THE EFFECTS OF EAST AFRICAN COMMON MARKET ON CROSS BORDER BUSINESS FOR KENYA ASSOCIATION OF MANUFACTURERS' MEMBERS

BY:

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DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

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This Research Project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

I dedicate this research project to my parents who instilled a lot of discipline and culture of hard work in me.

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First, my sincere gratitude goes to Our Almighty Father who by His grace I was able to do and complete this study.

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ABSTRACT

In today's business environment, it is more evident that if companies want to grow they need to think outside the current borders because the competitive advantages in producing products and services are constantly shifting between capital intensive countries and labor intensive countries. The objective of the study was to determine the effects of East African Common Market on cross border business for Kenya Association of Manufacturers' members.

The study adopted a descriptive research design. The target population comprised of sampled 41 members of KAM involve in cross border trade. Primary data was collected using a questionnaire while secondary data was obtained from annual reports of the EAC and other publications. This study employed descriptive statistics to analyze the data obtained using Statistic Packaging for Social Science (SPSS).The data was classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables.

The study found that majority of the firms contacted conducted formal cross border trade. The cross border trade promoted economic development of Kenya by increasing the employment level in the country as the production levels increased. The study recommends that the Government and policy makers should use this study to develop policies and guidelines that promote Kenya's position on the EAC market. KAM members should use the findings in bringing out the major contributions of the EAC to their current performance and in their decisions to expand their market beyond Kenya and EAC.

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CHAPTER ONE

INTRDOCUTION

1.1 Background of the Study

Regional integration schemes in all parts of the world were formed to achieving a common market (Hardy, 1994). In Africa most of such schemes have not achieved that goal. Most schemes were dynamic in the initial phase but subsequent implementation and ratification problems beleaguered them (Mshomba, 2000). However, both the idea and ideals of regional integration and cooperation continue to be popular in African policy circles in spite of the widely documented failures of previous efforts and clear indications of current uncertainties (Oyejide, 1997). In today's business environment, the importance of seeking new market opportunities and extending the business geographically has increased significantly due to intensified competition and globalization. It is more evident that if companies want to grow they need to think outside the current borders because the competitive advantages in producing products and services are constantly shifting between capital intensive countries and labor intensive countries the need to engage in trade agreements is constant and growing (Haji and Semboja, 2009).

Carim (1997) gives two different types of classification of regional trade integration. The first one complies with the sequential progression of degrees of integration, which are the following: a preferential trade area (PTA) where member countries reduce barriers to the intra-trade but maintain tariffs on trade with non-members; a free trade area (FTA) where member countries eliminate all barriers to the intra-trade but maintain their separate tariffs vis-à-vis non-members; a customs union (CU) which is a free trade area where member countries establish a common external tariff on goods from non-members; - A common market (CM) is a customs union where member countries also allow free movement of labour and capital in their territories; and an economic union (EU) which is a common market where member countries harmonize their economic policies.

The emergence of the “new” East African Community (EAC) since 1999 has been greeted by observers with what might be described as “cautious optimism” (Streatfield, 2003). On the one hand, optimism seemed warranted because the EAC reflected a welcome consensus on the part of the region’s leaders that trade and private sector investment were crucial inputs to sustained growth and development ; but on the other, some caution regarding what to expect from the EAC was hardly surprising, as the collapse in 1977 of an earlier effort at regional integration suggested that the road ahead was anything but straight-forward, with numerous barriers remaining that must be overcome (Goldstein and Ndung’u, 2001).

1.1.1 Cross Border Trade

Cross Border Trade (CBT) is the buying and selling of goods and services between businesses in neighboring countries, with the seller being in one country and the buyer in the other country, for example, a company in the Kenya selling to a company in Rwanda. Cross-border trade (CBT) may also refer to the flow of goods and services across international land borders within a reach of up to 30 kilometers. CBT is highly sensitive to the treatment meted out to traders by conditions imposed by national governments. Its success depends critically on the ability of individuals to routinely cross the border without paying a large unofficial payment or prohibitive tariff duties and border charges, and to cross the border with their own passenger vehicles or with light vehicles from bordering regions (Meagher, 1997). Cross-border trade is characterized by the duality of the routes taken by the traders while crossing the border with goods, a feature frequently referred to as formal and informal trade. It is argued on one hand that the resources that are used by the traders who cross the border formally are individually owned in the form of physical and human capital. On the other hand, while the informal cross-border traders have less of such economic resources, they access in addition, the social resources accruing from their accumulation and use of social capital. Social capital as a concept is derived from both classical economic and social theory. CBT is an increasingly important phenomenon in eastern Africa, but one that remains surrounded by considerable controversy and ignorance. In fact, for many parts of Africa the overall effect of structural adjustment has resulted in "a significant expansion of trans-border trade (Meagher, 2003:57)," especially by large numbers of unemployed youth, women, and others, including ex-formal sector employees 'downsized' through budget reforms (Boko *et al.,* 2005; Roitman, 2003).

1.1.2 Concept of Common Market

A common Market refers to a customs union which has free movement of factors of production. Restrictions apply to movement these factors of production with non-member countries (Streatfield, 2003). A common market is a scheme of economic integration where the members agree to abolish all the tariffs on each other's exports, follow a common tariff policy towards their imports from the rest of the world, and allow a free flow of commodities as well as productive factors like capital, labor, entrepreneurship and technology amongst one another (World Bank, 2000). A single market has many benefits. With full freedom of movement for all the factors of production between the member countries, the factors of production become more efficiently allocated, further increasing productivity. For both business within the market and consumers, a single market is a very competitive environment, making the existence of monopolies more difficult thereby promoting efficiency. This means that inefficient companies will suffer a loss of market share and may have to close down. However, efficient firms can benefit from economies of scale, increased competitiveness and lower costs, as well as expect profitability to be a result (Goldstein and Ndung'u, 2001). Established in July 2010, the binding factor between the Common Market (CM) and the Customs Union is the fundamental objective of creating one single market to promote trade and investment. By creating one economic region through the Customs Union and the Common Market, EAC created a single market of 130 million people (2010) and a combined GDP of around US$ 75 billion.

The Common market has a specific objective which is to widen and deepen cooperation among the Partner States in the economic and social fields for the benefit of the Partner States. This is to be achieved through the attainment of freedoms and rights to the communities of East Africa which include the following: Free movement of goods; free movement of persons; free movement of labor; the right of establishment; the right of residence; free movement of services and free movement of capital. The legal, policy and regulatory framework of the EAC integration has clear principles that guide the process, their interpretation, practical application or translation into action to create the desired impact is yet to be realized. Cross-border is the genesis of regional integration and has stood the taste of time because even during wars this trade always finds ways of surviving and sustaining border communities. We have also noted that it has a key role of boosting economic growth and a major channel for creating and expanding employment. Yet when it comes to trade agreements it is a very vulnerable trade that requires specific interventions to support and protect it.

Cross-border traders have always moved with or without the customs union and the common market but with a lot of constraints and challenges especially with customs and immigrations procedures on all border points. Literature shows that most these traders are still very ignorant of the freedoms and rights provided for in the common market. This is because this information has not yet been widely distributed and even in circumstances where it was made available the interpretation and understanding of the concepts is still a challenge. This has created situations where some women traders have indicated preference of the status quo anticipating more problems with the Common Market and Customs Union (African Centre for gender and Social Development, 2009).

The Ministry of East African Community Affairs (MEACA) developed popular versions of the common market in 5 main local languages but distribution of these copies has not been very effective so this information has not yet been received by the majority of the cross-border trader’s women especially. Women and men traders need to be made aware of the opportunities being created and supported to advantage of them. Most importantly they need to make informed choices. Awareness and sensitization programs including educative campaigns, easy to read/understand booklets are needed on the objectives, goals, benefits/opportunities of the integration processes. This should be supported by strategic interventions that can translate the articles into action. For example what is meant by free movement of goods, how does it impact on cross-border traders, the implications for women and men, what kind of reorganization is required for these businesses to benefit, the different roles and responsibilities including policy frameworks to ensure that East African take advantage particularly women in cross-border trade.

