

**IMPACT OF TRADE AGREEMENTS ADOPTED BY KENYA  
WITHIN THE EAST AFRICAN REGION ON ITS TRADE  
VOLUMES: THE CASE OF MANUFACTURING FIRMS**

**BY**

**JAPHETH KIPKIRUI MUTAI**

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## DECLARATION

This is my original work and has never been presented to any university or academic institution for an award of a degree or diploma.

Signed..... Date.....

**Japheth Kipkirui Mutai**

This research paper has been submitted with my approval as university supervisor.

Signed..... Date.....

**Mr. Eliud Mududa**

Lecturer,

School of Business,

University of Nairobi

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## **DEDICATION**

I dedicate this research to God and my immediate family members.

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## **LIST OF ABBREVIATIONS/ACRONYMS**

**EA:** East African

**EAC:** East African Community

**GDP:** Gross Domestic Product

**MNEs:** Multinational Enterprises

**COMESA:** Common Market for Eastern and Southern Africa

**SAPs:** Structural Adjustment Programmes

**WTO:** World Trade Organization

**PTA:** Preferential Trade Area

**FTA:** Free Trade Area

**CU:** Customs Union

**CM:** Common Market

**GDP:** Gross Domestic Product

**GNP:** Gross National Product

**EU:** European Union

**R&D:** Research and Development

**RTA:** Regional Trade Agreements

**SADC:** Southern African Development Community

**UNCOMTRADE:** United Nations Commodity Trade Statistics Database



## ABSTRACT

Trade between members of the East African Community has been in existence for many years. The East African Community is an intergovernmental organization comprising of five members countries of Kenya, Uganda, Tanzania, Rwanda and Burundi. The East African Community was created under two key historical phases. One of the most significant developments after the EAC was established the second time was the inclusion of additional two member's states of Rwanda and Burundi thus making the current membership of EAC to five members. Kenya's regional trade agreements with other EAC members were set out to standardize customs systems and tariffs enabling easy movement of people and goods using a common tariff. This was set out to boost trade between them and with a ready market from the combined population that would lead to increased trade in the manufacturing sector. Kenya's income levels and economic performance are comparatively low as compared to other regions of the world. This research is therefore guided by the following objective: to find out the effect of regional trade agreements on Kenya's trade volumes in the manufacturing sector. The study utilized non-experimental panel design. Kenya, Uganda, Tanzania, Rwanda and Burundi are considered on annual observation for the period between 2005 and 2015, for all the equations that estimated in the study. Data for this study was collected from 6 officers in senior management level working at: The ministry of trade, industry and cooperatives (the directorates of industrialization and enterprise development); Kenya association of manufacturers (Trade and tax committee); The heads of Marketing, investment and operations departments from Bidco oil refinery limited. Data collection sheet was used to collect the secondary data. Time series data for the years 2005 to 2015 meant to capture documented statistics on foreign remittance, FDIs and balance of trade was gathered from the World Bank and CBK records and other economic reports. The study concludes that Kenya exports most of its food products since the formation of EA trade agreement customs with EAC; this is because increase in exporter's GDP induces an increase in trade with the EA trade partners while an increase in the importers GDP leads to increase in their imports from Kenya. The study also concludes that a decrease in the importers exchange rate negatively affect the Kenya's exports since it is expensive to buy Kenya's exports. Trading partners Distance has negative impact of trade between the partners. Kenya's exports declined when distance between trading countries increases. This could also suggest that trade between Kenya and the EA trade partners is still blocked by border tariffs or transport costs. The study recommends that in order to maintain a sustainable intra EAC exports the trading partners should continue with policies that are geared towards economic growth.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of The Study

Trade between East Africa countries has been in existence for many years. The EAC (East African community) is comprised of 5 countries that include Rwanda, Tanzania, Uganda, Kenya, and Burundi. It was established under two key historical phases, Gigineishvili, Mauro & Wang (2014). The first phase involved a trade treaty between the three-member founders of Tanzania, Kenya and Uganda. This agreement was signed in 1967 and ended in 1977, Davoodi, Dixit & Pinter (2013). The main factors which contributed to the demise of the regional body in 1977 were; Lack of political will; Unwillingness of the civil society together with the private sector to participate in co-operation activities; Unequal division of benefits from the community between member countries arising due to their different level of development and finally, the absence of strategies that adequately addresses these situations.

One significant development after the East African Community was established for the second time was the inclusion of two additional states of Rwanda and Burundi thus making the current membership to five. Other objectives of the community were to attain a balanced development of the regional countries by establishing an enabling environment in all the countries in order to attract investments and enable the civil society and private sector to actively participate in the socio-economic growth through the establishment of a sound macro-economic and sector policy and managing them effectively, Shinyekwa & Othieno (2013).

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

International business entails the process of trading goods, services, capital, technology and knowledge at an international level. It involves buying and selling various goods and services across national borders. Transacted economic resources include; human beings, skills and capital with the intention of producing goods and services such as banking, finance construction and insurance at an international level, Perlmutter (2017). By conducting business across borders, multinational companies view national markets as one global marketplace. There exist two macro factors that enhance internationalization.

The first factor is comprised of eliminating barriers of trade with the intention of facilitating trade across national borders through the flow of capital, goods and services.

The other major factor is changes in technology; developments in information processing, communication and transport technologies, Mainela, Puhakka& Servais (2014).

Multinational enterprises (MNEs) are companies that produce, market and operate in more than one country. These multinational enterprises indulge in different business activities and in different markets, such activities range from consumer goods to machinery manufacture. In order to successfully conduct business across borders, multinational companies have to consider all factors that might affect business activities in other countries. They include; different legal systems, economic policies, political systems, financial and accounting standards applied, various languages used, different labour laws and standards used, existing environmental policies and standards, standards of living, various corporate cultures, various culture, foreign-exchange markets, regulations on import and export, tariffs in existence, trade agreements in place, climatic

conditions and level of education. All these factors affect how companies conduct business from one country to another, Dunning, J. H. (2013).

### **1.1.2 Trade Agreements as A Perspective of International Business**

An agreement is an understanding between two or more legally competent parties. It is a negotiated agreement and is legally enforceable. The aim of trade agreements is to facilitate cross-border trading by multinational companies from country members with the aim of boosting the economies of the trading countries. International business gives countries access to goods and services that are not available locally through imports. The variety of goods and services cuts across all sectors of the economy, giving locals more choice in the items that they buy, and avail to them new products and services, Beamish (2013). The North American Free Trade Agreement (NAFTA) was approved in the month of January 1994. The trade agreement was signed between three countries; America (USA), Canada and Mexico. Within fifteen years (15 years), NAFTA expanded trade between the three nations by 300 percent (300%) in the period between 1994 and 2009, although President Donald Trump has threatened to withdraw the US from NAFTA, Caliendo &Parro (2015).

If President Trump withdraws from NAFTA, it will force Canada and Mexico to revert to the bilateral trade agreement that imposes high tariffs. This will lead to a decrease in volumes of exports to Canada and Mexico and at the same time, prices on imports from these countries will rise, Papadopoulos & Heslop (2014).

