cheaper. With this trend, the textile industry elicits declined growth.

Similarly, 82.1% of the respondents strongly agreed that stiff competition occasioned by the entrance of foreign firms to the Kenyan market has resulted in a decline in the profit margins (mean = 4.78). The foreign firms capture a significant portion of the textile market due to their better technology, management expertise and financial resources. It, therefore, becomes difficult for the local firms to compete effectively due to resource constraints and technological constraints. As a result, 96.2% of the respondents strongly agreed that heightened competition from foreign firms in the Kenyan market threatens the survival of local textile firms (mean = 4.92).

Table 4.5: Textile Industry Performance

	SA	A	N	D	SD	M	SD
	%	%	%	%	%		
The textile industry has benefited from the opening up of trade between Kenya and its major trading partners	10.3	52.6	0	3.8	33.3	3.03	1.53
The firm can meet the local demand for textiles as well as export to global markets	11.5	61.5	6.4	19.2	1.3	3.63	0.97
The firm meets the demands of the local market	24.4	67.9	2.6	3.8	1.3	4.1	0.73
Importation of foreign textiles into the Kenyan market has contributed to declined growth in the textile industry	80.8	15.4	2.6	0	1.3	4.74	0.63
Stiff competition occasioned by entrance of foreign firms to the Kenyan market has resulted in a decline in the profit margins	82.1	16.7	0	0	1.3	4.78	0.57
Heightened competition from foreign firms in the Kenyan market threatens the survival of local textile firms	96.2	2.6	0	0	1.3	4.92	0.48

4.7 Correlation Analysis

The Pearson correlation analysis depicts the relationship between the explanatory and explained variables and all independent variables' pairs. From table 4.6, the findings indicated that trade openness had a positive ($r = 0.463$) correlation with textile industry performance; the relationship was significant, $p < 0.01$. Furthermore, the correlation between tariff measures and textile industry performance is positive ($r = 0.409$) and significant at $p < 0.01$. Besides, there was correlation between FDI and textile industry performance ($r = 0.296$, $p < 0.01$). Overall, trade openness, tariff and FDI were positively correlated with textile industry performance.

Table 4.6: Correlation Analysis

		Textile Industry Performance	Trade Openness	Tariff Measures	FDI
Textile Industry Performance	Pearson Correlation	1			
Trade Openness	Pearson Correlation	.467**	1		
	Sig. (2-tailed)	0			
Tariff Measures	Pearson Correlation	.409**	.452**	1	
	Sig. (2-tailed)	0	0		
FDI	Pearson Correlation	.296**	0.064	.306**	1
	Sig. (2-tailed)	0.008	0.576	0.006	

** Correlation is significant at the 0.01 level (2-tailed).

4.8 Regression Analysis

The study used regression analysis to test the effect of the independent variables (trade openness, FDI and tariff measures) on the dependent variable (textile industry performance). The results are discussed under the model summary, analysis of variance, and regression coefficients.

4.8.1 Model Summary

Table 4.7 highlights the model summary of the regression model. The findings indicated that the three predictors of trade liberalization (trade openness, FDI and tariff measures) explained 31% variation of textile industry performance. ($R = 0.557$, $R^2 = 0.31$, Adjusted $R^2 = 0.282$). Furthermore, there was no serial correlation because the Durbin Watson value of 1.844 is between 1.5-2.5, indicating minimal autocorrelation, which does not influence the outcome of regression results.

Table 4.7: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.557a	0.31	0.282	0.37826	1.844

a Predictors: (Constant), FDI, Trade Openness, Tariff Measures

b Dependent Variable: Textile Industry Performance

4.8.2 ANOVA Model

Table 4.8 illustrates the ANOVA Model. The overall test of significance with an $F(3, 77)$ value of 11.103 with $p < 0.000$ indicated that the model fit was good. This suggests that the model was well-thought-out, and the research was carried out efficiently. Thus, the model was fit to predict textile industry performance based on trade openness, FDI and tariff measures.

Table 4.8: ANOVA Model

	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.766	3	1.589	11.103	.000b
Residual	10.588	74	0.143		
Total	15.353	77			

a Dependent Variable: Textile Industry Performance

b Predictors: (Constant), FDI, Trade Openness, Tariff Measures

4.8.3 Hypotheses Testing

The regression findings are as presented in table 4.9. The independent variables that the study focused on were trade openness, tariff measures and FDI. The dependent variable of the study was the textile industry performance. Table 4.8 highlights the results.

