

**EFFECTS OF THE EAST AFRICAN COMMUNITY TRADE INTEGRATION
ON THE PERFORMANCE OF LOGISTICS FIRMS IN MOMBASA COUNTY,
KENYA**

BY

SITATI K. ABIGAEL

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DECLARATION

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

Signature

Date.....

SITATI K. ABIGAEL

D61/80124/2012

This research project has been submitted for examination with my approval as a University Supervisor.

Signature

Date.....

PROF. MARTIN OGUTU

ASSOCIATE PROFESSOR

DEPARTMENT OF BUSINESS ADMINISTRATION

UNIVERSITY OF NAIROBI

DEDICATION

I dedicate this work to my Husband Mr. Lamond Okumu and Children. God Bless you!

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ABBREVIATIONS AND ACRONYMS

AU	African Union
EAC	East African Community
ECOWAS	Economic Community of West African States
EU	European Union
EMU	European Monetary Union
OCA	Optimum Currency Area
REI	Regional Economic Integration

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ABSTRACT

The study evaluates the effects of the East Africa Community trade integration on the performance of logistics firms in Mombasa County, Kenya. The major postulation is that regional integration leads to economic growth and development. It focuses on the main aspects of the integration that is the economic growth and development, trade and investment. The study was guided by a review of relevant literature and informed by key theories on economic integration. The study adopted a survey research design. The theoretical aspects of regional integration were borrowed from the functionalism theory and the customs union theory. The findings reveal that the East African Community integration has promoted trade creation as all the partner countries and their respective business organizations have experienced economic growth due to the integration process. However, the extent to which partner states would benefit from integration is dependent upon their levels of economic development. It was further revealed that there were weak institutions that lack the mandate to enforce and implement agreements; this is due to the reluctance by the partner states to sacrifice their sovereignty. Further insecurity and instability in the region creates an environment not conducive for investors, disputes and tension between communities further slows the integration process. The study recommends that there is need for greater focus on civic education for the citizens of the five states in the EAC and a thorough understanding of how the EAC works and the various stages the integration was move into and the key result areas expected. The study recommends policy harmonization and coordination, greater stakeholder involvement of the member states in matters of economic trade integration.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The changing dynamics of the world economic order in the post-Cold War period has given rise to regionalism and regional economic integration initiatives at both international and regional levels. The proliferation of regional economic integration and cooperation groupings in the world today can be interpreted as a response to the changes in the world economic order after the end of the Cold War (Kafeero, 2009). After independence, many African countries created regional economic cooperation and integration bodies with a view to boosting economic growth and development in the continent. These regional groupings were also aimed at increasing Africa's participation in the international economy but to date, the emergence of regional economic blocs in post-colonial Africa has not realized much of its development agenda. The goals and objectives pursued by regional economic bodies in post-colonial Africa have remained largely elusive. Minimal success in terms of socio-economic and industrial development has been recorded in Sub-Saharan Africa despite the highly ambitious pursuit of regional economic integration policies by member states (Karns&Mingst, 2004).

Trade contributes significantly to a country's gross domestic product (GDP) thus the motivation for the engagement of trade beyond its borders. While trade between countries has always existed it's been limited to exchange of goods and services and less on the factors of production (Negasi, 2009).

Economic integration which promotes liberation of trade including factors of production allows for the expansion of market, employment opportunities as well as enables a more attractive investment climate attracting foreign direct investments (FDI).

Africa in particular has embraced economic integration to exert influence in a “multi-polar world,” the pooling of resources to form one powerful economy and avoid fragmentation of economies was make it more competitive globally. The small size and primary production structure of the typical African economy provided the rationale for pursuing mutually beneficial economic cooperation and regional integration particularly among adjacent states African Union. (2012). The African paradigm is that of linear market integration, following stepwise integration of goods, labor and capital markets, and eventually monetary and fiscal integration.

The starting point is usually a free trade area, followed by a customs union, a common market, and then the integration of monetary and fiscal matters to establish an economic union. Continental integration has enormous potential for promoting growth and unleashing the development potential of African countries by easing the binding constraints to growth (such as poor transport networks) and by lowering direct and indirect costs of doing business (Longo and Sekkat, 2004). This is especially so as successful regional economic cooperation and integration can help the region attain greater economies of scale, rationalize location of industries and other economic entities, encourage specialization in production, enhance industrial efficiency and reduce both transport and transaction costs and, in turn, the costs of doing business.

1.1.1 East Africa Community Trade Integration

Regional trade cooperation in East Africa cannot be characteristically considered as new phenomenon. The East African countries have shared both form of informal and formal cooperation over a century. There has been continued cross-border integration and trade with border areas being home to communities that share same culture and language from either country. The formal cooperation started as early as during the British rule and later the formation of the initial EAC whose effort to integrate the region did not materialize.

The revived EAC is therefore set to be more citizen centered, more private sector-driven; allowing the East African people to own the decision making process of the integration initiatives. The process was to be more transparent and accessible to the citizens so as to engage in promoting the regional integration and cooperation efforts as opposed to the early integration venture where the role of state through respective governments played a major part, which later became detrimental to the integration efforts.