The Central American-Dominican Republic Free Trade Agreement (CAFTA) is another regional agreement that was ratified on August 5, 2004. The CAFTA agreement removed tariffs on exports from U.S to six south American countries. These countries are

Honduras, El Salvador, Dominican Republic, Costa Rica, Guatemala and Nicaragua. This agreement increased trade by 71 percent (71%) in the region by the end of 2013. Another agreement is the Transpacific Partnership (TPP) that was negotiated and approved in October 2015. President Trump withdrew from the TPP agreement when he was elected president and he pledged to replace it with bilateral trade agreements. The agreement was signed between the United States and eleven (11) countries that border the Pacific Ocean. The agreement intended to eliminate trade tariffs and regulate business practices across the member countries. General Agreement on Trade and Tariffs (GATT) is one of the agreements known to be more successful in history that has ever been signed. That agreement involved one hundred and fifty-three (153) countries and was ratified in 1947. Its aim was to lower trade tariffs and remove other barriers of trade between member countries, Caliendo & Parro (2015).

In international business, the market is not confined to the citizens of the country in which the company operates. International business expands the size of the market for Kenyan businesses to include every country Kenya maintains trade relations with. For example, Kenyan manufacturers can market to Kenyan customers, and at the same time maintain an international outlet for their products when sales in Kenya reduce. International trade reduces market fluctuations. This is because the size of the international market assists to reduce many of the fluctuations in sales. Seasonal sales are impacted less by conditions within Kenya, and international demand provides an incentive for Kenyan companies to continue production, Musila & Yiheyis (2015).

### **1.1.3 The East Africa Market**

Growth of the East Africa market is largely driven by the agriculture sector. This is because it mainly provides employment and contribute to the GDP of these countries. Agriculture's leading role has increased as it contributed 41% of East Africa's average GDP growth rate in 2017. However, industry's importance has picking up as the sector contributed about 39% of the East Africa region's average GDP growth. This is evident in Ethiopia, Tanzania and Rwanda where the sector contributed significantly to GDP growth. If the growth trend continues, the East African market is likely to witness a growth in areas of light manufacturing, urbanization and non-agricultural employment in the near future. Kenya, Rwanda, and Tanzania are expected to further drive growth in the region in 2018 and 2019. The discovery of natural deposits like oil and gas in Kenya, Uganda and Tanzania offer additional growth opportunities for the region in addition to integration efforts through the East Africa Community (EAC) and The Common Market for Eastern and Southern Africa (COMESA). Furthermore, urbanization and information and communications technology (ICT) development can support industrialization and structural transformation, given an appropriate economic policy environment.

The general objective of the East Africa Community is to enhance cooperation between members on economic and social areas through the common market. The integration and cooperation expected in the East Africa community is broad as it covers trade, investments and industrial expansion; fiscal and monetary policies; infrastructural and service development; human capital, science and technological advancement; environmental and natural resource development and management; agriculture and food security policies; wildlife and tourism management; health, cultural and social activities,

EAC Establishment Treaty, (2002). Increase in investments according to Davoodi, Dixit and Pinter (2013), is due to economic integration by members of the East African community. This is because it encourages multinational companies to invest in the integrated economies in order to avoid restrictions on trade levied on non-member countries. Among the many positive effects of economic integration, competition is very important because it encourages efficiency in production that enables them to compete effectively. This co-operation is aimed at, among others, rationalising investments and to utilize established industries to promote efficiency in production and hence, promote the East African market as a single investment region, Laichena&Obwogi (2015).

#### **1.1.4 Kenya as A Trading Partner Within East Africa**

Kenya's regional trade agreements with other East African countries are aimed at standardizing customs systems and tariffs to enabling easy movement of goods using an external tariff that is common among the members. These agreements are set out to boost trade between them and with a ready market from the combined population that would lead to increased trade, Ondraczek (2013). Kenya's income levels and economic performance are comparatively low compared to countries in the world. Many factors have been attributed to this. Among them is lack of effective structures for resource mobilization in order to enhance trade competitiveness and high trading costs among the neighbours, inability to access the international markets leading to marginalization.

Kenya stands to gain from trading within the region if the appropriate policy measures included in the blueprint in vision 2030 which seeks to address issues like infrastructure development, promote security, enhanced food security, public private partnerships among others are fully implemented. The country has a vibrant constitution that aims at

fostering economic freedom and legal framework, Musila&Yiheyis (2015). Promoting free trade within the region through trade agreements therefore will lead to an enhanced economic freedom that in turn would lead to investor confidence from the international markets thus boosting trade. The revenue collected from the increased trade would increase the country's income and help the country to overcome problems associated with the balance of payments and hence spur accelerated growth.

## **1.2 Manufacturing Sector in Kenya**

The Kenyan manufacturing sector is grouped under three main sub-sectors. They are; agro-based, engineering and chemicals, and minerals, Republic of Kenya(1994). The agro-based sector has developed on the basis of domestic resource activities; contributes about 68 percent of manufacturing sector value added, KAM (2002). This sub-sector consists of fruits and vegetable processing, vegetable oils and fats, cereals and grain melting, bakery, alcoholic beverages, dairy, fish and water resources, tanneries and leather products, cotton, textiles, wood, pulp and other miscellaneous food products.

The manufacturing sector plays an important role with respect to the country's industrialization strategy. Hence, it is said to be more dynamic in the development of the economy due to its expectation of the provision of employment, improvement of earnings in export, skill formation, and firm linkage across regions. The growth of the manufacturing sector has long been considered instrumental for economic development despite the fact that it is usually far from the largest economies in terms of shares of total output and employment, Soderbom (2001); the sector currently contributes about 10.5 percent of GDP.

The development in the Kenyan manufacturing sector has been hampered by inefficiency



of production, outdated technologies relative to those in use by competitors, limited technological progress, underutilization of installed capacities and sub-optimal plant sizes since the mid-1970s Lundvall and Battese (1998); Lundvall et al (2002). This is explained in the substitution import strategy which is termed as unsuccessful since it saw the protection of industries from competition, encouraged capital intensive production technology and limited the potential of the industrial manufacturing sectors to generate employment. Several factors contributing to the low performance of the manufacturing sector in Kenya, in addition to the import substitution policy, have been identified as both international and national factors, Lundvall and Battese (1998). The international investment climate was negatively affected in the 1970s by oil crisis and 1980s donor support withdrawal. This was reflected in the performance of the economy whose real GDP growth declined from 5.6 percent in the period 1974 to 1979 to 4.1% in the period 1980 to 1989, while 2.5% in between 1990 to 1995 and 2.0% between 1996 to 2000. There has been a constrain on the sector on the national level by a number of factors such as shortage of technically trained personnel, poor country's infrastructure, tariffs which are high combined with high rates of interest, lack of competitiveness, general slowdown of the economy leading to depressed effective demand for manufactured products, credit rationing, insecurity and corruption, Lundvall and Battese (1998); Republic of Kenya (2002).

Despite the reforms structured for the sector, when an analysis is carried out in the manufacturing sector it can be seen that policy responses have been diminishing in the long run than. An inward-looking sector in the early years was created by the dependence on the strategy of import substitution, with restricted technical advancement.

Notwithstanding a move to export advancement from import substitution since the mid-OF 20<sup>th</sup> century and improving the policy environment under the structural adjustment programmes (SAPs), the achievements of the Kenyan manufacturing sector in Kenya remained weak for most of the 20<sup>th</sup> century. This considered its GDP share, output growth, employment creation and affiliation with other economy sectors, Republic of Kenya (1997). In addition, it is notable that average annual real GDP growth rate for the sector of manufacturing reduced from 10% between 1974 – 1979, to 4.8%, 3% and 1.3% in the periods 1980-89, 1990-95 and 1996- 2000, respectively. In 2001 however, the sector registered an improved growth rate attributed to the improved power supply, agricultural production, right tax reforms and broad outlets through African Growth and Opportunity Act (AGOA), Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC). Nevertheless, the sector's capacity utilization was hampered by low consumer demand, lack of competitiveness and insecurity in the country, Republic of Kenya (2002). In 2005, the real value added grew by 5 percent from 4.5 percent in 2004; the above was caused by a macroeconomic surrounding which was stable through that year, credit access which was improved than the last time and export demand increase particularly within the COMESA and EAC, Republic of Kenya (2006.) However, this was below the target of 8.6 percent per annum for the period 2003-2007. Moreover, the share of the manufacturing sector in GDP was 10.5 percent, which was below the projected growth of 15.7 percent in 2007, Republic of Kenya (2003).