Table 4.9: Coefficients of Estimate

	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.374	0.357		6.646	0
Trade Openness	0.231	0.067	0.374	3.447	0.001
Tariff Measures	0.152	0.1	0.173	1.519	0.133
FDI	0.187	0.087	0.219	2.152	0.035

a Dependent Variable: Textile Industry Performance

The relative contributions of the explanatory variables (trade openness, tariffs, and FDI) on the outcome variable (textile industry performance) are shown in Table 4.9. Assuming the error term ε to be zero and substituting the unstandardized coefficients β values, the estimated multiple regression equation takes the form of:

$$Y = 2.374 + 0.374 X_1 + 0.173 X_2 + 0.219 X_3 + \varepsilon$$

Whereby; Y = Textile Industry Performance (the dependent variable)

X_1 = Trade Openness

X_2 = Tariff Measures

X_3 = FDI

If all other parameters are held constant, the β value represents the individual effect of each independent variable on the model. As a result, when other parameters remain constant, each unit increase in trade openness leads to a 0.374-unit rise in textile industry performance. Similarly, when other variables are held constant, each unit increase in FDI results in a 0.219-unit rise in textile industry performance.

H₀₁: Trade Openness has no significant effect on Textile Industry Performance in Kenya

The regression results showed that trade openness had significant coefficients of estimate based on $\beta_1 = 0.374$ (p-value = 0.001, which is less than 0.05). As a result, the study rejected the hypothesis that trade openness has no significant effect on textile industry performance in Kenya. The implication is that there is a 0.374-unit increase in textile industry performance in Kenya for each unit increase in trade openness. Consistently, Anwar, Shaukat and Hussain, (2010) established that the implementation of open trade policies in Pakistan contributed to the increase in the volume of export of cotton lint to the rest of the world. It appears that both in the Kenyan and Pakistan case, textile firms had a higher demand from a broader global market with the opening up of trade in their countries.

Similarly, He (2020) agreed that the opening up of trade increases the volume of African textile exports to the global market. However, suppose the domestic textile firms fail to improve their production processes on technology and skilled workforce. In that case, they are unable to cope with the stiff competition in the global market. Thus, during the earlier phases of an open trade regime, African countries have access to broader markets implying a higher demand for their textile and textile articles. Nevertheless, as competition intensifies, countries such as India and China that have a comparative advantage in the manufacture of textiles enjoy price competitiveness in global markets (He, 2020). Therefore, African textile exports exhibit a decline in their demand, leading to declined growth in the textile industry. Since the present research did not conduct a long-run relationship between trade openness and textile industry performance, future scholars could ascertain if He (2020) assertion that trade openness is likely to be detrimental for the textile industry, in the long run, holds true in the Kenyan context.

The same notion was shared by Wong (2007) who established that textile manufacturing firms elicited an improvement in their overall productivity in the post-liberalization period. However, the positive effects of open trade were short-lived since the firms in the country were unable to cope with the competition in the global markets. Wong (2007) argued that the opening up of trade is largely beneficial for export-oriented firms as they tend to increase their production to serve more markets globally. Nevertheless, the firms dependent on the domestic market tend to face stiff competition because of the infancy of their production structures.

Contrary to the study findings, Ekanayake (2016) alluded that trade openness negatively impacted the demand for textile exports from Sri Lanka. The results suggested that liberalized trade was detrimental to textile exports demand. Ekanayake (2016) focused on a 15-year period which might have offered better insights on the varying effects of open trade on the demand for textile exports. Also, there is a difference in the measurement of trade openness. The current research had an emphasis on trade openness indicators in the textile industry, while Ekanayake (2016) measured trade openness in terms of total trade. Thus, future studies delving into the effect of trade openness on Kenya's textile industry performance could focus on a cointegration analysis.

Further, the study findings tally with that of Khan and Yousef (2012), which stipulated that there is more demand for textile exports from Pakistan with the elimination of trade restrictions. Besides, the research indicated that trade openness is a second determinant for textile export demand after global income. The implication is that an open trade regime enhances the market for textile, which in turn leads to a higher demand for textile exports. The present captures the demand for textile exports as a measure of trade openness in the textile industry; hence it contributes more information on the impact of trade openness on the entire textile industry in Kenya.

