

**CHALLENGES FACED BY THE UNITED STATES AGENCY  
FOR INTERNATIONAL DEVELOPMENT IN PROMOTING  
REGIONAL AND GLOBAL TRADE IN EAST AFRICA.**

**BY**

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## **DECLARATION**

This research project is my original work and has not been presented for examinations in any other university.

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This research project has been presented for examination with my approval as the University Supervisor.

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## ABSTRACT

Good intentions to encourage business initiatives are seen in both the private sector and the donor community. However, both sectors need to make sure that they are fulfilling their mandates and commitments to society in order to ensure goals are achieved. Dynamic challenges are an important element to consider in organizations and the solutions to these challenges should be constantly sought out in order to exploit the potential that exists in every trading platform. Mutual relationships between business organizations and donors can lead to eradication of real life challenges that are an impediment to smooth international trade both locally and internationally. The objective of this study was to establish the challenges faced by USAID PATA in encouraging trade regionally and internationally. The study looked at different the concept of international trade, regionalization, global trade and narrowed it down to the East African Community's regional trade. Thereafter, the study gave a brief background to the United States Agency for International Development (USAID)'s work through the Power Africa Trade Africa (PATA) initiative in East Africa and through the African Growth and Opportunity Act (AGOA). The study looked at the Uppsala Model and the Innovation – Related Internationalization Model as the theoretical framework. In addition to this, the factors that have generally been found to affect international trade were discussed. The major factors were Tariffs, Subsidies, Import Quotas and Voluntary Export Restraints, Local Content Requirements and Non-tariff Barriers. The study adopted a case study research design and used primary data through an interview guide and analysed the same through content analysis. It was found that the major challenges that USAID PATA faces in East Africa are poor infrastructure, nationalism, non-tariff barriers to trade and exorbitant customs fees challenges. The study showed that USAID PATA provides technical assistance support such as financial models and analysis, governance interventions and operation manuals that include feedback mechanisms. In this way, the donor recipient organizations are able to operate efficiently and gain competitive advantage as they trade in the region and abroad. It was found that USAID PATA cannot achieve its trade objectives on its own without the donor recipient organizations that are involved in actively encouraging the smooth flow of trade within the region and abroad. USAID PATA benefits from the various relationships with ACTIF, Trademark East Africa, Maersk and Mohazo Limited. The study concluded that intentional political will, a change in mind-sets within East Africa to embrace a single customs territory will eradicate the challenges currently being faced by businesses in Kenya and East Africa. This includes all stakeholders working together to eliminate the challenges to trade. If one challenge is tackled in isolation, it shows up in a different form elsewhere within the system. A multi-pronged approach is needed in dealing with the dynamic challenges that come up in order to maximize on short term, easy to reach solutions and engage what may seem to be more complicated, long term solutions to challenges. It was found that the benefits outweigh the challenges in international trade as East Africa opens up to the world. This has been found to result from the mutually beneficial relationship between USAID PATA and various trade organizations with head offices in Kenya.

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## ACRONYMS AND ABBREVIATIONS

AGOA.....	African Growth and Opportunity Act
EAC.....	East African Community
MDG.....	Millennium Development Goals
USAID.....	United States Agency for International Development
WTO.....	World Trade Organization
GATT.....	General Agreement on Tariffs and Trade
EU.....	European Union
NAFTA.....	North American Free Trade Area
ASEAN.....	Association of East Asian Nations
MEROSUR.....	The Common Market of South
APEC.....	Asia Pacific Economic Cooperatin Group
REC.....	Regional Economic Communities
COMESA.....	Common Market for Eastern and Southern Africa
EAC.....	East African Community
ECOWAS.....	Economic Community of West African States
IGAD.....	Inter-Governmental Authority on Development
SADC.....	South African Development Community
PATA.....	Power Africa Trade Africa
I-R Model.....	Innovation Related Model
VER.....	Voluntary Export Restraints
NTB.....	Non-Tariff Barrier
EATH.....	East Africa Trade Hub



# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

This paper examines the interaction of International Development Institutions with East African businesses with the objective of encouraging both regionalization and globalization. Regionalization and globalization cannot be assessed in isolation. According to Kacowicz A. M. (1998), Globalization and regionalization should be studied as forces relative to and overlapping one another since they are sometimes antagonistic and sometimes cooperative toward each other, however, they are never harmonious.

Most consumers in the United States of America do not expect to see products with the label “Made in Kenya” on the shelves of their local supermarkets like WalMart. The main reason for this is consumer exports from Sub-Saharan Africa to the United States have been mainly raw or unprocessed products. There has however been a slight shift in Kenya’s business landscape through the African Growth and Opportunity Act (AGOA) and the East African Community (EAC) which has offered the opportunity for growth and expansion of trade both globally and regionally.

There is an increasing motivation today for development agencies to collaborate with businesses in order to achieve goals that are focused on community good. These goals include the Millennium Development Goals (MDG’s) that are aimed at “encouraging global leaders to halve world poverty by 2015” (USAID, 2014). According to a Harvard Research that was carried out, all business leaders of Fortune 500 companies that were surveyed agreed that businesses should work on various development issues

(Harvard, 2004). As much as it has traditionally been proposed that “the business of business is business”, businesses are realizing that the most successful businesses are the organizations that have synergistic partnerships with development partners.

Challenges face both the business sector and the international development sector that operate in generally the same geographical environment. Businesses have the opportunity today to use the platform offered by International Development Agencies, like the United States Agency for International Development (USAID) Kenya, to propel them to stronger global and regional positions.

Parental networks, established research and data capabilities of international development institutions are beneficial to emerging markets to allow them to succeed in international markets (Elango & Pattnaik, 2007). The network scope of international development agencies is beneficial to increasing the exposure to international and regional markets especially where the networks are either small or medium sized. This is especially true in East Africa through USAID; however, there are challenges to the full realization of the globalization and regionalization.

### **1.1.1 Concept of International Business**

International Business is any business in which a firm that engages in international trade or investment (Hill, 1998). A fundamental shift in the world’s economies has occurred where national economies do not trade in isolation but are merging into one huge interdependent global economic system commonly referred to as globalization. Globalization has been defined as the shift toward a more integrated and interdependent world economy which is made up of the globalization of markets and the globalization of production. The globalization of markets refers to the merging of

historically distinct and separate national markets into one huge global marketplace. The globalization of production refers to the outsourcing of goods and services from different locations around the globe to take advantage of national differences in the cost and quality of production. Firms are encouraged to participate in International Business by the hope of lowering their overall cost structure and/or improve the quality or functionality of their product which increases their competitiveness.

Globalization has also been defined as the intensification of economic, political, social and cultural relations across borders (Holm & Sorenson, 1995). It involves more than simply geographical extension and implies intensive global connectedness. The term globalization has been used in the past as the result of a cluster of related changes to the economic, ideological, technological and cultural environment in the internationalization process (Kacowicz, 1998). Globalization has continued to be defined as the elimination of barriers to trade, communication and cultural exchanges (Abdulsattar, 2013). Globalization refers to the intensification of worldwide social relations which links distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. This implies that everything is linked to each other in such a way that it is difficult to not be a part of it. Through advances in technology and communication, the world has become increasingly de-territorialized. It has been argued that the tastes and preferences of consumers in different nations are converging on a global norm which helps create a global market. Locally, global acceptance of consumer products can be seen when one eats a Subway sandwich on Kenyatta Avenue, buys a Coca – Cola or a Pepsi in Nakuru or buys an iPhone 5 online and uses it to book and pay for an international flight. Cultural

changes have encouraged globalization by harmonizing tastes and standards towards a universal world culture that goes beyond the nation-state.