### **1.3 Research Problem**

Trade agreements are aimed at promoting trade and investment between two or more countries through removal of trade tariffs and other trade barriers. Success of these trade agreements in promoting regional trade has been many and various with some regional bodies like the Common Market for Eastern and Southern Africa (COMESA) being more successful, WTO (2013). The effects of trade agreements on trade activities usually determines the extent to which profound political and social objectives are attained. It is hard to find an agreement that has fostered wider political objectives without attaining economic integration. The East Africa Community (EAC) trade agreement has contributed immensely to peace in the Great Lakes region.

The agreement led to a 12% decrease in bilateral conflict risk between member countries on average. This calm effect is significant and even larger than what was observed when the European Union was formed. Regional trade as well as other economic indicators have continued to increase over the years, EAC (2014).

The GDP growth rate for the East Africa region averaged at 5.7% in 2014 compared to 4.4% growth rate in 2009, EAC (2014). Running for the second year in a row, Tanzania and Rwanda documented the highest growth rates of 7.0 per cent while Burundi recorded the lowest growth rate at 4.6%. Uganda and Kenya however recorded improvement in their GDP growth rate of 4.3 and 5.3% respectively, EAC (2014). The dominant sector in all partner states has been the agriculture sector while the retail and wholesale trade following closely. Looking closely to the economies, the differences in overall GDP per capita has been narrowing over the years with Tanzanian and Rwanda having stronger economic performance and sluggish growth experienced in Burundi and Kenya. Despite

this, the sector still suffers limited value addition and low processing. In addition, intra-EAC trade remains to be very low. Therefore, if the country is to attain middle income status by the year 2030, then increased processing and export should be enhanced through trade and investments. This raised a concern on Kenya's export trend to the East Africa Community and hence necessitated the need to look into Kenya's trade agreements with other EAC countries, Gigineishvili, Mauro & Wang (2014), to ascertain the impact of these agreements on trade volumes in Kenya and also to assist the government to design policies and strategies that will enhance trade and maximize returns to the players.

Few studies in Kenya have disaggregated the impact of Kenya's trade agreements with other East Africa countries on trade volumes of manufacturing firms in Kenya especially in the newly resurrected East African Community. Such studies include those of Munyao (2012), M'mbetsa (2012), Riungu (2012) and Makungu (2015). These studies however seek to focus on the East African community integration protocols and the performance of the region. Kenya has signed both multilateral and bilateral agreements with other East Africa countries with the aim of boosting trade and investments, thus this led to the question: What is the impact of trade agreements adopted by Kenya within the East African region on its trade volumes with emphasis on manufacturing products?

#### **1.4 Research Objective**

The objective of this study was to determine the impact of trade agreements adopted by Kenya within the East African region on its trade volumes with emphasis on manufacturing firms in the food and beverages sub-sector.

### **1.5 Value of the Study**

Results of this research will be of immense importance. Kenyan government and various organizations will use the information to formulate various policies. These organizations include The Industry Ministry, Industrialization and Trade as well the World Bank, The Kenya association of manufacturers and The East African community secretariat as they may use the results to formulate policies and a framework that is relevant and sensitive to challenges that influence regional trade agreements.

Students in learning institutions and scholars will also find the information useful to identify areas of further research. Finally, this research will also benefit multinational companies that would want to invest or trade within the East African region and especially in Kenya.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction to Literature Review**

This chapter covers; theoretical literature; empirical literature and conclusions of literature. Empirical evidence presented in this study focuses on the different studies that were previously done.

The study used the gravity model of international trade. This model is used in international economics to predict bilateral trade flows that is based on the economic sizes. The research review focused on the GDP, distance, population, trade creation and trade diversion based on the various trade agreements signed by Kenya with other East African countries.

#### **2.2 Theoretical Literature Review**

Regional trade agreements boost trade by allowing the countries to specialize and benefit from comparative advantage. This study analysed the types of trade agreements signed by Kenya with other east Africa community member and their effects on trade volumes in Kenya. Hence, the study was governed by the theory of regional integration.

##### **2.2.1 Theory of Regional Integration**

According to Ngeno et al., (2003), the theory of regional integration borrows heavily from the conventional theory of trade. The theory states that free trade is supercilious to all other trade systems. This basic principle assumes that integration and trade between countries will enhance welfare as long as the agreement leads to trade opportunities, reduced trade diversion or trade creation that goes beyond trade diversion. Integration of

trade between countries cover a wide variety of schemes that can be classified into five levels based on the degree of integration.

These regional agreements include; Preferential Trade Area (PTA) where trade tariffs between members are lowered relative on traded items with member countries; another is Free Trade Area (FTA) where members agree to remove trade tariffs and quotas on goods that originate within the region.

Member countries also impose trade restrictions on non-member countries. External trade tariffs and restrictions differ in different countries hence Free Trade Area applies the rule of origin to implement the preferential trade arrangement; Customs Union(CU) that eliminates restrictions on trade between members, but external tariff is imposed indirectly when trading with nonmember. Rules of origin don't apply here, which is an advantage because implementation the rule of origin is costly administratively; Common Market (CM) which is a union which allows factors of production to move freely in addition to its usual characteristics. Common restrictions are imposed only on movements of factors of production countries that are not members; Economic union, which is an agreement that exceeds common market where policies on fiscal, monetary and industrial are well coordinated and a monetary union is formed.

Empirical questions on whether regional trade agreements encourage economic growth and investments, aid in technological transfer, switch in comparative advantage in the direction of high activities, induces political stability and also threaten the multilateral trading systems have been raised, Yeats (1997). Theories of trade try to explain the source and possible situations that underpin this growth.

Theoretical expectations of the trade agreement between Kenya and other East African community members was analysed using theoretical works done by other scholars on the same topic. TeVelde and Bezemer (2008), used a linear regression model to estimate the UK and US trading region between 1980 -2000 and established that trading between regional members significantly leads to increased trade. Additionally, they established that the state's economy size is a significant factor in promoting regional trade thus leading to economic growth. Therefore, countries undertaking regional trade can expect a larger increase in trade volumes as a result of trade agreements compared to countries that have not signed. This relates well to the case of Kenya signing trade agreements with other East African countries. With the Kenyan economy being the largest, is expected to greatly benefit from the regional trade.

Another scholar, Dollar (1992), assessed the cross-country index for 95 countries which are developing countries in between 1976- 1985. The cross-country index is usually used to estimating whether countries are oriented outwardly or inwardly.

Therefore, on the basis of his assessment of ninety-five (95) developing countries, he established that outwardly oriented countries experience rapid growth. Thus, scholar Dollar (1992) study would incorporate openness to trade within the East Africa Community to evaluate how the Kenyan economy will benefit from the signing of trade agreement with other East African countries.