The EAC aims at widening and deepening regional integration among the member states in, among others, political, economic and social fields for their mutual benefit. The process of regional integration as stipulated in the Treaty for the establishment of the East African Community (EAC), which was ratified in November 1999 and came into force in 2000, was a tripartite force to revive regional cooperation and integration between Kenya, Uganda and Tanzania that had collapsed in 1977.

The EAC is entering its second attempt at uniting the region as a stronger and a larger regional bloc and has this time round shown inherent determination to succeed beyond the initial EAC while investing on the lessons learnt from the earlier disintegration of the regional bloc.

The EAC treaty came into force in July 2000 with the following objectives; the establishment of a Customs Union, a Common Market, Monetary Union and ultimately a Political Federation of the East African States. The purpose of the set objectives is to strengthen and regulate the industrial, commercial, infra-structural, cultural, social, political and other relations of the partner states so that there is accelerated, harmonious and balanced development with sustained expansion of economic activities that was be shared equitably among the five members of the East African regional bloc.

1.1.2 Organizational Performance

According to Richard et al. (2009), organizational performance encompasses three specific areas of firm outcomes which are financial performance that encompasses profits, return on assets and return on investment, product market performance which encompasses sales, market share and shareholder return that includes total shareholder return and economic value added. Organizations have an important role in our daily lives and therefore, successful organizations represent a key ingredient for developing nations. Thus, many economists consider organizations and institutions similar to an engine in determining the economic, social and political progress. Continuous performance is the focus of any organization because only through performance organizations are able to grow and progress.

The concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Barney, 2001; Jensen & Meckling, 1976). The provision of assets was only committed to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets.

As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets was continue to be made available to the organization and the organization was continue to exist. Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization.

1.1.3 East African Community Trade Integration and Organizational Performance

Regional integration has been largely driven by the desire to overcome the constraint of small economic size, which was hampering their ability to industrialize efficiently, by extending the logic of protected and state-led economic development to a larger number of countries. (Aryeteey, 2002). The main goals of economic integration are the elimination of all tariffs and non-tariff barriers between members, the establishment of a customs union, unified fiscal policy and coordinated regional policies in the transport, communication, energy and other infrastructural facilities.

More specifically, economic integration seeks to: Eliminate, between member states, custom duties and other charges of equivalent effects on imports and exports: Eliminate quantitative and administrative restrictions on trade among members: Establish a common tariff structure and commercial policy towards non-member countries: Eliminate obstacles restricting the free movement of persons, services and capital between member states: Harmonize agricultural policies and promote common projects in the member states notably in the fields of marketing, research and agro-industrial enterprises: Evolve a common policy in, and jointly develop, the transport, communication, energy and other infrastructural facilities: Harmonize economic, industrial and monetary policies of members, as well as eliminate disparities in the levels of their development; and Establish a fund for co-operation, compensation and development (Reith & Boltz ,2011).

1.1.4 Logistics Firms in Mombasa County Kenya

The logistics discipline is considered as a complex system given that it involves interdependent actors with a high degree of interactions. The importance of logistics is predicted to increase since the ability to adjust procurement, production, and transportation to customer demands was, together with the management of fast and accurate information flows, become essential in future business environments (Shankar 2001). Logistics management covers the flow of products and information between firms, that is, logistics activities with the fundamental value-adding features of time and place utility.

Logistics performance is a methodology to optimize the execution of business strategy. It consists of a set of integrated, closed loop, analytic processes, supported by technology, addressing financial as well as operational data (Kalathil, 2010). It enables firms to define measures and manage its performance against set strategic goals. A great deal of logistics research is conducted around the premise that a relationship exists between a particular course of action and logistics performance (or effectiveness) (Chow, Heaver & Henriksson, 1994).

Logistics and supply chain management has become an important source of sustainable competitive advantage (Day, 1994). Key trends influencing logistics include organizational focus on managing logistics costs, and increasing emphasis on execution excellence in the entire supply chain. Firms are increasingly looking up to logistics for improving customer service and for differentiation in the creation of sustainable competitive edge. The ability to guide and influence the decision making process is actually the ultimate goal of any measurement system (Caplice & Sheffi, 1995).

1.2 Research Problem

Developing countries in particular those in Africa have been encouraged to embrace regional integration for economic growth and development. Economic integration is intended to create a larger regional market for trade and investment with the aim to lower the trade barriers and reduce the costs and risks of trade. EAC's integration process is based on the initial experience of three partner states Kenya, Tanzania and Uganda.

Firstly, on their previous efforts under the defunct EAC of 1967–1977 and the East African Common Services of 1961–1967; secondly, on no co-operation during the period 1977–1993, as well as the emergence of regionalism after the end of cold war in 1989; and on the challenges of the globalization of economic, monetary and information policies of the new world order.

The EAC efforts suffered a severe blow in 1977 with the collapse of the defunct EAC, the founder partner states of Kenya, Uganda and Tanzania revived it in 2000. Though the re-established EAC has adopted the linear approach to economic integration, it has leaped the first stage of a free trade area and moved immediately to the establishment of a customs union. The above informed the re-establishment of the EAC which has adopted the linear approach to economic integration leap fogging the free trade area moving directing to establishment of a customs union as the entry point for economic integration as outlined in the treaty. The EAC has already signed the protocol establishing the customs union and common market in 2005 and 2010 respectively. The implementation of these protocols has not been fully achieved, for example it is 8 years since the signing of the customs union and the EAC is yet to have a fully established customs union.

