APPLICATION OF JOHANSON AND VAHLNE'S THEORY OF INCREMENTAL INTERNATIONALIZATION ON KENYA'S TRADE IN THE EAST AFRICAN COMMUNITY

BY

BERNARD GACHIU

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2016

DECLARATION

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

Signed: .... **Date: ....**

BERNARD GACHIU

D61/7186/2006

This research project has been submitted for examination with my approval as the university Supervisor.

Signed: .... **Date: ....**

DR. JOHN YABS

SENIOR LECTURER

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENT

I wish to express my sincere and deep gratitude to the following people without whom this project would not have been a success. First and foremost, to my supervisor Dr. John Yabs who availed abundantly to me his precious time and attention. I will forever be indebted to his comments, suggestions, advice and encouragement throughout the course of this study. I also wish to thank Professor Martin Ogutu who moderated this study.

Secondly, I wish to thank the companies who participated in this study for their enthusiastic responses, comments and feedback. I am grateful to them for giving me their valuable time and providing me information which in many ways is highly sensitive and confidential. During this study, some companies opened their doors wide for me and allowed me to see things that even their best customers have never seen.

Lastly, I wish to thank my mother Josephine Wangui Kamau and my siblings Patrick Kamau, Jennifer Nyambura and Judith Njeri for their moral and financial support during this study.

DEDICATION

I dedicate this work to my mother Josephine Wangui Kamau because in the hierarchy of things in the universe, after God comes mothers.

ABSTRACT

The East African Community which Kenya is a member, seeks to widen and deepen the economic, political, social and cultural integration within the region by eliminating all barriers to the free flow of goods, services, investments and people. For decades, Kenyan companies have dominated the economic activities within the region but in recent years, the country's dominant position appears to be weakening. Exports from Kenya to the EAC have been declining and new markets beyond EAC have not been found. The objective of this study is to determine whether the theory of incremental internationalization can be applied to explain the trend. The study adopted a descriptive survey design in which 52 members of the Kenya Association of Manufacturers were sampled. Primary data was collected using a questionnaire that was administered using drop and collect method. Secondary data from journals, periodicals, newspaper articles, websites, textbooks, working papers and circulars was also reviewed. The quantitative data obtained was analyzed using SPSS statistical software to determine means, averages, and standard deviations while qualitative data was analyzed using content analysis. The output was then presented using tables, charts, graphs, percentages and frequency distribution tables. The study found that Kenyan firms used the slow and sequential step by step approach outlined in the Uppsala Model in the EAC and that they started their internationalization process by entering psychically close markets of Uganda and Tanzania before venturing further to more distant countries. The study also found that Kenyan companies have evolved from direct exporters to active foreign based manufacturers and this could be a reason behind the decline in exports of finished goods from Kenya to East African countries. Additionally, Kenyan companies have leveraged experiential learning they have acquired to further enhance their commitment to EAC markets and strengthen their competitive positions in the continent.

Keywords: Uppsala Model, Internationalization, Regional Integration, East African Community.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

CET	Common External Tariff
DRC	Democratic Republic of Congo
EA	East Africa
EAC	East Africa Community
EACCU	East Africa Community Customs Union
EAHC	East Africa High Commission
EASCO	East Africa Common Services Organization
COMESA	Common Market for East and Southern Africa
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
KAM	Kenya Association of Manufacturers
KCB	Kenya Commercial Bank
KNBS	Kenya National Bureau of Statistics
NAFTA	North America Free Trade Area
TMEA	Trade Mark East Africa
UAE	United Arab Emirates
EU	European Union
UN	United Nations
WTO	World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In recent years, a fundamental shift in the world economy has been taking place. National economies that were previously relatively self-contained entities, isolated from each other by barriers of cross border trade and investments, by distance, time zones, languages and by national differences in government regulations, culture and business systems have merged into an interdependent global economic system (Hill and Jain, 2006). This trend towards a more integrated and interdependent global economic system is referred to as globalization. It has been brought about by the tumbling down of barriers of cross border trade and investments, the shrinking of perceived distances due to advances in transport, information and telecommunications technology and the convergence of material culture around the world.

The collapse of communism in 1980 has swung the pendulum of public policy towards the free market end of the economic spectrum (Hill and Jain, 2006). Regulatory and administrative barriers to doing business in foreign countries have come down; nations have transformed their economies by privatizing state owned businesses, deregulating markets and have welcomed private investments by foreign companies. This has allowed businesses both large and small, from advanced and developing nations to expand internationally. Globalization has provided individual corporations the opportunity to expand their revenues by selling around the world and to reduce the cost of products and services by producing goods where factor inputs are cheapest. Globalization has also enabled firms to build global brands, realize economies of scale and to leverage skills across national boundaries.

Rapid economic growth in developing countries and the saturation of advanced and mature economies have made expansion into emerging economies a strategic imperative for companies seeking to grow their revenues. International institutions such as the UN, WTO, the World Bank and the IMF have also called for the lowering of barriers to trade and investments. As a result of these changes, the volume of goods, services and investments crossing national boundaries has expanded faster than the world output each year for the last two decades (Hill & Jain 2006). Consumers all over the world now have access to a wide array of high quality goods and services produced using inputs from virtually every country in the world. Universal symbols of material and popular culture such as Coca Cola, Samsung, Nike, Apple, Microsoft, Facebook, Twitter and Google have emerged and can be found in almost every country in the world.

Regional economic integration has emerged as a popular strategy under globalization. It is now the global norm for countries within a geographic region to form an alliance aimed at reducing barriers to trade and investments amongst them. Regional economic alliances among nations create huge markets, facilitate cross border trading and enable companies to obtain economies of scale sufficient to make them competitive in the global market. Regional trading blocs are more popular than global multilateral organization because they involve fewer members and therefore it is easier for members to negotiate between themselves than in global bodies.

Despite these advancements, globalization, internationalization and regional integration are not without challenges. Beyond the superficial similarities in material culture and business systems all over the world, companies involved in international business face unique challenges that must be overcome. These include difference in consumers' tastes and preferences, culturally embedded value systems, disparate distribution channels, different business systems and regulations. Companies must navigate between the opportunities presented by international business and the challenges associated with doing business across national boundaries. They need to understand the process, the driving force and direction of globalization and how it is changing the face of international business. They also need to understand the possible negative effects of globalization on their businesses and how to respond appropriately.

The study of regional economic integration has risen in importance in recent years because regional trade now comprises a large and growing portion of world's total business. Research studies have indicated that the bulk of international trade and investment now take places within regional trading blocs. Despite concerted efforts by local, regional and international organizations to ease the free flow of goods, services, capital and people across national boundaries, the environment of international business also remains complex and turbulent now more than ever. Furthermore, events that take place beyond national borders affect individuals and companies locally. Governments, policy makers, scholars and business practitioners need to understand the changes and trends that are happening in the international business environment and how to respond appropriately.

One way of understanding these changes and trends is using international business theories. International business theories provide a systematic way of understanding events, behaviors and situations. Yabs (2007) explains that international trade and business theories have been developed by social scientists, government officials and trade practitioners in order to explain certain phenomena of international business. The purpose of this study is to apply Johanson and Vahlne's theory of incremental internationalization in order to understand Kenya's international business activities in the East African Community.

1.1.1 The Concept of International Business

According to Punnet and Rick (1997), any commercial, industrial or professional endeavor that involves two or more countries is international business. Yabs (2007) describes international business as the economic activities of exchanging goods and services between countries or nations. Bennett (1999) defines international business as commercial activities that cross national boundaries such as movement of goods, capital, services, employees, technology, and intellectual property.

Daniel, Radebaugh and Sullivan (2013) describe international business as all commercial transactions including sales, investments and transportation that take place between two or more countries. Scott (2004) defines international business as all business activities that are motivated by internal or external influences needed to create, ship, sell goods and services across national boundaries for specific financial and non financial rewards. Czinkota, Roinkanen and Moffett (2011) define international business as all transactions that are devised and carried out across national borders to satisfy the objectives of individuals and organizations.

The main reason why firms and organizations engage in international business is to maximize revenues and profits (Yabs, 2007). Andersen (1993) states that in addition to increasing sales and profits, firms engage in international business in order to acquire and exploit resources that are available in other countries. Cavusgil, Knight and Reisenberger (2008) states that companies participate in international business, because home markets are saturated, the discovery of lucrative opportunities in other countries, search for an outlet for surplus output or the expansion of market to achieve economy of scale. According to Bennett (1999), firms can also engage in international business in order to diversify risks. According to Kibera (1996), international business arises partly because of unequal distribution of specific resources amongst countries and regions of the world.

International business is conducted in two broad formats namely international trade and foreign investment (Hill & Jain, 2006). International trade occurs when a firm exports goods and services to consumers in another country, while foreign investment occurs when a firm invests resources such as capital, technology, management talent and manufacturing infrastructure in business activities outside its home country (Cavusgil et al., 2008).

1.1.2 Internationalization Process of Firms

Welch and Luostarinen (1988) describe internationalization as "the process of increasing the involvement of an enterprise in international operations". Calof and Beamish (1995) defines internationalization as the process of adopting firms operations i.e. strategies, structures and resources to international environments.

Johanson and Vahlne (1977) define internationalization as "…the outwards movement of a firms international operations". This movement is carried out in a gradual, sequential process that involved several stages. Ghanatabadi (2005) defines internationalization as the "process by which firms increase their awareness of the direct and indirect influences of international transactions on their present and future positions and establish and manage transactions with other countries".

According to Reid (1981) and Bilkey and Tesar (1977) internationalization is the sequential and orderly process of increasing international involvement and the associated changes in the organization form. Knight (2002), defines internationalization as the initiative to extend business to foreign countries especially new and profitable markets. Adjari (2007) describes internationalization as the actions performed by firms willing to export their products and services.

Hollensen (2007) links internationalization to regional trade by stating that "internationalization can be considered as doing business in many countries of the world but often limited to a certain region". This is true as research shows most global business is carried out regionally (Rugman & Brain, 2004).

A review of these definitions shows that internationalization is an evolutionary process through which organizations change from locally oriented businesses to become corporations with an international focus. The process of internationalization involves the performance of certain internal or external activities and the formation of new relationships. The common objective of internationalization is to maximize revenues and profitability and to diversify risks.

1.1.3 Regional Economic Integration

Regional economic integration is the process by which countries in the same geographic region cooperate to reduce or eliminate all barriers to the free flow of goods, services, people and capital across international borders (Wild, Wild and Han, 2010). Ginkel (2001) defines regional integration as the process by which countries within a given geographical area enter into agreements aimed at enhancing economic, political or social cooperation. The terms of the association are defined by a treaty or other arrangement such as protocols and bilateral arrangements.

The rationale of regional economic integration is that nations within a common geographic region that are connected by shared geographical, historical, cultural, linguistic, economic and political factors can gain mutual advantage through cooperation (Cavusgil et al, 2008). Although regional integration may entail social and political cooperation, past trends show that the main focus of regional integration has been the removal of barriers to trade amongst participating countries.

Regional integration was first proposed by post war Europe to promote peace, harmony and physical recovery in Europe at the end of the Second World War (Cavusgil et al, 2008). In the 1920s and 30s many countries in the world erected formidable barriers to international trade and investments. The consequences of these barriers often in the form of high import duties, was that each other member reacted by increasing their tariff making international trade and investment impossible (Hill and Jain, 2007). This was the trigger for the Great Global Depression of the 1930s. After the war, countries in Europe realized that they needed to assist each other in order to resolve the mess created by the war. The advanced industrial nations in the West agreed to remove barriers to the free flow of goods, services and capital between them (Hill and Jain, 2007).