The importance of globalization includes the spatial reorganization of production, the redistribution of industries across borders, the spread of financial markets, the diffusion of identical consumer goods across distant nations and the massive transfers of population including trade liberalization, deregulation, and privatization (Abdulsattar, 2013). Information and communication technologies have shrunk the globe and increased the shift of trade from purely goods to include services.

True implementation of international trade involves a qualitative shift toward a global economic system that is not based on autonomous national economies but relocated production, distribution and consumption of goods in a consolidated global marketplace. In terms of scale, the number of economic linkages has increased across societies. In terms of speed, globalization has compressed time and space. In terms of cognition, the globe is a smaller place. International trade has transformed the world into a faster and more intensive process that generates inter-regional and transcontinental networks of activity Hill, 1998).

### **1.1.2 The International Business Environment**

The international business environment is the sum of all the conditions, events and influences that surround and affect international business. These include Political, Economic, Socio-Cultural, Technological, Ecological and Legal factors. International business is much more complicated than domestic business because countries differ in political systems, economic regulations, legal structures and cultural practices.

According to Hill, (1998), the political system is the system of government in a nation and can be assessed in two dimensions: the degree to which they emphasize collectivism rather than individualism and the degree to which they are democratic or dictatorial. In the first dimension, collectivism is a system that stresses the primacy of collective, societal goals over individual goals while individualism refers to a philosophy that an individual should have freedom in his or her economic and political pursuits. In the second dimension, a democratic system is a political system in which government is by the people and exercised by elected representatives. A totalitarian system is that government in which one person or political party exercises absolute control over all spheres of human life and opposing political parties is prohibited.

Economic systems can be identified in three broad types of economic systems: a market economy, a command economy and a mixed economy. A market economy is an economic system in which the interaction of supply and demand determines the quantity in which goods and services are produced. A command economy is an economic system in which the goods and services produced, the quantities and sales prices are all planned by the government. Finally, a mixed economy is where certain sectors of the economy are left to private ownership and free market mechanisms while in other sectors, there is a significant state ownership and government planning.

Socio-cultural systems are largely influenced by a society's culture which is defined as that complex whole which includes knowledge, belief, art, morals, law, custom and other capabilities acquired by man as a member of society (Hill, 1998). Culture plays an important part in a society's social structure and its determinants are language, education, economic philosophy, political philosophy, religion and social structure.

Culture is a system of values and norms that are shared among a group of people and that when taken together constitute a design for living. Values are abstract ideas about what a group believes to be good, right and desirable. Norms on the other hand are social rules and guidelines that prescribe appropriate behaviour in particular situations. A society therefore is a group of people who share a common set of values and norms.

The technological environment comprises factors that are related to the materials and machines used in manufacturing goods and services (Hill, 1998). The organization's receptivity and willingness to adapt to new technology, as well as the willingness of its consumers to do likewise influence decisions made in any organization. People today are highly interconnected through the internet and the World Wide Web. Another technological aspect is the development of commercial jet aircrafts and super freighters with the introduction of containerization which simplifies trans-shipments from one mode of transport to another. Globalization has been fostered to a large extent by technological factors.

Ecological factors are those that relate directly to the physical environment that an organization operates in. The effect of technology is mostly felt on the ecology of a society and as such firms have to deal with regulations that govern their activities in order to protect the ecological elements of a society. Ecological and technology are to some extent inter-dependent. In general, as countries get richer, they enact tougher environmental and stricter labour regulations.

The Legal aspect refers to the rules or regulations that regulate behaviour as well as the processes by which the laws of a country are enforced and grievances redressed. The legal system is influenced by the prevailing political system since it is the

country's government that defines the legal framework within which both trade is carried out. Countries differ in the extent to which their legal systems protect property rights. Property rights are the bundle of legal rights addressing the how a resource is put to use and how to use the income that results. The protection of intellectual property rights differs greatly from country to country. Weak enforcement of the Paris Convention of the Protection of Industrial Property however, encourages the piracy of intellectual property.

### **1.1.3. Regionalization and Global Trade**

Regional trading blocs have been defined as a group of countries with the ability to exchange goods with member countries with minimal or no tariffs or cumbersome trade regulations (Gough & Venkataramany). Regional trading blocs or Free Trade Agreements are essential to global trade and are the fuel towards a global economy leading to nations feeling the need to belong to a type of regional economic cooperation unit to compete with other nations. Free Trade Areas are created when two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming in from the other member countries. The World Trade Organization (WTO) replaced the General Agreement on Tariffs and Trade (GATT) on January 1, 1995.

Regionalism and trading blocs are important to the spatial organization of the contemporary world economy, especially in finance and flexibility in the global economy (Michalak W. & Gibb R). According to Karmowska, (2011), economic regions are historically formed from the integrity of the geographic and socio-economical aspects created by regional elements of population, natural and wealth resources, economical units and distributed in a certain way. Regionalization has to

meet a condition of long term coherence in terms of continuity and neighborhood as well as an existence of a system of internal socio-economical connections among the elementary units. The criteria used to set up economical regions are economical potential, type of dominating production, economical traditions, industrialization, economical links, cooperative links, infrastructural facilities, settlement net, urbanization level and characteristics of a cultural environment. The economical region should be able to manage a regional policy. The importance of international trade has never decreased as it impacts the economic, social and political aspects of any society. Regional and Overseas international trade is seen as a major source of economic revenue for any nation since without it; nations would be limited to the goods and services that can only be produced within its borders. In the recent past, international business that occurs between countries has been the focus of debate however a universally accepted model of international business or a theory of international business is not agreed upon.

Regionalization is important because it opens up trade opportunities beyond what is in existence and is a matter of practice and not institutionalization only (Otmazgin, 2011). It has been suggested that regionalization is not simply a strategy pursued close to home but can also mean constructing partnerships in different parts of the world which has coined the phrase, “the global politics of regionalization”. Factors of production like capital and labour are more mobile within a country than across countries, thus trade in capital; labour and other factors of production are not as common as trade in goods and services.

Regionalization has been operationalized mainly through the existence of the dominant European Union which treats regions mainly in terms of their economic



development and effectiveness of the initiation of union policies (Karmowska, G., 2011). The EU regional policy governs activities that subscribing nations must adhere to. International Trade theories illuminate various aspects of foreign policy. The European Union (EU) was initiated by France and Germany and has grown to be the leading regional trading bloc in the world today and has recently added 10 new nations. The North American Free Trade Area (NAFTA) continues to develop and lower trade barriers between the United States, Mexico and Canada. The Association of East Asian Nations (ASEAN), The Common Market of the South (MERCOSUR) and the Asia Pacific Economic Cooperation Group (APEC) are powerhouses that have come together with the hope of creating successful regional trading blocs (Castanias & Yelamanchi, 2011).