As opposed to the study results, Okeowo and Aregbeshola (2018) established that open trade was associated with a decline in the textile industry performance in Nigeria. The difference with the present study was the focus on an extended period from 1986 to 2015. Though Nigeria and Kenya liberalized their trade in the 1980s, bought countries elicit different production patterns in the textile industry. Also, in the Kenya context, the open trade policies were not fully implemented since trade restrictions existed in the post-liberalization period. The difference in the direction of the relationship between trade openness and textile industry performance could be attributed to the fact that Okeowo and Aregbeshola (2018) conducted a long-run relationship while the present study relied on current statistics in the textile industry.

Additionally, Keregero (2016) argued that trade openness contributed to the dismal performance in the Tanzanian textile industry. The author noted that the influx of cheap second-hand clothes particularly from China, contributed largely to the decline textile industry performance. Kenya

experienced the same influx of cheap textile and clothing from trading partners such as China, which also led to the shutdown of many textile firms within Kenya (Kemboi, 2020). Therefore, similar to Kenya, Tanzanian textile firms experienced high competition from countries such as China, which are global powerhouses in manufacturing textile. The eventual outcome was the decline in the textile industry performance in both countries. The current study did not capture this aspect because the focus was not on a long-run relationship between trade openness and textile industry performance in Kenya.

In the descriptive analysis, the study had pointed out that trade openness had facilitated access to cheaper and better technology. Thus, access to advanced technology could have contributed to the positive influence of open trade on textile industry performance in Kenya. Fujii (2019) confirms that access to cheaper and better technology is one of the channels that trade openness improves the textile industry performance. There is a probability that through the technology spillovers, the textile firms in Kenya improved on their production processes resulting in an improvement in their individual performance and the overall textile industry.

Concerning theoretical contributions, the study indicated that the textile export firms were exposed to the negative implications of the theory of technology spillover. Notably, the textile export firms did not enjoy price competitiveness in the global markets and did not receive support to have an advantage over foreign firms. It meant that the firms did not rapidly adopt newer technologies to be more efficient and have the edge over other textile firms in the global market. Thus, there is a possibility of the firms being driven out from the market in the long run due to the limited government support and inability to cope with the competition that comes up with an open trade regime.

H₀₂: Tariff Measures have no significant effect on Textile Industry Performance in Kenya

Tariff measures had no significant effect on textile industry performance ($\beta_2 = 0.173$, p-value = 0.133 which is more than $\alpha = 0.05$). As such, the study accepts the hypothesis that tariff measures have no significant effect on textile industry performance. The implication is that textile industry performance would exhibit no change with the imposition of tariff measures. The findings are attributed to the inconsistent imposition of tax exemptions on textile exports from Kenya to its

major trading partners. Also, there is uncertainty among the textile export firms as to whether there is a special tariff rate for Kenyan textile exports. On the flip side, employees and owners of textile export firms in Kenya affirmed that the reduction of tariffs on textile and textile articles would boost the local textile industry.

Consistent with the results, Seyoum (2010) argued that the removal of tariffs did not have any effect on the textile and clothing industries of developing economies. The study argued that the textile industries in these countries did not have the capacity to expand their production processes to serve more markets in the United States with the reduction in trade barriers. Instead, countries such as China and India that were dominant players in the textile industry were the biggest beneficiaries from the reduction of tariffs for textile and clothing to the USA market. Consequently, there is a possibility that the textile firms in the developing economies did not adjust to the competition effect as alluded to in the technology spillover theory. It is because the firms were expected to enhance their production levels with the reduction in tariffs for textiles to the USA market.

However, the findings contradict that of Santorini and Budiono (2020), which established a reduction in the textile exports to the USA market with the imposition of tariffs. Notably, tariffs were a burden to countries exporting their textile to the USA market. However, for countries that were subjected to a special tariff rate, their textile exports did not elicit a decline in their volume. Santorini and Budiono (2020) results could be contrary to that of the present study since the employees and owners of textile export firms in Kenya were unaware of any special tariff rate for Kenyan textile exports to its major trading partners.