This is likely to negatively impact on the overall achievement of the fully economic integration process as well as deny the region accrued benefits integration (Ajayi, 2005) who reviewed the process of economic integration in West Africa, found that participation in the (ECOWAS) preferential trade agreement appeared to have increased exports among the member countries.

However, the challenges of political instability, maintaining fiscal resources, and finding a suitable monetary unit presented considerable concerns for the creation of a single West African Union. Manone (2008) conducted a study on the importance of regional economic integration in Africa. Negasi (2009) conducted a study on the trade effects of regional economic integration in Africa, and concluded that Elimination of trade barriers and structural rigidities originating from adverse political relationship could also lead to substantial increase in intra-SADC trade. Eric Irungu Jane (2011) conducted a study on the impact of regional integration on economic growth and development: a case study of the east African community.

The study therefore seeks to answer the questions; what are the effects of East African Community Trade Integration on the performance of logistics firms in Mombasa County?

1.3 Research Objectives

To determine the effects of the East African Community Trade integration on the performance of logistics firms in Mombasa County, Kenya.

1.4 Value of the study

The research is aimed at determining the effect of EAC trade integration on performance of logistics firms in Mombasa County. The study was important to the various stakeholders operating in this trade bloc as there was identification of business opportunities which proposed specific actionable activities that could improve competitiveness of their firms.

For scholars, the study provides information and knowledge on trade integration as well as identifies areas of further study. Policy makers obtain economic trade integrations that are suitable and design appropriate policies that gave their business firms robust market niche. The logistics firms determine factors that influence their business performance in their operations in the EAC economic trading bloc.

The value of this study has both academic and policy functions when finalized. Policy functions in that, Heads of member states, private sector and civil society organizations involved with the integration process so as to pull out some basic principles by which are guided in their quest for EAC integration strategies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter looks into past literature pertaining to theories of economic integration, empirical evidence of economic integration strategies, and how various scholars have written about the topic being studied. It also presents the various theories relevant to the study.

2.2 Theoretical Foundation

The proposed study was conducted within the customs union theory and the functionalism theory; the two theories represent the economic and political aspects of integration given that the two are intertwined. Some scholars believe that the theory of economic integration is based on the broad study on this issue by Balassa (1961), but there are those who believe that this theory began with the contributions to the customs union issue by Viner (1950) and Meade (1955). In essence, the theoretical foundations of conventional approaches to regional integration date back to three important schools of economic and political thought, which are neoclassical, Marxist and development economics.

Regional Economic integration as a process towards economic and political integration can best be understood by placing it in the right theoretical context.

An understanding of the theories forming the thought process that eventually leads to the conception of a regional integration initiative leads to a better analysis of any matter in the integration framework adopted.

The EAC is no exception. This study, by confining itself to the inter-linkage of both the political and economic aspects borrows heavily from dominant theories on regional integration from both disciplines. Functionalism and the custom union theories are the two main theoretical references used in this study. The functionalist approach to regional integration has great eminence in the context of the EAC which grapples with whether member states should cede their sovereignty to a supranational.

2.2.1 Customs Unions Theory

Viner's study was the first to identify concrete criteria to distinguish between the possible advantages and disadvantages of economic integration. Viner's so called "*static analysis*" of economic integration has divided possible effects of economic integration into the well-known trade creation and trade diversion effects Viner (1950). Trade creation refers to the case when two or more countries enter into a trade agreement, and trade shifts from a high-cost supplier member country to a low-cost supplier member country in the union. Trade diversion may occur when imports are shifted from a low-cost supplier of a non-member country of the union (third country) to a high-cost supplier member country inside the union. This may be the case if common tariff after the union protects the high cost supplier member country inside the union.

The customs union theory is based on the trade creation and trade diversion terms by Viner (1950) which describes the redirection of trade flows due to formation of a customs union. Viner compared the effect of trade between countries before integration and after integration and concluded that economic integration resulted in trade creation and trade diversion.

Customs union which eliminates customs tariffs lead to the decrease in cost of goods this reduces the price of the goods and increase in efficiency thus contributing to economic growth. Trade diversion occurs when a partner country's production displaces lower cost imports from outside the regional trade area thanks to the high level of protection enjoyed by producers within the regional trade area. Obviously, the level of protection erected against outside competition is a key determinant of the extent of trade dispersion (Yang, and Gupta, 2005).

If the external tariff is set in such a way that a more expensive internal source of an input or a consumer good replaces the cheaper source from outside the regional trade area, consumers are penalized because they pay higher prices after integration. That is referred to as "trade diversion". The creation of a customs union, with common external tariffs, was further alter the existing pattern of trade flows. The assumption is that before the union, partner states imposed differential tariffs on different countries to protect their own industries. Therefore, we can see that the whole customs union issue can be disentangled in the free trade-protection argument. As Salera (1951) points out that the main purpose of any customs union is to shift sources of supply.