According to Mannak M. (2013), Africa has over 30 Regional Trade Agreements (RTAs) most of which are free trade agreements and economic integration agreements. These RTA's have grown due to the evidence of successful regional trade in other continents, coupled with other associated benefits such as partial or full removal of tariff and non-tariff barriers between member states and the creation of common external members. Generally, Africa has fourteen regional blocs or Regional Economic Communities (REC's) were formed. Eleven regional blocs are the pillars of the African Economic Community which are comprised of the Community of Sahel-Saharan States (CEN-SAD), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS/CEEAC), the Economic Community of West African States (ECOWAS), the Inter-Governmental Authority on Development (IGAD), the Southern African Development Community (SADC) and Arab Maghreb Union

(UMA). The four sub-groups to regional trade in Africa are Economic and Monetary Community of Central Africa (CEMAC), the West African Economic and Monetary Union (UEMOA), the West African Monetary Zone (WAMZ) and the Southern African Customs Union (SACU).

#### **1.1.4 The East African Community's Regional and Global Trade**

The East African Community (EAC) is the regional intergovernmental organisation of the Republics of five African countries: Burundi, Kenya, Rwanda, the United Republic of Tanzania, and the Republic of Uganda, with its headquarters in Arusha, Tanzania (EAC, 2014). According to the EAC website, the Treaty for Establishment of the East African Community was signed on 30 November 1999 and entered into force on 7 July 2000 after its ratification by the original three Partner States – Kenya, Tanzania and Uganda. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18 June 2007 and became full Members of the Community with effect from 1 July 2007. The Vision of the EAC is “a prosperous, competitive, secure, stable and politically united East Africa. The Mission of the EAC is to widen and deepen economic, political, social and cultural integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investments.

Just like regional trading blocs around the world, the EAC was formed to promote trade within the East African region, defend member states from unfair global competition and enhance economic growth for the member countries (Biryabarema, E., 2013). Recently, the five countries signed a protocol that lays down the groundwork for a monetary union within 10 years. This is expected to expand

regional trade, draw foreign investment and wean the EAC countries off external aid. The EAC aims at widening and deepening co-operation among the Partner States in, among others, political, economic and social fields for their mutual benefit. To this extent the EAC countries established a Customs Union in 2005 and a Common Market in 2010. The next phase of the integration will see the bloc enter into a Monetary Union and ultimately become a Political Federation of the East African States. The realization of a large regional economic bloc encompassing Burundi, Kenya, Rwanda, Tanzania and Uganda with a combined population of more than 130 million people and a land area of 1.82 million sq kilometres bears great strategic and geopolitical significance and prospects of a renewed and reinvigorated East African Community.

The regional integration process is currently at a high pitch with plans for a single monetary currency throughout the region, with serious determination from the East African leaders. This will build a powerful and sustainable East African economic and political regional trading bloc.

### **1.1.5 United States Agency for International Development (USAID)**

#### **Kenya**

The United States Agency for International Development (USAID) is the lead U.S. Government agency that works to end extreme global poverty and enable resilient, democratic societies to realize their potential (USAID, 2014) which complements the Millennium Development Goals (MDG's) directly. It was created by President John F. Kennedy in 1961. U.S. foreign assistance policy has always been two-fold: to further America's interests while improving livelihoods in the developing world. To

that effect, USAID carries out the U.S. foreign policy by promoting broad – scale human progress at the same time expanding stable, free societies, creating markets and trade partners for the United States and fostering good will outside the United States. USAID works in over 100 countries and spends less than 1% of the total U.S. federal budget. Its goals are to promote broadly shared economic prosperity, strengthen democracy and good governance, protect human rights, improve global health, advance food security and agriculture, and improve environmental sustainability, further education, help societies prevent and recover from conflicts and provide humanitarian assistance in the wake of disasters.

USAID has been working in Kenya for over 50 years where it has helped to strengthen institutions, preserve natural resources and improve the lives of Kenyans through better healthcare, education and economic opportunities. This paper will focus on the highlight of economic growth and trade through the Power Africa Trade Africa (PATA) Initiative.

Power Africa Trade Africa (PATA) is President Obama’s Initiative in Africa that was started in 2013. The initiative seeks to harness the potential that exists in Africa’s energy generation resources and use this energy to facilitate the creation of goods and services that will open up trade opportunities within the region and with the U.S. through Trade Africa. Power Africa and Trade Africa are dependent on each other.

Power Africa seeks to double the number of people with access to power in Sub-Saharan Africa by unlocking the substantial wind, solar, hydropower, natural gas and geothermal resources in the region to enhance energy security, decrease poverty and advance economic growth (USAID, 2014). Power Africa works with African governments, the private sector and other partners such as African Development Bank

and The World Bank in six focus countries: Kenya, Ethiopia, Ghana, Nigeria, Liberia and Tanzania. The main goal is to add more than 10, 000 megawatts (MW) of clean, efficient electricity on the grid.

Trade Africa seeks to expand and facilitate U.S. and Africa cooperation through exchange of market and import / export policy information, guidance on requirements and best practices as well as the promotion of joint solutions to address market constraints (Trade Mark East Africa, 2014). It is a partnership between the United States and Sub-Saharan Africa to increase internal and regional trade within Africa while expanding trade and economic ties among Africa, the United States and other global markets. Africa has a fast – growing middle class, expected to increase from 60 million to 100 million people by 2015. This will be achieved by continued hard work and better macroeconomic management, improved economic and political governance, increasing foreign capital inflows and improvements in the business climate.

The United States supports the development of Africa’s economies not only in translating investments into improved living standards but also by generating new export markets for American goods and services. Trade Africa focuses on the East African Community member states – Burundi, Kenya, Rwanda, Tanzania and Uganda – since the EAC presents a market with significant opportunity for U.S. exports and investments. The EAC has a population of 130 million people combined with stable, pro-business regulations as well as the emergence of an educated, globalized middle class. Local enterprises are forming creative partnerships with multinational companies.

Trade Africa focuses on both regionalization and globalization by seeking to double intra-regional trade in the EAC as well as increase EAC exports to the United States by 40%. In addition, it aims to reduce the average time needed to import or export a container from the port of Mombasa or Dar Es Salaam to Burundi or Rwanda by 15% and decrease the average time taken by trucks to border points by 30%.

Three main focus points for Trade Africa are: To increase U.S. – EAC Trade and Investment; To support EAC Regional Integration; To increase EAC Trade Competitiveness. The third focus point of increasing EAC's trade competitiveness is done by forming public – private partnerships with East African and U.S. Industries and trade associations to stimulate greater trade in goods under the African Growth and Opportunity Act (AGOA).

## **1.2 Research Problem**

In the complex and intertwined global world today, businesses cannot operate without government institutions and non-governmental organizations. All parties play important roles in international business. For Non-Governmental Organizations, engaging businesses is a clear way to achieve their goals, for example the MDG to halve poverty. For governmental institutions, engaging with business supports their governmental economic goals. The argument for regional and international trade has thus gained momentum in the recent past.

Development organizations like USAID are establishing an avenue in Africa where they are relevant to the economic development of the continent by providing competencies, networks and skills that are essential to economic development and international trade today. In the International Business Times Newsletter

(International Business Times, 2014), IMF predicted that sub-Saharan Africa will grow at a rate of nearly 6 per cent in 2014. Kenya grew by 5 per cent in 2013. The growth rates were spurred by emerging market demand which has helped the region withstand the global financial crises.

It is clear that USAID is a strong champion of the Africa Growth and Opportunities Act (AGOA) and the revived East African Community (EAC) through the preferential international trade opportunity that both bodies provide. Collaboration between the business sector and USAID brings with it competitive advantages through better linkages, international networks, mutual understanding of their differing goals and a better familiarization of society as a whole. USAID's PATA Initiatives use the expansive USAID knowledge to engage the Kenyan business sector towards a more sustainable economically stable society by providing an avenue for sustainable international trade. In order to gain competitive advantage in terms of trade and expansion, partnerships are unavoidable. International development agencies are therefore very important to international business.