Also, the study results are parallel to that of Wang (2013), which elucidated that the imposition of tariffs resulted in declined textile exports from targeted Asian countries. The difference with the current research was the focus on a 10-year period from 2000 to 2011. Thus, Wang (2013) offered long-run information on the relationship between tariff impositions and the volume of textile exports. Since the volume of textile exports is an indicator of the performance of the textile industry, it implies that in the case of Wang (2013), tariffs could have led to the declined performance in the textile industry.

Further, the findings are contrary to that of Van Biesebroeck and Zaurino (2019), which established that the reduction in import tariffs for the textile exports from Sub-Saharan Africa contributed to an increase in the volume of exports to the USA and Europe market. Though the study did not have an emphasis on the volume of Kenyan textile exports, it implies that there is an increase in textile export earnings with the rise in the volume of the textile industry. Thus, though not directly, the reduction in tariffs improved the textile industry performance in Sub-Saharan Africa. Future studies could look into how tariff imposition on textile exports from Kenya impacts textile industry performance in the country.

Also, the findings conflict with that of Jamil and Arif (2019), which established that the reduction in tariffs for production inputs contributes to an increase in the textile exports from Pakistan to international markets. The current study had indicated that the reduction in tariffs on the production inputs affected the production levels of the textile export firms in Kenya. However, the overall effect of tariff measures on textile industry performance produced no significant relationship. Therefore, there is a possibility that the textile export firms in Kenya are still facing constraints in the importation of production inputs.

In a similar vein, Gebreeyesus, &Söderbom (2016) found out that the reduction in tariffs for inputs positively influenced the productivity of manufacturing firms in Ethiopia. However, in the Kenyan case, the reduction in tariffs for production inputs for the textile industry neither had positive nor negative influence on textile industry performance in Kenya. There is a likelihood that there are gaps in the policy measures to ensure that there are no barriers to accessing production inputs for the textile industry. Consequently, the textile exports firms in Kenya are not benefiting from productivity gains from the reduction of tariffs on production inputs.

Additionally, the research findings differ from that of Bukachi, Gitonga, and Kosgei (2020), which established that those custom duties on fabric and apparel to Kenya improved textile industry performance. The study by Bukachi, Gitonga, and Kosgei (2020) is similar in approach to that of the current research. However, the difference is that the present research looks at the tariffs textile exports from Kenya are exposed to in the international markets. On the other hand, Bukachi, Gitonga, and Kosgei (2020) examined the custom duties on fabric and apparel from the rest of the world to the Kenyan market. As such, they find that, with the imposition of custom

tariffs, there was an increase in the domestic market for textile and clothing since it was costly to import fabric and apparel.

Thus, the government generates revenue, and the domestic firms have an advantage over foreign firms in the Kenyan market. The danger, however, is if other trading partners retaliate by imposing tariffs on textile and textile articles from Kenya to their markets. Therefore, there is a need to explore further how import tariffs on Kenyan textile exports impact the textile industry. Future studies could utilize both primary and secondary data to ascertain how tariff impositions on textile impact the performance of the industry both in the short and long run.

H₀₃: Foreign Direct Investments have no significant influence on Textile Industry Performance in Kenya

FDI had significant coefficients of estimate based on $\beta_3 = 0.219$ (p-value = 0.035, which is less than 0.05). Thus, FDI had a positive and significant impact on the performance of the textile industry. Therefore, the study rejects the hypothesis that FDI did not influence the textile industry performance in Kenya. As a result, it was estimated that for every unit increase in FDI inflows, the textile industry in Kenya grows by 0.219 units. In line with the results, Sun and Anwar (2017) established that textile firms in China elicited improved performance in the presence of FDI. The authors argued that with the increase in FDI inflows, the textile firms had an increase in their revenue. The findings suggest that FDI is also beneficial for countries with a comparative advantage in the textile sector.

Also, the results align with that of Hossain (2015), which established that FDI firms were more productive compared to domestic firms in Bangladesh. Hossain (2015) argued that FDI firms were more export-oriented; hence they found it easier to take advantage of the global textile market. On the other hand, the domestic firms were not in a position to increase their sales probability due to limited capacity to serve both domestic and foreign markets. Hossain (2015) adopted a similar approach to that of the present research though the only point of departure was the comparison between FDI firms and domestic firms. Future studies could make the comparison on the level of performance of FDI firms and domestic firms in Kenya.