Musila (2005) also utilizing a gravity model on the effects of joining Free Trade Areas in the ECOWAS, COMESA and ECCA regions between 1991-1998 established that the size of an economy, population and distance are important determinants of flow of international trade. Musila (2005) recognised that six ECOWAS member countries



experienced increased exports that led to income growth of their economies after joining the regional economic communities, which is largely attributed to the reduction regional trade tariffs and thus encouraging free trade. Therefore, Musila (2005) study can be utilized in determining whether by Kenya signing trade agreement with other east African community member countries would have an impact on the Kenya's trade volumes.

In addition, Bergstrand (1985) during the period between 1965-1966 and 1975-1976 investigated the trade flows of sixteen industrialized countries for nine different industries using a gravity model. He utilized the country's GDP, GNP, Per Capita Income, distance and trade agreements as the study variables. According to the results obtained, he observed the existence of a positive relationship between GDP, GNP, population including trade flows (exports and imports), while distance negatively affects the trade flows. Additionally, Ben-David (1993) utilized a cross-section analyses to show that economies that are open, trade more and also free trade of the European Union countries resulted in increased incomes for member countries. Ben-David's (1993) work indicates that the only economies that are open to the world economy are the only ones that grow, thus emphasizing the need to include openness as a variable that determines trade growth as is the case of Kenya signing bilateral agreements with other East Africa countries.

Zarzoet al (2003) also utilized a gravity model of international trade to evaluate potential benefits of intra-region trade between the European Union (EU) and Mercosur (a political and economics block that is comprised of Brazil, Venezuela, Argentina, Uruguay and Paraguay) for the period 1996-1999. Panel data analysis was used, and it was discovered that the model of fixed effects was preferred to the model of random

effects when interpreting the results. Sachs and Warner (1995) also confirmed Zarzoso, et al (2003) by establishing an experimental openness variable that is based on five protection elements. The elements include; tariffs and other barriers and the level of involvement of government in the economy. When the index is utilized, it was discovered that an open economy expanded at an average of 1.5% faster than a closed economy and also the unconditional convergence is true for an open economy only. Therefore, based on the above theoretical analysis from various scholars, the signing of trade agreement between Kenya and other EAC members will positively impact the Kenyan economy as a result of regional exports.

### **2.3 Empirical Literature**

The main aim of regional trade and unification is growth in the economic and development, poverty elimination and to enhance the welfare of the population, and also enhancing political impact. Regional unification has been deduced to enhance trade as countries progressively open up to the world and reduce or remove both tariffs and non-tariff barriers. Increased trading between countries has a positive outcome on economic growth and development. Smith (1776) and Thirlwall (2000) highlighted that countries with the higher growth in international trade had also experienced increased growth in their Gross Domestic Product (GDP).

Trade and unification led to increased growth and development in a couple of channels which them include improving technology , increasing innovation and reducing repetition and development in works of research ‘Romer (1990), Krugman (1990) and Warner (2003), it has been researched and proven that unification promotes higher market access, more stock of technology and knowledge, thus it adds to economic advancement

and creativity not forgetting innovative mindset. An increase in innovation and creativity leads to advanced ideas which helps people access wider markets and extensive productivity that increases the level of returns in the areas that requires extensive researches and development 'Sachs and Warner (1995)'. Research indicates that a good level of international trade in the society is utmost likely to improve growth and development. A high level of literature agrees that the highlighted for growth growth hypotheses. It is widely acceptable therefore, that expanded exports generate increase in GDP, since both foreign and domestic demands are elements of the GDP as expounded in the national income accounting, Gurgul and Lach (2010). In addition, exports may also have a profound influence on GDP growth indirectly. Exports lead to increased investment that in turn leads to an enhanced labour productivity. In addition, due to increased competition in the international market, exports are likely to boost efficiency in the domestic economy, thereby increase the GDP. On the other hand, economies that are blessed with few natural resources and technology highly depend on importation of these vital factors of production for GDP growth.

Kenya and other members of the East African Community come together with the main aim of increasing interactions, transactions and achieve higher economic growth rate and development. The flow and volume of trade in goods and services describe how "open" an economic unification is. At the same time, product from Africa encounter difficulties entering the international market in the developed countries due to protectionist strategies such as subsidization of local production in developed countries, high standard requirements and tariffs among others. These factors among others have hastened the move by developing countries to create their own regional trade agreements in order to

enhance trade among themselves and to give them a better bargaining power and terms of trade in the world market. Comparative analysis statistics was conducted by Anderson and Wincoop (2003) on the effects of trade barriers on trade flows between United States, Canada and other countries using general equilibrium gravity model. Although it was argued that the model did not have a theoretical foundation and thereby there existed problems of variables that were left out. This led to a development of a totally different method of estimating and approximating the theoretical gravity equation by including multilateral resistance measures the results indicated that the country borders inhibited trade by 44% between The US and Canada. It reduces commercial activities among other developed and industrialized countries by 29%. This approach could also be used to show the results of other organisations and fields on the effects of bilateral trade flows.

In his study, Grant and Lambert (2005) used gravity argumented framework in the analysis of agricultural trade volume on the effect of regionalism. They both analysed the regression on cross section time series, estimated pooled on the equation of gravity for the period of 1985 and 2002 whereby they involved 87 countries and using a data sample of 9 agricultural products on 8 RTAs.

A number of analyses were carried out, mostly on agricultural products, totalling up to 9. Out of all the regressions that were run, 8 to be precise three were from the African trade regions (COMESA, SACU and SADC). This were majorly from the sub-Saharan Trade regions simply referred to as 'Africa' in the study. The statistics indicated that out of every nine trade possibilities on agricultural and non-agricultural products, four of them experienced diversion from the non-members, although it did not stop the trade creation as the effects were not so aggressive. Nonetheless, the there was a vivid trade creation

effects in eight and six independent agricultural produce in that order as per the results of NAFTA and EU.

Makochekanwa (2012) in his study analysed the impact of RTA on intra-trade in three selected agri-food products, that is, wheat, maize and rice in mentioned economic regional communities mainly COMESA, EAC and SADC in between 2005 and 2010. The survey employed gravity trade model, statistical analysis and two methodologies. The results showed that Rwanda, Namibia, Zimbabwe and Tanzania are the only major countries whose trades among the mentioned products improved over the above-mentioned period. This was according to changes of trade shares in the intra-regional trade. The intra-regional trade shares of at least two products of Malawi, Sudan and Burundi had declined. Gravity model of the above analysis of traditional variables had an expected theoretical sign i.e. importer and exporter country's GDP distance. The Coefficients of variables i.e. EAC, COMESA, SADC showed a positive statistical significance in all regional dummies in all other RECs and commodities, this indicated that the intra-regional trade in those areas and for such commodities is above the level of prediction by the gravity model. Since the EAC re-establishment, there have been various surveys which have used different empirical models that made a consideration on the effects including McIntyre & Busse (2005), Kirkpatrick & Wantabe (2005), and Shams (2003).

## **2.4 Conclusion of The Literature**

In conclusion, the literature reviewed shows that there are a number of theories that attempt to explain the trend, pattern and volume of trade between any two trading countries. Depending on the nature of the commodities of trade and the economic and

industrial status of the trading countries, international trade can be explained by the theories of international trade.

Empirical studies have been done with regard to overall understanding of trade agreements and their impact on economic growth and management. Nevertheless, no significant theory is in place at the moment that can cast light on the impact of regional trade agreements Kenya has signed with other regional countries on the volumes of trade of some specific manufacturing products in the food and beverages sub-sector that are traded among member countries following treaties and agreements. My study intended to give some insight into the issue.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction to Research Methodology**

This chapter stipulates how data was collected and analyzed. It is organized as follows; research design, data collection and data analysis.

