

Declaration

**THE PERCEIVED EFFECT OF EAST AFRICAN COMMUNITY  
CUSTOMS UNION ON THE FOOD AND BEVERAGE  
MANUFACTURERS IN KENYA**

by

**Odera, C.O.**

**A management Project submitted in partial fulfillment of the Degree of Masters of  
Business Administration of the University of Nairobi**

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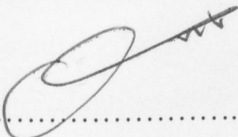


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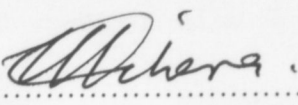
## Declaration

This research project is dedicated to my dear wife, Carolyn, for her support and  
This project is my original work and has never been submitted for a degree in any university.  
and Dad, Vitalice for they always encouraged me to pursue a higher degree.

Signed.....  
Odera, C. O.

Date.....06.12.05.....

The project has been submitted for examination with my approval as the University  
supervisor.

Signed.....  
Prof. Kibera, F.N.

Date.....6/12/05.....

Department of Business Administration, University of Nairobi.

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There are many people who have contributed to this project. I am thankful to all of them. However, there are two people who contributed so immensely that I cannot help singling them out for special thanks. The first one is Professor F.N. Kibera who dedicated a lot of time reviewing and correcting the project to ensure it was near perfect before I could present it for examination. The other person is my wife Carolynne who always encouraged me to push ahead and complete the programme at times when the work pressure and tight international travel schedules were almost weighing me down. Last but not least I would like to thank the entire Business Administration staff of the University of Nairobi for their contribution in ensuring this project became a reality.

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The population of interest comprised all the 100 members listed under Food and Beverage Sector of the Kenya Association of Manufacturers (KAM). A semi-structured self-administered questionnaire was used to gather the data. Out of the 100 firms that were given the questionnaires 62 firms responded.

The study established that although most of the company executives were aware of EACCU only around 11 percent were well versed with the protocol. Another approximately 60 percent were just knowledgeable while approximately 30 percent were not knowledgeable at all. The study also found that there was no strong correlation between level of awareness

## Abstract

Negotiations to set up a Customs Union for East African Countries namely Kenya, Tanzania and Uganda began in 2000 after the collapse of the original Community in 1977. The former Community collapsed mainly due to intra-community political differences and the growing feeling among the partner states that Kenya was overly benefiting from the shared and jointly owned services at their expense.

Subsequent meetings of the three heads of states led to the signing of the East African Community Customs Union (EACCU) Protocol on March 2, 2004 in Nairobi Kenya. The Customs Union became effective on January 1, 2005. In Kenya the implementation of the Customs Union was met with mixed feelings among the manufacturers. Some firms were optimistic while others were pessimistic of the outcome. It is these conflicting views that led to the undertaking of this research project in order to investigate the perceived effects of the EACCU on the food and beverage manufacturers in Kenya.

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knowledge, and satisfaction with the EACCU protocol. Overall, the results of the study indicated that a majority of companies perceived EACCU positively.

## INTRODUCTION

As may be expected, this study also had its limitations. It was limited to the food and beverage sector and the perceptions of the other manufacturing sectors may not necessarily be the same. The views of those who did not return the questionnaire (n=38) are also not known. In addition the current study focused on perceptions. The actual results after the implementation of the protocol may be different.

Similar studies should therefore be conducted on the other manufacturing sectors so as to compare the results. Studies should also be carried out in the other sectors of the economy in order to enhance empirical knowledge of this important area of Kenya's socioeconomic fabric.

The study has got implications to the food and beverage manufacturers, the government, KAM and the academicians. To the food and beverage sector it is now clear that the Customs Union is perceived positively by the manufacturers and therefore more investments are likely to be undertaken in this sector. To the government, it means that their negotiations towards the formulation of the protocol did not go in vain. More investments are likely to come in and of course more revenues and job opportunities created. To KAM, it has been revealed that only 11% of the sector thoroughly understands the protocol. Increased stakeholder education and sensitization need to be done to improve members understanding. To the academicians this should be a launching pad for further research on this dimension of the East African Community.



## CHAPTER 1

### INTRODUCTION

#### 1.0 Background

Over the years nations have made several attempts to form economic groupings. Those attempts have resulted in several forms of economic co-operation. The rationale for regional economic grouping can be said to be the need for larger markets for the goods of member countries, facilitation of a more efficient division of labour among the countries forming the groupings and faster and more efficient economic development which leads to the improvement of the standard of living of the people living in member states (Kibera, 1998).

Creating regional trading areas is an increasingly popular approach to reducing trade barriers. For example, in 1988 a free trade agreement between the United States of America and Canada called for removal of all trade restrictions between the two countries (Taylor, 1999). Regional trading areas have some advantages over multilateral approaches. First, fewer countries are involved so the negotiations are easier. Second, regional political factors can help offset protectionist pressures. For example, the political goal of European unity helped establish grass root support to reduce barriers among countries of Europe.

Five increasing levels of regional economic integration can be distinguished with each succeeding level of integration involving greater cooperation among the member countries. The levels are Free Trade Area, Customs Union, Common Market, Economic union and Political Union (Ball, 1996). The first level, the Free Trade Area involves elimination of tariffs on trade among the member countries while retaining their original tariffs against the rest of the world. The Customs Union involves the elimination of tariffs among member countries while establishing a Common External Tariff. The Common Market, the third level of integration, is a Customs Union with free movement of factors of production (labour and capital). The next level is Economic Union which is a common market with a unified monetary and fiscal policy. To a large degree, national governments participating in an economic union relinquish control over national economic policy to the group. The

European Union (with the Euro as the common currency) is a good example of an economic union. The last level of integration is a Political Union. Under Political Union all economic policies are unified and member states cease to be separate entities. Examples include United States of America, Canada and the former Soviet Union.