Under regional integration agreements, preferential treatment is given to goods and services of members of the union. The benefit of regional integration to countries is that it promotes specialization, increased and effective use of resources and increased productivity due to economies of scale. Firms within a regional trading block have access to a wider consumer market while consumers have access to a wider variety of high goods and services at affordable prices (Cavusgil et al, 2008).

According to Kacowicz (1998) regional integration cannot be separated from globalization but should be studied as concepts that are related. Regional integration activities have been triggered by the ongoing phenomenon of globalization which promotes the economic interdependence between countries. Some scholars consider regional integration as being essential to globalization; they consider regional trade as a key driver of globalization. Regional economic integration blocks are more popular than global multilateral organization because they involve fewer numbers of countries and therefore it is easier for the members to negotiate keenly than in global bodies. Examples of regional economic groups include the EU, NAFTA, ASEAN, APEC, MERSOSUR, ECOWAS, COMESA, SADC and EAC.

1.1.4 The East Africa Community

The East African Community (EAC) is a regional intergovernmental organization of 6 partner states Burundi, Kenya, Rwanda, Uganda, South Sudan and Tanzania. It is headquartered in Arusha, Tanzania. The East African Community has a market size of 146 million people and a total GDP of US$147.5 billion in 2015 (EAC, 2016). The republics of Somalia, Sudan, Ethiopia and the Comoros Islands have expressed interest in joining the regional block. The vision of EAC is to achieve a prosperous, competitive, secure and stable East Africa. It seeks 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 products, security, trade and investments (EAC, 2016).

The history of the EAC dates back to the colonial era; in 1917, a customs union was formed between Kenya and Uganda to facilitate inter-territorial co-operation (EAC, 2016). The aims of the union were to regulate trade, provide a common currency and develop shared services such as transport and communications, research and education. Tanganyika joined the customs union in 1927. The customs union was replaced by the East African High Commission (EAHC) from 1948 to 1961 and the East African Common Services Organization (EASCO) from 1961-1967 (EAC, 2016). After independence, East African states created the East African Community in 1967 to deepen economic integration within the region (EAC, 2016). The East African Community broke down in 1977 due to lack of joint planning, disparate economic policies, Kenya's dominant economic position and the involvement of Tanzania in deposing Uganda's President Idi Amin Dada. The East African Community was later re-established in 30th November 1999 (EAC, 2016).

At the moment the EAC states have ratified a Customs Union (EACCU), in which member states have agreed to establish a free trade zone with free movement of people, capital, goods and services and the imposition of a common external tariff (CET). Imports from outside EACCU zone are subjected to the same CET when sold to any EAC partner state. Goods moving freely within the EAC must comply with the rules of origin and with the certain provisions of the protocol for the Establishment of the East African Community Custom Union.

The East African Community is very important to Kenya because it is the main market for exports especially manufactured goods. After independence, Kenya pursued an aggressive capitalistic ideology that favored private investments and profit making (Ndegwa, 1965). Tanzania on the other hand pursued Marxism while Uganda forcefully ejected Asians who comprised majority of the entrepreneurial and merchant class. Uganda also suffered from a long period of civil strife in the 1970's and 1980s. All these factors favored the Kenyan economy *vis-a-vis* its neighbors. Today, Kenya has the highest concentration of manufacturing industries within East Africa and as a result of this the country has been able to achieve a healthy trade surplus with its East African neighbors.

Exports to Uganda and Tanzania represent 60.1% of total Kenya's exports to Africa (GOK, 1968). Industrial supplies, fuel and lubricants, machinery, building materials, capital goods, processed foods and beverages, transport equipment and consumer goods are the main exports from Kenya to the EAC (Otuki, 2016). In terms of investments, Kenya is one of the leading sources of foreign capital in East Africa. Kenyan firms such as KCB, Equity, Nakumatt and UAP-Kenya are the leading foreign investors in Rwanda, Tanzania and Uganda.

1.2 Research Problem

A strong export regime is vital to any country. Exports are linked to economic growth, strong and stable currency, and favorable balance of payment position, job creation, and high living standards for citizens amongst many others (US Department of Commerce, 2014). Kenya exports mainly agricultural goods to the rest of the world. These include tea, coffee, flowers, fruits and vegetable amongst others (Otuki, 2016). The leading ten destinations for Kenya's product in 2014 were

Uganda, Tanzania, Holland, United States, Britain, Pakistan, DRC, UAE, South Sudan, Egypt and Rwanda (KNBS, 2015).

Within the East African Community, Kenya has dominated international business activities for more than five decades (Ligami, 2012). However in the last five years despite strong and sustainable economic growth in East Africa, and sustained efforts to remove trade barriers through regional integration, exports from Kenya have been declining. Economists have also noted that the manufacturing sector in Uganda is experiencing rapid and vibrant growth (TMEA, 2016). Some products such as soaps and detergents that were previously imported from Kenya are now manufactured in Uganda (TMEA, 2016).

The decline in Kenya's exports to the region has been a concern to experts and scholars. Some believe that the decline is an indicator of Kenya's premature de-industrialization (Sanghi and Johnson, 2016). Sanghi and Johnson (2016) believe that the decline in exports is caused by cheap imports from China and India, high cost of manufacturing especially energy, lack of innovation and diversity in Kenya's exports products, poor infrastructure, mismanaged marketing boards, corruption amongst many others.

There have been many studies on international commerce in East Africa; initial studies focused on the likely benefits of integration in East Africa (Omollo, 2012, Ndegwa 1965). Researchers have also studied determinants of trade within East Africa (Munyao, 2012; Mahona, 2014). Several scholars have evaluated the compliance of member states with the various East Africa common market protocols (Nyagah, 2013). Other studies have focused on the benefits of integration and practical challenges being experienced in the implementation of EAC protocols (Ndungu, 2013; Ngila, 2013; Ndege, 2012). Some studies have analyzed the impact of integration on various economic sectors and industries (Sitati, 2015; Mbugua, 2013; Ndungu, 2013; Gitobu, 2013).

The decline of Kenya's exports in East Africa has led some scholars to question whether non-tariff barriers are the cause (Musau, 2013; Kahenu, 2013). Others have evaluated the role in the decline of Asian competitors such as China and India which are sources of low cost manufactured goods similar to those Kenya produces (Sanghi and Johnson, 2016).

Unfortunately, all these studies have failed to examine the changes that take place within firms engaged in international trade and their possible influence in the decline of exports. Overall, in trying to determine the decline of Kenyan exports in the region, existing research has mostly focused on external environmental factors. Little focus has been placed on the internal changes occurring within the exporting firms.

1.3 Research Objective

The aim of this study is to determine whether the theory of incremental internationalization can be applied to explain the current trend of Kenya's trade in East Africa mainly the decline in exports and how local firms select and enter foreign markets.

1.4 Value of the Study

The Government of Kenya Vision 2030 is the blueprint for the country's long term development. It seeks to transform Kenya into a globally competitive and prosperous nation with high quality of life. It has three key pillars; social, political and economic. In order to achieve the economic pillar, an export led growth strategy has been proposed. The East African Community market has always been an important market for Kenyan goods and services and has been identified as a major driver for sectors such as manufacturing, services export, retail and wholesaling. The steady decline of exports from Kenya to the East African Community is a major concern to the government as it hampers the attainment of Vision 2030 goals. This study will help the government understand better the current dynamics of trade and investments in East Africa and therefore aid the formulation and implementation of policies aimed at making export growth stronger and sustainable. The study will also provide the government insights on how to make local firms globally competitive as well as how to deepen the economic, social and political integration in the East Africa Community.

For the academia, this research is useful in filling knowledge gaps that currently exist in the field of international business. Scholars of international business will have a deeper understanding of regional integration, trade and investments activities in East Africa as well as the opportunities and challenges that local businesses face regionally. This study will be useful to the academia as it will test the validity in Kenya of one of the oldest and most respected theory of internationalization. The study will also determine whether the Uppsala model is applicable in developing countries like Kenya considering that the theory was developed based on empirical observations of firms in a developed country. The study will also stimulate interest for further research especially in regards to stability of Kenya's exports to East African Community states, the opportunities and dangers of regional integration and the evolution of local firms into regional multinational corporations.

The study will be useful to the business community because it will help them understand better the current business environment in East Africa. This study will aid local firms in identifying the causes of declining exports of local goods to East Africa and possible solutions to this problem. The research study will provide vital insights on how Kenyan companies can diversify export markets by successfully entering new markets. The research will also reveal the current FDI characteristics and trends in East Africa as well as the drivers of cross border trade in the region. Existing and potential investors will use the research findings to determine where in East Africa to place their investments for highest returns. The study will also be useful for investors seeking to understand business risks associated with regional trade enabling them to effectively hedge against them.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature by various authors, researchers, analysts and scholars on the subject under study. It covers the theoretical foundations of internationalization, international trade, regional integration and globalization.

2.2 Theoretical Foundation

This section presents the theories of international business that are related to the subject under study. These theories provide a well laid out representation of the concepts, variables and relationships that are involved in the study.

2.2.1 Uppsala Model

The theory of incremental internationalization is also referred to as the Uppsala model or the Stages Approach Theory. It was proposed by Johanson and Vahlne in 1977 and is one of the most discussed models in the Nordic school and in the field of international business studies. It is also the most dominant paradigm in the study of internationalization.

The Uppsala model views internationalization as the product of a series of small incremental decisions. It focuses on the gradual acquisition, integration, and use of knowledge about foreign markets and operations and on increasing commitment to individual foreign markets. The primary assumption is that lack of information about foreign markets is an important obstacle to the development of international operations and that the necessary knowledge can only be acquired through foreign operations abroad.

The Uppsala model was developed from an empirical observation of the export behaviour four Swedish firms Volvo, Sandvik, Atlas Copco, and Facit and a review of previous Swedish industry studies on internationalization. The combined study showed that firms begun their international operations in small steps rather than big foreign production investments at a single point in time.

The Uppsala model comprises of three parts that are used to explain the sequential internationalization process.

i) Establishment Chain

Johanson and Vahlne observed that Swedish firms tend to increase their involvement in particular market(s) over time using a sequential and successive path. Usually, firms started their internationalization processes using traditional exports and sales agents before moving to gradually intensive and demanding modes such as sales subsidiaries and manufacturing operations. According to Johanson and Vahlne (1977) the cause of the stepwise internationalization process occurred because firms first gained production and marketing experience from domestic market operation before venturing to international markets. Once in the international space, firms did not commit higher levels of resources to a market until it had acquired the necessary level of experiential knowledge needed to operate at the new level.

According to Yabs (2007), the establishment chain can be used to describe how multi-national corporations are created. A multi-national corporation 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 a multinational corporation. Each individual stage in this model reflects the growth of the company's perception and confidence of their target markets.

ii) Psychic Distance

Johanson and Valne (1977) observed that Swedish firms started foreign operations by entering markets that were psychically close before moving to markets that were geographically and culturally diverse. The psychic distance refers to the sum total of factors that influence or prevent the flow of information from the market to the firm for effective decision making such as language differences, different levels of industrial development and education, geographic distance, diverse culture and business practises.

iii) The Dynamic Model

Johnson and Vahlne state that the process of internationalization of a firm is influenced by its current state. A firm's present state of internationalization comprises of market knowledge and the capital resources committed to the process. In order to effectively deploy market knowledge and capital resources internationally, experience is required. Companies thus invest their resources in small incremental stages to allow for organizational learning. Once resources are deployed and international business activities are performed, the firm benefits further from the practical experience and utilize this knowledge for further international expansion.