1.1.3 East African Community

The East African Community (EAC) is the regional intergovernmental organization of the Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Rwanda and Republic of Burundi with its headquarters in Arusha, Tanzania. The Treaty for Establishment of the East African Community was signed on 30 November 1999 and entered into force on 7 July 2000 following its ratification by the original three Partner States – Kenya, Uganda and Tanzania. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18 June 2007 and became full Members of the Community with effect from 1 July 2007. The EAC was established with a vision to set up a prosperous, competitive, secure, stable and politically united East Africa; and provide platform to widen and deepen Economic, Political, Social and Culture integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investments.

The regional integration process is at a high pitch at the moment as reflected by the encouraging progress of the East African Customs Union, the signing in November 2009 and ratification in July 2010 of the Common Market Protocol by all the Partner States. The consultations on the Monetary Union, which commenced in 2009, and fast tracking the process towards East African Federation all underscore the serious determination of the East African leadership and citizens to construct a powerful and sustainable East African economic and political bloc. However, the East African region has had its fair share of disputes and disagreements. The main bone of contention has been the long-held perception by Uganda and Tanzania that Kenya's economy - mainly the manufacturing sector - was more competitive than theirs despite the fact that it has been declining over the past few years under pressure from imports from the Middle East and inadequate infrastructure. Kenya exports approximately three-fifths of its goods to Uganda and Tanzania and had been facing tariffs of between 10 and 20 per cent before the establishment of the East African Community. However, the EAC is expected to present a good investment platform for both domestic and foreign investors due to their economies of scale. Benefits should also accrue to Uganda and Tanzania, who have, of late, reaped immensely from food commodity supply fluctuations in Kenya.

1.1.4 Kenya Association of Manufacturers

The Kenya Association of Manufacturers (KAM) is the leading organization of industrialists in Kenya constituted in 1959 to unite industrialists under a powerful umbrella organization to encourage investment, uphold standards, and represent their views and concerns to the Government (KAM, 2012). The Kenya Association of Manufacturers is a major stakeholder in trade facilitation systems in Kenya and the region and plays a major role in influencing trade facilitation policies and promoting the implementation of international agreements, standards and best trading practices. KAM has been on the forefront in advocating for common markets so as to expand the market share of its members. KAM members are distributed in different industries in Kenya.

KAM has contributed immensely to the enhancement of trade facilitation in Kenya and the entire Eastern and Central Africa region for its members through: enhancing its institutional and human capacity by establishing a specific trade department with staff to handle lobby activities in trade facilitation. KAM trade department evaluate and measure performance level and improvement programs planned by various departments in the trade facilitation system so as to help plan the way forward (KAM, 2012).

1.2 Research Problem

The most important impetus for joining the East African Community regional groupings has been the hope of addressing common challenges like improving economic policy, reducing poverty, and managing the process of liberalization in a collective and coordinated manner. By pooling together fragmented domestic markets, regional co-operation may spur economic growth and development by promoting intra-regional trade and economies of scale.

One of the main challenge facing African countries is that their economies are too similar in endowments for trade policy to be used in any meaningful way to promote regional integration. Gunning (2001) and Aryeetey and Oduro (1996) argue further that although regional integration schemes in Africa were probably pursued for the wrong reasons they can perform a useful function. Unilateral trade reforms have at times failed because they are usually undertaken in circumstances where trade liberalization is time inconsistent and have often led to trade policy reversals. Trade policy reforms have been undertaken without a clear agent of restraint and no credible penalties for policy reversals. The dilapidated cross-border transport and communication is Sub-Saharan Africa, formal trade barriers such as quantitative restrictions, import licensing, and discrepancies in fiscal/monetary and procurement prompt informal cross-border trade (Kennes 1999). Substantial informal trade is carried out not in otherwise ordinary commodities, but there is also “big time” trading in banned products (national trophies, narcotics and “blood minerals”) that are a threat to national and regional security. Experience elsewhere (Atkinson and Olenson, 1994) suggests that the removal of trade barriers is not sufficient for the formation of regional markets. Such measures have to be followed by positive integration policies, i.e. the development of institutions to expand and integrate markets. In Africa there is relatively little progress especially in harmonization of tariff codes and classifications. This is often interpreted as the unwillingness to make regional objectives the priority.

There are local studies that have been done in Kenya regarding trade which include: Gichuru (2006) did on trade related barriers to Kenya’s export of fruits and vegetables to the European Union and found out that both the tariff and non-tariff barriers affected the export of fruits and vegetables to the EU market; Oduor (2007) researched on difficulties faced by Eastern and Southern African trade development bank in implementing the strategy of capital resource mobilization. From the above studies, no study has been done on the effects of the EAC on cross border trade within Kenya. Therefore, this study seeks to fill the gap by conducting a study the effects of the East African Common Market on cross-border trade between Kenya and the neighboring coutries using the case of Kenya association of manufacturers members. What is the effect of East African Common Market on cross border business for Kenya Association of Manufacturers’ members?

1.3 Research Objective

The objective of the study was to determine the effects of East African Common Market on cross border business for Kenya Association of Manufacturers' members

1.4 Value of the Study

This study was justified on the following basis; the Kenya Government has joined other East African countries in transforming the East African Community into a common market. Thus the Government with other partners would able to understand the role which the trading bloc plays in promoting trade with its EAC member countries. This study would benefit the government especially the Ministry of East African Community for making policy decisions whose overall objectives are to accelerate the rate of trade within the member countries. The study was justified since it would be of academic value to those countries which are interested in moving towards the direction of regional integration as they will be able to understand the benefits of trading blocs in international trade.

In addition, by being in common market and practicing common policies and regulations, countries in the trading bloc become their "brothers' keepers" and therefore they create a system of surveillance upon one another based on "best endeavors" and at time backed by legal systems. This in a way creates an efficient bloc that will operate in a higher indifference curve in consumption and efficient production curve.

The East African Community as an example of a regional integration effort is an important emerging area in the international political discourse. The European Union (EU) has been seen by many as being the most successful form and it is hoped that the East African Community would emulate the steps the EU took. This study therefore hopes to increase the available literature on regional integration efforts in East Africa.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. This chapter reviews literature with respect to the research objective on the effects of the EAC on cross border trade.

2.2 Cross Border Trade

Cross-border trade (CBT) is defined as the flow of goods and services across international land borders within a reach of up to 30 kilometers. The unique feature of cross-border trade lies in geographical proximity rendering transportation costs almost irrelevant, thereby allowing traders to take advantage of differences in the supply, demand, and prices of various goods and services available on either side of the border. Cross-border trade is highly sensitive to the treatment meted out to traders by conditions imposed by national governments. Its success depends critically on the ability of individuals to routinely cross the border without paying a large unofficial payment or prohibitive tariff duties and border charges, and to cross the border with their own passenger vehicles or with light vehicles from bordering regions (Meagher, 1997).

Cross-border trade (CBT) is an increasingly important phenomenon in eastern Africa, but one that remains surrounded by considerable controversy and ignorance. For some observers it represents a normal market response to cumbersome, time-consuming export regulations and regional price distortions, and should be encouraged as a means to increase intra-regional trade (and 'regionalization'), meet local demand that is not being meant by national production and markets, and insure regional food security. These same supporters often argue that many trans-border markets pre-date colonial and post-colonial state boundaries and, thus, reflect longstanding indigenous patterns that make more sense than formal trade channels (Meagher, 1997). For others, CBT reflects a potential loss of foreign exchange, an illegal activity, and a source of unfair competition for official traders and food producers. The contra position argues for increased regulations and taxes, policing, and/or forcing CBT into formal market channels. As Meagher's (1997; 2003) work shows, it was assumed by some policy makers that market liberalization ('structural adjustment') policies of the 1980s and 1990s would have channeled most informal trade into formal market channels, which has not been the case in large parts of Africa (Peberdy, 2000; Little, 2001).