Uganda, Kenya and Tanzania signed a treaty in 1999 to re-establish the East African Community after the original community collapsed in 1977 (East African Community Secretariat, 2004). The former community collapsed due to intra-community political disagreements on the sharing of benefits from the jointly owned common services, and lack of policy to redress the situation, among other reasons.

Negotiations to set up a Customs Union (CU) began in 2000. Under the deal, tariffs among the three countries were to be phased out in five years. The East African Community Customs Union (EACCU) Protocol was signed in Nairobi in March 2, 2004 by the heads of the three partner states. Under this protocol the tariff band was classified into three: raw materials, semi-finished goods and finished goods attracting common external tariff (CET) of 0%, 10% and 25% respectively. At the same time because Kenya is perceived to be more developed than Tanzania and Uganda, the rule of asymmetry was applied with respect to goods originating from Kenya in such a way that goods from Kenya to either partner state would attract internal tariff on a declining balance in the next five years while goods from the two partners to Kenya or among themselves was to attract no tariff. After the initial five year period, the Community will become a full fledged customs union with goods from all the three member countries attracting no tariffs. The EACCU came into effect on January 1, 2005.

### **1.1 Statement of the Problem**

With the establishment of EACCU, the three partner states with a combined population of 90 million people and a gross domestic product of approximately USD 30 billion hope to start pooling their resources together and take advantage of their combined larger market. However, in Kenya, there are conflicting concerns regarding the perceived effects of the

EACCU on the Manufacturing sector with some industries predicting loss of business while others predicting improved sales by the end of five year period when all Kenyan exports will also be duty free. Some examples of the conflicting views that have hit the local dailies in the recent past include the following.

The Kenya Association of Manufacturers (KAM) wants the government to introduce measures that will cushion companies from the effects of the EACCU. The KAM chairman has said that the measures were important because Kenya has been forced to for-go some of the benefits it used to enjoy before the EACCU became effective (The standard Business news, January 1, 2005). At the same time, Uganda's introduction of a new list of 174 industrial inputs which she wants to attract zero duty under Common External Tariff (CET) has caused disquiet among Kenyan Manufacturers. Uganda is also demanding that Kenya opens her market to duty free Ugandan goods while at the same time locking certain Kenyan products from Uganda. Kenya industrialists have officially protested to the EAC Council of Ministers. If Uganda's request is met, they argue, Kenya which has a higher volume of trade than Uganda, will be the loser (The EastAfrican, January 10-16, 2005).

On the other hand, the Chairman of East African Business Council (EABC), says EABC has welcomed the removal of internal tariffs and the implementation of the of the CET calling it a "visionary" move by the three East African heads of States. He adds that the region has now become an attractive investment destination (The Standard Business News, January 11, 2005).

Anecdote evidence from individual industries also reveals mixed reactions. For instance, the used motor vehicles attract a 55 percent duty divided into 35 percent normal duty and an additional surcharge of 25 percent. Under the new CET, the highest tariff the government can impose on imports is only 25percent. While this policy gives an advantage to the second hand motor vehicle importers, it also leads to loss of protection to the local vehicle assemblers. The Kenyan manufactures of tyres and tubes such as Firestone East Africa stand to lose their protection. Under the current tariff regime, tyres for motor vehicle attract duties at 35 percent. This will have to be brought down by 10 percent to arrive at the CET rate of

25percent. The Webuye-based paper manufacturer, Pan African Paper Mills will also be affected. The current 35 percent duty on paper will drop to 25 percent. Local manufacturers of consumer goods will also be affected as duties on majority of fast moving consumer goods will go down from the current level of 25 percent. The goods included in this category are cooking oils, tinned foodstuffs and electrical goods. Duty on intermediate goods such as chemicals, wood products, non-lubricating oils, photographic paper and newsprint will also drop by 10 percent (The Daily Nation Business Week, Tuesday January 11, 2005)

On the other hand, ROB'S Magic, dealers in motor vehicle spare parts and fleet maintenance, has welcomed the enactment of EACCU. The company's managing director, said the protocol was a big relief as it marked the end of a 15year period of unfavourable tax structure that had almost brought Rob's Magic to its knees (The Standard Business News, January 6, 2005). Rob's Magic projects 30 percent growth in business over the next couple of years following the implementation of the customs union deal. Another firm that has welcomed the EACCU is BOC gases, The managing director says their company will fully exploit the opportunity to grow its sales (The Daily Nation Business News, January 21, 2005). The other company which is upbeat about the EACCU is General Motors. The company's chairman and managing director has said that the expanded market has opened new opportunities for General Motors saying that their locally assembled vehicles will enjoy lower duty from 15 to 7 percent entry into Uganda and Tanzania (The Daily nation business news, January 14, 2005).