#### **3.2 Research Design**

Kothari (2004), described research design as the general approach through which one integrates and analyzes different reach components in a coherent and logical manner in order to guarantee that the research effectively deals with the research problem at hand. It also constitutes the framework for collecting, measuring and analyzing data as it outlines what the research intends to do from the point of writing the proposal to the point of drawing conclusion.

The study utilized descriptive survey design. This kind of study entails observing and describing behaviors of subjects without influencing them in any way. Annual data on trade volumes in the manufacturing industry for Kenya, Uganda, Tanzania, Rwanda and Burundi and all the equations in the study were estimated using data for the period between 2005 and 2015.

#### **3.3 Population**

The population of this study comprised of the 51 middle and senior managers from The Ministry of Trade, Industry and Cooperatives, Kenya Association of Manufacturers and Bidco Oil Refinery.

### **3.4 Data collection**

Data was mostly secondary in nature and it was backed up by interviews from trade officials and company consisting of 17 top and middle management officers from the following organizations; The ministry of trade, industry and cooperatives (the directorates of industrialization and enterprise development); Kenya association of manufacturers (Trade and tax committee).

The heads of Marketing, investment and operations departments from Bidco oil refinery were included to get opinions and insights into how trade agreements have impacted on their regional business and trade volumes. Senior management were targeted as respondents. Bidco oil refinery is in the food and beverage sub-sector in the manufacturing industry and it has operations in East Africa thus, are the leading Kenyan employers and capital owners across these states making them suitable respondents.

Top and middle management were targeted because information of strategic nature like the one required in this study could only be accessed from the managers due to their strategic decision-making roles in the companies and government departments.

The yearly statistical trade figures for Kenya's manufacturing exports by destination were collected from The United Nations Commodity Trade Statistics Database (UNCOMTRADE). Secondary data was collected from publications on East Africa countries for the period 2005-2015. Specific data sources included UNCOMTRADE online database, World development indicators (WDI) and Statistical abstracts. The data for Kenya's exports to the EAC are from UNCOMTRADE database. The data for exchange rate and population are from Penn World Table (PWT). Each country's gross domestic product (GDP) and mileage between the capital centres are from International



Financial Statistics (IFS) 2009 CD. Additional data for analysis of trade trends in the region were collected from the International trade centre and Kenya's ministry of trade, office of external trade in collaboration with Kenya Revenue Authority (Customs department).

### **3.5 Data Analysis**

The research study covered Kenya's trade volumes in the manufacturing sector in the East Africa region for the period 2005-2015. The period selected covers the time when East African Community customs union was formed on 1<sup>st</sup> January 2005, as well as the time when Rwanda and Burundi joined the East African Community.

The analysis was statistical in nature. This entailed the use of gravity model of international trade to determine any relationship between the trade agreements adopted and trade volumes realised in the manufacturing sector with emphasis on the food and beverages sub-sector. SPSS statistical software was used to analyse and compare data.

## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

#### 4.1 Introduction

This chapter presents the research findings of the study which sought to determine the impact of trade agreements adopted by Kenya within the East African region on its trade volumes with emphasis on manufacturing firms in the food and beverages sub-sector. The findings are presented in two parts. The first part presents the secondary information gathered from the institutions in the study. The second part presents the findings from self-administered questionnaires issued to the managers of the 3 institutions in the sample. Finally, the findings from both sources are summarized towards the end of the chapter. The gravity model is used to predict the volume of Trade between EAC countries by using these variables: the GDP of country I, the GDP of Country J, and the distance between the two countries. In its simplest form the formula of the gravity model is written as follows:

$$\beta_0 + \beta_1 \log GDP_j + \beta_2 \log GDPC_j + \beta_3 \log DGDP_{ij} + \beta_4 \log DIS_{ij} + \beta_5 \log EX_{ij} + \beta_6 D1 + \beta_7 D2 + \beta_8 EAC + \beta_9 EAC0_{ij} + \beta_{10} border_{ij} + \epsilon_{jk}$$

Where; log GDP = Gross domestic product of Uganda and Tanzania

Log GDPC = Gross domestic product per capita of trading partner (Uganda and Tanzania)

Log DGDP = Dissimilarity in Gross domestic product

Log DIS = the distance between capitals cities of the trading partners log ER = Exchange

rate D1 = Dummy for common borders between Kenya and Uganda

D2 = Dummy for a landlocked country

$\epsilon_{jk}$  = Error term

$\beta$ s = Coefficients interpreted as elasticities.

Where i is the trading country and j is the trading partner.

$\epsilon_{jk}$  is error term and the dummy variables D1 take the value of one (1) for common border zero (0) otherwise.

#### 4.2 Descriptive Statistics

This section aimed to obtain the summaries of the variables as well as to compare the numeric variables side-by-side. This technique helped to extract maximum common variance from all variables and to put them into a common score as shown in table 4.1 below.

**Table 4.1: Descriptive Gravity Model Results for EA Trade for the Period 2005-2015.**

Model	Unstandardized Coefficients		Standardized Coefficient	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	4.146	.000		46639831.894	.000	4.146	4.146
Loggdp <sub>i</sub>	.125	.000	.132	4006062.561	.000	.125	.125
Logexports	.187	.000	.148	4103972.385	.000	.187	.188
Loggdp <sub>j</sub>	.188	.000	.145	9369489.367	.000	.187	.188
1 Logpop <sub>i</sub>	-1.896	.000	-1.770	-30784375.943	.000	-1.896	-1.896
Logexchi	.646	.000	.306	16203436.809	.000	.646	.646
Logpop <sub>j</sub>	2.083	.000	2.251	41459488.691	.000	2.083	2.083
Logexch <sub>j</sub>	-1.167	.000	1.487	76691524.637	.000	1.167	1.167
log dist	-2.000	.000	-1.839	-52597168.502	.000	-2.000	-2.000

a. Dependent Variable: logexchi

Table 4.1 shows that the standard variables of the gravity model are expressed in logarithms. This means that the coefficients are interpreted as elasticities.

The variable estimate of the exporting country's GDP( $\log gdp_i$ ) indicates that 1% increase in exporter's GDP will induce an increase in trade with the EA trade partners by 12.5% while a 1% increase in the importers GDP ( $\log gdp_j$ ) will lead to 18.8% increase in their imports from Kenya. This also confirms findings from the existing literature that the higher the GDP of the importer country the higher the demands for imports resulting to a higher imports volume.

This is also consistent with the existing literature that the economic size influences trade positively. Moreover, a higher GDP of the exporter country is an indication of high production and potential supply of exports.

Further results show that the parameter estimate for importer population ( $\log pop_j$ ) for the model is positive and statistically significant. This goes to mean that larger population size in the importer countries encourage more trade with the partners, with larger population referring to increased consumption hence increase imports.

Table 4.1 however shows that the parameter estimate for the exporter population ( $\log pop_i$ ) is negative. This goes to mean that a 1% increase in the exporters' population will lead to 18.96% decrease in its exports.

This can be attributed to the fact that increase in population will lead to increased local demand of the goods and hence the country has to meet this demand before exporting the surplus.

According to the results, the variable for the exporter exchange rate (logexchi) shows that 1% decrease in its exchange rate will lead to 64.6% increase in its exports. This implies that the Kenyan exports will become cheaper relative to other countries. This could also mean that EAC countries will import more from Kenya and thus enhance trade.

However, the results also show that a 1% decrease in the importers exchange rate (logexchj) will negatively affect (by 11.67%) the Kenya's exports since it will be expensive to buy Kenya's exports.