In fact, for many parts of Africa the overall effect of structural adjustment has resulted in "a significant expansion of trans-border trade (Meagher, 2003:57)," especially by large numbers of unemployed youth, women, and others, including ex-formal sector employees 'downsized' through budget reforms (Boko et al., 2005; Roitman, 2003; Mwaniki, nd:1;). CBT is 'illegal' in many countries of the region because it avoids official procedures and channels, but it does not mean that the traded products themselves are illegal. Most cross-border commerce is in clean3 commodities, although perceptions are that CBT (especially in the Horn of Africa) encourages trade in illicit drugs, weapons, and other illegal and harmful goods.

Despite common perceptions CBT has strong ties to the formal sector. In fact, the distinctions between what is formal and informal in CBT are difficult to make. Take the case of maize, for example, that may be informally sourced from trans-border markets but eventually sold through licensed retail shops in the import country; or the case of livestock that are trekked across borders to be sold but are officially taxed at different market centers and eventually sold through formal market channels. Do these constitute informal or formal trade? Contrary to common perceptions, CBT also generates significant amounts of local taxes and permit revenues for the formal sector, as well as a wide range of unofficial payments or 'taxes' to government personnel and offices. The fact that policies directed at formal food market channels can strongly affect the performance and profitability of unofficial commerce and vice-versa is further evidence of the interconnectedness of the formal and informal sectors (Akilu, 2006; WFP/FEWS-Net, 2006).

CBT concern the scale and spatial aspects of the activity. Much CBT involves small amounts of food products moved over short distances for example, the Ugandan trader who bicycles with two sacks of beans across the border to sell in Kenya (Akello-Ogutu, 1997) but other types entail large volumes and vast distances (WFP/FEWS-Net, 2006). The latter might include large scale Ethiopian traders who transport truckloads of animals 250 km across the Somalia border to be exported from the Somali port of Berbera, relying on market information transmitted via hand radios and faxes. The merchants then return home with considerable amounts of imported foods to be sold in eastern Ethiopia. Recent policies by some governments to permit small-scale (low value) CBT within certain distances of borders show a recognition that important scale differences characterize the activity (Teka and Azeze, 2002; Umar, 2007).

2.3 Impact of Regional Integration (EAC) on Cross-Border Trade

Trade between the three countries is carried out both through formal (regulated and recorded) and informal sectors accounting for over 95% of trade in livestock and up to 60% of trade in staple grains (Ackello-Ogutu and Echessah, 1997; Little, 2007). Policy makers and the business community have raised serious concerns about these NTBs. It is generally accepted that NTBs lead to trade distortion with concomitant losses in welfare. However, in the EAC case, the cost of these NTBs, their impacts on regional trade and their welfare impacts are not well understood.

Other studies analyzed EAC (particularly Kenya, Uganda and Tanzania) trade with other COMESA countries over the period 2001 to 2005 (Ihiga, 2007; Tumuhimbise and Ihiga, 2007; Mmasi and Ihiga, 2007). This included a detailed analysis of exports and imports, including EAC/COMESA destination countries, exports and trends, and major products traded between 2001 and 2005. Consultations were held with relevant representatives of the private and public sector. These consultations validated NTBs earlier identified and identified new ones. The analysis found that a number of NTBs affect the ability of Kenyan, Ugandan and Tanzanian businesses to export and import. The major related NTBs were reported to fall under government participation in trade and restrictive practices tolerated by governments; customs and administrative entry procedures; sanitary and phytosanitary measures (SPS); technical barriers to trade; and the time and costs involved in accessing trade-related services.

According to *NAIROBI (Xinhua)* -- Kenya has achieved a trade surplus of 1.06 billion U.S. dollars with the rest of its East Africa Community (EAC) members for the financial year ended June, 2012. According to Kenya Revenue Authority (KRA) Commissioner of Customs this figure represents a 19 percent growth over the past financial year when the East African country posted an 886 million dollar surplus. "The EAC Common Market Protocol (CMP) which is now one year old has opened up trade opportunities of the all member countries as intra trade is expanded."The bloc has significantly reduced barriers to cross border trade among the five members' states," Namu said during the first anniversary celebration of the coming into force of the EAC Common Market Protocol. Since the coming into force of the EAC Common market on July 1, 2010 a total of 25,853 certificates of origin have been issued and an additional 3,466 simplified certificates of origin for the informal traders have also been issued as a result of the CMP, said a report from the KRA. The EAC common market protocol requires that imported content of any manufactured goods be less than 60 percent of total for the product to considered a local product and therefore attract less duty compared to merchandise imported from outside the bloc. When the CMP was signed in July last year, Kenya, Uganda, Tanzania, Burundi and Rwanda agreed to prepare an instrument to monitor progress that members are achieving. "Kenya's exports have increased especially in manufactured and processed goods in the food industry, while Tanzania has increased raw products exports into Kenya," (www.kenyalondonnews.org).

The studies thus recommended the need for partner states within EAC and COMESA to consolidate and demonstrate their political and technical goodwill to implement the aspirations of the EAC and COMESA treaties. Emphasis was also placed on the need to build capacity at the coordinating ministries and business associations to enable the NTBs monitoring committee to play its role of facilitating, reporting, monitoring and eliminating NTBs. The studies also recommended the need for harmonization of regional transit traffic schemes aimed at reducing transport and trade facilitation costs in the different countries. This will ensure that transportation within the region becomes more efficient and cost-effective through harmonized transit procedures. This study extended the work by specifically addressing the barriers in the agricultural sector, mainly to beef cattle and maize trade. The current study further quantified the impact of the NTBs on welfare.

Regarding terms of trade if all prices remain unchanged when internal tariffs are eliminated, and if goods are sufficiently strong substitutes then demand for goods from third parties will be reduced and regional trade will increase. However Sloaga and Winers (1999) found out in their analysis of regional blocs that NAFTA, Latin America and European regional trade areas did not offer evidence of a positive effect on intra-regional trade after the signing of regional agreements. Vamvakidis (1998) in analyzing EU, ASEAN, Andean part, CACM and UDEAC blocs using growth regression technique found that only the EU had a positive effect on the growth rates of its members, while for the rest, the impacts in terms of growth were not statistically significant. On the extreme end, regional integration might lead to negative growth if trade diversion occurs with respect to intermediate goods (World Bank 2000). Regional integration schemes in developing countries can be compensated for by the growth of manufacturing encouraged. This becomes in accordance with the Lagos plan for action whereby integration becomes an object to export oriented development rather than import substitution. This induces increase in domestic investment as a rescue of stimulation of capital goods (Redrick, 1995). If regional integration is likely to lead to divergence rather than convergence then development of manufacturing is not possible (World Bank, 2000 and Venables, 1999).

Baldwin (1997) argues that the creation of a regional integration scheme removes the barriers and the risks of marginalizing in the region. The gains from economies of scale can be analysed on the work of Krugman (1991). The theory states that the factors determining location are production costs, the size of the market and access costs. The decision to locate a firm in a particular area is the result of a trade-off between the advantages in terms production costs in that area, the size of the market accessible from the location and the cost of getting access to that market. Krugman (1991) re-emphasizes the importance of economies of scale and economic geography. Deeper economic integration in a particular region could open a window of opportunities to generate the threshold of scales necessary to attract adequate levels of investment for the development of modern manufacturing cores and transfer of technology into the region. Horn, Lang and Lundigren (1999) argue that in addition to reducing the problem of factor and product markets, regional integration could also offer gains from improved internal efficiencies and productivity in the domestic markets, as firms struggle to at least maintain their market shares, less they face eminent closures. In addition, Roberts and Tybout (1996) show that increased openness within the trading bloc reduces price cost margins, which is indicative of competition within the sector.