The Uppsala model describes a loop process between the market and the firm in which market knowledge leads to increased market commitment which in turn equips the firm with further knowledge and so on (Aharoni, 1966). Experience in foreign markets builds a company's knowledge of that market, the body of knowledge influences decisions about the level of commitment and the performance of activities. This leads to the next level of commitment which engenders further learning and investments.

The lack of, or the difficulty in obtaining market knowledge in international operations is the main cause of step by step internationalization. The change in environment that firms experience when they enter foreign markets exposes them to new problems and opportunities. Lacking prior experience for the solution of such sporadic problems, the management is forced to search in the area of the problem. Each new discontinuity is regarded as an essentially unprecedented and unparalleled case thus the problems and opportunities presented is handled in their context.

Firms do not commit higher levels of resources to the market until they've acquired increasing levels of experiential knowledge; consequently internationalization evolves at a relatively slow speed. The level of commitment can also decrease or cease altogether if the market prospects are found to be insufficient.

2.2.2 Arguments For and Against Free Trade and Regional Integration

i) Arguments Against Free Trade

The theory of mercantilism which was popular in Europe in the mid 16th century is still practiced today (Hill & Jain, 2007). It was the first theory of international trade and its principle assertion was that stocks of gold and silver were the mainstay of a nation's wealth and prestige. These stocks could only be acquired by exporting goods to other countries and reducing imports. The mercantilists believed it was in a country's best interest to maintain a trade surplus by exporting more than it imported. The mercantilist doctrine advocated for government intervention in order to achieve a surplus in the balance of trade. These interventions include import tariffs and quotas and export subsidies. According to mercantilists international trade is a zero-sum game in which one country's gain is the other's loss. The concerns by Kenya's policy makers, scholars and trade practitioners that exports from Kenya to EAC are declining while exports from Uganda and Tanzania have been growing can be described as neo-mercantilism.

ii) Argument for Free Trade

In 1776, Adam Smith put forward a case for free trade between nations. The Theory of Absolute Advantage was the first to demonstrate that unrestricted trade is beneficial to all countries. Free trade occurs when no government attempts to influence what its citizens can buy from or sell to other countries. Ordinarily, mercantilist governments will try to reduce imports using tariffs and quantitative restrictions while at the same time promote exports using subsidies. The theory argues that the invisible hand of market mechanism rather than government policy that should determine what a country imports or exports.

Adam Smith explained that all countries in the earth are endowed with different natural resources that influence their ability to produce goods and services efficiently. Consequently, each country has specific goods that they can produce more efficiently than others. Adam Smith advocated for countries to specialize in the productions of goods for which they have an absolute advantage and trade these for goods produced by other countries. Adam Smith stated that specialization and free trade could allow countries to maximize productivity and profits due to economies of scale and better utilization of resources. The free trade theory proposed by Adam Smith in 1776 is the thinking that has shaped the economic policy of many countries in the last 50 years and is the driving force behind the WTO and many regional trading blocs such as the EAC, EU and NAFTA.

Ricardo (1817) proposed that countries should engage in international trade even if one country had absolute advantage in the production of almost all goods vis-à-vis its trading partner. Ricardo’s theory of comparative advantage argues that there is mutual benefit from trade or exchange when trading partners concentrate on activities that they have relative productivity advantage. Although Kenya might have absolute advantage over its East African neighbors in the production of many goods and services, the entire region will benefit more if each country concentrates on producing some goods and trade with other countries for goods and services it has lower productivity.

The theory of national factor endowment by Heckscher and Ohlin (1933) argues that the comparative advantage proposed by Ricardo is actually derived from natural resources that a country is endowed with. These factors include land, labour, capital and technical expertise. Heckscher and Ohlin (1933) predicted that a country will produce and export goods and services that intensively use factors of production that are locally abundant while importing goods that make intensive use of factors that are locally scarce. Therefore, in East Africa, it should be expected that majority of capital goods will be manufactured in Kenya where as natural gas will be produced and exported by Tanzania. Equally, agricultural products such as bananas, beans and groundnuts will be produced and exported by Uganda.

iii) The Case For and Against Regional Economic Integration

Hill and Jain (2007) argue that free trade has enabled the globalization of markets and production. The globalization of markets refers to the trend in which historically distinct and separate markets merge into one huge marketplace. The globalization of production on the other hand involves the sourcing of goods and services from location around the world to take advantage of national difference in costs and quality of factors of production. It is possible that as a result of regional integration, Kenyan firms could outsource or disperse some of their manufacturing activities to other parts of East Africa with an aim to lower costs and or to improve the quality or functionality of the products and services.

The New Trade Theory by Krugman (1992) addresses the fears that specialization proposed by Adam Smith and David Ricardo will result in diminishing returns. Krugman (1992) argues that economies of scale can be an important source of increasing returns to specialization. The benefits of specialization include increased production and productivity as well as lower unit costs. According to Krugman (1992) in circumstances where economies of scale exists, the opportunity to produce can be limited by market size. The domestic market is often too small to allow for the full exploitation of this potential. Therefore when these products and services are manufactured, they are produced in such small quantities making the unit costs and prices to be exorbitant.

The breaking down of national borders and merging of national markets creates a market that is bigger than individual national markets. This allows for producers to achieve economies of scale thus reducing the unit costs of output. Krugman (1992) argues that by engaging in free trade, each nation can increase the variety of goods that are available to its citizens and lower the costs of these goods. The New Trade Theory also suggests that a country may pre-dominate the export of a particular good simply because it had firms that were among the first to produce that good. Therefore Kenya might benefit from the “first mover advantages” in various economic sectors and industries because many local firms were among the first to produce in East Africa. These include vehicle assembly, IT programming, money transfer services amongst others.

Stiglitz (2003) argues that integration is profitable for all countries that are involved. He argues that falling barriers to free trade and investments are the twin engine that will drive global economic growth. According to Stiglitz (2003) integration is beneficial because it leads to lower prices of goods and services, rapid economic growth, better incomes workers especially in third world countries. Sachs and Warner (1995) also demonstrated that countries that participated in free trade were able to achieve higher rates of economic growth than closed economies. The region of East Africa is one of the fastest growing regions in the world and this has been attributed to regional integration efforts.

Not all scholars support free trade; Batra (1993) argue against free trade saying that it will lead to the loss of jobs. He states that every time international competition is introduced, local firms are often forced to close leading to redundancies and massive lay-offs. Other negative effects of free trade include lower wages for workers especially unskilled workers, environmental degradation, and cultural imperialism amongst others. Free trade often results in the destruction of quality jobs in wealthy and advanced economies because it allows firms to move their manufacturing activities to countries where costs are much lower. In East Africa, manufacturing companies in Kenya could decide to move their operations to Uganda or Tanzania where the costs of manufacturing are lower than Kenya and serve the entire EA market from there thus lowering the wage level and increasing the level of unemployment in Kenya.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

This chapter constitutes the blue print for the collection, measurement, analysis and presentation of data. It discusses the proposed methodology that will be used to conduct the research. It covers the research design, population, sample and sampling techniques, data collection, analysis and presentation. Appropriate research methodology is important as it will enable the researcher to collect relevant, reliable and detailed information regarding the subject of study.

3.2 Research Design

The research design proposed for this study is descriptive survey design. A descriptive design is a set of methods and procedures whose primary objective is to answer who, what, where, when and how much questions (Cooper & Schindler, 2008). Coopers and Schindler (2008) propose the use of descriptive research where the researcher seeks to determine the percentage of the population that has a specific characteristic.

Descriptive designs are useful for collecting data to test hypothesis or to answer the question on the current status of the subject under study (Mugenda & Mugenda, 2003). Jankowicz (2002) states that surveys are useful when you wish to contact relatively large number of respondents to obtain data on an issue, often by posing the same question to all. A descriptive research survey will enable the research to generate detailed and accurate information on attitudes, perceptions, and opinions related to the subject matter.

3.3 Population

Mugenda and Mugenda (2003) define a population as a group of individuals, event or objects having common observable characteristics. Coopers and Schindler (2008) describes a population as the total collection of elements about which we wish to make inferences. The population of this study includes all firms in Kenya that are involved in the manufacturing sector.

3.4 Sample, Sampling Frame and Sampling Technique

Sampling is the selection of elements of the population so that we may draw conclusion about the entire population (2008). To select a sample, a sampling frame is used; a sampling frame is a listing of all population elements from which the sample will be drawn (Coopers & Schindler, 2008). For the purpose of this study, the sampling frame will be the Kenya Association of Manufacturers.

KAM is the premier representative of manufacturing value adds industry in Kenya (KAM, 2016). It includes large, medium and small enterprises all over Kenya that are involved in manufacturing and exporting goods to East Africa (KAM, 2016). The association currently has 520 members (KAM, 2016).

The sample will be 10% of the total members of KAM (52 companies) and a stratified random sampling technique will be used in drawing the sample from the population. Coopers and Schindler (2008) propose the use of this method in circumstances where the population can be grouped into several mutually exclusive sub-populations or strata.

3.5 Data Collection

The primary data collection tool will be a questionnaire. It will comprise both open ended and structured questions. The questionnaire will be self administered via a drop and pick method. The study will also utilize secondary data; these will be collected from journals and periodicals, research studies at the University of Nairobi, newspaper articles, websites, textbooks, working papers, official communications and circulars, speeches, annual, biannual and quarterly reports of bodies such as KNBS, United Nation agencies, World Bank and Africa Development Bank amongst others.

3.6 Data Analysis and Presentation

After collection, data will first be checked for completeness and comprehensibility before being sorted, coded and tabulated. Quantitative data will be analyzed using statistical software either MS Excel or SPSS to determine means, averages, and standard deviations. Qualitative data will be analyzed using content analysis. The output will then be presented using tables, charts, graphs, percentages and frequency distribution tables.

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study on the application of Johanson and Vahlne's theory of incremental internationalization on Kenya's trade in the East African Community. The data was collected using a questionnaire that was specifically designed to collect information that is necessary for the attainment the objectives of the study. The chapter is divided into two parts; the first is concerned with the demographic information of the respondents. This part is relevant because it will help evaluate the quality of the responses given by the respondents. The second part is concerned with specific information pertaining to the objectives of the study.

The study targeted 52 members of the Kenya Association of Manufacturers. A total of 33 respondents filled and returned the questionnaire resulting to a response rate of 63%. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting, a response rate of 60% is considered good while a response rate above 70% is excellent. The data has been analyzed for frequencies, averages, and standard deviation and has been presented in tables, charts and graphs.