Further, Konara and Wei (2017) espoused that FDI had both a positive and negative effect on the domestic firms in Sri Lanka. The positive impact of FDI on local firms in Sri Lanka conform

with the study findings. Konara and Wei (2017) elucidated that FDI is instrumental in enhancing the competitiveness of domestic firms. The competition effect alluded to by the technology spillover theory was at play in Sri Lanka. Notably, the competition from the FDI ventures forced the domestic firms to improve their production processes to maintain and expand their market share (Konara& Wei, 2017). However, the challenge was that the domestic firms in Sri Lanka were not in a position to match the technological expertise of the FDI ventures. Consequently, the FDI ventures captured a significant portion of the market, thereby negatively impacting the revenue of local firms. Therefore, there is a need for future studies to ascertain both the short and long run effect of FDI on the textile industry performance to establish if there are both positive and negative implications of FDI.

Similarly, Habtamu (2015) established that there are both benefits and downsides to foreign direct investment in the Ethiopian textile industry. Habtamu (2015) only relied on secondary data and failed to capture the technology spillovers in the textile industry due to FDI. Also, the research pointed to the intensification of competition in the Ethiopian textile industry in the presence of FDI. However, there is no clear evidence on how the firm was coping with the competition. Thus, the present study contributes new insight into how textile export firms in Kenya capitalize on technology that comes with FDI to improve textile industry performance.

Besides, the research findings are consistent with that of Adarov and Stehrer (2019), which established that FDI inflow contributes to the growth of the textile and clothing industries in Europe. Adarov and Stehrer (2019) also found out that FDI enhances the competitiveness of textile firms in the global markets. The divergence with the present study was the use of secondary data in determining the relationship between FDI and the performance of the textile industry. Also, Adarov and Stehrer (2019) focused on the countries in Europe. Despite these differences, it appears that FDI positively impacts textile industry performance both in the Kenyan and European contexts.

Further support to the research findings is by Mwakanemela (2014), who established that FDI contributed to the improvement in textile performance in Tanzania. The divergence with the present research was that Mwakanemela (2014) used the performance of Tanzanian textile exports to measure textile industry performance. However, the study incorporated aspects such

as knowledge and technology spillovers as indicators of FDI. It, therefore, means that an increase in textile exports is also an indicator of the positive externalities from FDI.

Additionally, the study findings confirm Mirugi (2017) assertion that the presence of a conducive regulatory and legal framework contributed to attracting FDI inflows in the textile industry in Kenya. However, a significant number of employees and owners in textile exports noted that the legal and regulatory framework was not conducive to attracting FDI. It could be that the country has experienced a deterioration in the legal and regulatory framework in the past four years. Despite this, FDI contributed to an improvement in the textile industry performance. Therefore, there is a need for robust legal and regulatory frameworks to attract more FDI into the textile industry in Kenya.

Concerning the theoretical contributions, there is evidence of technology sharing between Kenya's domestic and foreign firms. The implication is that the study findings validate the theory of technology spillover. The aspect of technology spillover is the first channel on how trade liberalization affects domestic firms. Kinoshita (1998) termed it as the demonstration effect. The present research confirms that the entry of foreign affiliates in the country contributes to technology transfers from foreign firms to domestic firms. In fact, the employees and owners from the textile export firms confirmed that the technology from foreign investors had improved the quality of their locally produced textiles. There is also a possibility that the firms are imitating how the foreign firms operate to enhance their productivity levels, as conceptualized by Kinoshita (1998).

Finally, the descriptive findings indicated that the textile export firms had the skills and capacity to handle new technology. The presence of these capabilities among the textile exports firms could have contributed to the positive effect of FDI on textile industry performance in Kenya. Therefore, it means that the findings validate the theory of technology spillover on the aspect of training effect, which is the fourth channel on how liberalized trade affects domestic firms. Kinoshita (1998) argued that in the presence of FDI, domestic firms train their workers to improve the quality of products to cope with the competition from foreign entrants. There is a possibility that this could have been the case with the textile export firms so that their staff acquire skills that correspond with newer technologies.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusion and recommendation of the study. The recommendations are made concerning the study's conclusion, while recommendations for further studies are essential for extending the research.