Recent studies on the impact of regional integration in reducing inefficiencies and raising productivity, however, has raised mixed feelings. Following an earlier study by Smith and Venable (1988), direct gains of up to about 5% of GDP in addition to dynamic growth in the EU, have been reported by Baldwin (1997). Studies on integration arrangement within developing countries, however, do not yield meaningful results, in that potential rather than actual gains were used to assess the competition and scale effects. Hunter, Markusen and Rutherford (1992) constructed a model to simulate the possible effects of NAFTA on Mexico and shows expected increases in large-scale efforts and reduced price margins for firms. This finding concurs with the argument advanced that potential gains could be larger for developing countries than developed countries as far as level and productivity increases are concerned, in addition to increased competition. This is on account of the small size and relatively closed structures in many developing countries, which when opened up through integration, could offer full exploitation of economies of scale and for removing local monopoly power. The gains, however, are just not automatic, in that consistency in terms of policy design and time are required.

Lyakurwa (1997) indicates that many manufacturing activities involve significant economies of scale. However, many developing countries are too small in terms of population and effective demand to be able to exploit fully the economies of scale. Regional integration may allow this to be achieved through increased concentration of manufacturing activities. Therefore, a group of countries may benefit from concentrating their manufacturing activities if economies of scale are large enough relative to intra-regional transport costs. The location in which the concentration takes place might not be necessarily is the same for each sector, though the extent to which it would be desirable to have different centres of concentration for different sectors would depend on the extent of the demand externalities between the sectors. The East African Community (EAC) experience as studied by Hansen (1969) shows that manufacturing got concentrated in Kenya at the expense of Uganda and Tanzania. The latter two lost out on the gains of the East African Common Market. These gains were mainly reaped by Kenya, which took advantage to enhance its position as the industrial centre of the market. Coupled with political differences, this subsequently led to the collapse of the Community in 1977.

Other regional integrations where concentration has been observed include Abidjan and Dakar in the ECOWAS. However, in other cases, such as Europe or NAFTA, factor price differences can create an incentive for industries to relocate in the less developed manufacturing countries. It would seem that interaction between richer countries causes incomes to converge whereas interaction between poor countries causes incomes to widen (Oyejide, 2000). Marshall (1920) attributes this to centrifugal forces while in cases where the industries concentrate could be attributed to centripetal forces. Centripetal forces fall into three groups, namely, spill over externalities, labour market policy effect to draw on skills, and existing markets that bring buyers and sellers together. Centrifugal forces are those that encourage dispersion of activity. These could be on account of congestion, pollution or negative externalities.

What is of interest here is the extent to which regional integration arrangements either promote centripetal or centrifugal forces. The stage of development, which affects the basic industrial infrastructure, could largely determine which force dominates the play. If infrastructure such as transport, telecommunications, financial markets, (trade barriers) is thinly developed and unevenly spread, centripetal forces would tend to agglomerate the industry. There could then be a strong possibility that regional integration between low developed member countries will encourage divergence in income and agglomeration of manufacturing as a result of centripetal forces at play. Centripetal forces will be strongest at high levels of infrastructural trade barriers. Where they are low such as in the European Union, firms will locate where labor costs are cheapest because they can bring in imports at low costs. In this case, factor price differences rather than infrastructural trade barriers begin to play an important role in determining the location.

Consequently, it would appear that in integration agreements that include high wage countries with industrial centres and lower wage countries, chances of intra-bloc incomes converging are fairly high. On the contrary, regional integration between poor member countries where manufacturing is small and business infrastructure is thin, the potential for income divergence exists. In the absence of a transfer mechanism for the countries or firms that are losing out, the chances of a collapse in regional arrangements gets heightened. The East African Community (EAC) experience as studies by Hansen (1969) is a good show case of this, where manufacturing got concentrated in Kenya at the expense of Uganda and Tanzania. This is part of the reason why the earlier EAC collapsed. There is need therefore to see how location effects can be solved so as to avoid integrations that serve interests of particular nations.

2.4 Empirical Review

Since the re-establishment of the EAC, there have been a few studies, using various empirical models that have considered the effects of the agreement including Kirkpatrick and Wantabe (2005), McIntyre (2005) and Busse and Shams (2003).

Kirkpatrick and Wantabe (2005) use a gravity model to analyze the pattern of trade between the three East African countries between 1970 and 2001. The main focus of Kirkpatrick and Wantabe is to examine if regional cooperation has coincided with an increase in the volume of trade. They divide their analysis into three different time periods that coincide with the periods of regional cooperation. The results of the gravity model indicate that the regional trade agreement (RTA) had a positive effect on the intensity of regional trade flows in the 1970's, whereas during the 1980's, the constant level of intra-regional trade reflected the lack of regional integration. Their results are sufficiently robust to support the conclusion that regional trade cooperation can support the expansion of trade between the three economies. Regional cooperation in East Africa has had a positive effect on trade flows between the three countries, with no evidence of trade diversion.

Busse and Shams (2003) and McIntyre (2005) both use ex ante approaches in the analysis of welfare effects. Busse and Shams (2003) use a partial equilibrium model. Their results show that total trade would increase by roughly US $13 million. Trade creation amounts to US $4.5 million and trade diversion to US $8.7 million. The biggest trade effects are seen in Tanzania due to its relatively high intra-EAC tariff rates. For all the three countries, trade diversion exceeds trade creation implying that imports are now from high-cost producers, decreasing net welfare. Kenya is found to profit the most from preferential trade liberalization; however this result is to be expected due to the high export share of Kenyan exports within the EAC. Uganda and Tanzania would gain less from the EAC-CET, but their trade balances would not deteriorate significantly. On average, the trade creation figure is quite small and so this would suggest that the total growth in trade accruing to the EAC will be minimal.

McIntyre (2005) analyzes the potential trade impact of the EAC customs union and the extent to which the common external tariff (CET) will liberalize their trade regimes. The paper provides simulations to determine the impact of the CET on Kenya. McIntyre uses a static partial equilibrium model using a simulation known as SMART. McIntyre finds that trade creation is the dominant effect of the EAC CET. Preliminary evidence shows that the EAC customs union will have positive trade benefits for Kenya since the EAC CET will allow for increased flows of cheaper extra-regional imports that will likely lower consumer prices with positive welfare effects28. Overall, the simulation results show an increase in trade of $193.5 million with trade creation at $193.9 million and trade diversion at $0.3 million. While these results are larger than those found by Busse and Shams (2003); the figures are still small relative to the trade that these countries carry out with the rest of the world. This suggests that while the increase in the volume of intra regional trade is desired, the dynamic effects of regional integration such as improved infrastructure, governance and promotion of investment are of more importance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlined the manner in which data was collected and sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. Specifically the following subsections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

The study adopted a descriptive research design. According to Cooper and Schindler (2003), a descriptive research design is concerned with finding out the what, where and how of a phenomenon. This study sought to find out the effect of EAC common market on cross-border business.

3.3 Target Population

Mugenda and Mugenda (2003) define population as the entire group of individual's, events or objects having a common observable characteristic. Mugenda and Mugenda (2003) further defines target population as that population the researcher studies, and whose findings are used to generalize to the entire population. The target population for this study comprised of 407 members of KAM who were involved in cross-border business.

3.4 Sampling

Orodho and Kombo (2002) defines sampling as the process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group. The researcher sampled 41 respondents from the accessible members of KAM. The sample composed of 10% of the target population. Mugenda and Mugenda (1999) suggest that a good sample is about 10% -30% of the target population.

3.5 Data Collection

The study used both primary and secondary data for the purpose of investigating the effects of the EAC on cross border trade with Kenya. Primary data was collected using a questionnaire while secondary data was obtained from annual reports of the EAC and other publications.

Data collection involved a self-administered questionnaire. The questionnaire was designed in line with the objectives of the study. To enhance quality of data to be obtained, Likert type questions were included whereby respondents indicated the extent to which the variables are practiced on a five point Likerts scale. The structured questions were used in an effort to conserve time and money as well as to facilitate easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information. The questionnaire was administered using a drop and pick later method. The researcher dropped the questionnaires physically at the respondents' place of work. The researcher left the questionnaires with the respondents and picked them up later.