Table 4.1: Response Rate of the Study

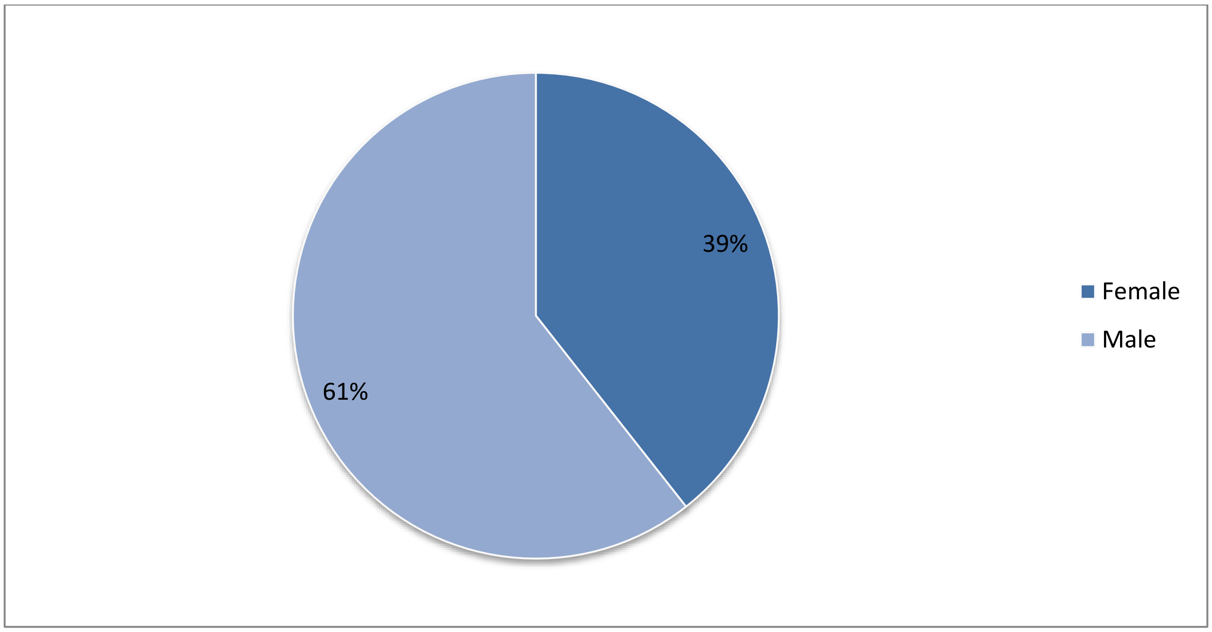
Description	Frequency	Percentage
Positive Response	33	63.5%
Non Response	19	36.5%
Total	52	100%

4.2 Demographic Information of Respondents

4.2.1 Gender

The study sought to find out the gender distribution of the respondents. According to the findings shown on the table below, 61% of all respondents were male and 41% of the respondents were female. This indicates that majority of managers and company leaders responsible for international business activities in Kenya are male. These figures are shown in the figure 4.1 below.

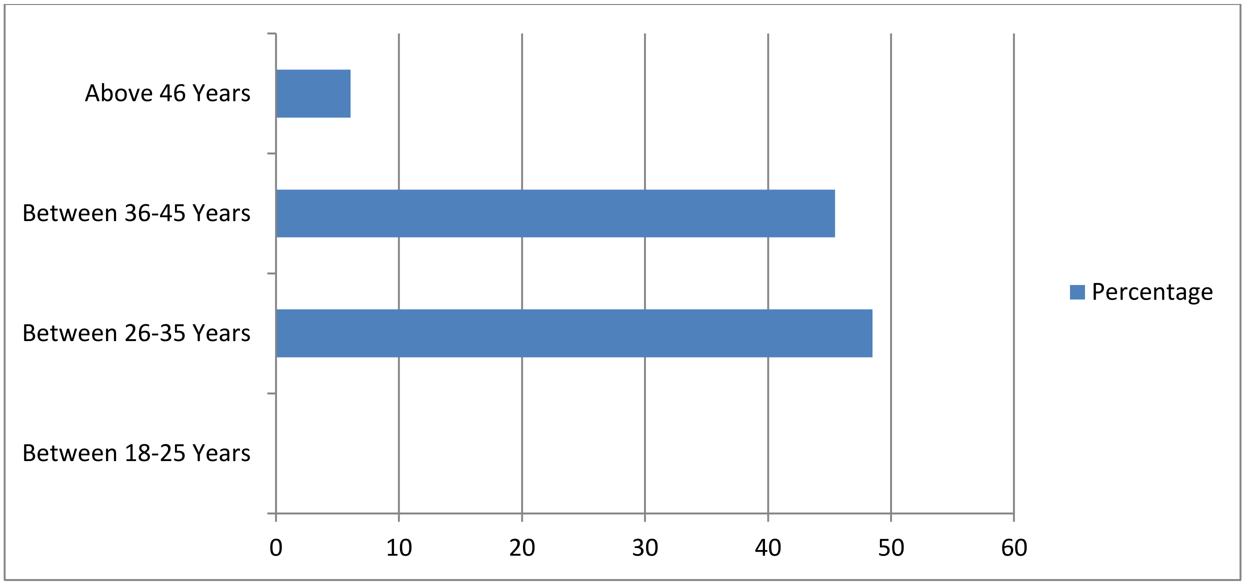
Figure 4.1: Gender Ratio of the Respondents



4.2.2 Age Levels of the Respondents

The study sought out to establish the age of people who participated in the research study. The study established that majority (48.5%) of the respondents were aged between 26-35 years followed by those aged between 36-45 years at 45.5%. Those aged over 46 years represented 6 %. There were no respondents below 26 years. This show all the respondents were mature enough to give reliable information.

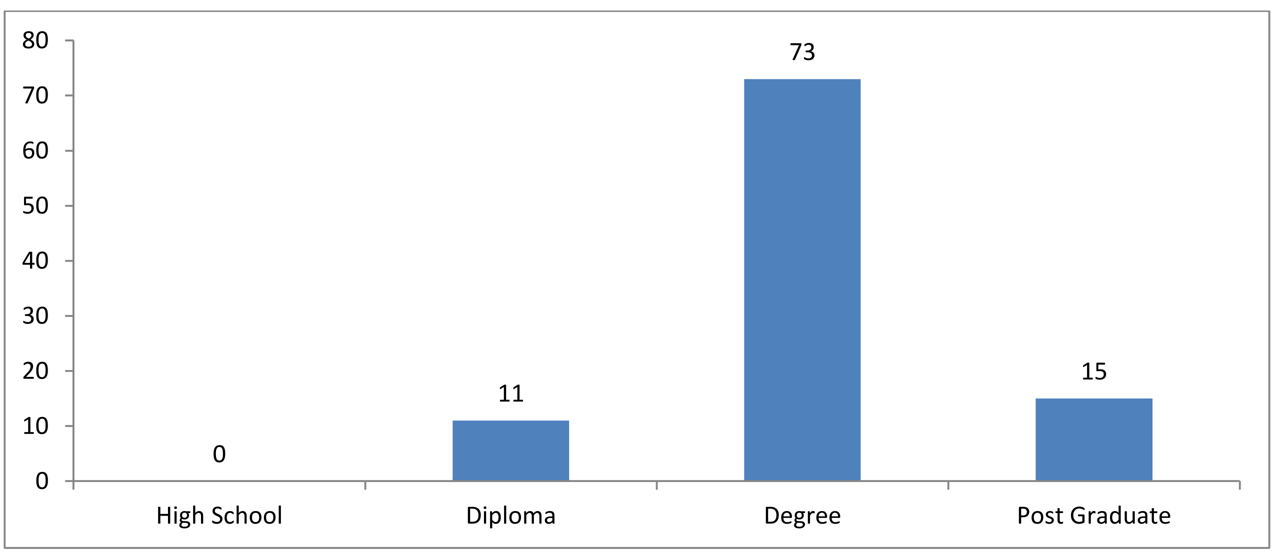
Figure 4.2: Age Distribution of the Respondents



4.2.3 Highest Education Level of the Respondents

The study sough to establish the highest education levels of the respondents; from the findings shown in the figure 4.3 below, 73% of all responded had degrees while 15.38% had post graduate education. 11.54% of respondents had diploma level education and no respondent had high school level qualifications or below. This indicates that all the respondents had the capacity to provide quality information that would be useful for the research.

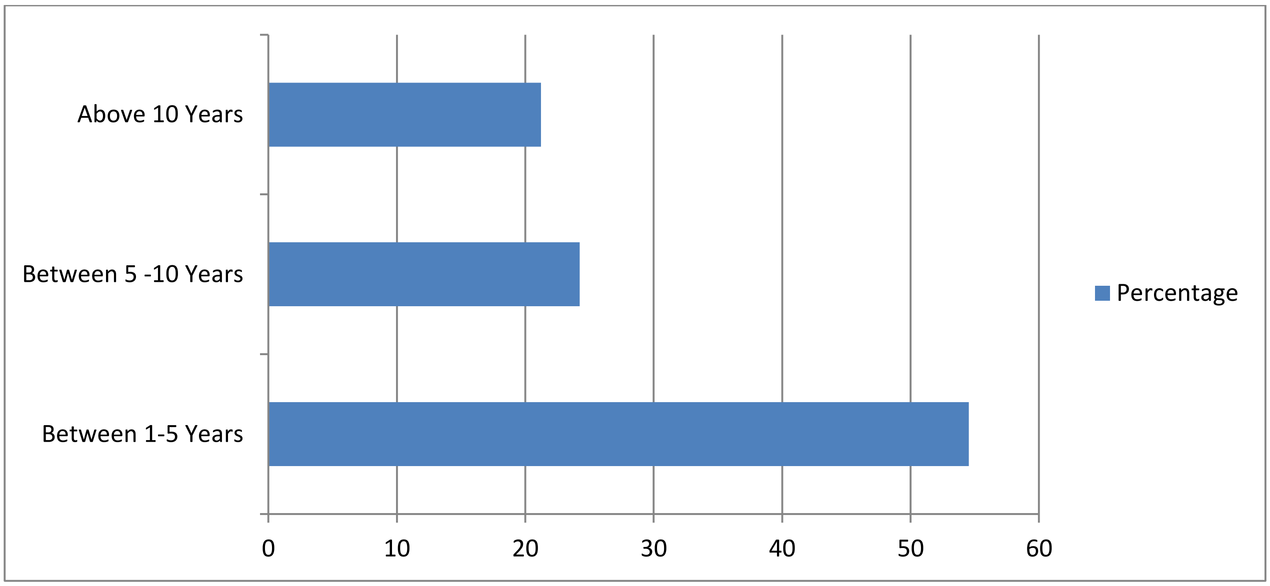
Figure 4.3 Highest Level of Education of Respondents



4.2.4 Period Worked in the Organization

The study also sought to establish the period the respondents had worked in their organizations. The study revealed that 55% of all respondents had worked in the organization for a period of between 1 and 5 years while 24% had worked in the organization for between 5 to 10 years. 21% of all respondents had worked in the organization for over 10 years. This means that all the respondents had worked in their respective organizations long enough to gain necessary experience to give relevant and adequate data for the study.