5.2 Summary of Findings

The primary objective of the research was to establish the effect of trade liberalization on manufacturing in Kenya: a case of the textile industry. The study's specific objectives were to find out the effect of trade openness on textile industry performance in Kenya, establish the influence of tariff measures on textile industry performance in Kenya and establish the effect of foreign direct investments on textile industry performance in Kenya.

The study relied on an ex-post factor research design to identify the explanatory variables' possible effect on the dependent variable. The study population constituted 92 managers, assistant managers, general secretaries, and supervisors from 23 textile export firms in Kenya. Since the study was a census, the entire population of 92 respondents from the targeted 23 textile export firms represented the study sample. The study used a questionnaire to collect data from the respondents while the data was analyzed using descriptive and inferential statistics.

The descriptive findings of the first objective concerning the effect of trade openness on textile industry performance in Kenya indicated that 60.3% of the respondents strongly agreed that opening up of trade had facilitated access to cheaper and better technology. Also, 62.8% of the respondents strongly agreed that the firms had taken advantage of an open trade regime to enhance access to international markets. However, 52.6% disagreed that the firms enjoy price competitiveness in the global market. Similarly, 55.1% of the respondents strongly disagreed that the support given to local textile firms gave the firm an advantage over foreign firms. On the inferential, trade openness had a positive and significant influence on the textile industry performance ($\beta_1 = 0.374$, $p\text{-value} = 0.001$, which is less than $\alpha = 0.05$). Therefore, the study

rejected the hypothesis that trade openness had no significant effect on textile industry performance.

Regarding tariff measures, 47.4% of the respondents agreed that tariffs on production inputs affected the firms' production levels, and 50% agreed. Further, 59% of the respondents strongly agreed that reducing tariffs on textile and textile articles would boost the local textile industry. In addition, 33.3% of the respondents strongly disagreed that the textile exports enjoy tax exemptions to Kenya's major trading partners. However, 66.7% of the respondents were uncertain of a special tariff rate for textile exports from Kenya. On the inferential, tariff measures had no influence on the textile industry performance ($\beta_2 = 0.173$, $p\text{-value} = 0.133$, which is more than $\alpha = 0.05$). As such, the study accepts the hypothesis that tariff measures had no significant effect on textile industry performance.

Concerning foreign direct investment, 38.5% of the respondents strongly disagreed that the legal and regulatory framework in the country facilitates inflows of foreign investment. Further, 51.3% of the respondents disagreed that their firm elicited a significant increase in its foreign investment. However, 89.7% of the respondents agreed that the firm had the skills and capacity to handle new technology. Besides, 44.9% of the respondents agreed that technology from foreign investors had improved the quality of locally produced textiles. Additionally, 46.2% strongly agreed that the financial bailout by foreign investors had positively affected the firm's production and demand for textiles. On the inferential, FDI had a positive and significant influence on the textile industry performance ($\beta_3 = 0.219$, $p\text{-value} = 0.035$, which is less than $\alpha = 0.05$). Therefore, the study rejects the hypothesis that FDI did not influence the textile industry performance in Kenya.

Finally, the time-series data points to varied value-addition from the textile industry to the manufacturing sector in Kenya. After the shift to an outward-oriented trade regime, textile value addition to manufacturing was at 12.4%. The value addition to manufacturing declined from the import-substitution period (1974- 1979) when the country protected the industry. There was thus stiff competition from other textile firms globally with the opening up of trade. By the 1990s, there was a policy shift to regionalization though it did not reflect in the increase in textile value-addition to manufacturing. There was a further decline in value-addition from the textile industry

in the early 2000s. However, from 2016, the industry appears to have exhibited a sustained increase in its value addition to manufacturing.

5.3 Conclusion

The study indicated that trade openness positively influenced textile industry performance in Kenya. The implication is that the textile firms are taking advantage of an open trade regime to enhance their access to international markets. There is also more access to cheaper and better technology. The challenge, however, is the high price competitiveness in the global markets. Besides, the textile firms are not receiving adequate support to have an advantage over foreign firms. Thus, it appears that the Kenyan government had opened up the economy but gave limited attention to ensuring local textile firms thrive in the open economy. The firms could be experiencing barriers in accessing production inputs due to high taxation rates or infrastructural challenges. Therefore, trade openness is beneficial for textile export firms though they require government support to compete effectively in this business environment.