3.6 Validity and Reliability

The researcher carried out a pilot study to pretest the validity and reliability of data that collected using the questionnaire. According to Berg and Gall (1989) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study is a measure of the degree to which data that will be collected using a particular instrument represents a specific domain or content of a particular concept.

According to Shanghverzy (2003) reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method. Reliability was increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. Nunnally (1978) stated that reliability of a research instrument can be indicated at a minimal Alpha value of 0.6.

The researcher selected a pilot group of 5 members from the target sample. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents was necessary so as to enhance the instrument's validity and reliability. The aim was to correct inconsistencies arising from the instruments, which ensured that they measure what is intended. The pilot data was not included in the actual study.

3.7 Data Analysis and Presentation

This study employed descriptive statistics to analyses the data obtained. Descriptive statistics involved the collection, organization and analysis of all data relating to the sample under study. For quantitative data, editing was done to ensure that the data is free from inconsistencies and any incompleteness. After editing the data was coded by developing a code sheet that was pretested to verify the coded data. For qualitative data, content analysis was used as an analysis process. These entailed identification of the main themes, classification of the main themes and assigning of codes. The data collected was summarized and subsequently analysed both qualitatively and quantitatively using Statistic Packaging for Social Science (SPSS).The data was classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables. Tables were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports for this study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

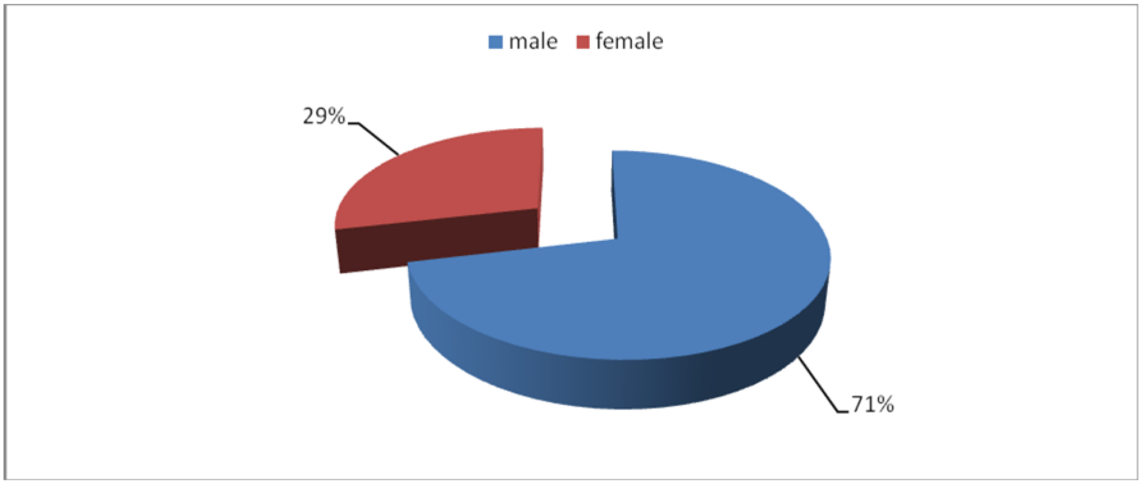
This chapter presents the findings of the study, analysis and discussions of the data as set out in the research methodology and research objective on the effects of East African Common Market on cross border business for Kenya Association of Manufacturers' members. The data was gathered exclusively using a questionnaire as the research instrument which was designed in line with the objectives of the study.

The study targeted a total of 41 members of KAM out of which 28 respondents by filled in and returned the questionnaire giving a response rate of 68%. This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.2 Demographic Information

The study aimed at establishing the gender distribution of the respondents. According to the findings in figure 4.1 below, most of the respondents were male at 71 % while their female counterparts were very few at 29%. This finding clearly shows that most of the members of KAM are male hence need for gender balance.

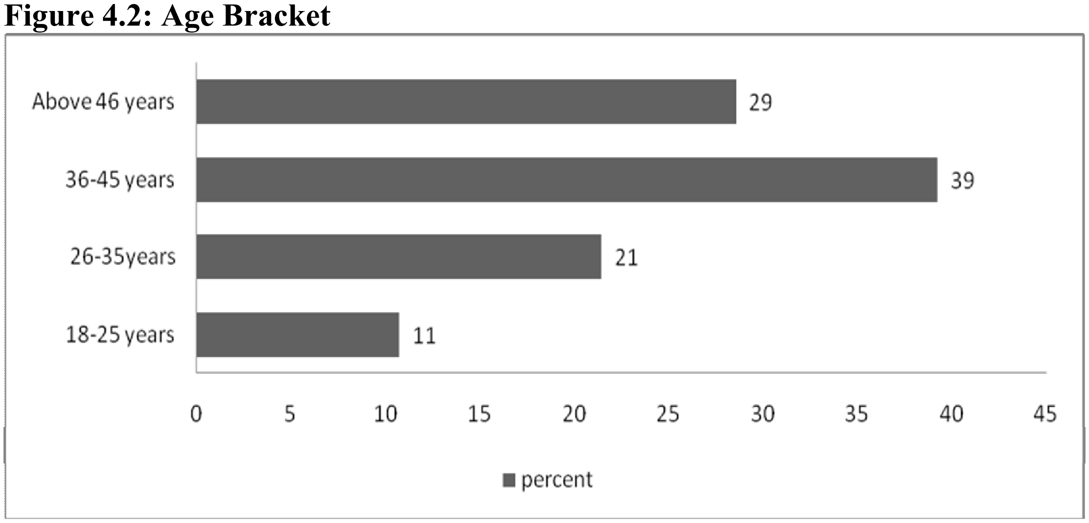
Figure 4.1: Gender of the Respondents



Source :(Research Findings, 2012)

On the age bracket of the respondents, the study established that majority (39%) of the respondents were aged between 36-35 years followed by those aged above 46 years at 29% while those aged between 26-35 years and 18-25 years recorded 21% and 11% respectively as shown in figure 4.2 below.

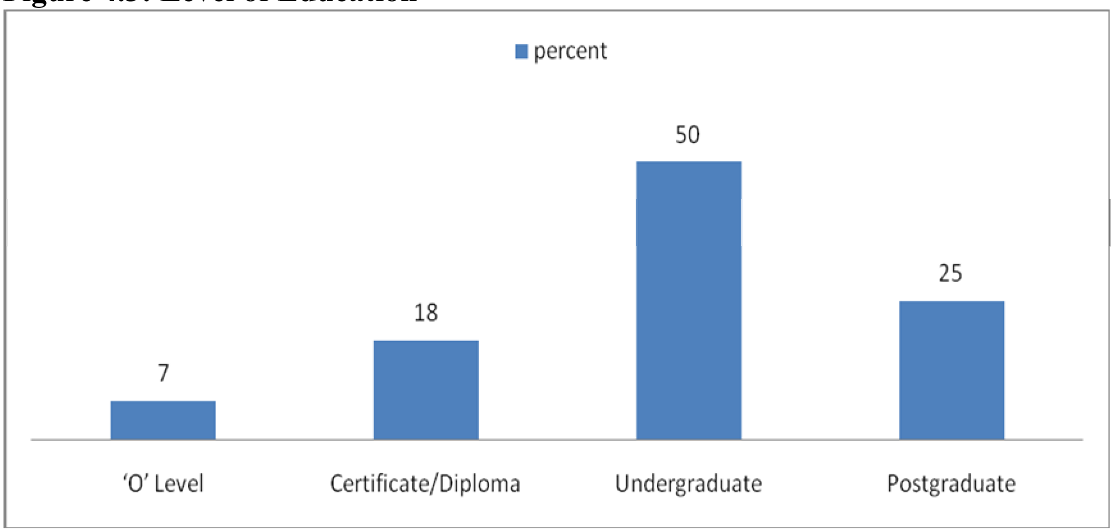
Figure 4.2: Age Bracket



Source :(Research Findings, 2012)

In addition, the study sought to determine the respondents' level of education. From the findings shown in the figure 4.3, 50% of the respondents were undergraduates, 25% were post graduates, and 18% had certificate/diploma whereas 7% had 'O' levels as illustrated in figure 4.3 below. This implies that majority of the respondents were educated hence understood what the study required.