Hence, if this shift is from a high-cost to a low-cost source, then customs unions are considered a movement towards free trade. If the shift is in the other direction, then customs union may become a device for making tariff protection more effective. Viner (1950) claimed that trade creation raises the home country's welfare ³, while trade diversion lowers it. Viner (1950) has also made the case that size does matter. He identified economies of scale, where the larger the economic area of the customs union, the more likely is a customs union to operate in the free trade direction.

2.2.2 Functionalism Theory

Functionalism theory by David Mitrany notes that states are not always motivated by self-interest when engaging in the international arena. Functionalism proposes a gradual process of the integration process. Rather their focus is on common interests and needs shared by states (but also by non-state actors) in a process of global integration triggered by the erosion of state sovereignty. Functionalism proposes the formation of an authority based in functions and needs, which links authority with needs, scientific knowledge, expertise and technology, thus providing a supranational concept of authority. The functional approach that Mitrany developed in order to achieve social peace and prosperity is known as functionalism, even if in his writings he does not use this term.

David Mitrany as cited by Elbadawi, (1995) gets to propose a new international order, based on the trans-national cooperation. Writing in a period in which Europe was confronting a profound crisis, Mitrany managed to offer to the functionalist theory arguments for global but also regional integration.

His main preoccupation was connected to the efficient administration of limited resources as an essential premise for a durable cooperation and for creating of what he defined as being a working peace system. During three studies *The Beginnings of Functionalism, A Working Peace System – Mitrany's vision about Functionalism and Functionalism between critics and reformulations* was try to present the main elements in Mitrany's approach, Functionalism, a generating paradigm of economic, social and also political cohesion international relations and European construction arena. The exegetes of liberal tradition sustain that Mitrany is not the first that developed the functional approach of international cooperation (Yang and Gupta 2005).

2.3 Challenges Faced From East African Community Trade Integration

Continental integration has enormous potential for promoting growth and unleashing the development potential of African countries by easing the binding constraints to growth (such as poor transport networks) and by lowering direct and indirect costs of doing business. This is especially so as successful regional economic cooperation and integration can help the region attain greater economies of scale, rationalize location of industries and other economic entities, encourage specialization in production, enhance industrial efficiency and reduce both transport and transaction costs and, in turn, the costs of doing business (Venables, 2009). However, some limitations on the applicability of regional integration within developing countries has been challenged, one explanation pointed out on this lack of applicability is by Alives, Draper and Khumal (2010) who say there are few obvious complementarities in trade between countries that are all at the same stage of development.

Economic integration is what Africa needs to address its problem of fragmented national economies. Draper (2010) takes stock of the last decade of African development from an African perspective. The author pleads for a recalibration of Africa's regional integration models, a process by which champion countries' spearhead a less ambitious, but more effective agenda that addresses the region's immediate development needs (Draper, 2010). He goes on to argue that for Africa, the European model of regional economic integration at least in the short term is not useful. He makes the case for limited regional economic integration which steers clear of formal, institution-intensive arrangements as seems to be the norm in sub-Saharan Africa.

However, Oyejide (1997) suggests that the design and implementation of many of the arrangements in effect actually constrain rather than promote intra-regional or overall trade. In addition, non-compliance with and delayed implementation of agreed trade liberalization schedules have not enhanced intra-regional trade expansions; while in many cases, the chosen instruments of integration are virtually guaranteed to discourage rather than promote intra-regional trade. Finally, the absence of effective compensation mechanisms has further hindered the implementation of certain trade liberalization measures in particular regional integration schemes. Taken together, these problems show that Africa's regional integration schemes have generally not been fully implemented as designed.

Other reasons are suggested as cause of the lack of progress in regional integration efforts in Africa. Key among these are unwasiness of governments to:

(i) surrender sovereignty of macroeconomic policy making to a regional authority; (ii) face potential consumption costs that may arise by importing from a high cost member country; (iii) accept unequal distribution of gains and losses that may follow an integration agreement, and (iv) discontinue existing economic ties with non-members. The policy and regulatory environment, the transparency and predictability of trade and business administration, and the business climate for promoting intra-African trade remain weak and complicated. Other institutional challenges include bureaucratic and physical hindrances, such as road charges, transit fees and administrative delays at borders and ports (Musila, 2005).

With regard to formal integration arrangements; there is often a substantial gap between the aspirations expressed in the treaties and the reality on the ground. The reasons are manifold but are usually attributed to lack of commitment towards enhanced integration which results in lack of supranational authority and weak regional coordination mechanisms. Stefan Reith and Moritz Boltz note the strengthening of supranational structures presents a major challenge for the EAC, whose cooperation has so far been predominantly intergovernmental. The self-interest of states is in itself understandable and right, but without a supranational counterweight it is all too likely that resources was be inappropriately distributed. The short time horizon and internal political commitments curtail the scope for inter-regional action. Realization of a common market requires all member states to be prepared to accept a not insignificant risk. For regional integration not only creates trade, but also changes the overall economic structure.