Another area of concern to the manufacturers regarding the EACCU is fear of dumping. Concerns over dumping of foreign products in the East African Customs Union have elicited debate on the rules of origin to be applied in the EACCU with concerns being expressed that the regions agricultural and industrial sector may be flooded with goods from the wider Southern Africa area. Inherent in the fears are the parallel memberships of Kenya and Uganda in the Common Market for Eastern and Southern Africa (COMESA) and that of Tanzania in Southern Africa Development Community (SADC), from which partner states may source materials at preferential rates and pass them on as theirs for trade within East Africa.

in East Africa and this study is among the first to be carried out regarding its perceived effects. Given that the Customs Union is a relatively new development in East Africa, a lot is being said about the perceived effects of EACCU on the Kenyan manufacturing industries but no empirical study has so far been done to find out how various industries are likely to be affected. In order to address this knowledge gap, the study sought to survey the effects of EACCU on the food and beverage industry which accounts for over 50% of Kenya's exports during the 1999- 2003 period (Economic Survey, 2004).

## **1.2 Objectives of the study:**

The objectives of the study were:

1. to assess Kenya's food and beverage manufacturers' level of awareness and knowledge of EACCU protocol.
2. to determine level of satisfaction of Kenya's food and beverage manufacturing industry with the EACCU protocol.
3. to assess the relationships between levels of awareness/knowledge and satisfaction with EACCU, and organisational demographics of Kenya's food and beverage enterprises.

## **1.3 Importance of the Study**

Many stakeholders including the academicians, the manufacturing sector, the Government, the foreign investors and the private sector are keenly interested in knowing the effects the new Customs Union will have on their businesses and on the entire economy. It may be important to recall here that at the time the former Community collapsed in 1977, the Kenyan manufacturing sector which was growing at 12% dropped drastically to 3.6% in 1980 (Government of Kenya (GoK) National Development Plan 1979-1983). This was largely due to loss of the sales volume that was meant for Tanzania and Uganda leaving the sector with excess capacity and no place to immediately sell its products.

The study has a theoretical significance in that its results will be used by academicians and researchers as a launching pad for further studies related to the East African Community Customs Union. This is more so because the Customs Union is a relatively new development

in East Africa and this study is among the first to be carried out regarding its perceived effects. Other researchers will also find it useful in carrying out further research on areas not adequately covered by the study.

To the Manufacturers, knowledge of how the Customs Union will affect them will suggest strategies which should be put in place. That is, depending on whether the perceived effects are negative or positive, the individual manufacturing companies might make such decisions as whether to close down their operations, relocate to the partner State that would provide a competitive edge or might decide to migrate outside the East African bloc altogether. The other decisions this knowledge might influence are whether or not to reduce capacity or increase capacity, retrench, right size, rationalize operations among others.

As far as the Government is concerned, knowledge of the potential effects on the manufacturing sector or any other industry within the sector will determine the strategies the government might put in place to compensate the affected firms. It will also help the government to envisage the potential economic growth, job creation, revenue collection and its impact on the public expenditure.

The foreign investors will benefit from the results of the proposed study since it will help them to decide which country among the partner states they should invest, what volume of investment to undertake, how and when to invest.

## 2.2 Attitude

Finally, the results of the study will also be beneficial to the institutions such as the Kenya Association of Manufacturers (KAM), Kenya Revenue Authority (KRA), Kenya Private Sector Alliance (KEPSA) who need this information to lobby for their various constituents.

## CHAPTER 2

### LITERATURE REVIEW

This section describes the concepts of perception, attitude, awareness and knowledge. It also describes the world trading system, the various levels of economic integration, the Kenya's industrial setting before independence and after independence, the policies and measures the government took at each period to develop the sector and manage the economy. It gives a brief history of the East African Community (EAC) and its evolution into a customs union whose effects to the manufacturing sector was the subject of this study.

#### 2.0 The Concepts of Perception, Attitude, Awareness and Knowledge

##### 2.1 Perception

Several authors have defined perception in a number of ways. Schiffman (2003), defines perception as the process by which an individual selects, organizes and interprets stimuli into a meaningful and coherent picture of the world. A close definition to this is by Huczynski (2001), which defines perception as the dynamic psychological process responsible for attending to, organizing and interpreting sensory data. In summary perception can be seen as how we gather and interpret the world around us (McCarthy, 1993). Two individuals may be exposed to the same stimuli under the same apparent conditions, but how each person recognizes, selects, organizes and interprets these stimuli is highly an individual process based on each person's own needs, values and expectations.

##### 2.2 Attitude

An attitude is a learned predisposition to behave in a consistently favourable or unfavourable way with respect to a given object (Schiffman, 2003). The attitude comes before behaviour and affects the way the person will act. Attitudes are fairly enduring and last for weeks, months or even years. People of course change their minds when they receive additional information or experience, or perceive the object of the attitude differently. Attitudes can be broken down into three components: informational (cognitive), emotional (affective or feeling) and behavioral or action component (Luthans, 1992).

### 2.3 Awareness and Knowledge

Awareness and knowledge are the cognitive part of attitudes. They involve the information the individual has about the object. It makes no difference whether or not this information is empirically correct or real (Luthans, 1992). To measure the knowledge component one should begin by measuring awareness. There are two ways to measure awareness: aided and unaided recall. People base their actions on their knowledge of a particular object. It is therefore very important to learn what people believe or know about an object or topic.

### 2.4 The World Trading System

The world trading system is as old as the human civilization. Well before the time of Christ, Phoenician and Greek merchants were sending representatives abroad to sell their goods. The Greeks and the Phoenicians traded in bronze and copper. In the west of Greece, the zone of Palermo, Solunto and Mozia, the cities were mainly trade bases and were existing alliance of domestic peasants. The Greeks also created trade relations to the cities of south Italy and to Karthago and later from the 6th century before Christ they also created trade relations with Rome. In the west, the zone of the Sicans and Helims, emerged predominantly as agencies of the Phoenicians ([www.sicily-etna.com](http://www.sicily-etna.com)).