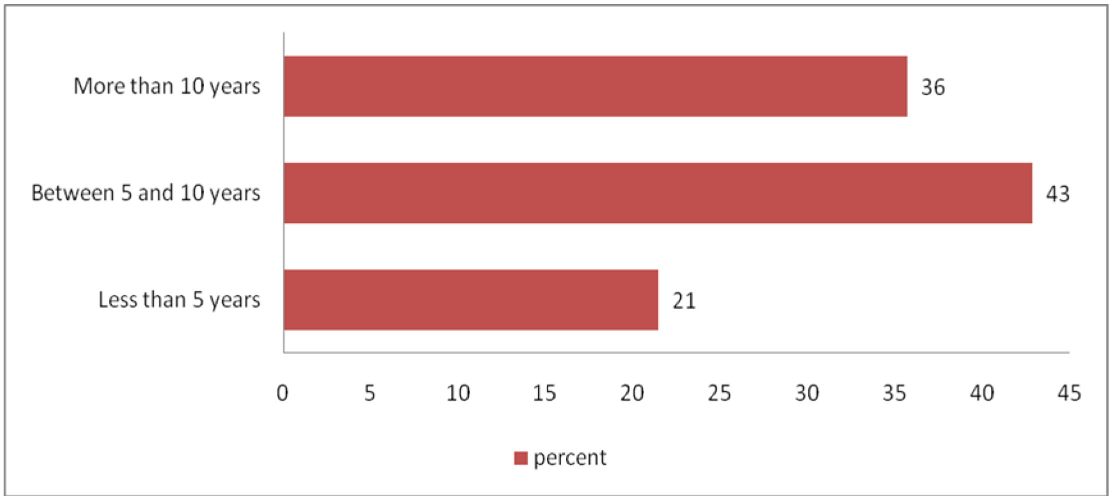
Figure 4.3: Level of Education



Source :(Research Findings, 2012)

The study also sought to establish the period the respondents had worked in the organization. The findings revealed that 43% of the respondents had worked in the organization for a period of 5-10 years followed by those who had worked for more than 10 years at 36% while 21% had worked in the organization for less than 5 years as indicated in figure 4.4 below. This means that most of the respondents had worked in the organization long enough thus able to give relevant and adequate data for the study.

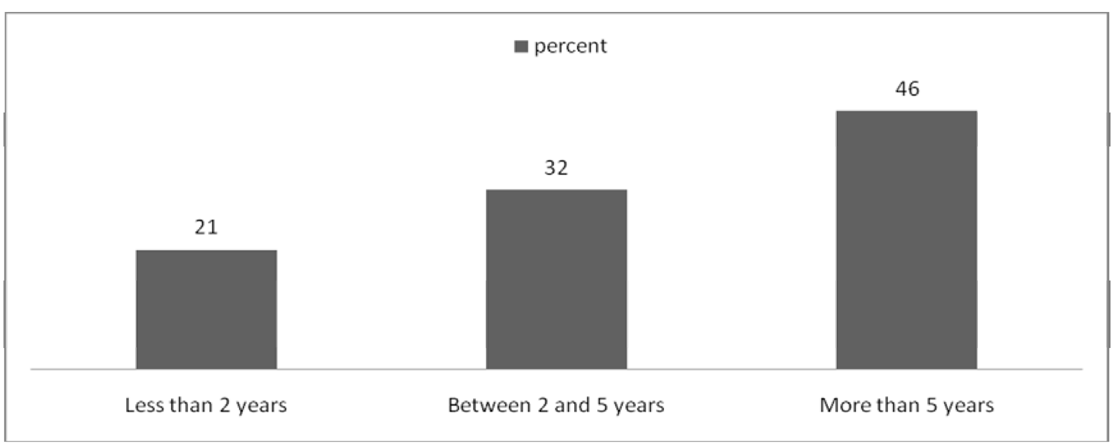
Figure 4.4: Period Worked in the Organization



Source :(Research Findings, 2012)

The respondents were also required to indicate the period the organization had been involved in cross border trade. From the findings in figure 4.5 below, most organizations had been involved in cross border trade for more than 5 years, 32% had participated in cross border trade for a period of 2-5 years and 21% had been involved in cross border trade for less than 2 years.

Figure 4.5: Period the Organization Had Been Involved In Cross Border Trade

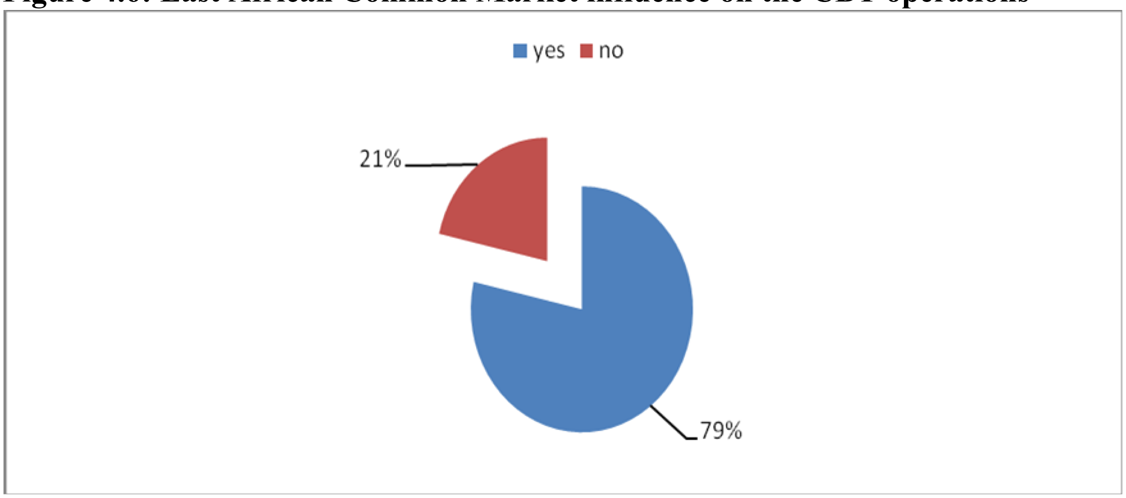


Source :(Research Findings, 2012)

4.3 Effects of East African Common Market on Cross Border Business

The study required the respondents to indicate whether the strengthening of trade relations among E. African States through the East African Common Market had influenced the CBT operations of the manufacturing Company. According to the findings, 79% of the respondents said yes while 21% said no as shown in figure 4.6 below.

Figure 4.6: East African Common Market influence on the CBT operations



Source :(Research Findings, 2012)

The study further sought to establish whether the cross border trade which the respondents engaged in was formal or informal. From the responses collected, majority of the firms contacted conducted formal cross border trade while a minority engaged in formal cross border trade with the help of middlemen. The respondents indicated that despite the regional agreements and market reforms which have to a large extent minimized exchange controls and commodity movement restrictions especially within the east African common market, inappropriate policies and other restraints on trade still inhibit formal trade linkages and tend to distort relative prices in the factor/product markets thereby enhancing the thriving of informal trade. This encourages all forms of unofficial cross-border trade, to the detriment of food security and faster economic growth.

The respondents were further required to indicate the effects of cross border trade to their businesses. From the research findings, the study established that the cross border trade had enormous effects on the respondents businesses.

On the extent to which EAC common market had influenced the kind of goods the respondents traded across the border, the findings revealed that 39% of the respondents cited that EAC common market had influenced the kind of goods the respondents traded across the border to a great extent, 29% said to a very great extent, 14% noted to a moderate extent, 11% said to a little extent and 7% indicated to no extent as illustrated in table 4.1 below.