The findings also show that the distance estimate variable (log dist) has a negative and significant coefficient. The results reveal that Kenya's exports will decline by 2% when distance between trading countries increases by 1%. This could mean that that trade between Kenya and the EA trade partners is still blocked by border tariffs or transport costs. This finding is consistent with the gravity model theory that distance negatively influences bilateral trade.

**Table 4.2: Regression for the Gravity**

	Coffee	Tea	Maize flour	Milk	Beef
loggdpj	0.95(6.8)***	0.25(1.5)	0.41(4.7)***	0.3(2.64)**	2.04(1.69)
logexports	0.22(1.9)**	0.40(1.9)	0.67(7.7)***	2.25(2.6)**	4.31(10.28)**
loggdpj	0.32 (2.3)***	0.32 (2.3)***	0.80(3.29)***	7.12 (1.51)	4.75(3.56)**
loggdpj	6.72(3.18)**	0.18(2.5)**	0.09(1.3)	6.72(3.18)**	6.72(3.18)**
logdist	-0.18 (-2.9)**	-0.83(-5.4)**	0.49 (-2.1)	-6.47(1.71)**	-5.71 (5.25)**
loggdpj	2.2(2.9)*** -	18.9(-4.2)**	3.37(1.9)**	1.92(5.7)***	2.03(7.34)**
logpopj	0.95(6.8)***	0.25(1.5)	0.41(4.7)***	0.3(2.64)**	2.04(1.69)
logexchi	0.12(1.9)**	0.40(1.9)	0.67(7.7)***	2.25(2.6)**	4.31(10.28)**
Common boarder	1.1(2.5)** 3.27	(3.42)**		3(4.69)**	2.91(6.41)**
EA trading partners	2.2(2.9)*** -	-18.9(-4.2)**	3.37(1.9)**	1.92(5.7)***	2.03(7.34)**

\*\*\*, \*\*, \* *significant at 1%, 5%, 10% level respectively;*

*t- Statistics in parenthesis*

Table 4.2 shows that the estimated importer's GDP and exporter's GDP coefficients generally have the expected positive sign in most equations and are significant at 1% level. The results reveal that a unit percent increase in importer GDP will result in increased coffee trade by 0.22%, while the same percentage rise will cause 0.40% increase in trade of tea. The results reveal that across all the tabulated results, the estimated coefficient range from 0.22, 0.41, 0.67, 2.25 to 4.31 and 0.95, 0.25, 0.41, 0.3 and 2.04 for importer and exporter GDP's respectively.

This goes to mean that there is a significantly positive relationship between bilateral trade and incomes of partners. The findings are in line with the findings of Wei (2013).

The results show that the variable estimates of both the importer and exporter population are in most cases positive and statistically significant for the products in the study. This goes to imply that due to larger population size in the importer countries this has enhanced more food stuff trade between partners, with larger population for the importing country meaning increased consumption hence increased imports.

In addition, the results indicate that, due to large population size in the exporting country, reduced maize flour exports as local demand was given a first priority since it is a staple food.

The effect of importer exchange rate is positive for Tea, which goes to mean that exchange rate in the importing countries will stimulate consumers to try and avoid domestic consumptions due to inflation and switch to imports.

This could also mean that a one percent rise in exchange rate in the importer countries will lead to increasing demand for Coffee exports by 0.12%.

Exchange rate of the exporter countries has a negative effect on trade of wheat, 1% increase causing a decline in Tea trade by -0.83%.

The results show that bilateral distance has a negative impact with the magnitude differing across the products and time. As theoretically expected, the parameter estimates of the distance variable are negative and statistically significant.

The results indicate the volume of trade in each of the selected commodities diminishes as distance increases. The results indicate that unity increase in distance will reduce trade by a magnitude of 0.18% for Coffee, 0.83% for Tea, 0.49% for maize, 6.47% for milk and 5.71 for beef. The findings are consistent with a study by Sarker (2013) among others.

The coefficient of common border is positive and statistically significant, at least at five percent level of significance, in case of coffee and tea. This could mean that countries which share the same language and also share a common boarder are more likely to trade with each other than countries which have different language, and which do not share a common border.

According to the results, the EA trading partner's variable is positive for coffee, maize flour and milk while negative for tea. The findings show that the coefficients are all significant at 1 percent level except for Coffee and Milk. The positive sign for the regional dummy shows that the formation of the EA trade agreements has enhanced trade especially in food products. This goes to mean that Kenya now exports most of the food products owing to the formation of the EA trade agreements and further membership of Burundi and Rwanda to the EAC.

Further results show that coffee and milk have positive coefficients but not significant. This goes to mean that the formation of EA trade agreement has not impacted much on the Kenya's exports of coffee and milk. This could be attributed to the fact that Tanzania also produces coffee in large scale and hence the demand for Kenya's coffee is not as high as compared to other food products. It is also likely that these two products are traded informally across the borders and hence the available data does not fully reflect what is happening in real sense.

#### **4.3 Managerial Perspectives on The Impact Of Trade Agreements Adopted By Kenya Within The East African Region**

Managerial perspectives on the impact of trade agreements adopted by Kenya within the East African region were sought from managers in the 3 institutions. in the sample. This section reports the findings from the self-administered questionnaires issued to senior and middle managers in the 3 institutions. Out of the 51 questionnaires distributed, 42 were returned. However, 2 questionnaires had missing data and were thus omitted from the final analyses. This resulted to a response rate of 80% which was considered sufficient for analyses. Table 4.7 reports the demographic characteristics of the respondents.



**Table 4.3: Demographic Characteristics of the Respondents**

Characteristic	Category	Frequency	Percentage (%)
Gender	Female	18	45
	Male	22	55
Age	20-29 years	13	32
	30-39 years	20	50
	40-49 years	5	12.5
	Over 50 years	2	5
	Education	Certificate	2
	Diploma	4	10
	Degree	21	52
	Master	12	30
	PhD	1	2.5

The findings show that most of the respondents were male (55%) and were aged between 30-39 years (50%). According to the findings, majority of the respondents were degree holders (52.5%). This suggests senior positions related to policies of trade agreements adopted by Kenya within the East African region are dominated by men and with many employees occupying these positions being relatively older with more years of experience.

Table 4.4 below reports the findings on managerial perspectives on trade agreement between Kenya and other East Africa member states. The abbreviations used in the table denote the following: SD - “strongly disagree”, D – “disagree”, U – “undecided”, A – “agree” and SA – “strongly agree”.

**Table 4.4: Managerial perspectives on Trade Agreement between Kenya and other East Africa member States**

Statement	Mean	St. Dev.
Kenya's trade agreements with other east African states members has significantly contributed to the growth of the manufacturing sector in Kenya over the last 5 years.	3.500	1.301
<i>Number of responses</i>		
All partner states have harmonized their medium and long-term growth strategic directions based on trade agreements.	3.525	1.240
<i>Number of responses</i>		
Kenya has achieved equal ratings and benefits from the east African community partners.	3.000	1.585
<i>Number of responses</i>		
Kenya's foreign direct investments (FDIs) from east Africa has consistently grown outperforming FDI from other parts of the world.	2.925	1.559
<i>Number of responses</i>		
Since the signing of trade agreements, the balance of payments (BoP) accounts deficit status have tremendously improved.	3.375	1.480
<i>Number of responses</i>		
East Africa community has increased openness to Kenya's manufacturing products specifically in the food and beverages sub-sector.	3.100	1.411
<i>Number of responses</i>		
Kenyan manufacturing remittances have grown considerably from all East Africa partner states.	3.175	1.448
<i>Number of responses</i>		
East Africa partner states have implemented free movement and setting up of manufacturing firms across borders without discrimination based on the trade agreements signed.	3.250	1.548
<i>Number of responses</i>		
East Africa partner states have invested in technology and people resources in all legal entry and exit points to enable free flow of persons	3.000	1.519
<i>Number of responses</i>		

As per the discoveries, majority of the respondents were of the view that all partner states have harmonized their medium and long-term growth strategic directions based on trade agreements. (mean = 3.525) and that Kenya’s trade agreements with other East African states members has significantly contributed to the growth of the manufacturing sector in Kenya over the last 5 years (mean = 3.500). In any case, a couple of respondents were of the view that Kenya’s foreign direct investments (FDIs) from East Africa has consistently grown outperforming FDI from other parts of the world (mean = 2.925).