However, tariff measures had no significant influence on textile industry performance in Kenya. The reason for this is that the players in the textile industry are not aware of the tax exemptions for textile exports to Kenya's major trading partners. There is also uncertainty as to whether there is a special tariff rate for textile exports from Kenya. Therefore, there is no clarity on the tariff measures on textile exports from Kenya. What is clear, though, is that the tariffs on production inputs affect production levels and that reducing tariffs on textile and textile articles would boost the local textile industry.

Finally, FDI positively influences textile industry performance in Kenya. Through FDI inflows, the textile exports firms have access to new technology that boosts their productivity levels. The textile firms had the skills and capacity to handle new technology. However, the challenge is that the legal and regulatory framework in the country facilitates inflows of foreign investment. Therefore, the textile industry is not attracting sufficient foreign direct investment. The implication is that the industry can attract and benefit from foreign investment, but it does not attract adequate FDI due to the legal and regulatory framework.

5.4 Recommendations

The study is indicative of a positive link between trade openness and textile industry performance in Kenya. Therefore, the government should implement open trade policies and ensure textile export firms have a supportive business environment. Specific emphasis should be on ensuring that the textile export firms have access to cheaper and better technology. Also, the government needs to reduce the taxation on the importation of machinery and equipment for the textile industry. Besides, the government should subsidize fertilizers and other inputs for cotton farmers to reduce the cost of producing textile. In that way, the textile export firms will enjoy price competitiveness in the global markets. Moreover, the Kenya Association of Manufacturers should enhance their interactions with the players in the textile industry so that they raise their awareness on potential domestic and global markets for textile.

Despite the insignificant effect of tariff measures on the textile industry performance in Kenya, it is necessary to sensitize the industry players on the tariff measures on textile exports. Other than that, there is a need to reduce tariffs on production inputs to boost the production levels of the textile industry in Kenya. Similarly, the government should renegotiate the trade terms with major trading partners to ensure declined tariffs on textile and textile articles. Besides, the firms should enjoy tax exemptions to Kenya's major trading partners.

Finally, since FDI positively impacts textile industry performance, the government should have the legal and regulatory framework in the country to facilitate inflows of foreign investment in the textile industry. The textile exports firms should ensure they have the skills and capacity to handle new technology. Also, the government should create a conducive business environment that fosters technology sharing between foreigners and domestic textile export firms. Moreover, the trade policies should make it easier for foreign investors to bail out underperforming textile export firms and improve their production.

5.5 Further Research Recommendations

The primary objective of the research was to analyze the effect of trade liberalization on manufacturing in Kenya with a focus on the textile industry. The study contributes new information on the positive influence of trade openness and FDI on textile industry performance in Kenya. On the other hand, tariff measures did not influence the textile industry performance in Kenya. As a result, more research is required to confirm the conclusions of the study.

Notably, the predictors of trade liberalization only contributed 31% variation of textile industry performance in Kenya. It means that there are other predicts of trade liberalization that influence textile industry performance. Thus, future researchers could look into different dimensions of trade liberalization, such as trade intensity and non-tariff barriers. Also, there is a potential for a study on the effects of trade liberalization on the textile industry during the Covid-19 pandemic. Finally, future studies could expand the scope to cover the textile industry in the East African region,

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APPENDIX I: LETTER OF INTRODUCTION

Dear respondent,

I am a student at University of Nairobi from the department of Political Science and Public Administration. I am in the process of writing my research project and am collecting data for the same purpose. My interest is on looking at, *The effect of trade liberalization on the performance of textile firms in Kenya*. Kindly, I therefore request you to participate in this study by answering the questions in the attached questionnaire. The information you will provide shall be treated with utmost confidentiality and it is purely for academic purposes **ONLY**. Your participation will be highly appreciated and contribute to better trade policies for the textile industry.

Yours faithfully,

Dennis Kariuki

CELL PHONE: 0705313265

APPENDIX II: QUESTIONNAIRE

Dear Respondent,

The main purpose of the questionnaire is to collect information on the effect of trade liberalization on textile industry performance in Kenya. The information you will provide shall be treated with utmost confidentiality and it is purely for academic purposes **ONLY**.