This entails some uncertainties, which in some cases may have negative consequences. In many integration systems there is an imbalance of political and economic power among member countries. These concerns may partly explain the reluctance to move EAC and other regional groupings in Africa to higher levels of integration. Collier and Gunning (1995) observe that strict commitments, thanks to agreements with external factors such as the EU, may provide the necessary political checks. Appropriate mechanisms could tie the hands of politicians and minimize the effects of policy slippage. Wide spread corruption and graft is another challenge facing economic integration Africa.

The existence of economic disparities between member states is also a problem to economic integration. These include: (i) differences in anticipated national benefits and losses from regional integration by member states (ii) problems with the distribution of costs and benefits that result from economic integration and the liberalization of trade and (iii) further inequalities through polarization of industries (Merle, 1998).

However lack of the engagement of the private sector and public has also been identified as a challenge. To the extent that implementation of the treaties requires the understanding, conviction, and confidence of the private sector, an active involvement of this sector in particular and the general public at large are crucial. This aspect of the regional integration process in Africa has been singled out as one of the major weaknesses of the initiative.

2.4 Empirical Review

Similarly, Jayasinghe and Sarker (2004) conduct a study that analyze trade creation and trade diversion effects the North America Free Trade Agreement (NAFTA) on trade of six selected agri food products from 1985 to 2000. Their investigation estimates an extended gravity model using pooled cross –sectional time –series regression and generalized least squares methods. As a result, they find that share of intra-regional trade is growing with in NAFTA and that NAFTA has displaced trade with the rest of world. Using panel data econometric models analysis applied to highly disaggregated trade data, Milner and Sledziewska (2005) come out with the result that shows the European Agreement had transitory but significant trade diverting effects for Poland’s import; the trade diversion substantially dominating the trade creation.

In African context, there are huge empirical works that analyze the impacts of regional integration. Among these, Alemayehu and Haile (2002), on their study for COMESA, show that bilateral trade flows among the regional groupings could be explained by standard variables as demonstrated by the results of the conventional gravity model, while regional groupings have had insignificant effect on the flow of bilateral trade. Further, they suggest that the performance of regional blocs is mainly constrained by problems of variation in initial condition, compensation issues, real political commitment, overlapping membership, policy harmonization and poor private sector participation.

2.5 Chapter Summary

Economic development analysts have proposed that because of the forces of globalization, African countries have little choice but to integrate into global markets, or risk being further marginalized. The suggested approach is to integrate regionally so as to facilitate wider integration into the global economy so as to gain access to greater flows of trade, finance, technology, and ideas for economic growth and human welfare.

Continental integration has enormous potential for promoting growth and unleashing the development potential of African countries by easing the binding constraints to growth and by lowering direct and indirect costs of doing business. This is especially so as successful regional economic cooperation and integration can help the region attain greater economies of scale, rationalize location of industries and other economic entities, encourage specialization in production, enhance industrial efficiency and reduce both transport and transaction costs and, in turn, the costs of doing business.

Regional integration has been an enduring feature of the international political economy, but both its pervasiveness and cast have changed over time. Domestic and international politics are central to explaining such variations as well as the origins and nature of the current wave of regional integration. The main motivating factors for integration are security, economic and political.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedure that was followed in conducting the research. It elaborates the whole research process which includes research design, population of the study, data collection as well as the instruments that was be used for data collection and dataanalysis.

3.2 Research Design

A research design constitutes the collection, measurement and analysis of data (Yin, 2003). Basically, a descriptive research design was used as it gave an in-depth study and further provided an opportunity to narrow down the broad aspects of the effects of East African Community trade integration on performance of logistics firms in Mombasa County. The survey method was used to collect data from a cross-section of logistics firms in Mombasa County in order to address the objectives of the study. The study was a census study that is descriptive in nature. The census study was feasible because the population to be studied was small. This was used to elicit the required information pertaining to the effects of East African Community Trade Integration on performance of logistics firms in Mombasa County. The descriptive survey was selected as it gave the researcher the opportunity to investigate the situation holistically and generate either qualitative or quantitative data.

3.3 Population of the study

According to Field (2011), a population is a well-defined as a set of people, services, elements, and events, group of things or households that are being investigated. The population under study was similar in characteristics and was drawn from 57 logistics firms in Mombasa County.

3.4 Data Collection

An interview guide was used for data collection as it gave an opportunity for the researcher to stimulate response to a greater extent given that the target respondent comprised of the personnel who were well versed with trade integration of regional logistics firms in Mombasa County. The interview guide was personally administered and comprised a one-on-one interview with the respondents. The respondents were senior managers at the logistics firms directly involved in economic integration matters. This generated organizational qualitative data which was used to uncover and understand what lied behind the phenomenon under study.

3.5 Data Analysis

Since the organizational data collected was qualitative in nature, content analysis was used to analyze the collected data. Content analysis determines the presence of certain words or concepts within texts or sets of texts. Kombo and Tromp (2010) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages. Kothari (2004) posits that content analysis as the analysis of the contents of documentary and verbal material.

This was considered appropriate in analyzing the qualitative responses gathered on the relationship between supply chain management processes and organizational performance.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter analyses the data that addresses the effects of East African Community Trade integration on performance of logistics firms in Mombasa County. The interview was conducted with fifty seven key logistics officers that are directly involved in the trade integration matters in the respective logistics firms.