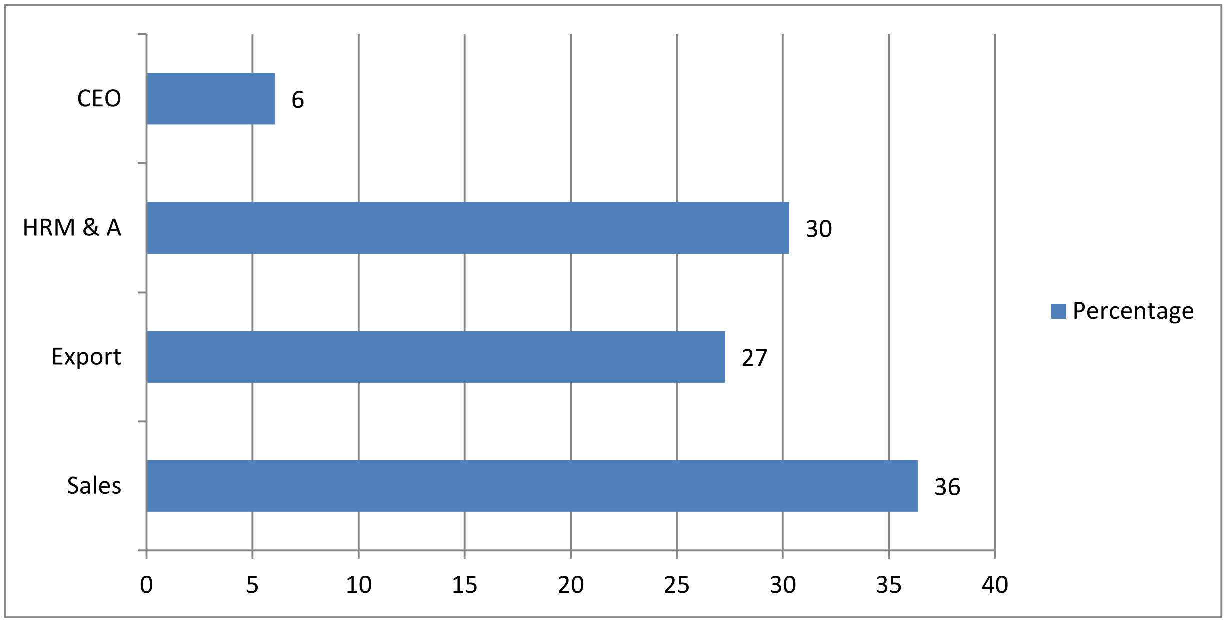
Figure 4.4: Period Worked in the Organization



4.2.5 Department Worked

The study also sought to establish the positions held or the departments the respondent worked in their organizations. The study revealed that 36% of all respondents worked in the sales department while 30% of all respondents worked in the human resources and administration department. 27% of all respondents worked in the export department where as 6% of all respondents were CEOs. This shows that the information provided by the respondent is reliable because they had relevant and practical knowledge on the area of research study.

Figure 4.5: Department(s) the Respondents Worked in



4.3 The Application of Uppsala Model on Kenya's Trade in EAC

4.3.1 Distribution of Firms by Sector

The study sought to find out the manufacturing sub-sectors the respondents were involved in. The study revealed that the respondents were from nearly all the manufacturing sub-sectors in Kenya. This shows the information gathered could be used for analyzing the entire manufacturing sector and that the findings could be used to make generalizations of the manufacturing industry as a whole. This is shown in the table below (Table 4.2)

Table 4.2: Manufacturing Sub-Sectors of the Respondents

Sub-Sector	Frequency	Percentage
Building/ Construction/ Mining	1	3.0
Chemical and Allied	8	24.2
Food and Beverages	1	3.0
Metal and Allied	4	12.1
Motor Vehicle Assembly and/ or Accessories	1	3.0
Plastic and Rubber Products	4	12.1
Timber, Wood and Furniture	0	0.0

Paper and Board Products	6	18.2
Electrical, Electronic and Energy	0	0.0
Leather Processing and Footwear	4	12.1
Pharmaceuticals and Medical products.	4	12.1
Total	**33**	**100.0**

4.3.2 Countries in EAC the Respondents engaged in International Business Activities With

The study sought to find out whether the firms involved in the study were engaging in international business activities in East Africa. From the findings of the study, 90.9% of all firms were engaged in international business activities in the East African Community. Only 9.1% of all respondents were not involved in the East African Community and these were newly formed companies that were less than 5years old. The study also found out that Kenyan companies were actively involved in international business activities beyond the East African Community. Most of the respondents were exporting goods beyond East Africa to Ethiopia, Sudan, Madagascar, Zimbabwe, Zambia, Angola, DRC, Malawi, Senegal, Ivory Coast, Somalia, and Mozambique.

Table 4.3 EAC Countries that Respondents Exported to/ Invested in

	Exporting/ Invested In		Not Exporting/ No Investment	
	Frequency	%	Frequency	%
Uganda	30	90.9	3	9.1
Tanzania	30	90.9	3	9.1
Rwanda	30	90.9	3	9.1
Burundi	30	90.9	3	9.1
South Sudan	30	90.9	3	9.1
Others	30	90.9	3	9.1

4.3.3 Percentage of Total Sales Accrued from East African Community

The study sought out to find out the percentage of total revenue of the responding firms that was generated from sales to East African Community market. From the findings shown below, 30.3%

of all firms indicated that sales across borders represented over 30% of total sales. 42.4% of all firms reported that sales to East African Community states represented between 21-30% of total sales. 9.1% of all respondents said that exports to East Africa accounted for between 11-20% of total sales where as 9.1% reported that East Africa Sales accounted for between 1-10% of total sales. This shows that the East African Community is a very important market for most firms in Kenya.

Table 4.4: Percentage of Total Sales generated from Sales across Borders.

Percentage of Total Sales	**Frequency**	**Percentage**
Above 31%	10	30.3
21-30 %	14	42.4
11-20 %	3	9.1
1-10 %	3	9.1
0%	3	9.1
Total	33	100

4.3.4 Period the Respondents have been involved in International Business Activities

The study sought to find out how long the organizations in the study had been involved in international business activities. From the findings shown in table 4.2 below, most organization (66.7%) had been involved in international business activities in the East African Community for a period of over 20 years. 21.2 % had participated in cross border trade in East Africa for between 16-20 years while 3% had been engaged in East African Community trade for 5-10 years. Only 9.1% of all respondents had not been involved in cross border trade in East Africa at all. This shows that majority of the firms in the study had been involved in international business activities for a sizeable duration to achieve the incremental expansion envisaged in the Uppsala Model.

Table 4.5: Period Respondents Have Engaged in Trade Activities in East Africa

Time	Frequency	Percentage
Over 20 Years	22	66.7
16-20 Years	7	21.2
11-15 Years	0	0
5-10 Years	1	3.1
Below 5 Years	0	0
Never Years	3	9.1
Total	33	100.0

4.3.5 Entry Mode Used by Respondents to Enter into the East African Community

The study sought to find from the respondents the entry mode the respective companies used at the beginning to enter the various national markets that comprises the East African Community. The findings revealed that all the companies engaged in international trade activities from Kenya (90.9%) used direct exports at the initial stage of international expansion. The only exception was newly formed firms that were less than 5 years old (9.1%) which had not started international market activities.

Table 4.6 Entry Strategy used by Respondents to Enter EAC Market

Mode	No Exports		Direct Exports		Sales Agent		Own Subsidiary		FDI	
Country	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Uganda	3	9.1	30	90.9	0	0	0	0	0	0
Tanzania	3	9.1	30	90.9	0	0	0	0	0	0
Rwanda	3	9.1	30	90.9	0	0	0	0	0	0
Burundi	3	9.1	30	90.9	0	0	0	0	0	0
S. Sudan	3	9.1	30	90.9	0	0	0	0	0	0
Others	3	9.1	30	90.9	0	0	0	0	0	0

4.3.6 Strategy currently used by Respondents Companies to Operate in the EAC Market

The respondents were asked to explain the mode of operation that they were currently using to exploit opportunities in the East African Community. The study found out that in Uganda, 12.1% of all respondents were using direct exports as the primary strategy, 15% of all respondents relied on sales agents to distribute their goods, while 24% respondents now operated their own sales subsidiary. 39.4% of all respondents said that they were now having some form of manufacturing operation in Uganda.

In Tanzania, 12.1% of all respondents said that they were using direct exports to service the market, 15% were using sales agents to distribute their goods in that country whereas 12% had opened their own sales subsidiary. A total of 51.5% of all respondents indicated that they had some form of manufacturing operation in Tanzania. In Rwanda, 12.1% of all respondents were using direct exports, 18% relied on sales agents whereas 61% indicated they had opened their own distribution outlets in the country. In Burundi, 12.1% of all respondents were using direct exports to access that market, 24% of all respondents were using sales agents whereas 55% were using their own subsidiary to operate in that market. None of the respondents reported having manufacturing activities in Rwanda, Burundi and South Sudan.

From the findings of the study it shows that although all companies operating in the EAC market initially entered the respective markets using direct exports, nearly all companies had up-scaled their mode of operations to include sales agents, opening up company owned sales subsidiaries and in some instances opening up manufacturing outlets in the host countries. The study revealed that the companies that despite being involved in cross border trading in East Africa for a long period still used direct exporting as the only strategy were companies that sold industrial and intermediate products such as packaging materials or those that dealt with high value capital goods. Such goods unlike retail products and fast moving consumer goods have a limited number of customers who are also dispersed across the entire East African region. The instances of purchase are periodical rather than daily and the sizes of each individual transaction are also very big. Direct exporting is used exclusively by firms dealing with high value capital goods such as buses, heavy commercial vehicles, machinery and equipment.

Table 4.7: Operating Strategies Used by Respondents Companies in EAC Today

Mode	No Exports		Direct Exports		Sales Agent		Own Subsidiary		FDI	
Country	Freq*	%	Freq*	%	Freq*	%	Freq*	%	Freq*	%
Uganda	3	9.1	4	12.1	5	15	8	24	13	39.4
Tanzania	3	9.1	4	12.1	5	15	4	12	17	51.5
Rwanda	3	9.1	4	12.1	6	18	20	61	0	0
Burundi	3	9.1	4	12.1	8	24	18	55	0	0
S. Sudan	3	9.1	7	21.2	9	27	14	42	0	0
Others	3	9.1	9	27.3	7	21	10	30	4	12.1

*Freq= Frequency

4.3.7 Factors that Influence Trade and Investment Decisions of the Respondents Firms in EAC

The study sought to find out factors that influence the strategies Kenyan companies were using in the East African Community and the level of investment in particular states and the pace of investments. The study found out the most important factors were government regulations and laws at 80%, infrastructure such as roads, ports and railways stood at 63%, predictable and fair duties and taxes at 73.3%, political stability at 73.3%, safety and security guarantees at 73.3%. Aspects of language and culture were not significant factors for Kenyan firms when deciding where to invest or export to. The distance from Kenya and level of competition were also not significant factors for Kenyan firms. This shows that Kenyan companies were competitive enough and ready to operate in any market in the region. The study has shown Kenyan companies have been successful in countries beyond the East African Community which have diverse culture and languages such as Ethiopia, Zambia, Malawi, Mozambique, DRC, and Sudan.

Table 4.8: Factors that Influence Trade and Investment Decisions for Kenyan Firms

Factor	Very Important		Important		Neutral		Not V. Important		Negligible	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Distance	4	13.33	13	43	0	0	10	33.3	3	0.1
Language	0	0.00	4	0.13	11	36.7	15	50.0	0	0
Govt. Laws	24	80.00	6	0.20	0	0.0	0	0.0	0	0
Infrastructure	19	63.33	11	0.37	0	0.0	0	0.0	0	0
Duties and Taxes	22	73.33	8	0.27	0	0.0	0	0.0	0	0
Level of Competition	10	33.33	14	0.47	2	6.7	4	13.3	0	0
Political Stability	22	73.33	8	0.27	0	0.0	0	0.0	0	0
Culture	0	0.00	3	0.10	17	56.7	5	16.7	5	0.17
Safety and Security	22	73.33	8	0.27	0	0.0	0	0.0	0	0

*Freq= Frequency

4.3.8 Factors Critical for Success of Kenyan Companies in the East African Community

The study sought to find out what factors which if improved or provided would make Kenyan companies more competitive in East Africa and beyond. The result shows that better infrastructure (60%) and low cost of input (57%) especially the cost of electricity, rising labor costs and high excise duty were the most important factors for Kenyan firms. The respondents (78.8%) cited the need for government support in resolving challenging operating environment brought about by constantly changing laws in neighboring countries, frequent introduction of new duties at the border, bureaucratic processes while exporting, non-tariff barriers, dumping from China and India, delays in VAT refunds, overnight changes in custom rules and duties, harassment by authorities, currency fluctuation, theft of goods on transit and political unrest in South Sudan and Burundi amongst others.