Table 4.1: Influence of EAC Common Market on Kind of Goods Traded Across the Border

	Frequency	Percent
Very great extent	8	29
Great Extent	11	39
Moderate extent	4	14
Little Extent	3	11
No extent	2	7
Total	28	100

Source :(Research Findings, 2012)

On the extent to which the respondents agreed with the statements about the impact of the EAC on Cross Border Trade among KAM members, the findings in table 4.2 below shows the respondents strongly agreed that regional trade agreement (EAC) had a positive effect on the intensity of regional trade flows as shown by a mean of 4.554 and std. deviation of 0.6811; regional trade cooperation through EAC supported the expansion of trade between the three economies hence increasing CBT at a mean of 4.710 and std. deviation of 0.5389. Deeper economic integration such as the EAC could open a window of opportunities to generate the threshold of scales necessary to attract adequate levels of investment for the development of modern manufacturing cores and transfer of technology into the region hence CBT was increased in such regions as shown by a mean of 4.690 and std. deviation of 0.6415.

Similarly, they agreed that with EAC, total trade would increase by roughly US $13 million; trade creation would amount to US $4.5 million and trade diversion to US $8.7 million which would attract more CBT at a mean of 4.235 and std. deviation of 0.8712; with EAC, trade diversion exceeded trade creation implying that imports are from high-cost producers, decreasing net welfare and increasing Formal CBT as indicated by a mean of 4.367 and std. deviation of 0.7308; Regional integration such as EAC might lead to negative growth if trade diversion occurred with respect to intermediate goods at a mean of 4.283 and std. deviation of 0.7932; regarding terms of trade, if all prices remained unchanged when internal tariffs are eliminated, and if goods were sufficiently strong substitutes then demand for goods from third parties would be reduced and Cross Border Regional trade increased at a mean of 4.429 and std. deviation of 0.7126; if regional integration (EAC) was likely to lead to divergence rather than convergence then development of manufacturing is not possible at a mean of 4.296 and std. deviation of 0.7811.

Table 4.2: Statements about the Impact of the EAC on Cross Border Trade among KAM Members

	Mean	**Std. deviation**
The regional trade agreement (EAC) has a positive effect on the intensity of regional trade flows	4.554	0.6811
Regional trade cooperation through EAC will support the expansion of trade between the three economies hence increasing CBT	4.710	0.5389
With EAC, total trade would increase by roughly US $13 million; trade creation amounts to US $4.5 million and trade diversion to US $8.7 million which will attract more CBT	4.235	0.8712
With EAC, trade diversion exceeds trade creation implying that imports are now from high-cost producers, decreasing net welfare and increasing Formal CBT	4.367	0.7308
Regional integration such as EAC might lead to negative growth if trade diversion occurs with respect to intermediate goods	4.283	0.7932
Regarding terms of trade if all prices remain unchanged when internal tariffs are eliminated, and if goods are sufficiently strong substitutes then demand for goods from third parties will be reduced and Cross Border Regional trade will increase	4.429	0.7126
If regional integration (EAC) is likely to lead to divergence rather than convergence then development of manufacturing is not possible	4.296	0.7811
Deeper economic integration such as the EAC could open a window of opportunities to generate the threshold of scales necessary to attract adequate levels of investment for the development of modern manufacturing cores and transfer of technology into the region hence CBT is increased in such regions	4. 690	0.6415

Source :(Research Findings, 2012)

4.4 Impact of East African Community on the profitability of Kenyan Firms

The study sought to establish how Kenyan businessmen exporting goods and services to the East African community had benefited following the signing of the East African Common market treaty. From the research findings, the study established that the Cross border trade for Kenyan businessmen did not just benefit them alone but also strengthened local production, and fosters service provision within the country such as storage facilities, transportation, and ancillary services in local bazaars. The respondents indicated that cross border trade promoted economic development of Kenya by increasing the employment level in the country as the production levels increased. In addition, the respondents indicated that cross border trade facilitated further economic development by increasing the market share of the Kenyan produce. As opposed to the initially constrained market share which in some instances caused underproduction in some industries, the signing of the East African Common market treaty broadened the market for Kenya companies' products. With increased market for their products, the companies embarked on producing more.

Cross border trade also lowers import prices of goods available to consumers in bordering areas as compared to the absence of cross-border flows, prices and price differentials would be higher and enables exporters to benefit from higher value-added. Cross border trade has enabled the companies to increase their sales level hence increasing the profitability as the higher prices charged following the import export restrictions are lifted with the introduction of the Common market. The respondents indicated that with the expanded sales levels, their profitability increased. However, for some respondents, the reverse happened as they complained of increased competition on their businesses from traders in other East African market. Imported products introduced in the market increased the level of competition hence reduced profitability.

The study also established that with the introduction of East African Common market, the cost of doing business had drastically reduced following the scrapping of some charges initially levied on some goods and services imported. The respondents indicated that it became cheaper and convenient especially as it encouraged labour mobility which is important for companies offering services like audit and tax advisory. With the reduced cost of doing business and the expanded market, the businesses were more profitable than before.

The study sought to establish the influence of cross border trade on the production levels of respondents' organizations. From the research findings, the respondents posted mixed reaction although a majority indicated that production levels increased so as to meet the expanding needs of the EAC market. For those who felt otherwise, they indicated that their business had suffered severe competition from imports coming into the country illegally outside the agreed terms. Some of the respondents indicated that their businesses were almost brought to a standstill as other EAC member countries did not control imports of their competing commodities.

The study sought to establish the influence of EAC on the competition levels. From the research findings, the respondents indicated that EAC had increased competition for a few members though the majority felt that the move increased their competitiveness and market shares in the new expanded markets.

4.5 Discussions of the Study

From the data analysis presented above, it is evident that the effects of East African Common Market on cross border business for Kenya Association of Manufacturers' members were many. Trade between the EAC member countries is carried out both through formal and informal sectors. These findings are in agreement with the findings of Ackello-Ogutu and Echessah (1997) who established that formal and informal trade among the three former EAC members accounted for over 95% of trade in livestock and up to 60% of trade in staple grains.

The findings of this study are also consistent with the findings of Baldwin (1997) who argues that the creation of a regional integration scheme removes the barriers and the risks of marginalizing in the region. Following the signing of new East African treaty in 2008, the Kenya Association of manufacturers Members have benefited a lot. The trading barriers and tariffs initially imposed on imports were either removed or reduced to promote import trade. This served to promote business growth and profitability of KAM members. This economic integration in East African region opened a window of opportunities to generate the threshold of scales necessary to attract adequate levels of investment for the development of modern manufacturing cores and transfer of technology into the region as firms set up subsidiary offices and branches within East African region as they deemed fit.

The formation of EAC trading block improved efficiencies and productivity of some KAM members. This is because the organizations were free to set up their businesses anywhere within the region where they considered the trading environment to be favorable to them. These findings are consistent with those of Horn, Lang and Lundigren (1999) who argue that the formation of that in addition to reducing the problem of factor and product markets, regional integration could also offer gains from improved internal efficiencies and productivity in the domestic markets, as firms struggle to at least maintain their market shares, less they face eminent closures.

Cross border trade between Kenya and other EAC countries created economies of scale for KAM members because they were initially limited in the marketing of their output. Lack of trading block reduced their market to country boundaries with high importation charges if they were to export to other countries. However, with the introduction of EAC market, the market was expanded thus leading to economies of scale and full capacity utilization for some plants. These findings are consistent with those of Lyakurwa (1997) who indicates that many manufacturing activities involve significant economies of scale. However, many developing countries are too small in terms of population and effective demand to be able to exploit fully the economies of scale. Regional integration may allow this to be achieved through increased concentration of manufacturing activities. The East African Community (EAC) experience as studied by Hansen (1969) shows that manufacturing got concentrated in Kenya at the expense of Uganda and Tanzania because of the favorable business condition set up by the Kenyan Government.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter present the summary of key data findings, conclusions drawn from the findings highlighted and recommendations that were made. The conclusions and recommendations drawn were in quest of addressing research objectives of determining the effects of East African Common Market on cross border business for Kenya Association of Manufacturers' members.