In 1600, the British East India Company, a newly formed trading firm, established foreign branches throughout Asia. At the same time, a number of Dutch companies which had organized in 1650 to open shipping routes to the East, joined together to form the Dutch East India company and also opened branch offices in Asia (Ball, 1996).

In East Africa slave trade was well established before the Europeans arrived on the scene. It was driven by the sultanates of the Middle East. African slaves ended up as sailors in Persia, pearl divers in the Gulf, soldiers in the Omani army and workers on the salt pans of Mesopotamia (modern Iraq). Arab traders began to settle among the Africans of the coast resulting in the emergence of a people and culture known as Swahili. In the second half of 18<sup>th</sup> century, the slave trade expanded and became more organized with slave markets emerging in Europe, Brazil and North America. In exchange for slaves cowry shells and



spices the Arabs brought to the coastal communities guns and ornaments ([www.bbc.co.uk/story\\_of\\_africa](http://www.bbc.co.uk/story_of_africa)).

#### **2.4.1 General Agreement on Trade and Tariff (GATT)**

Arising from the optimism among the Western allies following World War II was the idea of an international organization that would function in the trade areas as much as it was hoped the UN would function in the political and peace keeping arenas (Grosse, 1992). At what were thought of as preliminaries for an International Trade Organization (ITO), the American negotiators presented what they envisioned as a step toward an acceptable ITO treaty, which was to embody numerous bilateral trade treaties into one multilateral treaty. They suggested in the absence of any established international trade rules, that the commercial rules of the ITO draft charter be incorporated into a general agreement on tariffs and trade as an interim measure pending ITO ratification. The suggestions were accepted and so the General Agreement on Tariffs and Trade was born in 1947. Put differently, the ITO was not ratified and therefore GATT became a defacto international trade organization ([www.econ.iastate.edu/classes/econ355/choi/wtoroots.htm](http://www.econ.iastate.edu/classes/econ355/choi/wtoroots.htm)). GATT negotiations to reduce tariffs and other trade obstacles were conducted in sessions referred to as Rounds, of which there were eight, from the first in 1947, through the Uruguay Round launched in 1986 in Punta del Este, Uruguay. The Uruguay Rounds sought to rectify some shortcomings that were inherent in GATT. These shortcomings included lack of rules on trade on services, agriculture and rules for protection of intellectual properties. Other shortcomings of the GATT included lack of adequate procedures to speed up trade dispute settlement and means to reduce trade subsidies. Uruguay Round broke new GATT ground by writing new rules to address the pertinent shortcomings.

#### **2.4.2 The World Trade Organization (WTO)**

The WTO was established on January 1, 1995 after governments had concluded the Uruguay Round negotiations on December 15, 1993 and ministers had given their political backing to the results by signing the final act at a meeting in Marrakesh, Morocco in April 1994. The

Marakesh Declaration of April 15, 1994 affirmed that the results of the Uruguay Round would strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world. The EACCU protocol was therefore negotiated and established following the Marrakesh agreement of which all the three member states are signatories. The WTO is the embodiment of the Uruguay Rounds results and the successor to the General Agreement on Tariffs and Trade ([www.wto.org](http://www.wto.org)).

The WTO is based in Geneva, Switzerland and its essential functions are administering and implementing the multilateral and plurilateral trade agreements which together make up the WTO; acting as a forum for multilateral trade negotiations; seeking to resolve disputes; Overseeing national trade policies (this means giving up some portion of national sovereignty); and cooperating with other international institutions involved in global economic policy making.

#### **2.4.3 The Principles of the World Trading System**

The WTO agreement contains some 29 individual legal texts covering everything from agriculture to textiles and clothing, and from services to government procurement, rules of origin and intellectual property. Added to these are more than 25 additional ministerial declarations, decisions and understandings which spell out further obligations and commitments for WTO members. However, a number of simple and fundamental principles run throughout all of these instruments which, together, make up the multilateral trading system. These principles include trade without discrimination, predictable and growing access to markets, promoting fair competition, encouraging development and economic reform. These principles are embodied in the EACCU protocol under trade related aspects which is the fifth part of the protocol (East African Community Secretariat, 2004).

#### **2.4.4 The Major Players in the World Trade**

The European Union is the major force in global trade today, accounting for approximately 39 percent of world exports and imports. However, further changes on the world scene are likely with the North America free trade agreement comprising Canada, the USA and Mexico (Paliwoda, 2001). Japan and China are also emerging as major forces in the World trade.

When Japan was viewed as a threat by the USA, President Reagan and the first Bush pressed for import restrictions on automobiles, semi-conductors and other products from Japan. Today, China is on the firing line. President Bush the second is moving to rein in Chinese textile imports ([www.truthabouttrade.org](http://www.truthabouttrade.org)).

Coming to Africa, the entire continent accounts for less than one percent of global gross domestic product (GDP) and less than two percent of world trade comes from sub-Saharan Africa (World Bank report, 2000).

## 2.5 Economic Integration

According to Chacholides, (1990) economic integration involves the establishment of transnational rules in economic activity that lead to greater trade and economic cooperation between countries. It usually involves preferential trade among the member countries while establishing tariff and non-tariff walls to trade with other countries outside the block.

Five increasing levels of regional economic integration can be distinguished (Ball, 1996). These are the Free Trade Area, Customs Union, Common Market, Economic Union and Political Union. Each succeeding level of integration involves greater cooperation among the blocks member countries, and at the ultimate level the block members become united in a single political entity.