**Table 4.4: Managerial Perspectives on Actual Benefits of Trade Agreement between Kenya and other East Africa Member States**

Statement	SD	D	U	A	SA	St. Dev.	Mean
Kenyans who are working under professional and trade organizations are discriminated against their rights to be elected and head these organizations.	10%	18%	8%	43%	23%	1.301	3.500
<i>Number of responses</i>	4	7	3	17	9		
Kenyans applying for work permits have no right to appeal against the decision made, in line with the national laws of the host East African country.	8%	20%	5%	48%	20%	1.240	3.525
<i>Number of responses</i>	3	8	2	19	8		
Denials of work permits for Kenyans are not communicated in writing and in time to the applicants.	28%	20%	3%	28%	23%	1.585	3.000
<i>Number of responses</i>	11	8	1	11	9		
Partner states do not adhere to 30 days period on processing the self-employed person work permit application.	30%	15%	5%	33%	18%	1.559	2.925
<i>Number of responses</i>	12	6	2	13	7		
Kenyans have experienced delays and frustrations to receive the six-month pass aimed at facilitating application for a work permit from the partner states.	18%	15%	8%	33%	28%	1.480	3.375
<i>Number of responses</i>	7	6	3	13	11		
Kenya has reported cases of discrimination among the approved workers on the basis of remuneration, conditions of work and employment in some East Africa countries.	18%	23%	10%	35%	15%	1.411	3.100
<i>Number of responses</i>	7	9	4	14	6		

When asked the potential challenges from trade agreement with members of East Africa community, the highest percentage (68%) indicated that Kenyans applying for work permits have no right to appeal against the decision made, in line with the national laws of the host East African country.

#### **4.4 Summary of Findings In Relation To Literature Review**

The results have reported that a 1% increase in exporter's GDP will induce an increase in trade with the EA trade partners by 12.5% while a 1% increase in the importers GDP (log gdpj) will lead to 18.8% increase in their imports from Kenya. This is supported by the existing literature that the higher the GDP of the importer country the higher the demand for imports resulting to a higher imports volume. This goes to imply that a higher GDP of the exporter country is an indication of high production and potential supply of exports.

It has also been reported that the parameter estimates for importer population (log popj) for the model is positive and statistically significant which is a clear indication that a larger population size in the importer countries encourage more trade with the partners, with larger population referring to increased consumption hence increase imports.

Findings have also shown that a 1% increase in the exporters' population led to decrease in its exports which could be as a result of increase in population of one trade partner which could lead to increased local demand of the goods and hence the country has to meet this demand before exporting the surplus.

It has been found that a 1% decrease in exporter exchange rate (logexchi) will lead to increase in its exports. This goes to imply that the Kenyan exports will become cheaper relative to other countries. This could also mean that EAC countries will import more from Kenya and thus enhance trade. However, it was reported that a 1% decrease in the

importers exchange rate (logexchj) will negatively affect the Kenya's exports since it will be expensive to buy Kenya's exports.

The study has found that that the distance estimates variable has a significant and negative coefficient. This implies that Kenya's exports will decline by when distance between trading countries increases by 1%. This could also suggest that trade between Kenya and the EA trade partners is still blocked by border tariffs or transport costs.

The study has established that there is a positive significant relationship between partners' income and bilateral trade. The findings are in line with the findings of Wei (2013). The results show that the variable estimates of both the importer and exporter population are in most cases statistically positively significant for the products in the study. This goes to imply that due to higher population size in the importer countries this has enhanced more food stuff trade between partners, with higher population for the countries that import which concludes high imports and consumption.

The study has reported that exporting countries with high population have reduced maize flour export due to high local demand which has been given first priority since it is a staple food. It has also been established that the effect of importer exchange rate is positive for Tea, which goes to mean that exchange rate in the importing countries will stimulate consumers to try and avoid domestic consumptions due to inflation and switch to imports.

The study has found that there is a negative effect of bilateral distance with the magnitude which differs between time and products. The results indicate that with increase in distance there is decrease in trade volume. This could mean that countries

which share same or similar language or common border have a high likely hood to trade than countries with no common border.

Finally, the study has found that the formation of the EA trade agreements has enhanced trade especially in food products. This goes to mean that Kenya now exports most of the food products owing to the formation of the EA trade agreement customs union and further membership of Burundi and Rwanda to the EAC.

## **CHAPTER FIVE**

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

#### **5.1 Introduction**

This chapter presents a discussion of the findings reported in Chapter Four. Next, the chapter provides a conclusion of the findings and offers recommendations for policy and practice. The chapter highlights the contribution to knowledge and highlights the limitations of the survey as well as areas of further research.

#### **5.2 Summary of The Findings**

It has been reported that increase in exporter's GDP will induce an increase in trade with the EA trade partners while an increase in the importers GDP will lead to increase in their imports from Kenya. This is supported by the existing literature that the higher the GDP of the importer country the higher the demands for imports resulting to a higher imports volume. This goes to imply that a higher GDP of the exporter country is an indication of high production and potential supply of exports.

The study has found that importer countries with a larger population size motivate more trade with the partners, with larger population referring to increased consumption hence increase imports.

Findings have also shown that increase in the exporters' population leads to decrease in its exports due to the fact that increase in population of one trade partner could lead to increased local demand of the goods and hence the country has to meet this demand before exporting the surplus.

It has been found that decrease in exporter exchange rate will push to increase in its exports. Which means that Kenyan exports will become cheaper relative to other

countries. Which goes to mean that EA trade partners will import more from Kenya and thus enhance trade. However, it was reported that a decrease in the importers exchange rate will negatively affect the Kenya's exports since it will be expensive to buy Kenya's exports.

Findings showed that trading partners distance has a significant and negative coefficient which goes to mean that Kenya's exports will decline when distance between trading countries increases by 1%. This could also suggest that trade between Kenya and the EA trade partners is still blocked by border tariffs or transport costs.

The study has found a positive relationship which is significant between partner's income and bilateral trade. The results show that the variable estimates of both the importer and exporter population are statistically positively significant in most cases for the products in the survey.

The results have shown that exporting country with large population reduced maize flour exports due to high local demand which ad first priority since it is a staple food. It has also been established that the effect of importer exchange rate is positive for Tea, which goes to mean that exchange rate in the countries of import will stimulate consumers to try and avoid domestic consumptions due to inflation and switch to imports.

The study has found that there is a negative effect on bilateral distance of time and products. The results also showed that an increase in distance diminishes commodity trade between products. This could mean countries are more likely to carry out trade when they have close borders than when their far away from each other.