Several studies have been carried out on the effectiveness of government and non – governmental initiatives on business: Moegi, B. (1993) looked at the nature of relations between Kenya and the United States of America. Economic interests comprised of trade, investments and aid form one side of the relationship between the two countries. There has been a persistent state of conflict and cooperation between the two states. The study established the convergence of national interests between Kenya and the United States which cultivates cooperative interaction.

Maikara J. (2005), researched on the factors that inhibit the effectiveness of NEPAD's initiatives in remodelling Africa's development at a country level. It was established

that NEPAD Kenya's secretariat is small in size and lacks in capacity, resources and personnel to enable NEPAD programmes to take root quickly in Kenya. It was recommended that the NEPAD Kenya Secretariat should do more in terms of creating awareness of the initiatives and make the people a part of the development agenda.

Boue and Kjaer are quoted by Kimeli R. (Kimeli, 2013) that value is created through strategic partnerships between Businesses and NGO's. The findings were that NGO's have a set of competencies that can be of benefit to businesses. Companies can gain competitive advantage by partnering with NGO's. Kimeli R. (2013) researched on the role of strategic partnerships between USAID Kenya and businesses in value creation. The findings of the study were that value was created as a result of partnerships where USAID Kenya was able to manage its business processes, effectiveness and efficiency of performing organizational processes. Effective communication among partners played a major role in the success of partnerships as well as a collaborative environment built on mutual trust and inter-firm dependency. It was also highlighted that synergy between businesses and international development bodies is imperative since universal challenges like climate change, declining natural resources, poverty and growing economic inequality are serious threats to society that organizations operate in. This affects both businesses and international development since one sector cannot fully address these challenges adequately or single-handedly. One sector cannot overlook the importance of the other. The business of business is no longer regarded as solely business. Organizations are motivated to act, or at least to be perceived to act, in the best interest of the long-term sustainability of the society that they operate in.



The studies above have not dealt with the challenges that international development agencies, in particular, have to deal with while promoting the growth of economic development or international trade within Africa as well as with the rest of the world. This has therefore raised the need for further research in the challenges that are faced by international development agencies in encouraging regionalisation and globalization. What are the challenges that are facing USAID Kenya's PATA Initiatives in promoting regional and global trade in East Africa?

### **1.3 Research Objective**

To determine the challenges faced by USAID Kenya's PATA initiatives in promoting the growth of regional and global trade in East Africa.

### **1.4. Value of the Study**

This study would be important for the top management of USAID's PATA Initiatives on their goal to encourage regional and global trade in East Africa. This will give clarity on how best to continue engaging with Kenyan businesses in order to achieve their goals of sustainable economic and social benefits for the societies they operate in.

The study would also be important to local businesses seeking to regionalize by informing them on the important role played by international development agencies in the realization of trade expansion goals. The study will reinforce more positive perceptions and collaborations between East African businesses and international development organizations.

The study would be beneficial to researchers in the future by filling existing literature gaps in regional and global trade and international development as well as reveal research gaps that future studies could focus on.

The study is a contribution to the existing pool of literature and forms part of reference materials for literature review for future scholars.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter is concerned with the review of literature related to the study. It is an overview of theoretical foundations of the study, globalization, regionalization, antecedents of regionalization and international development agencies will be discussed.

#### **2.2 Theoretical Foundation**

Most theories of the internationalisation of the firm were developed between 1960 and 1990 after World War I and II (Laanti R. et al, 2009). Since then, internationalisation of the firm has been one of the central themes within international business research. Some major theories include the product cycle theory; the transaction cost theory; Internationalisation theory and the Eclectic Paradigm theory. These theories emphasize on physical assets and rational economic actions with much less focus on human environment and behaviour. The above theories are mainly from an economic background and are therefore often referred to as the FDI theories. The classical theories above ignore key assumptions like increasing returns to scale; Product differentiation; Imperfect competition; Spillover effects and Irreversible investments.

Internationalisation theories focus more on dynamic changes in internationalisation over time (Laanti R. et at, 2009). The Finish based research that led to the Uppsala Model and the U.S. based Innovation Related models and theories process models

emphasize the gradual and incremental nature of the firm's internationalisation process.

### **2.2.1 The Uppsala Model**

The theory of Internationalisation or the stages approach was researched by Johanson and Wiedersheim-Paul in 1975 and later by Johanson and Vahlne in 1977 (Andersen, 1992). The Uppsala Internationalization Model conceives the internationalization process as an incremental process involving four stages: no regular export activities, export via independent representatives (agents), Sales Subsidiary and Production/Manufacturing. Johanson and Vahlne focused on the development of the individual firm and particularly on its gradual acquisition, integration and use of knowledge about foreign markets and operations and on its successively increasing commitment to foreign markets. The lack of market knowledge and market commitment is an important obstacle to the development of international operations that are necessary knowledge to the development and success of international operations. The increasing experience and knowledge about foreign markets lowers the perceived risk and transaction costs and thereby increases the commitment to foreign markets.

The theory states that Multi-National Cooperation (MNC's) grow from infancy in the country of origin, develop to maturity, succeed in saturating the local market, regional market and eventually venture into the international arena as MNC's (Yabs, 2007). This is known as the Uppsala Model which states that MNCs go international as their perception and confidence of their target market increases. The Uppsala model is based on the notion that no MNC can venture into a new territory unless it has experience on home ground and is convinced that it will succeed.

The Uppsala model assumes that organizations exist to increase long-term profits and equate the same to growth while at the same time keeping risk at low levels (Shirani, 2009). The model assumes that the state of internationalization affects perceived opportunities and risks which in turn influence commitment decision and current activities. Market knowledge and Market commitment affect the way activities are carried out. The model describes two patterns at the operational level. First, the firm's engagement in the specific country market develops according to the establishment chain which implies commitment of resources. Secondly, firms enter new markets with greater psychic distance which is the psychological distance brought about by differences in language, education, business practice, culture and industrial development. Johanson and Vahlne in 1990 redefined the Uppsala model as, "explaining the pattern and mode of establishing marketing-oriented operations". Business relationships and industrial networks are subtle phenomena that are not easily observable by outside observers and can only be understood through experience from interaction inside. This implies market knowledge is based on experience from current business activities or current business interaction. In 2007, Camuffo et al. (2007) added technological knowledge and customer-supplier interaction as important determinants of the Uppsala Internationalization Model (cited by Reiner et al., 2008). This is because cross – border expansion into neighbouring countries might shorten the time required to accumulate knowledge and to control the facility in the target market.

### **2.2.2 The Innovation-Related Internationalization Model**

The Innovation-Related (I-R) Model considers internationalization as an innovative process because it requires a pro-active approach which implies a favourable attitude

toward international expansion. This model analyses the development of export activities as an export development learning curve (Shirani M., 2009). The models focus on the learning sequence in connection with adopting an innovation. The model began in North America in the late 1970's and early 1980's by studying a cross – section of firms and later refined to study firms in the long term using a longitudinal design.