### 2.5.1 Free Trade Area

The first level of economic integration, the free trade area, involves the elimination of tariffs on trade among the countries in the regional group while retaining their original tariffs against the rest of the world. Examples of free trade areas are the North America Free Trade Area (NAFTA) comprising USA, Canada and Mexico; Latin America Free Trade Area (LAFTA) which comprises Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela.

## **2.5.2 Customs Union**

The second level of regional economic integration, the customs union involves the elimination of tariffs among member countries plus the establishment of a common external tariff structure toward non-member countries. Examples include the East African Community Customs Union established January 1<sup>st</sup>, 2005 and the Southern Africa Customs Union (SACU) which comprises Botswana, Lesotho, Namibia Swaziland and South Africa.

## **2.5.3 Common Market**

The third level of economic integration, the Common Market, is characterised by the same tariff policy as the Customs Union plus freedom of movement of factors of production especially Labour and Capital. This is what COMESA comprising twenty African states ultimately intends to achieve.

## **2.5.4 Economic Union**

An economic union is characterised by the harmonisation of economic policy beyond that of the common market. Specifically, an economic union seeks to unify monetary and fiscal policies among its member states. A common currency, a permanently fixed exchange rate, is a crucial aspect of an economic union. Harmonised tax structures are other requirements. To a large degree, national governments participating in an economic union relinquish control over much of their national economic policies to the group. The European Union is a good example of an economic union.

## **2.5.5 Political Union**

The highest level of regional economic integration is political union, under which all economic and political policies are unified. Countries that unite under a common government lose their national identities and become part of a single state.

Important examples of political union are Canada, the former Soviet Union, and the United States, each of which combined independent states into a single country. In fact, since the members of a political union cease to be separate countries, perhaps political union should not be considered a part of economic integration at all. Political union, however, does form the logical end point of increased economic cooperation among a group of nations.

## **2.5.6 Some challenges facing regional integration in Africa**

The paramount hurdles to African integration have been the lack of full commitment or disparities in the level of commitment often manifested in the failure to incorporate agreement reached by different integration scheme in national plans ([www.eiipd.org](http://www.eiipd.org)). This tendency has played down the value of collective agreements or protocol arrived at to expedite trade and harmonise policies at sub-regional levels.

The other main challenge facing exporters in Africa are cumbersome documentation procedures, inadequate or delayed export compensation, foreign exchange availability and exchange rate fluctuations (Keire, 1993).

Another difficulty is that the elimination of trade barriers and adoption of common investment policies do not necessarily lead to equitable distribution. Instead they support or stimulate the tendency of investment to concentrate on the relatively more advanced countries. In fact, the cumulative causation resulting from this tends to increase divergences between the relatively more advanced and less advanced economies.

Lastly, another problem which is of Africa's main making is the duplication of economic blocks essentially created to achieve the same objectives. Take for instance COMESA and SADC and the EAC in which many countries maintain dual membership.

## **2.6 A brief History of the Kenyan Economy and the first East African Community Era**

### **2.6.1 Pre-independence period**

During the pre-independence period Kenya as a colony of Britain was charged with the production of raw materials for the British Empire. The Kenyan economy was largely agriculture driven with coffee, tea and sisal being the major contributors to the gross domestic product (Christian Council of Kenya, 1955). The industrial sector was in the early stages of development. However, some notably large manufacturers such as the East African

Breweries (incorporated in 1922), British American Tobacco (BAT) established in 1907 and Magadi Soda (Established in 1911 by Brunner Mond Group) had already started operations in Kenya.

There was very little protection to the local industries since the economy was both too small and too poor to gain from a policy of high tariffs. The tariff policy was being decided on an East African basis and not on a Kenyan basis since the three countries were under the British rule and the customs department was part of the British High Commission office.

Since the three countries were being run by the British as one country, companies were started to cater for the joint needs of the three countries of Kenya, Uganda and Tanganyika. For instance, there was the East African Railways and Harbours, the East African Airways, the East African Posts and Telecommunications and the East African Customs and Excise. Because most of the industrial companies were located in Kenya, the country benefited more from the wider market for goods and services compared to her neighbours Tanganyika and Uganda (Dahl, 1956).

This disproportionate benefit Kenya enjoyed over this period became a major factor for negotiating the EACCU protocol resulting into the rule of asymmetry being applied on Kenya's exports to both Uganda and Tanzania as explained in the problem statement section of this study.

### **2.6.2 The first two decades of Independence (1963-83)**

In the context of Sessional Paper no 1, of 1963. The economy was still agriculture driven. There was therefore growing emphasis on cash crop production with little value addition. Most of the primary products were exported to Britain and Western Europe for further processing.

The government policy on manufacturing aimed at encouraging growth of local industries in order to displace the imports (Import substitution). A number of institutions were therefore incorporated to help the government achieve this aim of industrialization. Some of the key institutions were the Kenya Industrial Estates (KIE) that was meant to encourage small scale

investments which the local resources could support, Industrial Development Bank (IDB) which was meant to provide development loans to those who wanted to invest in the industrial manufacturing sector, and the Industrial and Commercial Development Corporation (ICDC) which was meant to partner up with other investors.

During this period the government also took a very active role in production and marketing of goods and services through a variety of Parastatals. Some of these parastatals included the Pyrethrum Board of Kenya, Coffee Marketing Board of Kenya and the Tea Board of Kenya. There was also a deliberate effort by the government to encourage formation of co-operative societies to enhance processing of agribased products. The cooperative societies were involved in processing of agricultural produce such as coffee, fruits and vegetables.