Finally, the study has found that the formation of the EA trade agreements has enhanced trade especially in food products. This goes to mean that Kenya now exports most of the



food products owing to the formation of the EA trade agreement customs union and further membership of Burundi and Rwanda to the EAC.

### **5.3 Conclusion**

It can be concluded that formation of the EA trade agreements has enhanced trade especially in food products. This goes to mean that Kenya now exports most of the food products owing to the formation of the EA trade agreement customs union and further membership of Burundi and Rwanda to the EAC. This is because increase in exporter's GDP induces an increase in trade with the EA trade partners while an increase in the importers GDP leads to increase in their imports from Kenya. A higher GDP of the exporter country is an indication of high production and potential supply of exports. It is safe to conclude that importer countries with large population encourage trade with the partners, with large population referring to increased consumption hence increase imports. However, an increase in the exporters' population leads to decrease in its exports due to the fact that increase in population of one trade partner could lead to increased local demand of the goods and hence the country has to meet this demand before exporting the surplus. Decrease in exporter exchange rate leads to increase in its exports. Which means that Kenyan exports will become cheaper relative to other countries. EA trade partners import more from Kenya and thus enhance trade. However, a decrease in the importers exchange rate negatively affect the Kenya's exports since it is expensive to buy Kenya's exports. Trading partners Distance has negative impact of trade between the partners. Kenya's exports will decline when distance between trading countries increases. This could also suggest that trade between Kenya and the EA trade partners is still blocked by border tariffs or transport costs.

#### **5.4 Recommendations**

As has been shown by the study that GDP of the EA trade partners impact positively on trade volumes, then the trading partners should continue with policies that are geared towards economic growth in order to sustain intra-EAC exports. An important factor to be considered when assessing the volume of food and beverage products trade within the region is its high level of informality. Indeed, trade between the EA trade partners is carried out through both formal (regulated and recorded in national accounts) and informal (unregulated and unrecorded) channels.

The more the hindrances are removed, the greater is the prospect for food trade to succeed. In studying such a subject, issues of political economy and culture appear to be relevant to answer the nagging question, namely, why has the progress about EA trade partners' objectives been so slow and uncoordinated? A little reflection will make it clear that what caused the British industrialization during 1750-1850 was exactly the opposite to what has been happening with the EA trade partners now, namely, lack of cohesive mentality; particularly, between Kenya and Tanzania. This can be inferred through the writings of Menja (2012). However, with major infrastructural developments, such as, Lamu port, Kenya stands at a better position to reap external economies with regard to trade benefits in connection with EAC. Inclusion of Rwanda and Burundi has also been an added advantage for Kenya in so far as food trade is concerned.

### **5.5 Limitations of The Study**

The EA trade partners consist of five countries, Burundi, Uganda, Kenya, Rwanda, and Tanzania. The first three countries are regarded as the founders of the East African Community. This study focused on Kenya's exports of a few food products that include; coffee, tea, maize flour and milk due to scarcity of data.

### **5.6 Suggestions for Further Research**

In the context of the study, it is difficult to state whether there is complete export diversion or import diversion due to EAC trade bloc formation caused by data absence. This should comprise a subject for future research. In addition, data inadequacy also prevented the present researcher to analyse beyond 2015. This can also be considered for future study.

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## APPENDIX I: QUESTIONNAIRE

1) Kindly Specify your age bracket from the options below

a) 20-30  b) 30-40  c) 40-50

d) 50-60  e) Above 60

2) Kindly specify your gender

a) Male  b) Female

3) Kindly indicate the highest level of education you have attained.

a) Primary School  b) Undergraduate Degree

c) Secondary School  d) Post graduate Degree

4) Kindly name the organization you are currently working for?

5) Kindly indicate the number of years that have you worked in your organization?

a) Less than 2 years  b) between 2 and 5 years  c) More than 5 years

6) Kindly indicate the position you hold in your organization?

a) Senior Management Staff  b) Middle Management Staff

7) What category of business does your organization belong to?

a) Government services  b) Export of manufacturing business

c) Others  Kindly specify

--



8) For export manufacturing firm:

Please specify the volumes of exports for the last ten years in the following table.

Years	Export turnover (KES)	Annual turnover (KES)	Profit Margin (KES)
			Percentage of profit margin: 0-5%, 5-10%, above 10%
2005-2006			
2007-2008			
2009-2010			
2011-2012			
2013-2014			
2015			

**Section B: Kenya’s trade agreements with other East Africa countries and the effects on trade volumes in the manufacturing sector**

This section aims at identifying the various trade agreements Kenya has signed with other East Africa countries and also establishing the contribution of trade agreements to the economic growth of Kenya. Indicate whether you in section 2 using the below Likert scale:

1= Strongly agree; 2= Agree; 3= Moderately agree; 4= Disagree and 5= Strongly disagree

**Section 1**

Kindly indicate with a tick in the check box if the trade agreement has been signed by Kenya with other East Africa countries:

- 1) Common Market for Eastern and Southern Africa (COMESA)..... [ ]
- 2) Africa Free Trade Zone..... [ ]
- 3) East Africa Community..... [ ]
- 4) Bilateral Agreements with;
  - a) Uganda..... [ ]
  - b) Tanzania..... [ ]
  - c) Rwanda..... [ ]
  - d) Burundi..... [ ]
  - e) South Sudan..... [ ]

## Section 2

	1	2	3	4	5
Kenya's trade agreements with other east African states members has significantly contributed to the growth of the manufacturing sector in Kenya over the last 5 years					
All partner states have harmonized their medium and long-term growth strategic directions based on trade agreements					
Kenya has achieved equal ratings and benefits from the east African community partners					
Kenya's foreign direct investments (FDIs) from east Africa has consistently grown outperforming FDI from other parts of the world					
Since the signing of trade agreements, the balance of payments (BoP) accounts deficit status have tremendously improved					
East Africa community has increased openness to Kenya's manufacturing products specifically in the food and beverages sub-sector					
Kenyan manufacturing remittances have grown considerably from all East Africa partner states					

## Section C: Actual benefits of trade agreement between Kenya and other East Africa member states

	1	2	3	4	5
East Africa partner states have implemented free movement and setting					

up of manufacturing firms across borders without discrimination based on the trade agreements signed					
East Africa partner states have invested in technology and people resources in all legal entry and exit points to enable free flow of persons					
Valid common standard travel documents are acceptable by all immigration departments among East Africa partner states					
Trade agreements with other East Africa member states has facilitated acquisition of knowledge and skills from institution of higher running without discrimination					
The terms and conditions governing the schooling by Kenyans across state partners are prohibitive to free movement of persons					
Movement of Kenyans seeking medical services among partner states is wellgoverned by the CMP reducing overseasmedical expenses					
Movement across all East Africa countries that have signed an agreement with Kenya is not accompanied by hidden costs from corrupt officials in immigration or airports					

**Section D: Potential challenges from trade agreement with members of East Africa community**

	1	2	3	4	5
Kenyans who are working under professional and trade organizations are discriminated against their rights to be elected and head these organizations?					

<p>Kenyans applying for work permits have no right to appeal against the decision made, in line with the national laws of the host East African country</p>					
<p>Denials of work permits for Kenyans are not communicated in writing and in time to the applicants</p>					
<p>Partner states do not adhere to 30 days period on processing the self-employed person work permit application</p>					
<p>Kenyans have experienced delays and frustrations to receive the six-month pass aimed at facilitating application for a work permit from the partner states</p>					
<p>Kenya has reported cases of discrimination among the approved workers on the basis of remuneration, conditions of work and employment in some East Africa countries</p>					