The various Innovation-Related models can be viewed as the incentives to start exporting as interpreted by Bilkey and Tesar (1977) and Czinkota (1982) vis-a-vis Cavusgil (1980), Reid (1981) and Reid (1981), (Andersen, 2009). The former two presume that the firm is not interested in exporting at Stage 1 and is willing to fill unsolicited orders or is partially interested at Stage 2. This implies an external change agent or “Push” mechanism to initiate the export decision. The latter models describe the firm as a more interested party and active in the first two stages. An internal change agent is probably a more relevant reason as to why a firm would move to the next stage of internationalization. The initiating mechanism is considered the only real difference in the internationalization process presented by all four Innovation-Related Models.

The Innovation-Related model can be regarded as behaviourally oriented meaning that there exists an internal and external mechanism providing relevant explanation as to why the firm moves to the next stage. The theory states that firms move from one stage to another when internationalizing their organizations operations. The firms are categorized into different stages due to one or a small number of characteristics of their international involvement. The main differences in the models are the number of stages and the description of each stage. The I-R model can be regarded as

behavioural because it implies that for internationalization to happen; internal and external mechanisms provide the explanation as to why the firm moves from one stage to the next.

Based on internationalisation process theories, organisations generally internationalise incrementally in regard to their operation strategies (Laanti R. et al, 2009). This means that they first start with export modes then gradually enter more committed modes like foreign – country based subsidiaries. The Uppsala model suggests that internationalization can be viewed as a dynamic cycle. In this case, the change in the state of internationalisation depends on the state of internationalisation. The distinction therefore between state and change aspects of internationalisation is emphasized. In contrast, the Innovation-Related models view internationalization as an innovation for the firm. Both of these models view internationalisation as a sequential incremental process with a varying number of stages (Wickramasekera & Oczkowski, (2006). There has been much debate over the practicability of the stage models of internationalisation especially with the International New Ventures research which focuses on small firms in the high technology fields. However, research has shown that most successful international firms draw from a “stages” approach to internationalization which demands a re-visit to the stages theory.

### **2.3 Factors affecting International Trade.**

Today, trading partners are more distant and exhibit greater differences in their capital labour ratios than they did in the past. This suggests important changes in the political economy dynamics that determine the internal support that more trade liberalisation may be taking place.

Global welfare should depend on the relative strength of the trade creating and trade diverting forces that arise from trading systems. Trade policy is influenced by six main factors: tariffs, subsidies, import quotas, voluntary export restraints, local content requirements and administrative policies.

### **2.3.1 Tariffs**

A tariff is simply a tax levied on imports (Hill, 1998). Specific tariffs are levied as a fixed charge for each unit of a good imported while an Ad valorem tariff is levied as a proportion of the value of the imported good. Tariffs raise the cost of imported products relative to domestic products and are intended to protect the domestic market against foreign competition while raising revenue for the government. Governments and domestic producers gain revenue but consumers lose since they pay more for certain imports. A balance therefore is always sought. Tariffs are unambiguously pro-producer and anti-consumer and are referred to as the costs of protectionism. Tariffs also reduce the overall efficiency of the world economy as a protective tariff encourages domestic firms to produce products at home that might have been produced more efficiently abroad. This results in an inefficient utilization of resources.

### **2.3.2. Subsidies**

According to Hill, (1998), subsidies are governmental payments to domestic producers and these take many forms which include cash grants, low-interest loans, tax break and government equity participation in domestic firms. Subsidies help domestic producers by lowering costs in two ways: helping them compete against low cost foreign imports and helping them gain export markets.



Domestic producers gain the most from subsidies since their international competitiveness is increased as a result of them. Strategic trade policy advocates for subsidies to help domestic firms achieve a dominant position in those industries where economies of scale are important and the world market is not large enough to profitably support more than a few firms. On the other hand, subsidies must be paid for and typically governments pay for subsidies by taxing citizens. The benefits derived from subsidies therefore need to exceed the national costs to pay them. In practice, subsidies have been found not to increase international competitiveness of domestic producers.

### **2.3.3. Import Quotas and Voluntary Export Restraints**

An import quota is a direct restriction on the quantity of a good that can be imported into a country. This is enforced by issuing import licenses to a group of individuals or firms restricting the number of firms that can import a good and/ or the amount of the good to be imported.

A voluntary export restraint (VER) is a variant of the import quota and is a quota on trade imposed by the exporting country, usually at the request of the importing country's government. Foreign producers agree to VERs due to fear that if they do not comply, the consequence will be more damaging tariffs or import quotas in future. Agreeing to a VER is a way of making the best of a bad situation by appeasing protectionist pressures in a trading partner country.

Both import quotas and VERs benefit domestic producers by limiting import competition. Quotas do not benefit consumers since it always raises the domestic price of an imported good and limits imports to a low percentage of the market which

raises the price for that limited foreign good's supply. It is important to note that VERs have steadily decreased in the recent past (Hill, 1998).

#### **2.3.4. Local Content Requirements**

Local content requirement demands that a specific fraction, either in value or physical terms, of a good should be produced in the domestic market. This has been widely used by developing nations to shift their manufacturing base from the simple assembly of products whose parts are manufactured elsewhere, to the local manufacturing of the component parts. This provides protection by limiting foreign competition in the same way that an import quota protects a domestic economy. Domestic producers therefore benefit but the prices of imported components increase. Higher prices for imported components therefore are passed on to consumers of the final product in the form of higher final prices.

#### **2.3.5 Non-Tariff Barriers**

Non-Tariff Barriers (NTBs) refer to restrictions that result from prohibitions, conditions, or specific market requirements that make importation or exportation of products difficult and/or costly (Non-Tariff Barriers, 2014). Non-tariff barriers are either administrative policies, sanitary or phytosanitary measures and other technical barriers to trade. NTB's arise from different measures taken by governments and authorities in the form of government laws, regulations, policies, conditions, restrictions or specific requirements and private sector business practices or prohibitions to protect the domestic industries from foreign competition. Examples of NTB's are corrupt and/or lengthy customs procedures, "Buy national" policies, and

import licenses, additional trade documentation like certificates of origin, import bans and inadequate infrastructure. These NTBs benefit producers and hurt consumers who are denied access to possibly superior foreign products.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research methodology that was applied in carrying out the study. It describes the proposed research design, data collection and techniques for data analysis that were used.

#### **3.2 Research Design**

The research design was a case study. The study used a case study as a strategy research in order to understand the occurrences. The reason for this choice was based on the knowledge that case studies are the most appropriate method for exploring causal relationships and also provide a holistic understanding of the occurrences.

In a case study, a few easily researchable examples are looked into which narrows the view of a very broad field of research. It allows for testing whether a specific theory is relevant today in a specific setting and is applicable to real life experiences. It is useful when not much is known about an occurrence since it allows the researcher to use one or more of the several research methods to test the theory.

The study therefore was used to establish the actual challenges that face USAID PATA in promoting regional and global trade.

#### **3.3 Data Collection**

The study used primary data through conducting interviews. A set of questions formed the interview guide for the interviewer while carrying out the interview. The

respondents that were interviewed were those directly involved in strategizing on international trade initiatives in Global Firms with headquarters in Kenya and working with USAID PATA. These included one senior official at USAID PATA, TradeMark East Africa, Maersk, Mohazo Limited and ACTIF. The choice of respondents was important since they have a holistic view of the organization and the challenges faced while participating in trade in the East African region. They provided access to more significant and useful secondary data that will be useful to scholars. The order of the questions varied depending on the flow of the conversation. The interviews were semi – structured to allow for omission and addition where necessary and collect comprehensive information.