### 2.6.3 The collapse of the First East African Community

The East African Community (EAC) which had been established in 1967 collapsed in 1977 due to the following main factors (East African Community Secretariat Arusha, 2004):

**Intra-community political differences.** Kenya and Tanzania had diametrically opposed political ideologies with Kenya pursuing the capitalist ideology and leaning towards the Western world. Tanzania on the other hand pursued a socialist ideology (Ujamaa) and leaned towards the East. These different ideologies created serious tensions between Kenya and Tanzania mainly fueled by rivalry between two Super Powers of United States of America and the Soviet Union.

**Differences on the sharing of benefits from jointly owned common services organizations and lack of policy to address the situation.** Both Tanzania and Uganda were feeling cheated because most of the jointly owned services were based in Kenya.

**Low private sector and civil servants input in the running of the then community**

There was growing apathy among the civil servants who were working for the community due to differences in leadership and ideological leanings of the member states. This lack of genuine integration also contributed significantly to the collapse of the community.

According to the National Development Plan (1979-1983), the collapse of the East African Community which had been established in 1967 to provide for economic co-operation between Kenya Uganda and Tanzania profoundly contracted the market for Kenyan goods and adversely affected overall investment. The manufacturing sector which grew by 12% in 1978 plummeted to 3.6% in 1980.

With the collapse of the Community, the Kenyan Government quickly moved to re-organize the institutional framework deemed necessary for the continuation of functions formerly performed by the Community. It also sought to secure alternative markets abroad in order to stem the resultant deterioration in the balance of trade.

#### 2.6.4 The Decades of 1980's and 90's

##### a) Problems related to Import substitution and Protectionism

In the context of the Sessional Paper No. 1 of 1986 on Economic Management for Renewed growth, Kenya's industrial and commercial policies had run into numerous structural problems since late 70's which needed addressing. First in placing too much emphasis on consumer goods import substitution, there were no commensurate incentives for the development of intermediate and capital goods. This led to greater demand for foreign exchange by these sectors in disproportion to other sectors. Secondly, the import substitution industrialization strategy, though successful in serving its intended objective worked to make capital relatively cheap compared to labour and other domestic inputs, so that entrepreneurs were able to establish capacities far greater than domestic markets could cope with.

With relatively high level of effective protection of domestic industries, the industrial and commercial sectors became progressively inward oriented as many local firms reaped high profits in the domestic markets while operating at low levels of capacity utilization and efficiencies. Under these circumstances such firms saw no reason to take risks inherent in the external export markets.



credit insurance and guarantee schemes among others (National Development Plan 1997-

To solve these problems associated with the earlier policies, the government made a radical shift and set the following objectives.

### **b) Open domestic market and encourage competition**

In order to promote healthy competition the government eliminated import substitution and embarked on import and tariff regime restructuring (National Development Plan 1994-1996). Under this regime import licensing was eliminated with all the bureaucracies and delays associated with it. Under import licensing regime, there was no certainty that once one applies for license it will be given. The government made a comprehensive review on tariff structure in order to lower down the tariff rates and achieve equitable levels of protection.

### **c) Removal of price controls**

The 1988-89 removal of price controls (price liberalization) while putting measures in place to guard against monopoly and price collusion. The restrictive trade practices monopolies and control act of 1988 was put in place.

### **d) Follow the policy of diversification**

This policy was put in place to remove overdependence in agriculture. Until now the economy was still heavily dependent on agriculture and primary goods. In order to industrialize the government was encouraging more investments aimed at adding value to the primary products in order to fetch more financial returns.

### **e) Exchange rate management**

In order to effectively manage the foreign exchange the government moved from the policy of foreign exchange restrictions and import licensing. It moved towards market based programmes as a means of rationing as opposed to controls and licensing.

### **f) Promotion of Exports**

The government embarked on aggressive export promotion programmes by establishing export processing zones (EPZ's), Manufacturing under bond, Tax remission office, Export

credit insurance and guarantee schemes among others (National Development Plan 1997-2001).

## 2.7 Industrial Transformation to the year 2020

In the context of the Sessional Paper No 2, of 1996 on Industrial transformation to the year 2020, the government developed an ambitious plan to join the league of newly industrialized countries by the year 2020. According to this Plan the function of the Government in the industrialization process is to support and facilitate private enterprise. This would be done through establishing a conducive policy environment; sound macroeconomic management; maintaining the rule of law together with social and political stability; investing in physical infrastructure and human resource development; guarding against human exploitation and environmental degradation and pursuing Kenya's interest in international agreement relationships.

## 2.8 The Second East African Community

Following the dissolution of the former East African Community in 1977, the member states negotiated a mediation agreement for the division of assets and liabilities which they signed in 1984. However, as one of the provisions of the mediation agreement, the three states agreed to explore areas of future co-operation and to make concrete arrangement for such co-operation (<http://www.eac.int/history>).

Subsequent meetings of the three heads of states led to the signing of the agreement for the establishment of the permanent tripartite commission for East African Co-operation on November 30, 1993. The full East African co-operation started on March 14, 1996 when the secretariat of the tripartite commission was launched at the headquarters of the EAC in Arusha, Tanzania.

Considering the need to consolidate regional co-operation, the East African heads of state at their second summit in Arusha on April 29, 1997, directed the permanent tripartite

commission to start the process of upgrading the agreement establishing the permanent tripartite commission for East Africa Co-operation into a Treaty. The treaty making process which involved negotiations among the member states as well as wide participation of the public was successfully concluded within three years. The treaty for the re-establishment of the East African Community was signed in Arusha on November 30, 1999.