(Please tick (√) where appropriate)

Section one: Firm Profile

1.State whether you are an employee or owner of the firm

Owner []

Employee []

2. Kindly indicate your firm size?

Micro []

Small []

3. Kindly indicate the age of the firm?

0 to 5 years []

5 to 10 years []

10 to 15 []

15 and above []

Section two: Effect of Trade Openness on Performance of Textile Industry

The statements in the table below are related to the effect of open trade on textile industry performance in Kenya. Please indicate your level of agreement to the statement listed below using a 5-point Likert scale. In this rating, **SA**=Strongly Agree, **A**= Agree, **NS** = Not sure, **D**= Disagree, **SD** = Strongly Disagree.

	SD	D	N	A	SA
The opening up of trade has facilitated access to cheaper and better technology					
The firm enjoys price competitiveness in the global markets.					
The firm has taken advantage of an open trade regime to enhance access to international markets					
Support given to local textile firms gives the firm an advantage over foreign firms					

Section three: Effect of Tariff measures on Performance of Textile Industry

Below are statements regarding the influence of tariff measures on textiles exports to Kenya's major trading partners on textile industry performance in Kenya. Please indicate your level of agreement to the statement listed below using a 5-point Likert scale. In this rating, **SA**=Strongly Agree, **A**= Agree, **NS** = Not sure, **D**= Disagree, **SD** = Strongly Disagree.

	SD	D	N	A	SA
Tariffs on inputs of productions affects the firm's production level					
Our textile exports enjoy tax exemptions to Kenya's major trading partners.					
Reduction of tariffs on textile and textile articles will boost the local textile industry					
There is a special tariff rate for textile exports from Kenya					

Section four: Effect of Foreign Direct Investment on the Performance of Textile Industry

The statements in the table below are related to the effect of foreign direct investment on the textile industry performance in Kenya. Please indicate your level of agreement to the statement listed below using a 5-point Likert scale. In this rating, **SA**=Strongly Agree, **A**= Agree, **NS** = Not sure,**D**= Disagree, **SD** = Strongly Disagree.

	SD	D	N	A	SA
The legal and regulatory framework in the country facilitates inflows of foreign investment					
In the past five years, there has been significant foreign investment in the firm					
The firm has the skills and capacity to handle new technology					
Technology from foreign investors has improved the quality of locally produced textiles.					
Financial bailout by foreign investors has positively affected the firm's production and demand for textiles					
The firm shares technology with foreigners					

Section five: Textile Industry Performance

Below are statements regarding textile industry performance in Kenya. Please indicate your level of agreement to the statement listed below using a 5-point Likert scale. In this rating, **SA**=Strongly Agree, **A**= Agree, **NS** = Not sure,**D**= Disagree, **SD** = Strongly Disagree.

	SD	D	N	A	SA
The textile industry has benefited from the opening up of trade between Kenya and its major trading partners					
The firm can meet the local demand for textiles as well as export to global markets					
The firm meets the demands of the local market					
Importation of foreign textiles into the Kenyan market has contributed to declined growth in the textile industry					
Stiff competition occasioned by entrance of foreign firms to the Kenyan market has resulted in a decline in the profit margins					
Heightened competition from foreign firms in the Kenyan market threatens the survival of local textile firms					

APPENDIX III: TEXTILE MANUFACTURING FIRMS IN KENYA

1.	Rivatex East Africa Limited
2.	Ken-Knit
3.	Alliance Garment Industries Limited
4.	Specialized Towel Manufacturers Limited
5.	Supra textiles limitd
6.	Sunflag Textile and Knitwear Manufacturing Ltd
7.	Bunny Industries Limited
8.	Midco Textiles Limited
9.	The Textile Loft
10.	Africa Apparels EPZ Ltd
11.	Polo Industries Ltd
12.	Dynamic Products Ltd
13.	African Cotton Industries Ltd
14.	United Textile Industry (K) Ltd
15.	Oriental Mills
16.	Fine Spinners Ltd
17.	Jotters Textile Industries
18.	Arichem Limited
19.	Airoquip Kenya Ltd
20.	Bobmil Industries Ltd
21.	Kema E.A Ltd
22.	Cotton World Textiles
23.	Wonderpac Industries Ltd