### **3.4 Data Analysis**

Content analysis is a research method that is systematic and objective in describing and quantifying phenomena (Elo, S., & Kyngas, H., 2007). Through content analysis, a researcher can make replicable and valid inferences from data to their context with the purpose of providing knowledge, new insights, a representation of facts and a practical guide to action. It allows the researcher to test theoretical issues in order to enhance understanding of the data collected by distilling words into fewer categories. The technique made inferences by systematically and objectively identifying specific characteristics that are related. It involved observation and a detailed description of objects, items or things that comprised the focus of the study.

Once classified into the same categories, it is assumed that words and phrases share the same meaning. Content Analysis was used to generate and categorize items from the interviews with the senior officials in order to perform a qualitative analysis of the feedback from the interviews. General statements on themes or categories of related

data were made. The researcher was able to describe, interpret and criticize the subject matter of the research since it is difficult to do so numerically.

## **CHAPTER FOUR: FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

The research objective was to determine the challenges faced by challenges faced by USAID Kenya's PATA initiatives in promoting the growth of regional global trade in East Africa. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

### **4.2 Respondents Profile**

The respondents comprised of the top management of businesses operating in Kenya in partnership with USAID Kenya to understand the actual challenges faced on the ground in the implementing USAID PATA initiatives within the East African region and internationally. In total, the researcher interviewed four out of five respondents that had been intended to be interviewed in the research design. The respondents were made up of the Executive Director at ACTIF, the Executive Director at Trademark East Africa, Program Management Specialist at USAID PATA and the Managing Director at Maersk. All the respondents interviewed have extensive experience working with various worldwide donor projects that impact on international trade implementation.

Academically, all four of the respondents have attained university education with one achieving a PhD award. The solid academic profile and international experience make the respondents knowledgeable on the subject matter of the research. Their feedback was important in the realization of the research objective.

### **4.3 Challenges in International Trade**

International and regional trade has challenges especially in the donor and private-sector relationship. Donor partners liaise closely with the private sector in order to make substantial and sustainable gains in the future since neither party is able to eradicate the challenges to trade on their own. This involves both economic and social angles of the effects of trade to ensure that gains in trade result in tangible gains for East Africans by increased physical access to markets, enhanced trade environment and improved business competitiveness.

It was found that USAID PATA's mandate which is to offer appropriate trade policies that open up opportunities for African countries to build free markets and increase foreign investments that promote economic growth, create jobs, and raise living standards are being met through the partnerships with the various organizations. This has helped Kenyan and African businesses take advantage of trade opportunities available under AGOA via an East and Central Africa Global Competitiveness Hub (EATH) by building strong working relationships with its regional partners to expand export opportunities and to promote increased inter-regional trade.

Inasmuch as the objectives of the private sector and donors have conflicting roles, cross sector alliances are still very important. The respondents noted that USAID Kenya has been instrumental in fostering international and regional trade by providing donor assistance to trade initiatives in the East African region and internationally. USAID Kenya provides the financial abilities, financial models and manuals, technical training assistance, operation manuals and international business sense to the donor recipients who then execute their mandates. There is therefore a related partnership between donors and the private sector players. The respondents noted that



their role in the partnership with USAID PATA is one where USAID PATA is able to achieve its goals through the partners by leveraging on the partners established work on the ground.

The existence of a “contribution agreement” between USAID PATA and one of the trade partners creates a clear reporting structure on trade initiatives that gives feedback to USAID PATA. USAID PATA has a clear mutual understanding of objectives with their trade partners which lay down expectations clearly.

#### **4.4 Specific Challenges in Regional and International Trade faced by USAID**

This study sought to take a critical look at the challenges faced by USAID PATA in international trade specifically in the East African region and internationally. These challenges were mainly Poor infrastructure, Nationalism, Non-Tariff Barriers to trade and Customs Fees challenges.

##### **4.4.1 Poor Infrastructure**

Lags in terms of specialized handling of shipments at the port are one of the most significant impediments to trade. These loads that arrive at the port are constantly increasing and need specialized handling to treat different types of cargo appropriately. Tasks like handling a Roll On Roll Off (RoRo) should be handled differently than a diplomatic container that does not need verification or inspection. Due to congestion however, all containers are treated more or less in the same way. The Mombasa port is in dire need of the deferred investments in improving it and is currently overstretched.

It is important to note that in June 2014, the Kenya Government is addressing this challenge using purely domestic funding by diagnosing the capacity problem and seeking solutions for it. For example, Berth 19 at the Mombasa port was improved solely through domestic funding and is now a benchmark for ports in Africa.

President Uhuru Kenyatta launched the Mombasa Port Community Charter and the performance dashboard (Masese, 2014). The charter seeks to enhance infrastructural development and improve efficiency in cargo clearing which is expected to enhance transport along the Northern Corridor from the Port of Mombasa to Uganda, Rwanda and Burundi. According to Trademark East Africa's director, the Mombasa port is a growing business that enriches lives and it is central to trade in the East African region. These laudable trade consequences for the people of East Africa have an enormous impact on successful trade which translates to poverty reduction. The port infrastructure has been an impediment to East African trade since the port has been the gateway to East Africa for the last 100 years. However, there were times when business in the region was significantly delayed due to major congestion and massive clogging at the port that resulted in overdue consignments.

In the recent months, efficient infrastructural processes are being set up at the port of Mombasa, not only by private sector players but also by initiatives by the Government of Kenya. This shows the political will that exists to get efficient trade facilities in the country. Mr. Anthony Weru, Senior Programmes Officer of the Kenya Alliance of Private Sector Associations (KEPSA) is on record as stating that cargo clearance is now taking a shorter period than it used to take in the past due to port efficiency. This combined with improved transport infrastructure across the country enables faster trade to occur throughout the region. Currently, the port of Mombasa handles an

average of 40 Million tonnes of cargo. The projection in 2030, is that it will handle approximately 117 Million tonnes.

In light of the infrastructural challenge, the Mombasa Port Community Charter was signed by 25 different agencies and was unveiled by President Uhuru Kenyatta and “Proclaims the desire of the Mombasa Port Community to realise the full trade potential of the Mombasa Port Corridor” (Trademark East Africa, 2014). It commits to scaling the challenges and thereby reaching, maintaining and exceeding standards that will deliver goods to market with maximum efficiency and in the shortest amount of time. This is proof of a glimpse of political will from the very top to improve on defunct trade infrastructure at the root of the challenge. Infrastructure changes are not low hanging fruits but complicated changes that need to happen in order to improve regional and international trade.

#### **4.4.2 Nationalistic Divides**

It was noted by all interviewees that although the East African Community exists, there still needs to be work that has to be done to address divisions between the East African nations. According to the respondents, regional trade is hampered because its importance is not received positively by resident citizens in East African countries. Trade, in some instances, is seen as a threat to domestic trade and culture.

The culture of the society then comes into sharp focus. A good example that was sighted is where a trade policy is agreed upon by the East African Community but during implementation, one country for instance Tanzania, does not implement what was agreed upon. Regional trade is therefore complex trade in that solutions with cultural components must be sought.

Widespread education of the benefits of a single customs entry must be done in order for the economic advantages to be genuinely appreciated across the board and throughout all the countries. Policies need to be set up to create, reinforce and protect national and regional economies and the successful implementation of a single customs entry. Currently, there is no revenue sharing amongst the East African states but if there was, then the concept would be more accepted by all the countries and trade improved.