The treaty entered into force on July 7, 2000 following the conclusion of the process of its ratification and deposit of the instruments of ratification with the secretary general by all the three partner states. Upon entry into force of the treaty, the East African community was re-born.

The objectives of the Customs Union shall be:

On November 30, 2001 the third summit of the head of states held in Arusha inaugurated the East African Legislative assembly and East African court of justice. On January 21-25 the East African Legislative Assembly called for a faster movement towards East African Customs Union and Political Federation of East African States.

On March 2, 2004, the East African Customs Union was signed in Nairobi with the three heads of states and on January 1, 2005 the Customs Union came into force. The next phases of integration will be a Common Market, a Monetary Union and ultimately a Political Federation by around 2013.

### 2.8.1 The East African Community Customs Union Protocol

According to the East African Community Customs Union Protocol signed on March 2, 2005, the protocol is the guiding instrument on the trading among the partner states. It comprises 44 articles classified under nine major groupings:

**2.8.2 Interpretations.** This gives the interpretation of all the technical terms used in the protocol document. It gives definitions to terms such as common external tariffs, internal tariffs, community, dumping, countervailing measures, customs area etc.

**2.8.3 Establishment of the East African Community Customs Union.** This outlines the provisions, the objectives and the scope of the Customs Union.

The provisions include the application of the principle of asymmetry, the elimination of internal tariffs, the elimination of non-tariff barriers, establishment of a common external tariff, the rules of origin, anti-dumping measures, subsidies and countervailing duties, security and other restrictions to trade, competition, duty drawback, refunds and remission of duties. Other provisions include customs co-operation, re-exportation of goods, simplification and harmonization of trade, exemption regimes, harmonized commodity description and coding system, and free ports.

The objectives of the Customs Union shall be:

- to further liberalize intra-regional trade in goods on the basis of mutually beneficial trade arrangements among the partner states;
- to Promote efficiency in production within the community;
- to enhance domestic, cross border and foreign investment in the community, and
- to promote economic development and diversification in industrialization in the community.

The Partner States shall co-operate in such areas as adaptation of uniform tariff classification, standard valuation system and implementing other Customs requirements

- a) Customs Administrations.** This involves communication of customs and trade information, trade facilitation, simplification, standardization and harmonization of trade information and documentation, commodity description and coding system and prevention, investigation and suppression of customs offences
- b) Trade liberalization.** This explains how internal tariffs, transitional provisions on the elimination of internal tariffs, common external tariffs and non-tariff barriers will be handled.
- c) Trade Related aspects.** This explains the following; rules of origins, national treatment, anti-dumping measures, subsidies, countervailing measures, safeguard measures, co-operation in the investigation of dumping, subsidies and application of safeguard measures and competition. Others outlined in this grouping are restrictions and

prohibition of trade, re-exportation of goods and east African community committee on trade remedies

**d) Export promotion schemes.** This grouping outlines principles of export promotion schemes, duty drawback schemes, duty and value added tax remissions schemes, manufacturing under bond, export processing zones and other export promotion schemes.

**e) Special economic zones.** Here, the issue of free-port and other related arrangements are explained in this section.

**f) Exemption regimes.** This explains what is required and involved in exemption regimes

**g) General provisions.** This section explains the Administration of the Customs Union, measures to address imbalances arising from the establishment of the Customs Union, safeguard clause, trade arrangements with countries and organizations outside the Customs Union, inter-linkages with other areas of co-operation, customs law of the community, annexes to the protocol, dispute settlement, amendment of the protocol, entry into force depository and registration.

#### **2.8.4 Transitional Provisions on the Elimination of internal tariffs**

The establishment of the Customs Union shall be progressive in the course of transition period of five years from the coming into force of this protocol. The Partner States agreed that upon the coming into force of the protocol and for the purpose of the transition into Customs Union:

- goods to and from the Republic of Uganda and the United Republic of Tanzania shall be duty free;
- goods from the Republic of Uganda and the United Republic of Tanzania into Kenya shall be duty free and
- goods from the Republic of Kenya into the Republic of Uganda and the United Republic of Tanzania shall be categorized into category A and B. Category A shall be eligible for immediate duty free treatment while Category B shall be eligible for gradual tariff reduction for a period of five years

Internal tariffs specified under these provisions shall not exceed the common external tariff with regard to any of the specified products.

**a) Common external tariff**

The Partner States established a three band common external tariff with minimum rate 0% for raw materials, a middle rate 10% for intermediated goods and a maximum of 25% on finished goods.

**3.0 Population****b) Non- tariff barriers to trade**

Except as provided for or permitted by this protocol, each of the partner states agreed to remove with immediate effect all existing non-tariff barriers to the importation into their respective territories of goods originating in the other Partner States and not to impose any new non-tariff barriers

These sections of the protocol form the basis upon which trade within the EAC Bloc will be guided and regulated. Any arguments on the perceived effects of the EACCU will therefore largely draw from the protocol.

**3.1 Data collection**

Data was collected using a semi-structured self-administered questionnaire, hand delivered or sent by email to the respondents. The respondents were Directors and Managers responsible for Marketing/Sales of various companies. The questionnaire contained the following sections:

- **Company Demographics:** This required the respondent to provide information including name of the company, year of registration, and whether the company was manufacturing, wholesaler or retailer.

## CHAPTER 3

### RESEARCH METHODOLOGY

This chapter discusses the population, data collection tools and the data analysis techniques that were used in the study.