Table 4.9: Factors Critical for Success of Respondents in the EAC

Factor	Frequency	Percentage
Government Support	26	78.8
Infrastructure	18	60
Lower Cost of Inputs (e.g. energy and labor)	17	57
Friendly Laws	11	37
Access to Capital	9	30
Skilled Workforce	4	13

4.3.9 Future Investment Plans for Respondents in the EAC

The study sought to find out from the respondents their plans for future growth and investment in East Africa and beyond. The research findings show that 3% of all respondents planned to sign up sales agents throughout East Africa to distribute their goods. 9% of the respondents planned to establish sales subsidiaries in Uganda, Tanzania and Rwanda while 18.2% planned to establish a sales subsidiary in Burundi. 24.24% of all respondents planned to open a subsidiary in Burundi. In terms of opening up manufacturing concerns in the EAC, the highest rate was in Rwanda at 33.3% followed by Ethiopia at 30.30%, Uganda and Tanzania at 15.15% respectively. The lowest rates were recorded in South Sudan and Burundi at 12.12% and 9.09% respectively. Ethiopia was cited as an attractive market due to a large population and low cost of labor. These findings show that Kenyan companies are growing in stages from direct exporters to foreign based manufacturers over time as their understanding and knowledge of the respective markets grows over time. The figures are shown on the table 4.10 below.

Table 4.10 Future Investment Plans for Kenyan Companies in the EAC

Country	Sign up Sales Agent(s)		Establish a Sales Subsidiary		Start Foreign Manufacturing	
	Freq.	%	Frequency	%	Frequency	%
Uganda	1	3.03	3	9.09	5	15.15
Tanzania	1	3.03	3	9.09	5	15.15
Rwanda	1	3.03	3	9.09	11	33.33
Burundi	1	3.03	6	18.18	3	9.09
South Sudan	1	3.03	8	24.24	4	12.12
Others (DRC, Zambia, etc)	0	0	3	9.09	10	30.30

4.3.10 Assessment of Future Business Outlook of the EAC by Respondents

The study also sought to learn from the respondents their views on the business prospects and opportunities in East Africa and beyond as perceived by Kenyan firms. Majority of the respondents 57.6% felt that the East African Community market was challenging but manageable, while 33.3% reported that the EAC was full of opportunities for growth and expansion. No respondent reported the situation as difficult or unpredictable. 9.1% of the respondents stated they could not answer because they had no immediate plans to expand to the EAC market. This shows that all firms in Kenya involved in international business activities had a positive outlook of the future in regards to trade and investments in the East African Community. The findings are shown on the table 4.11 below.

Table 4.11: Future Business Outlook for Kenyan Firms in the EAC

State	Frequency	Percentage
Full of Opportunities	11	33.3
Challenging But Manageable	19	57.6
Difficult	0	0.0
Unpredictable	0	0.0
Not Applicable	3	9.1
Total	33	100.0

4.3.11 The Application of Johanson and Vahne's Theory of Incremental Internationalization in This Research

The Uppsala Model is one of the most useful theories in explaining the internationalization process of firms and it comprises of three parts. The first part states that the internationalization process of firms follows a series of small but incremental stages. Usually, firms start their internationalization processes using less intensive entry modes such as traditional exports and sales agents before moving to more intensive and demanding modes such as sales subsidiaries and manufacturing operations. The second component of the model explains that firms start foreign operations by entering markets that are psychically close before moving to markets that are geographically and culturally diverse. The last component of the Uppsala model states that during the process of internationalization of a firm, the practical knowledge and experience the firm gains is critical to the success of the internationalization process. Companies invest their resources in small incremental stages to allow for organizational learning. Once resources are deployed and international business activities are performed, the firm benefits from the practical experience and utilize this knowledge for further international expansion. The Uppsala model describes a loop process between the market and the firm in which market knowledge leads to increased market commitment which in turn equips the firm with further knowledge and so on.

4.3.11.1 Establishment Chain

From the research findings, we see that 90.9% of all respondents report having started their internationalization process through exporting. The study further shows that over time all the respondents had increased their investments in the region and were now using operating strategies that involved higher levels of investment. The study findings shows in Uganda, 12.1% of all respondents were using direct exports as the primary strategy, 15% of all respondents rely on sales agents to distribute their goods, while 24% respondents now operated their own sales subsidiary. 39.4% of all respondents said that they were now having some form of manufacturing operation in Uganda.

In Tanzania, 12.1% of all respondents said that they were using direct exports to service the market, 15% were using sales agents to distribute their goods in that country whereas 12% had opened their own sales subsidiary. A total of 51.5% of all respondents indicated that they had some form of manufacturing operation in Tanzania. In Rwanda, 12.1% of all respondents were using direct exports, 18% relied on sales agents whereas 61% indicated they had opened their own distribution outlets in the country. In Burundi, 12.1% of all respondents were using direct exports to access that market, 24% of all respondents were using sales agents whereas 55% were using their own subsidiary to operate in that market. None of the respondents reported having manufacturing activities in Rwanda, Burundi and South Sudan. All the respondents further indicated that they planned to increase their investments in future, in all the markets.

4.3.11.2 Psychic Distance

The research results reveal that Kenyan manufacturing firms started their internationalization process by entering neighbouring countries i.e. Uganda and Tanzania which in additional to being geographically close have immense cultural, historical and economic similarities with Kenya. The respondents stated that they are currently exporting goods beyond East Africa to Ethiopia, Sudan, Madagascar, Zimbabwe, Zambia, Angola, DRC, Malawi, Somalia, and Mozambique. This shows further international expansion of Kenyan firms followed a lineal path where the countries in neighbouring Kenya are first targeted and later those next to them follow.

4.3.11.3 The Dynamic Model

The concept of the dynamic model focuses on the gradual acquisition, integration and use of knowledge acquired through experience in foreign markets and how firms apply it to increase their commitment to these markets. This can be inferred from the research findings since it is not easy to study the process by which firms acquire and utilize knowledge in investment decisions while maintaining the objectivity of the study. This aspect of the Uppsala Model can be confirmed through an evaluation of 1. The duration that Kenyan firms have been involved in international business in East Africa. 2. Percentage of total sales generated from international business activities in East Africa. 3. Level of understanding by the respondents of factors that determine success of international business activities within EAC and beyond. Finally the understanding by respondents of the external environmental factors critical to the success of their operations in EAC.

The study findings show that Kenyan firms have extensive experience in regional trade. 87.9% of all the respondents reported having been involved in cross border trade for over 16 years. In terms of volume of total sales generated from regional markets, 30.3% of all respondents reported that trade with EAC countries accounted for over 31% of total annual sales. Additionally another 42.4% of all respondents reported that EAC sales accounted for between 21-30% of total sales. This shows that the EAC market has now become a very important destination for Kenyan made goods. The research also sought to find out the understanding of Kenyan firms on factors that are critical to the success of their activities within EAC. The study found out the most important factors were government regulations and laws at 80%, predictable and fair duties and taxes at 73.3%, political stability at 73.3%, safety and security guarantees at 73.3% and finally infrastructure such as roads, ports and railways at 63%. The study also sought the future investments plans of the respondents with a view of understanding whether the firms intended to use their experience and knowledge to further deepen their commitment to the EAC markets. Nearly all respondents indicated they planned to expand their current investment position in the EAC market with the exception of South Sudan which is currently facing war.

The acquisition and use of experiential knowledge in East Africa by Kenyan firms is seen in their strong competitive position regionally. This can be attributed to the fact that experiential knowledge is hard to acquire. Multinational corporations from all over the world have faced steep competition from Kenyan firms in the region. The conclusion therefore is that the theory of incremental internationalization is applicable on Kenya's trade in the East African Community

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter presents the summary of findings of the research on the application of Johanson and Vahlne's theory of incremental internationalization on Kenya's trade in the East African Community. It also draws conclusions out of the summary of findings and makes recommendation for policy implementation and further studies.

5.2 Summary of Findings

The study established that most of the manufacturing firms in Kenya that are involved in international business activities employed a youthful workforce. 94% of all workers employed by companies in this study were between the ages of 25-45 years. Only 6% of the workers were above 46 years. The study also found out that these companies also employed highly educated and trained workforce; 73% of all workers have degree level education and have received regular specialized training at work. 15% of all workers have postgraduate education, only 11% of the workers have diploma level education.

The study also found out that majority the employees of the organizations involved in the study had a tenure of between 1-5 years. Additionally, 24% of the workers had worked for a period of between 5-10 years; The study also found out that 21% of the employees had worked for a period of over 10years. These findings show that employees in exporting firms have on average more education and stability of tenure compared to non-exporting firms. This can be attributed to the fact that the entry into international business arena is associated with significant fixed costs and its only relatively productive firms with higher returns to exporting that are able to achieve this. It is essential that the human resources employed by these firms to have high capital and productivity.

The study shows that in Kenya, manufacturing involves a wide array of sectors from building, construction, mining, chemical and allied, food and beverages, metal and allied, motor vehicle assembly and accessories, plastic and rubber, paper and board, leather processing and footwear, pharmaceutical and medical amongst others. The theory of natural advantage suggests that the exports of a country will be dominated by goods produced from abudantly available natural resources. Thus in the case of Kenya it is expected that exports would mainly be agricultural and labour intensive products. However, most exports from Kenya to East African Community states are products whose natural inputs are not available locally. Kenya's external trade can be described as being based on the theory of acquired advantage and the theory of comparative advantage. The country has leveraged the relatively highly trained and youthful workforce, a capitalist culture and its geographic position to become the manufacturing and commercial hub of East and Central Africa.

The study found out that nearly all companies involved in the research are involved in international business activities in East Africa. All the respondents stated that they either export or do have manufacturing concerns in Uganda, Tanzania, Burundi, Rwanda and South Sudan. Additionally, the countries neighbouring the EAC such as DRC, Sudan, Malawi, Zambia, Somalia, Ethiopia and Madagascar were cited as important destination for locally produced goods. All the respondents uninamously agreed that Ethiopia is the most promising new market for Kenyan goods and this can be attributed to its recent rapid economic growth in that country, proximity to Kenya, huge population and the completion of infrastructure projects linking Kenya and Ethiopia amongst others. The study established that Kenyan companies have considerable experience in trade within East Africa. Over 87.9% of all respondents reported to have been involved in international business activities in the East African Community for over 15 years. Only 3.1% of the respondents stated that they had been involved in cross border trade for less than 10 years. Additionally, the study revealed that for 72.7% of respondents generated over 21% of total revenue from sales to the East African Community market. This also shows that the EAC market is very important for the growth, stability and profitability of many local firms hence the need to ensure that access to the East African Community market is retained. A casual observation of many firms involved in the study shows that they have changed their names from Kenya Limited to East Africa Limited and even Africa Limited to demonstrate their international character and orientation.