4.2 General Information

This chapter analyzes the main aspects of the integration which are; economic growth and development, trade, investment and demographic aspects which determines how the growth realized by partner states is to be distributed to the citizens. The interviewees agreed that economic integration was vital to the East African Community solutions to the common problems of economic growth and development that the partner states continue to face. The interviewees agreed that significant strides have been made towards uplifting the region economically, socially and politically. The inferences that was drawn from this chapter leads to conclusions of this study which impacts on both academic and policy circles. The critical issues identified above are the key rudiments to the success or failure of the economic bloc. A critical evaluation of these leads to a better comprehension of the regional integration. The extent to which the EAC has attained significant success in the last one decade can best be understood by looking at the happenings of the last ten years critically with in-depth probing of key trade logistics firms in the participating countries especially Kenya.

4.3 Economic Integration

The success of the East African Community determines to a great extent the economic growth and development aspirations of the member states. These are strategized to be realized in all the four stages of the EAC integration process. Regional integration is seen as presenting a possibility for the opening up of new business activities, markets, access to finance and technology. This possibility emanates from the opportunities that accrue to the region in terms of promotion of economic growth and development through poverty reduction measures. This includes increased investment, production and trade. This is vital for the region bearing in mind the economic realities that have been experienced in the recent years of the 21st Century.

In acknowledging the importance of economic integration the respondents said that one should appreciate its universally recognised benefits, which potentially apply to East Africa. These benefits include lower transaction costs for business, lower risks associated with investments, expansion of markets, pooling of regional resources, better utilisation of economies of scale in production, and more efficient allocation of resources. It is, however, the respondents said that, in order to achieve some of these benefits, strong national economic policies will need to be made.

In addition, regional integration can help to provide a framework for coordinating policies and regulations. The respondents said that regional economic integration might also help to prevent and resolve conflicts by strengthening economic ties between African countries.

Regional initiatives can also foster a variety of non-economic objectives, such as promoting regional security and political contact among members. The respondents agreed that regional economic integration can also enhance and solidify domestic reforms.

4.4 Effectiveness of Economic Integration and Performance

The interviewees agreed that there is a great reduction in transport and transaction costs for goods from the dates of coming into effect of the customs union and the common market protocol (this has however not reached acceptable levels and much more reductions are needed). The use of the ports of Mombasa and Dar-es-Salaam for the three countries provides the region with an economic gateway that ought to be put to optimum utilization. This coupled with the tariff regimes introduced under the customs union greatly lead to downward cost reductions for trade in the region which results to lower price goods and services. The interviewees agreed that the greatest challenge has been the lack of diversification in products being traded within the region which poses a serious question on the possibility of trade expansion in the context of a region whose partner states have homogenous products. The dynamics of reallocation of trade patterns within an integration region presupposes that production is geared towards specialized production where more efficient firms within the regime gain eminence. The interviewees also assumed that firms leads to market stabilization as they take over in markets that were previously served by inefficient firms.

4.5 Discussion of the Findings

This objective of the study was to analyze the effects of the East African Community trade integration on the performance of logistics firms in Mombasa County. The interviewees agreed that in evaluating the efficacy of the EAC, much focus should be placed on economic growth while realizing that economic growth does not necessarily lead to economic development. The kind of development needed for the betterment of the region is one that caters for the social, cultural and political advancement of the people.

The Interviewees lamented that the region continues to face a myriad of challenges touching on unemployment, poverty, education, health, agricultural transformation and urbanization. These are fundamental forces that are pushing the region from the kind of existence that was common place a few decades ago.

A number of well calculated reforms are vital in the creation of a robust economic environment where the people stand to benefit. These include, policies aimed at privatization of non-performing government parastatals to boost the private sectors participation in the economy. This coupled with foreign exchange liberalization policies leads to greater flexibility in the operation of money markets.

The interviewees complained that the economic growth is not equal to economic development; the reality in the case of EAC is that whereas some significant growth has been realized, this has been so little as to lead to any meaningful economic development of the people in the region. The results of the integration have not trickled down to the people in an equitable manner.

Prudent economic direction is that not much ripple effect has occurred during the period under study. This however sets the base for prospects for future growth. The most daunting task in the EAC integration process was be the need to reflect on how much good has trickled down to the people as a result of the integration arrangement.

The findings from the interviewers reveal that some key aspects of the economic integration hold the key to the region's economic trade transformation and eventually the performance of transport logistics firms. This is two-fold; one, the realization of high economic growth rate goes a long way in enhancing the region's potential in logistics trade and with it the individual partner states' positioning economically. Secondly, the realization of the trade potential of the region and particularly intra-regional trade holds the key to the region's growth and development. These findings are consistent with a study by Karamuriro (2015) on regional economic integration and exports performance in the COMESA region (1980-2012) which concluded that there is need for increased investment in transport infrastructure that was reduce long distance cost of doing business. These findings are further supported by empirical studies on trade effects of economic integration (Mbeke,2013,Negasi, 2009).