The ongoing political instability in East Africa adds to the frustration of easy trade points. There is need for politicians to realize the impact they have on polarizing citizens of a country against another East African country and how that hampers trade within the region. Both the private sector players in these countries and the governments of the day, must engage in planning, regulation and respect economic models in order to allow for sustainable, diversified trade in the region and globally.

Links between the various government ministries and the various private sector players throughout the region can address this challenge. Players like Trademark East Africa can assist USAID in making these links with the various governments and make regional trade a reality. Through specifically tailored projects like Trademark East Africa's Border Post Development Project, USAID has been able to engage in easing trade in the region. However, since the community has not fully bought into the benefits of regional trade, it is found that trade is hampered at the border posts. Through country specific developments like devolution, counties within the country assume that they have the mandate to charge a fee at the border posts. A border post like Namanga will charge trucks a fee to cross the county and impede trade. This has

to be challenged from the top levels of the government right down to the local citizens.

#### **4.4.3. Non-Tariff Barriers**

Trademark East Africa defines Non-Tariff Barriers (NTB's) as “any measure, regulation or practice other than “tariffs” and “para-tariffs”, the effect of which is to restrict imports or to significantly distort trade”. In the East African region, this is clearly seen through import and export bans, police roadblocks and weighbridges where drivers ferrying goods between borders are delayed or inconvenienced by cumbersome or unnecessary clearance procedures. The resultant effect is that goods are delayed which reduces their value. Most times, corruption is involved and there are massive costs paid in bribes. This cost is ultimately passed down to consumers. This makes Non-Tariff Barriers a major challenge for USAID to overcome as they encourage regional and international trade.

It is important to note that the EAC has no specific enforcement mechanism to completely tackle NTB's. This puts the landlocked countries at a disadvantage. Bilateral discussions have now begun between some East African states, seeking to eradicate the NTB's. USAID PATA supports Trademark East Africa's initiative to empower the EAC Secretariat and EAC partner states through a combination of national and regional initiatives that include institutional strengthening, providing technical capacity and improving the legal and regulatory framework of all the EAC countries. The possibility of sanctions being instituted to rogue member states that are unwilling to put action into eradicating NTBs.

The very nature of NTBs is that they are difficult to eradicate and must be observed so that when one is eradicated on one end of the spectrum, another isn't created on the other end. A good example is where bribes at border posts are eradicated only for weigh bridges further inland to unduly take more time to let cargo pass through them. This still creates a cost to the consumer and negates the benefits of a regional trading body.

The presence of bottlenecks is acknowledged by port officials who know that the eradication of these challenges means that transport costs will reduce. This will lead to better turnaround time, better use of resources and more economical goods and services passed down to the consumer.

#### **4.4.4 Customs Fee Challenges**

The respondents all mentioned the customs challenges that are prevalent especially at the entry points to countries and at the border posts. The Managing Director at Maersk sighted wastefulness and inconveniences as a prevalent challenge at the Mombasa port. There is an imbalance between the cost of imports and the cost of clearing cargo at the Mombasa Port. Inasmuch as the port has the potential to perform, its poor performance lies in the processing speeds of customs officials, labour unions and Government of Kenya customs offices which includes the Kenya Revenue Authority.

The challenge does not lie solely in the hardware, since the quays are being extended and yard planning as well as other physical aspects is slowly being improved. The challenge is in the soft skills and capabilities of individuals that deal directly with customs matters. The cost of trade needs to be reduced in order to retain Mombasa port and JKIA as regional leaders in trade. In Kenya, a new single window system,

operated by the Kenya Trade Network Agency (KenTrade) whereby all import/export documentation has been enforced and is envisioned to not only reduce time to market but through computerisation will create transparent processes as it can be accessed by all parties. However, this system does not empower the general public since it can only be operated by a registered clearing agent. Nevertheless, it will clearly show where a bottleneck exists.

It was mentioned that if one of the customs agents like the Kenya Ports Authority, the Kenya Revenue Authority, the Kenya Plant Health Inspectorate Service or the Kenya Bureau of Standards acts slowly or inefficiently, ripple effects are sent down the value chain and both imports and exports are affected. Backlogs are created both ways and these acts as a hindrance to trade. One inefficient customs agent can create an uncompetitive business environment that will repel investors and decrease trade throughout the East African region as well as globally. Port efficiency has the possibility to improve the competitiveness of the general business climate and the economic growth of the region.

#### **4.5 Discussion**

The Innovation – Related Internationalization Model considers internationalization as an innovative process because it requires a pro-active approach which implies a favourable attitude toward international expansion (Shirani M., 2009). The idea is that export activities develop through a learning curve. The findings of the study were consistent with the theory since USAID PATA encourages regional trade by supporting businesses that carry out the ground work for trade to occur, slowly but surely.

The challenges to regional and international trade were best summarized by the Executive Director at Trademark East Africa as “squeezing a balloon”. Organizations attempt to resolve a challenge on one end, for example addressing a specific Non-Tariff Barrier, but the same challenge shows up elsewhere in equal measure through another challenge like inefficient infrastructure. The challenges are so deeply rooted that they have to be must be resolved through a multi-pronged, geospatial approach in order to truly tackle them.

Knowledge management and sharing are imperative to East African Trade. The development of community work towards smarter achievement of regional trade goals through the donors is intentionally done by USAID PATA by providing technical and financial structures that allow donor recipients to carry out the trade mandate. USAID PATA uses strategies and trade facilitation tools like connecting the informal, transactional and disconnected nature of the region’s staple foods value chains to be more competitive. This addresses the challenge of poor infrastructure through structured trading systems that link and integrate the industry players. This also creates efficiency within the value chain. Through the East African Trade Hub, USAID PATA works to develop trade strategies that facilitate for regional trade by integrating smallholders into the formal market structure and enhances food security.

The interviewees shared the view that USAID PATA encourages a positive attitude towards trade within the region and internationally. The donor organizations recognize the challenges to trade but look optimistically into the future and believe in both regional and international trade. USAID PATA is able to carry out its trade mandate through trade focussed organizations like Maersk, Trademark East Africa and Mohazo Limited by being active donors and encouraging the donor recipients to



use USAID PATA's resources to overcome the challenges that exist in the route to market. It is clear that USAID PATA cannot meet their goals on their own or without attempting to address the real challenges facing trade with the East African region and internationally.

Different platforms are used by USAID PATA to address the challenges that are posed by leveraging on partnerships that increase access to power in Sub – Saharan Africa. The key partnerships are those that the U.S. Government has through its various agencies. As an example, USAID PATA uses the Millennium Change Corporation to invest in policy change at institutional level, influence tariff and regulatory reform as well as provide financial support to host governments of the East African Countries. In this way, specific challenges can be tackled and eradicated.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The research objective was to determine the challenges faced by challenges faced by USAID Kenya's PATA initiatives in promoting the growth of regional global trade in East Africa. This chapter presents the summary findings, conclusion and recommendations. Recommendation for further research will also be presented.

