

Determinants of manufactured exports in Kenya: a control function approach

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Date: 2009

Abstract:

This study uses firm-level panel data from the manufacturing sector in Kenya to analyze the determinants of export propensity and intensity over the period 1992-2003. The focus of the investigation is on effects of total factor productivity on export propensity and intensity. The impacts of total factor productivity are estimated controlling for relevant exogenous covariates, such as location-specific factors and characteristics of firms, notably ownership structure, firm age and sunk investment. The thesis uses the panel data estimator, and the two-step control function approach, to account for fixed effects, endogeneity, unobserved heterogeneity, nonseparability, and sample selection bias in the estimating equations, thus ensuring that the parameters of export propensity and export intensity functions are properly computed. The main finding of the study is that export propensity and export intensity are highly responsive to total factor productivity. Total factor productivity elasticities of export propensity and intensity are 5.4 and 1.8, respectively, so that a 1 % increase in total factor productivity increases export propensity by 5.4%, with intensity rising by 1.8%. The other finding is that ownership structure of the firm and unobserved factors specific to firms, significantly influence export propensities and intensities. Taken together, these results provide valuable insights into the determinants of Kenyan exports, information that can be used to design policies to promote entry and stay of firms into the export markets, and to intensify sales there. It is found that an increase in the level of total factor productivity is key to competitiveness of Kenyan firms in regional and global markets. The findings of the thesis suggest that policy measures to increase export orientation of Kenyan firms should focus on improving total factor productivity, encouraging foreign capital investment, and on stimulating modernization of capital equipment employed by firms.