A study by Ajayi (2005), reviewed the process of economic integration in West Africa, found that participation in the Economic Community of West African States (ECOWAS) preferential trade agreement appeared to have increased exports among the member countries.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is divided into four main sections: summary, conclusions, suggestions for further research, recommendation and limitations.

5.2 Summary of Findings

The study found that some key aspects of the economic integration hold the key to the region's economic trade transformation. One, the realization of high economic growth rate was go a long way in enhancing theregion's potential in logistics trade and with it the individual partner states' positioning economically. Secondly, therealization of the trade potential of the region and particularly intra-regional trade holds the key to theregion's growth and development. This is a great pillar upon which the success or failure of the EAC economic trade integration is hinged on. It continues to be so in the coming years particularly with the coming into effect ofthe customs union.Thirdly, the immense investment potential of the region provides an opportunityfor the economic reorganization of the region in a bid to sustain economic development and logistics trade. Fourthly,development dynamics for the region must be understood from a bottom- up approach with regard toevaluating the spread of the proceeds of the economic growth realized to the citizens of the partnerstates. This was to help in checking how effective the wealth distribution is for all the countries.

The possibility of unequal benefits for the partner states has the potential to affect the life of the cooperation. States essentially remain in an integration arrangement so long as their welfare gains are assured. As soon as welfare losses set in, a state can resort to pulling out of the integration to pursue different policies on its own or to reassess the need for future membership to another regional integration body. Finally, the great role that policy imperatives play cannot be understated. Lack of policy coordination and harmony can be blamed particularly for the slow pace of the operationalization of the customs union and the common market.

5.3 Conclusions

The EAC has made a number of significant strides towards the realization of full economic integration of all the East African nations' economies. In fact, the fact that the EAC member countries are also members of other regional economic blocs has seen them push for economic cooperation arrangements beyond the EAC economic integration framework. The regional integration process of the EAC has since inception been a bold attempt at harnessing the economic potential of the region for economic growth and development to benefit the people of the region. In the period under study, there has been quite substantial progress made in trade and investment and this points to an even brighter future for the region in the years to come.

From the study there is evidence that the EAC integration has promoted trade creation as all the partner countries and their respective business organizations have experienced economic growth due to the integration process.

However, the extent to which partner states would benefit from integration is dependent upon their levels of economic development. Where a partner state enjoys a relatively large industrial sector, then such a country is likely to gain more than other partners, this is the case with the EAC where Kenya which enjoys a relatively large industrial sector, then is likely to gain more than other partners. Secondly, the weak institutions lack the mandate to enforce and implement agreements; this is due to the reluctance by the partner states to sacrifice their sovereignty. This has also resulted in the slow harmonization and coordination of policies. Thirdly, the security and instability in the region creates an environment not conducive for investors, disputes and tension between communities further slows the integration process.

The findings further reveal that from the experience of the last couple of years particularly from 2007 with the official admission of Rwanda and Burundi present a reference point for which the success of the region should be patterned. The findings reveal that the global economic integration system has dramatically changed and now more than ever before strategic economic positioning is vital for any country or region that seeks to join the ranks of developed countries. The reality of attaining growth and development was cumbersome for any country or group of countries that ignores the new global happenings of the 21st century. There exist a number of areas that the EAC has leveraged on and improvement for better results was attained in the areas of trade and investment respectively. The positive outlook realized in the ten years under study has pointed to a potential for accelerated growth for the region.

The challenge for East Africa's regional economic integration is the need to arrive at a common agreement on the best form the regional body should adopt to yield maximum benefit to member states. Much needs to be harmonized in the area of policy if rapid results are to be realized. In a region that is still economically underdeveloped by global standards, much effort is needed to identify the most ideal principles and theories to guide the region's growth and development. In addition to this, these principles must be molded into a form that provides for their practical application in the real economic experience of the five member states.

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The challenge for East Africa's regional economic integration is the need to arrive at a common agreement on the best form the regional body should adopt to yield maximum benefit to member states. Much needs to be harmonized in the area of policy if rapid results are to be realized. In a region that is still economically underdeveloped by global standards, much effort is needed to identify the most ideal principles and theories to guide the region's growth and development. In addition to this, these principles must be molded into a form that provides for their practical application in the real economic experience of the five member states.

5.4 Recommendations

With regard to the future functioning and relevance of the EAC towards the stronger economic integration ties, growth and development agenda for Africa, a number of recommendations can be put forward to ensure that the best results are realized from the integration process. First, there is the need for greater focus on civic education for the citizens of the five states.

There is need for a thorough understanding of how the EAC works and the various stages the integration was move into and the key result areas expected.

Secondly, as the region moves towards the monetary union, there is a great need for monitoring and evaluation of the progress made so far in the integration vis-à-vis the goals and targets set at the inception of the regional integration process.

Thirdly, the area of policy harmonization and coordination, greater stakeholder involvement is necessary. In particular, the role of the private sector and civil society must be increased and greater cooperation in the form of public-private partnerships explored. This will lead to better approaches towards the attainment of the integration objectives.