#### **5.2. Summary of Findings**

Research found that the respondents had excellent knowledge of the challenges in regional and international trade since they have all worked for their respective organizations for more than two years and in the international trade industry for an average of five years. USAID Kenya has been in partnership with these organizations for a lengthy period of time with USAID PATA being a creation to facilitate for laser focus on power creation to bring to life the trade facilitation opportunities in Sub-Saharan. Four of the respondents were found to have attained university level degrees with one having attained a PhD degree. The study further found that USAID PATA is aware of challenges to trade. The approaches to challenges in regional trade that are impediments to achieving regional trade were found to be aggressive. The donor relationship between USAID PATA and businesses is not one of simply throwing more money at a problem and hoping it will solve itself but one of actively seeking real life solutions by engaging host governments and supporting small businesses to trade internationally through the platforms created. It was found that it is easier for

USAID PATA to work through donor recipients since the latter have more access to markets, a better more experienced understanding of enhanced trade environment and the ability to increase product competitiveness. Businesses in Kenya have access to resources through USAID PATA's partners like Trademark East Africa, Maersk and ACTIF to risk reducing initiatives. This helps businesses overcome trade challenges and ensures that businesses are strengthened. As an example, USAID are instrumental in an upcoming initiative called "Origin Africa" which will strengthen Kenyan businesses towards trading internationally. This ensures that USAID PATA's objectives are achieved through the various partners.

Through partner projects like the Border Post Development Project by Trademark East Africa, USAID PATA is able to tackle the challenge of Nationalism and Customs Fees. Organizations that are donor recipients of USAID PATA use their partnership with USAID PATA to share information and come up global solutions to local challenges. USAID PATA gives donor recipients more than just financial muscle to achieve trade objectives. They offer unrivalled advice and expertise on how to solve local and international challenges that come up where trade is concerned through the wide USAID international presence. By using an in-depth and thorough monitoring tool, USAID PATA is able to monitor changes in donor recipients and advise them towards sustainable trade.

The study found that trade challenges faced by USAID PATA are mainly in improving infrastructure, breaking down destructive nationalism, bringing down Non-Tariff Barriers and Exorbitant Customs Fees that are both direct and indirect.

The respondents noted that the affiliation with USAID PATA has enabled them to create a more robust organization that has produced tangible and intangible results

both locally and internationally. Success with USAID PATA has given partners credibility with other donor organizations. It has offered a learning opportunity, both financially and non – financially, to go further in both regional and global trade. The positive effects of trade on local communities are the most gratifying part of their presence in the East African market.

### **5.3 Conclusions**

Theories of International trade propose that trade naturally begins in the home country and then grows internationally. In order to do this, USAID PATA and affiliate organizations must face the challenges to trade squarely and overcome them in order to encourage this international trade to occur in the region and globally. USAID PATA is on the right track to tackling the major challenges that have come up within the region by partnering with organizations that are actively involved in trade within the region and globally. It is important to understand the challenges that are faced by partner organizations and support mechanisms that address them.

In order to overcome the challenges to trade that present themselves to both USAID PATA and partnering organizations, a multi-pronged approach must be used where both governments and citizens of the East African Community are sensitized to work towards elimination of nationalistic divides, non – tariff barriers, exorbitant customs fees as infrastructure is improved through transport and communication avenues throughout the region. Progress is being made however and must be acknowledged by both the public and private sector.

Partnering with trade organizations increases the effectiveness of USAID PATA's initiatives and creates synergistic gains for both USAID PATA and donor recipients.

Large economies of scale are achieved through the strategic affiliations with donor recipients. Long term trade relationships and specialized attention to specific sectors of trade creates competitive advantage, growth and new opportunities for both USAID PATA and donor recipients.

The research showed that regular communication through set reporting guidelines, honest feedback and scheduled meetings created an environment of collaborative effort by both USAID PATA and donor recipients. This has a positive impact on resolving challenges that come up.

In conclusion, USAID PATA faces challenges in encouraging market efficiency in the East African economy. However, by partnering with organizations in both the private and public sector, it can overcome the major challenges, proving this region is a growing and important investment opportunity. This will have a domino effect especially in the quality of life for East Africans as the commodity prices reduce due to improved logistics systems and production times.

## **5.4 Recommendations**

This study makes several recommendations for policy implementation and also suggests recommendations for further research.

The study established that political will was central to overcoming trade challenges in the East African Community and abroad. It was found that this is slowly being realized although an acceleration of the mind shift will hasten the process. The benefits of a common East African Market will shift mind-sets both within the East African Community and abroad. This mind-set shift is desperately needed in all East African countries. This will reduce the back and forth experiences when a resolution

is agreed to in a common East Africa meeting but when it comes time to implement the same resolutions, some member countries go back on their word and impede smooth trade. This will have an impact on creating a common East African currency and make the transaction costs less as goods and services move from one East African country to another. It was noted that little steps are being made towards smoother trade. A good example is when the three presidents of the major East African economies came together to vouch for the EAC. This is a little step towards a major goal: A more efficient port and revenue access sharing. Slow progress is still progress nonetheless. It keeps the conversation alive until the goal is realized. Implementation of the East African Community towards a single customs territory with a single access point will encourage revenue sharing. This will create a clearer view of what regional and global trading can achieve. The respondents were all positive that trade within the region and abroad is set to continue to grow with the private sector leading economic growth.

Two main things will have a significant impact on resolving trade challenges in the near future in Kenya are: the standard gauge railway, the second container terminal at the Mombasa Port and the Lamu port. Once the positive ripple effects of the EAC are felt by communities on the ground, a single market will have an appeal both internally within the region and externally across Africa and across the world. Through peer pressure and sanctions all stakeholders in the East African trade process would be forced to honour their commitments.

## **5.5. Limitations of the Study**

Due to the busy schedules of some respondents who had tight schedules, it was not possible to interview some intended respondents.

Some managers were reluctant to be interviewed as they felt the research would encroach on sensitive information that they hold.

## **5.6 Suggestions for further study**

It is recommended that further study could be undertaken with a focus on how American based industries are overcoming trading challenges locally through USAID PATA and how local organizations can implement best practices to overcome challenges faced abroad.

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## **Appendix II – Interview Guide**

### **INTERVIEW GUIDE FOR REGIONAL AND GLOBAL TRADE IN EAST AFRICA THROUGH USAID PATA**

Kindly answer all the questions by filling in the spaces provided:

#### **Part A: Background Information of the interviewee**

1. What is your current position?
2. For how long have you been at this current position?

#### **Part B: Regional and International Trade**

3. How does USAID PATA partner with the organization to achieve regional and international trade goals?
4. What are the top three challenges when trading internationally?
5. How can the challenges that come up while trading regionally and internationally be resolved?
6. In your view, what is the nature of the partnership that USAID PATA has entered with your organization?
7. How has the partnership between USAID PATA and your organization fostered trade within the EAC?
8. What are the top three challenges when trading regionally?

9. How has the exchange of resources between USAID PATA's and your organization led to value creation in regional and international trade?
10. How have Non-Tariff Barriers affected regional trade?
11. How is poor port infrastructure an impediment to regional and global trade?
12. Are the effects of Nationalism clearly seen in regional trade within East Africa?
13. How can East Africans be more involved in regional and global trade?
14. What other outgrowths of corruption are seen in regional trade?
15. What role does KRA and KPA play in regional trade?
16. How has cost management techniques been used by businesses operating in Kenya to trade regionally?
17. How does your organization ensure that the challenges in encouraging trade are communicated back to USAID PATA?
18. What are your thoughts on your donor/ partner relationship with USAID compared to the other donors that support you?
19. Has USAID PATA's partnership led to significant opportunities and policy improvements within the region?
20. What is your take on the future of regional and international trade in the next two years?