The study revealed that all companies involved in the study started their international business activities through exporting. The respondents explained that this was carried out either by small, independents traders from either Kenya or the host countries, or through direct exports by the respondents to institutional buyers or distributors in the target markets. Some respondents explained that the reason they used exports at the initial stages is because as young companies they had limited resources at the beginning and could not use entry strategies that demanded heavy resources outlay. Other companies stated that exporting was favourable to them because it involves low level commitment to a particular market and it allowed the respondents the option to pull out at any time should the market been found unattractive for further investment. Other respondents explained that at the initial stage they were experiencing rapid and strong growth as well as intense competition in the local market and this required a lot of their attention, hence the preference for exporting as the primary strategy for servicing regional markets.

The study found out that 78.8% of all firms involved in the study had increased their investment and commitment to the East African Community markets over time. This was demonstrated by their current use of strategies that required more resources and involved higher risks. The study revealed that 15% of all firms were now using sales agents in Uganda and Tanzania while 18% and 24% were using sales agents in Rwanda and Burundi respectively. Additionally, 12% of all firms currently operated company owned subsidiary to distribute goods in Tanzania, The percentage of company owned subsidiaries was higher in Uganda at 24%, 55% in Burundi and 61% in Rwanda respectively. A total of 39.4% of all respondents in Uganda and 51.5% in Tanzania reported having some form of manufacturing operations. These included major activities such as entire manufacturing processes as well as simple finishing activities such as packaging, branding and adaptation of products to fit local market conditions. The study found out that only 12.1% of the respondents retained direct exports as the primary strategy.

The study sought to find out whether the psychic and geographic distances as outlined by the Uppsala Model played a significant role in the decision of the countries that Kenyan companies entered when they started internationalizing. The study revealed that all Kenyan companies started their internationalization activities by entering the neighbouring countries of Uganda and Tanzania and later Rwanda, Burundi and South Sudan. The psychic distance in these markets is very low considering Kenya has common historical, cultural, linguistic, economic and political characteristics. The study found out over time Kenyan companies ventured to other countries where the psychic and geographic distances were slightly bigger such as DRC, Somalia, Zambia, Madagascar, Sudan, and Mozambique.

The study showed that environmental factors such as political stability, safety and security guarantees for workers and investments, friendly and predictable laws and taxes, availability of quality roads, railways and ports as well as government support were important factors when determining which country to enter and operate in. The respondents did not cite differences in business culture as a deterrent to investment perhaps because in the East African Community, it is largely similar. Language was also cited as not being very significant perhaps because the East African region has a common language i.e. Swahili.

The study sought to understand the challenges that Kenyan firms faced while undertaking international business activities. The respondents cited frequent changing rules and taxes, bureaucratic processes when exporting, rising labor costs and excise duty, unfair competition and dumping of cheap imports from China and India, overnight changes in custom rules, currency fluctuations, political unrest in host markets such as South Sudan, Somalia, Burundi and DRC, fuel prices hikes, delay in VAT refunds and harassment by government officials.

The study sought to understand the view of Kenyan firms of future business opportunities in East Africa. All the respondents involved in regional trade gave a favorable response. 33.3% of all respondents said that East African Community was full of opportunities whereas 56.7% said that the East African Community presented numerous challenges but these were manageable. On investment plans, most respondents revealed that they had plans to increase their commitments to each individual EAC market. This included signing up more sales agents, opening up company owned sales outlets or commencing limited or full scale manufacturing plants in the respective countries.

5.3 Conclusion

This study confirms the applicability of the Johanson and Vahlne's theory of incremental internationalization on Kenya's trade in the East African Community. The findings of this research show that Kenyan firms start their international expansion by venturing to neighboring countries especially Uganda and Tanzania. Regional expansion is a sensible and achievable strategy since these countries share similarities with Kenya in language, culture, business systems and climate. Furthermore, these markets are easily accessible through existing road, rail and sea networks. This has allowed Kenyan firms to easily achieve scale economies and better utilize their capacity.

The study also shows that Kenyan companies use step by step approach while investing in the EAC as opposed to making one large investment at a single point in time. All the firms involved in the study started their international expansion first through independent traders, later they signed up sales agents before establishing overseas sales subsidiaries. Some companies have started manufacturing in the host countries. Consequently, by using the slow and sequential expansion process, Kenyan companies have grown to become some of the largest and strongest manufacturing firms in the continent.

The study has also shown that over time, Kenyan companies have developed considerable knowledge and experience of the EAC market which has further deepened their commitment to the region. Experiential learning has given Kenyan firms vital skills, expertise as well as a deeper understanding of business operations, legal requirements, customers' tastes and preferences, safety issues and infrastructural challenges in the region. Kenyan companies have become formidable business players and have been able to ward of global companies trying to enter the region even though such firms have deeper pockets, more advanced and globally integrated supply chains and support networks.

5.4 Recommendation and Policy Implications

As Kenyan companies expand their operations abroad to become foreign based manufacturers, exports of finished goods from Kenya to these countries is expected to decline. The government should adopt new metrics to measure the health of the economy and the manufacturing sector other than total volume of exports. The GDP produced by foreign based, Kenyan owned firms should be included in the national accounting system. Also, it should be expected that export of intermediate goods such as raw materials, pre-processed unfinished inputs, capital goods, machinery, equipment, and services such as managerial skills and technical knowhow from Kenya to the region will increase. The government of Kenya should provide platforms to facilitate the export of the same.

This study demonstrates that building a successful Pan-African company is a long term activity. It highlights the role of experiential learning in international expansion and it shows the importance of taking small steps in the long term. If Kenyan companies are to succeed in bigger and more lucrative markets in Africa such as Nigeria, Angola, Ethiopia, etc, there is need for them to start small today. Over time they will acquire the necessary experience and knowledge to become significant players in those markets.

Kenyan firms are the dominant players in EA region; they have been able to ward off bigger and more resourced global companies in the past e.g. KBL beat SA global giant SAB millers, etc. This can be attributed to their wealth in experiential knowledge. Although global companies have deep pockets and wealth of objective knowledge, Kenyan companies have a better understanding of the regional business environment. Experiential knowledge is thus more important than objective knowledge and financial resources in international business spheres. For global companies seeking to successfully enter into the fast growing and lucrative East African market, it is advisable to acquire a local firm or enter into a joint venture with local firms. This is because the local firms have vital experiential knowledge that is critical to succeed in the region.

The rise of Kenyan owned foreign manufacturing plants in the region will see Kenya rise as one of the leading FDI investor in Africa. The government should provide support to Kenyan companies to such as legal protection of foreign investments from threats of war and nationalization. Additionally the government should provide necessary support to ensure that Kenyan firms seeking to repatriate earnings and profits from regional countries back to Kenya are not prevented from doing so.

5.5 Limitations of the Study

The study was constrained by limited resources such as time and money; this forced the research to limit itself to manufacturing companies in Nairobi and the vicinity. Additionally, a deep and more accurate study was not possible within a short time. During the data collection exercise, some of the respondents demonstrated apathy and stated that they did not see the value of participating in the study. The researcher also observed that considering a significant number of manufacturing firms in Kenya are owned by Kenyans of Asian origin; Hofstede’s power distance seems to be higher in these firms. Employees in such firms were reluctant to take or fill questionnaires without management approval and expressed fear that confidential information could be leaked. In some cases, the information sought was held by these managers and the fear by employees to approach them hampered effective data collection.

5.6 Suggestions for Further Research

The study recommends future studies be carried out on the application of the Uppsala model on specific sub-sectors of the economy because the entire manufacturing sector in Kenya is too wide and diverse to accurately generalize upon using one study. It would be more effective if the study was carried out on specific sectors. Furthermore, in future a longitudinal study or in-depth analysis of one or two companies demonstrating the step by step international growth would be helpful. The researcher also suggest that studies be carried out to examine whether massive infrastructure projects such as modernization and expansion of Kenyan ports and construction of modern standard gauge railway will improve Kenya's manufacturing exports to the region or will make import of cheap Chinese and Indian goods more superfluous thus hurting local manufacturers.

REFERENCES

Aharoni, Y. (1966). *The Foreign Investment Decision Process.* Boston: Harvard University Press

Andersen, O. (1993). On the Internationalization Process of the Firm: A critical Analysis. *Journal of International Business Studies*, 24(2), 209-231.

Batra, R. (1993). *The Myth of Free Trade*. New York: Touchstone Books.

Bennett, R. (2006). *International Business (2nd ed.).* Upper Saddle River, New Jersey: Pearson.

Bilkey, W. J. & Tesar, G. (1977). The Export Behavior of Smaller Wisconsin Manufacturing Firms. *Journal of International Business Studies*, 8(1) 93-98.

Calof, J. & Beamish, P. (1995). Adapting to Foreign Markets: Explaining Internationalization. *International Business Review*, 4(2), 115-131.

Cavusgil, S. T. (1980). On the Internationalization Process of Firms. *Marketing and Research Today*, 8(6), 273-281.

Cavusgil, S.T., Knight, G. & Riesenberger, J.K. (2008). *International Business: Strategy, Management and the New Realities.* Upper Saddle River, New Jersey: Pearson

Cooper, D.R. & Schindler, P.S. (2008). *Business Research Methods.* New York: McGraw-Hill.

Cyert, R.M. & March, J.G. (1963). *A Behavioral Theory of the Firm*. Englewood Cliffs: Prentice Hall.

Czinkota, M., Roinkanen, I. & Moffett, M.H. (2011). *International Business (8th ed).* Wiley: Hoboken, New Jersey

EAC, (2016). East Africa Community: Official Site. Retrieved May 15, 2016 from www.eac.int/

Ghanatabadi, F. (2005). *Internationalization of Small and Medium Sized Enterprises in Iran.* Unpublished Doctoral Thesis: Lulea University of Technology.

Gikandi, R. M. (2013). *Regional Integration and Banking Industry in East African Community.* Unpublished MBA Project: UON.

Heckscher, E., & Ohlin, B. (1933). *Interregional and International Trade*. Cambridge: Harvard.

Hill, C.W., & Jain, A.K. (2006*). International Business: Competing in a Global Marketplace*. New Delhi: Tata McGraw-Hill.

Jankowicz, A.D. (2002). *Research Methods in Social Sciences (6th ed.).* London: Thompson Learning.

Johanson, J. & Vahlne, J. E. (1977). The Internationalization Process of the Firm: A model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 8(1), 23-32.

KAM, (2016). Kenya Association of Manufacturers. Retrieved May 15, 2016 from www.kam.co.ke.

Kahenu, S. M. (2014). *Non Tariff Barriers in EAC Customs Union: Implication for Trade in Manufactured Goods in Kenya.* Unpublished MBA Project: UON.

Kibera, F.N. (1996). *Introduction to Business: A Kenyan Perspective*. Nairobi: KLB

Knight, G. (1997). *Emerging Paradigm for International Marketing: The Born Global Firm.* Unpublished Doctoral Project: Michigan State University.

Krugman, P.R. (1992). Does the New Trade Theory Require a New Trade Policy? *World Economy 15(4)*, 423-41.

Ligami, C. (2012, December 29). Kenya Export Growth Slowing Down: New Study Shows. The East African. P. 12

Macharia, J. M. (2013). *The Role of a Unitary Language and Communication in Enhancing Regional Integration in the East African Community*. Unpublished MBA Project: UON.