Fourthly, there is the need to have more focused studies on the EAC particularly with regard to how greater diversification of the East African economies and deeper economic integration can be achieved. A number of opportunities do exist for broadening of the economic base of the region. The findings of these studies should inform the policy measures that need to be put in place for the effective working of the integration process. Finally, with the birth of the 54th state in Africa, Southern Sudan, there is need to increase flexibility of the EAC in order to consider expansion to include South Sudan as a new member.

5.5 Limitations of the Study

The study greatly relied on primary data that was obtained from respondents, in this case one key logistic officer from the logistics firms in Mombasa County. The officer cadre posed a big challenge while planning to secure interview time with them but with patience and flexibility the researcher succeeded.

The study did not seek the opinion or corroboration from top management in the organization with regard to the economic integration matters. The study would have involved all management levels so as to establish position and opinions for all cadres. This was however not possible due to time and financial constraints.

5.6 Area for Further Research

Since this study used a firms that have been successful with EAC economic integration on firm performance, it would be interesting to study a firm that has not had good results as pertaining to effects on much more a firm with disastrous results. Probably by so doing, the conclusions of the study would help in indicating to the approaches/tactics that don't work for economic integration. More insight could be derived from that and help in understanding some of the reasons that have led to some firms failing in operating in economic integration trade blocks. The researcher proposes that a study be conducted to determine the extent to international trade integration covering continents and their effect on individual country growth.

A research can also be done to establish the relationship between multinational companies and economic trade integration whether it is beneficial or is not yielding any fruitful results to both the parties involved and whatever the case, how these multinational companies go about it in order to succeed with it as a global strategy.

Finally, this study is limited to the extent that its focus is on a specific country and industry/sector, Kenya and the logistics sector respectively. It is recommended that for a start, a similar study be undertaken within a region wide context and findings compared to the Kenyan context. This was provide a basis upon which the industry in Kenya can be rated for its economic trade activities.

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APPENDICIES

Appendix I: Introductory Letter



Appendix II: Interview Guide

This interview guide has been designed to collect information from selected keylogistics firms operating in Mombasa County, Kenya. Please feel free to participate in the discussion.

SECTION A: Demographic Details

1. Name of the firm (optional

.....

2. What is your organization's area of specialization?

.....

3. What is your company ownership?

A) Local

B) Foreign,

C) Both Local and Foreign

4. For how long has your company been in operation?

.....

5. In how many countries is your firm represented?

.....

SECTION B: Economic Integration and Firm Performance

6. What benefits has economic integration brought to your business?

.....
.....

7.i. What are the challenges associated with economic integration?

.....

ii. What is your firm doing in mitigating/tackling the challenges associated with trade in the East African Community?

.....
.....

8. Which business practices/opportunities do you feel need to be adopted by your firm and why?

.....
.....

9 i. What are the activities that your company has outsourced to other firms?

.....
.....

ii. What are the reasons that influenced outsourcing of these activities to other firms?

.....
.....

Thank you for your cooperation

Appendix III: Logistics Firms in Mombasa County

1. Agility Logistics Ltd
2. Andy Forwarders Service Ltd
3. Ataco Freight Services Co Ltd
4. Bahari Forwarders Ltd
5. Bakriz Holdings Ltd
6. Bretty Agencies Ltd
7. Cargo World Aviation Ltd
8. Chaiso Agencies Ltd
9. CmaCgm Kenya Ltd
10. Consolidated (Msa) Ltd
11. Corner Garage Transport Ltd
12. Dap Logistics Ltd
13. Earth Link Freighters Ltd
14. Famo Forwarders Ltd
15. Filiken Transit Forwarders Ltd

16. Freightcare Logistics Ltd
17. Freightwell Express Ltd
18. Gemini Freighters Ltd
19. Georine Agencies Ltd
20. Gulf Stream Investments Ltd
21. Habo Agencies Ltd
22. Heavy Industry Logistics Ltd
23. Hitraj Construction
24. Interfreight East Africa Limited
25. Inter-Globe Services Ltd
26. International Clearing & Forwarding Co Ltd
27. ItalAfri Investments Ltd
28. Kaydee Construction Co Ltd
29. Keihin Maritime Services Ltd
30. Kenlloyd Logistics Ltd

31. Kenya Logistics Network
32. Kian Cargo Ltd
33. Kidima Enterprises Ltd
34. Kwanjeteka Enterprises
35. Lidan Enterprises Ltd
36. Limutti Holdings Ltd
37. Lulu Ltd
38. Lyson Logistics Ltd
39. Magot Freight Services
40. Mara Shabba (K) Ltd
41. Maritime Freight Co Ltd
42. MupekiHauliers
43. Nedones Consultants
44. Panal Freighters Ltd
45. Principal Forwarders Ltd

46. Rapid Kate Services Ltd
47. Sahel Freighters Ltd
48. SasaLogistes Ltd
49. Seedcol Global Shipping E A
50. Siginon Freight Ltd
51. Signature Group Of Companies Credit Ltd
52. Sivicom Liners Limited
53. Smiles Cargo Supply Chain Limited
54. Ufanisi Freighters (K) Ltd
55. Westcon Contractors Ltd
56. Wigglesworth Exporters Ltd
57. Wasmon Freight Agencies