5.2 Summary of the Findings

The study targets a total of 41 members of KAM out of which 28 respondents by filled in and returned the questionnaire giving a response rate of 68%. 71 % of those who responded were male while 29% were female. 39% of the respondents were aged between 36-35 years followed by those aged above 46 years at 29%. On education, 50% of the respondents were undergraduates, 25% were post graduates, and 18% had certificate/diploma whereas 7% had 'O' levels. On period worked with their current organizations, 43% of the respondents had worked in the organization for a period of 5-10 years followed by those who had worked for more than 10 years at 36% while 21% had worked in the organization for less than 5 years. Most organizations had been involved in cross border trade for more than 5 years, 32% had participated in cross border trade for a period of 2-5 years and 21% had been involved in cross border trade for less than 2 years

Majority of the firms contacted conducted formal cross border trade while a minority engaged in formal cross border trade with the help of middlemen. From the study, the regional agreements and market reforms did to a large extent minimize exchange controls and commodity movement restrictions especially within the east African common market, inappropriate policies and other restraints on trade still inhibited formal trade linkages and tended to distort relative prices in the markets thereby enhancing the thriving of informal trade.

The cross border trade promoted economic development of Kenya by increasing the employment level in the country as the production levels increased. It also facilitated further economic development by increasing the market share of the Kenyan produce. As opposed to the initially constrained market share which in some instances caused underproduction in some industries, the signing of the East African Common market treaty broadened the market for Kenya companies' products. The introduction of East African Common market led to a reduction in business operational costs following the scrapping of some charges initially levied on some goods and services imported. The EAC increased competition for a few members though the majority felt that the move increased their competitiveness and market shares in the new expanded markets.

5.3 Conclusions of the Study

From the findings, the study concludes that Kenya Association of manufacturer members greatly benefited from cross border trade. They experienced expanded market which led to utilization of full capacity for those that were producing below capacity following market constraints. This meant that they could now utilize their full potential in the production process hence increased profitability. The sales turnover for the firms increased tremendously following the reduced exportation costs as the tariffs were harmonized within the trading block.

The study also concludes that EAC trading block improved efficiencies and productivity of some KAM members. Many organizations were free to set up their businesses anywhere within the region where they considered the trading environment to be favorable to them without incurring high costs. The EAC ensured human capital mobility within the region which meant that the high costs of human capital movement within the region were reduced.

5.4 Limitations of the Study

Being that this was a study on members of Kenya Association of manufacturers; the data gathered might differ from the effects of East African Common Market on cross border business for other business which are not members of KAM. This is because the KAM members are organized and have their welfare being overseen at a central location thus clearly articulating their demands and challenges to the Government.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on the effects of East African Common Market on cross border business for Kenya Association of Manufacturers' members. The study relied purely on responses from the respondents and did not visit the firms to observe the realities. Due to limited time the study could not collect information through observation of the projects over a period of time to assess the performance. The study, however, minimized these by collecting information from all stakeholders in Nairobi area.

5.5 Suggestions for Further Research

The study recommends that further research should be done on the strategies employed by exporters to ensure successful export of products within East African Community. This will elicit the challenges that exporters regardless of their country of origin face in their exports to the East African Community. The study should assess what needs to be done to make East African Community the most preferred area for foreign direct investment.

The study further recommends that a similar study should be done to investigate determining the effects of East African Common Market on cross border business for Association of Manufacturers' members for all the EAC member countries for the purposes of benchmarking hence allow for generalization of the findings on all Association members in the EAC countries. With a wider coverage study, it would be easy to generalize the findings to all countries in the community.

5.6 Recommendations for Policy and Practice

The Government and policy makers should use this study to develop policies and guidelines that promote Kenya's position on the EAC market. The government should use the findings of this study in negotiating with other EAC member countries on trading conditions including tariffs and quotas to ensure that Kenya businesses have access to a wider market area.

To the KAM members, the findings of this study are important in bringing out the major contributions of the EAC to their current performance. They would use the findings this study in their decisions to expand their market beyond Kenya and EAC. The findings of this study may form a basis for expansion to other countries.

Researchers and academicians should make use of this study as a basis upon which further studies on the effects of East African Common Market on cross border business. The findings should contribute to professional extension of existing knowledge on cross border trade by providing literature on the effects of East African Common Market on cross border business.

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APPENDICES

Appendix I: Questionnaire

SECTION A: BIO DATA

You are requested to fill out your personal information in the spaces below. Please tick only one response.

1. Gender

   Male ( ) Female ( )

2. What is your age?

   18-25 years ( ) 26-35years ( )

   36-45 years ( ) Above 46 years ( )

3. Highest Level of education

   ‘O’ Level ( ) Certificate/Diploma ( )

   Undergraduate ( ) Postgraduate ( )

4. Name of the organization…………………………………………….
5. How long have you worked with this organization?

   Less than 5 years ( )

   Between 5 and 10 years ( )

   More than 10 years ( )

6. How long has your organization been involved in Cross Border Trade?

   Less than 2 years ( )

   Between 2 and 5 years ( )

   More than 5 years ( )

SECTION B: MAIN ISSUES

EFFECTS OF EAST AFRICAN COMMON MARKET ON CROSS BORDER BUSINESS FOR KENYA ASSOCIATION OF MANUFACTURERS' MEMBERS

1. Has the strengthening of trade relations among E. African States through the East African Common Market influenced the CBT operations of this manufacturing Company?

   Yes ( ) No ( )

2. Is the CBT your manufacturing company involved in Formal or informal?

3. Are the effects positive or Negative to your business? Explain your answer.

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4. To what extent has the EAC common market influenced the kind of goods you trade across the border?

   To a very great extent ( )

   To a great Extent ( )

   To moderate extent ( )

   To a little Extent ( )

   To no extent ( )

5. Outline some of the changes to your CBT that have been necessitated by the rise of the EAC common market?

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6. To what extent do you agree with the following statements about the impact of the EAC on Cross Border Trade among KAM members? Use a likert scale of 1-5 where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree.

Impact of the EAC on Cross Border Trade	**1**	**2**	**3**	**4**	**5**
The regional trade agreement (EAC) has a positive effect on the intensity of regional trade flows					
Regional trade cooperation through EAC will support the expansion of trade between the three economies hence increasing CBT.					
With EAC, total trade would increase by roughly US $13 million; trade creation amounts to US $4.5 million and trade diversion to US $8.7 million which will attract more CBT.					
With EAC, trade diversion exceeds trade creation implying that imports are now from high-cost producers, decreasing net welfare and increasing Formal CBT.					
Regional integration such as EAC might lead to negative growth if trade diversion occurs with respect to intermediate goods					
Regarding terms of trade if all prices remain unchanged when internal tariffs are eliminated, and if goods are sufficiently strong substitutes then demand for goods from third parties will be reduced and Cross Border Regional trade will increase.					
If regional integration (EAC) is likely to lead to divergence rather than convergence then development of manufacturing is not possible					
Deeper economic integration such as the EAC could open a window of opportunities to generate the threshold of scales					

necessary to attract adequate levels of investment for the development of modern manufacturing cores and transfer of technology into the region hence CBT is increased in such regions.					

7. Explain in your own words the impact of the EAC on the profitability of the of your company in terms of CBT.

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8. How has the quantity/ level of production of Cross Border trade involved in by this company been influenced by the re-establishment of the EAC?

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9. Outline some of the challenges this manufacturing company encounter in its efforts to engage in Cross Border Trade (CBT)?

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10. Explain how the re-establishment of the EAC has influenced competition in the CBT business environment?

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