Mahona, B. K. (2014). Determinants of Tanzania and Kenya Trade in the East African Community: A Gravity Model Approach. *Journal of Economics and Sustainable Development*, 5(4), 13-23.

Mbugua, M. W. (2013). *Impact of Economic Integration on Growth of Insurance Industry: An Empirical Analysis of East African Community.* Unpublished MBA Project: UON.

Mugenda A. G. & Mugenda, O.M. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: African Center for Technology Studies

Munyao, J. M. (2012). *Factors Influencing Regional Trade within the East African Community Common Market.* Unpublished MBA Project: UON.

Ndege, J. G. (2012). *The Effects of East African Common Market on Cross Border Business for Kenya Association of Manufacturers Members.* Unpublished MBA Project: UON.

Ndegwa, P. (1965). *The Common Market and Development in East Africa*. Nairobi: EAPH

Ndungu, R. W. (2013). *Influence of East African Community Customs Union on the Performance of the Oil Industry in Kenya.* Unpublished MBA Project: UON

Ngila, R. (2013). *Challenges Facing Regional Integration: A Case Study of East African Community*. An Unpublished MBA Project: UON.

Nguku, G. W. (2013). *External Environmental Factors Influencing China-Kenya Trade: A Case Study of the Ministry of Foreign Affairs and International Trade and Chinese Embassy in Kenya.* An Unpublished MBA Project: UON.

Nyagah, D. M. (2013). *Free Movement of Labour Within the East African Community: Kenya's Compliance with East Africa Common Market Protocol*. An Unpublished MBA Project: UON.

Ochieng, W. R. (1989). *A Modern History of Kenya: 1895-1980*. Nairobi: Evans Brothers.

Omolo, M. W. O. (2012). *The Impact of Trade Liberalization on Poverty in Kenya: A Micro simulation.* Unpublished MBA Project: UON.

Otuki, N. (2016, February 25). Kenya's International Trade in the First 11 Months. Business Daily. P. 12.

Reid S.D. (1981). The Decision Maker and Export Entry and Expansion. *Journal of International Business Studies*. 12(2), 101-112.

Ricardo, D. (1967). *The Principles of Political Economy and Taxation.* Homewood, IL: Irwin.

Sachs, J.D. & Warner, A. (1995). Economic Reforms and the Process of Global Integration, *Brookings Paper on Economic Activity*, 1995(1), 1-96.

Sanghi, A & Johnson, D. (2016). Deal or No Deal: Strictly Business for China in Kenya. *A Policy Research Working Paper no. 7614*, Washington DC: World Bank

Sitati, A. K. (2015). *Effects of the East African Community Trade Integration on the Performance of Logistics Firms in Mombasa County, Kenya*. Unpublished MBA Project: UON.

Soja, E.W. (1968). *The Geography of Modernization in Kenya*. Syracuse: Syracuse University Press.

Stiglitz, J.E. (2003). *Globalization and Its Discontents.* New York: W. W. Norton

TMEA, (2016). East Africa Commerce. Sept 1, 2014. Retrieved 16/05/2015 from https://www.trademarkea.com/news/

Vahlne, J.E. & Nordstrom, K.A. (1993). The Internationalization Process: Impact of Competition and Experience.

Welch, L.S. & Luostarinen, R. (1988). Internationalization: Evolution of a Concept. *Journal of General Management*, 14(2), 34-55.

Wambua, J. M. (2013). *Influence of Non Tariff Barriers on the Operations of Selected Kenyan Firms within East African Community.* Unpublished MBA Project: UON.

Wild, J.J., Wild, K.L. & Han, J. (2010). *International Business (5th ed.).* New Jersey: Pearson:

Yabs, J. (2007). *International Business Operations in Kenya: A strategic Management Approach (2nd ed.).* Nairobi: Lelax Global.

Appendix 1: Student Introduction Letter

BERNARD GACHIU

P.O. BOX 13866 - 00100

NAIROBI

Dear Sir/Madam,

RE: REQUEST FOR YOUR PARTICIPATION IN AN MBA RESEARCH PROJECT

I am a continuing student at the University of Nairobi in the Master of Business Administration degree program. I am required to submit as part of my coursework assessment a research project on a management problem involving a real life situation.

I am carrying out a research on Kenya's International Business activities in East Africa. I am interested in finding out likely causes of the decline in exports from Kenya to the region and whether the establishment of manufacturing subsidiaries by Kenyan firms in neighboring countries could be a contributing factor.

I therefore request your participation in this research project by enabling me collect data in your organization. The information provided with be used solely for academic purposes and will be treated confidentially; A copy of the finished report will be availed to you upon your request.

Thank You in Advance,

Bernard Gachiu.

Appendix II: Research Questionnaire

The purpose of this survey is to understand the current trends in the international business activities of Kenyan firms in East Africa. Of particular interest is to identify the causes underlying the declining exports from Kenya to the East African region. This research study seeks to understand whether the establishment of manufacturing subsidiaries in neighboring countries by Kenyan firms could be the reason behind the steady decline in exports from Kenya to East Africa. The answers provided are solely for academic purposes and will be treated confidentially. I thank you in advance for accepting to fill in this questionnaire.

PART A: PERSONAL DETAILS OF THE RESPONDENT

1. Name of the Organization ……………………………………………..
2. Name of the Respondent ………………………………………………

   Address…………………………………………………………

   Telephone Number………………………………………………...

   Email Address…………………………………………………..

3. Gender Male [ ] Female [ ]
4. What Is Your Age?

   18-25 Years [ ] 26-35 Years [ ]

   36-45 Years [ ] Above 46 Years [ ]

5. What is your highest level of education?

   High School [ ]

   Diploma Level [ ]

   First Degree [ ]

   Post Graduate Degree [ ]

6. How Long Have You Worked in this Organization?

   Less than 5 Years [ ]

   5-10 Years [ ]

   More than 10 Years [ ]

7. What is the Position that you hold in the Organization? …………………..

PART B:

8. Which manufacturing sector are you involved in?

Building/ Construction/ Mining	
Chemical and Allied	
Food and Beverages	
Metal and Allied	
Motor Vehicle Assembly and/ or Accessories	
Plastic and Rubber Products	
Timber, Wood and Furniture	
Paper and Board Products	
Electrical, Electronic and Energy	
Leather Processing and Footwear	
Pharmaceuticals and Medical products.	

9. How long has your company been involved in cross border trade in East Africa?

Less than 5 Years [ ]

5- 10 Years [ ]

10-15 Years [ ]

15-20 Years [ ]

Over 20 Years [ ]

10. What percentage of total sales is attributed to sales in East Africa?

Less than 10% [ ]

11-20% [ ]

21-30% [ ]

Over 31% [ ]

11. Which countries do you export to or have you invested in? (Tick All as Appropriate)

Uganda [ ]

Tanzania [ ]

Rwanda [ ]

Burundi [ ]

South Sudan [ ]

Others (Please specify which)[ ] …………………………………………..

12. Which Entry Mode/ Operating Strategy are you currently using to operate and/or service the following East African Countries?

Country / Mode	Independent Traders	Direct Exports	Sales Agent	Company Owned Sales Subsidiary	Foreign Manufacturing
Uganda					
Tanzania					
Rwanda					
Burundi					
South Sudan					
Others (DRC, Zambia, etc)					

13. Does your firm have an International Sales Division/ Department? …… The person in charge of the department/ division is a

    Director [ ]

    Manager [ ]

    Supervisor [ ]

    Sales/ Marketing Staff Member [ ]

14. What are the most significant challenges that you face in your international trade activities in EA? Enumerate ……………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

15. What mode of entry did your company use to enter countries in East Africa in the beginning? (Tick the Appropriate box).

Country / Mode	Direct Exports	Sales Agent	Company Owned Sales Subsidiary	Foreign Manufacturing
Uganda				
Tanzania				
Rwanda				
Burundi				
South Sudan				
Others (DRC, Zambia, etc)				

16. What are your greatest needs to be able to enhance your investments in EA and beyond? (Tick All as Appropriate).

Infrastructure	[ ]
Skilled Workforce	[ ]
Capital	[ ]
Government support to identify opportunities	[ ]
Friendly laws in the target countries	[ ]
Lower cost of inputs and taxes to make Kenyan Goods Competitive	[ ]

17. To what extent do the following factors influence your decisions on which market to trade with and the amount of resources to invest? Please use a Likert answering scale of 1-5, where 1 = **Very Important**, 2 = **Important**, 3= **Neutra**l, 4= **Not Important** 5. **Negligible**.

Factor	1	2	3	4	5
Distance from Kenya					
Language Differences					
Government Regulations and Laws					
Infrastructure					
Duties and Taxes					
Level of Competition					
Political Stability					
Culture					
Safety and Security Guarantees					

18. How do you see the prospects of trade and investments for your firm in East Africa?

Full of Opportunities [ ]

Challenging but Manageable [ ]

Difficult [ ]

Unpredictable [ ]

19. What are your future plans in terms of investments for the following markets in EA?

Country	Sign up Sales Agent (s)	Establish a Sales Subsidiary	Start Foreign Manufacturing
Uganda			
Tanzania			
Rwanda			
Burundi			
South Sudan			
Others (DRC, Zambia, etc)			

………………..The End…………………..

Thank You.

Bernard Gachiu,

P.O. Box 13866- 00100,

Nairobi.

Tel: 0721335454.

Email: bernd188@outlook.com]

Appendix III: Members of the Kenya Association of Manufacturers

BUILDING, MINING AND CONSTRUCTION

Athi River Mining

Bamburi

Central Glass Limited

Flamingo Tiles

Savanna Cement

Mombasa Cement

CHEMICAL AND ALLIED

Basco Paints

Bayer

Biersdorf

Carbacid

Coates Brothers

Coopers K Limited

Crown Paints

Desbro

Diversey SA

Eveready Batteries

Haco Tiger Brands

Interconsumer Products

Proctor and Gamble

Sadolin Paints

PZ Cussons

ENERGY, ELECTRIC AND ELECTRONIC

Avery EA

East Africa Cables

LEATHER AND FOOTWEAR

Bata Shoes

Budget Shoes

Kenafric Shoes

MOTOR VEHICLE ASSEMBLY AND ALLIED

Associated Battery Manufacturers

Banbros

Foton EA

GMEA

Kenya Grange

TIMBER AND WOOD

EHG

Panesar

PG Bison

PAPER AND BOARD

Allpack

Chandaria Industries

EAPI

Palmy

Printpak

Ramco Printing Works

Tetrapak

Twiga Stationers

PLASTIC AND RUBBER

Acme Plastic

Brush Manufacturers

Sumaria Industries

Thermopak

PHARMA-MED

African Cotton

Beta Healthcare

Cosmos

Dawa Limited

Glaxo Smithkline

METAL AND ALLIED

African Marine and General Engineering

Apex Steel

Ashut

Blue Nile Wire Products

Booth Extrusion

Cook and Lite

Davis and Shirtliff

Devki Steel

EA Spectre

EA Foundry Works

Kaluworks

Mabati Rolling

Steel Wool Africa

FOOD AND BEVERAGES

Brookside Dairies

Farmers' Choice

Kapa Oil

Kevian Tea

London Distillers

Nestle EAR

Nutro Mix

Patco

Proctor and Allan

Wrigley's EA Limited