#### 3.0 Population.

The population of interest comprises all firms who are members of the Kenya Association of Manufacturers (KAM) and are classified under Food and Beverage Sector (KAM Members Listings by Sector, April 22, 2004). There are 100 firms registered under this category and the products they manufacture range from spirits, cigarettes, edible oils, sugar, soft drinks, confectionery to bottled water, juices, processed foods, beer and maize floor (appendix i). The list consists mainly of medium size and large manufacturers in Kenya.

The choice of the population was found appropriate since most firms which are engaged in import-export businesses fall under this category. In addition by virtue of being members of KAM they are likely to be more established and well informed about import-export procedures and regulations. Small firms will be unlikely to be members of KAM and because their size, they may not have acquired enough capital and capacity necessary for exports. Most of their products are therefore likely to be consumed within the locality of operations and at best within the country.

#### 3.1 Data collection

Data was collected using a semi-structured self administered questionnaire which was either hand delivered or sent by e-mail to the respondents. The respondents were the Managing Directors and Managers responsible for Marketing/ Sales of each firm. The questionnaire contained the following sections:

- **Company Demographics.** This required the respondents to fill in pertinent bio-data including name of the company, name of respondent, position of respondent, when the company was incorporated, nature of products, nature of ownership, size of

company, and number of employees among others. This was captured in section A of the questionnaire

- **Awareness/ knowledge.** This section will assess the respondents level of knowledge about the Customs Union and the EACCU protocol and their content. It will be covered in section B of the questionnaire.
- **Satisfaction with EACCU.** This section consisted of questions soliciting information on whether the company was already involved or was intending to be involved importing and exporting of goods, the origins of imports or the destination of exports, the attitudes of the company towards the Customs Union and other effective and behavioral related issues. Level of satisfaction was covered in section C of the questionnaire

The questionnaire comprised both open-ended and closed-ended questions. The open ended-questions allowed for gathering of more information without restrictions while the close ended facilitated measurement of items in terms of direction and intensity of opinions and intentions.

### 3.2 Data analysis

Data collected was first edited to detect errors and omissions and where necessary the respondents were re-contacted over phone to clarify any vague areas. After editing content analysis was done to interpret and summarize open ended questions. A computer package called Statistical Package for Social Sciences (SPSS) was then used to analyse the data.

Descriptive statistics such as measures of central tendency and measures of dispersion were used to determine frequency, mean, mode and percentages were used to determine the first objective which involved assessing the awareness and knowledge of Food and Beverage manufacturers to EACCU Protocol.

Rating scales such as Likert and Semantic differential scales were used to assess the level of satisfaction with EACCU.



Measures of associations such as regression, correlation and chi-square were used to determine the third objective which involves assessing the relationship between organizational demographics and the expected effects of EACCU.

**Summary:** The table below summarizes the research objectives, the relevant questions in the data collection instrument and the statistical tools that were used.

Objective	Relevant Research questions in the questionnaire	Statistical tests/measures
1	a) Awareness of the existence of EACCU. Question numbers 14 to 18.  b) Knowledge of EACCU protocol. Questions numbers 19 to 23.	Measures of central tendency and dispersion
2	Level of satisfaction with the EACCU protocol. Question numbers 24 to 32.	Measures of central tendency and dispersion
3	Organisation demographics such as date of incorporation, ownership, size, products etc. Question numbers 1 to 13.	Measures of association

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.0 Introduction

The purpose of this study was to explore the perceptions of food and beverage manufacturing companies regarding the East African Community Customs Union Protocol. A list of 100 companies were obtained from KAM out of which 62 companies completed and returned the questionnaire. The results of the investigation are presented here below.

#### 4.1 Company Demographics

This section presents characteristics of the companies included in the study.

##### a) Year of Establishment

Table 4.1 contains data on the age of the companies which responded to the questionnaire.

**Table 4.1: Year of Establishment**

	Frequency (n)	Percent (%)
1-5 years	10	16.1
6-10 years	10	16.1
Over ten years	42	67.7
<b>Total</b>	<b>62</b>	<b>100.0</b>

From Table 4.1, it can be observed that majority (67.7%) of the companies have been in operation for more than ten years.

##### b) Nature of Ownership

The nature of ownership of the respondent companies is summarised in Table 4.2.

**Table 4.2: Nature of Ownership**

	Frequency (n)	Percent (%)
Local	42	67.7
Foreign	9	14.5
Subsidiary	11	17.7
<b>Total</b>	<b>62</b>	<b>100.0</b>

According to the results in Table 4.2 majority (67.7%) of the companies sampled are locally owned.

### c) Branches or affiliates outside Kenya

The respondent companies branch network is presented in Table 4.3

**Table 4.3: Branches or affiliates outside Kenya**

Response	Frequency (n)	Percent (%)
Yes	25	40.3
No	37	59.7
<b>Total</b>	<b>62</b>	<b>100.0</b>

The data in Table 4.3 indicate that most (59.7%) of the respondent companies do not have branches or affiliates outside Kenya. Those who have affiliates (40.3%) have them mainly in Tanzania, Uganda, Zanzibar, and Zambia. Others have affiliates outside Africa. For example, Wrigley Company has affiliates in Europe, America, China, India and Australia; Erdemann Company has an affiliate in China; and Corn Products Ltd has affiliates in Thailand, Brazil, United States of America, Mexico, China and Argentina.

### d) Size of the Company

The respondent companies were categorised into small (1-50 employees), medium (51-150 employees) and Large (over 150 employees) size companies as depicted in Table 4.4.

**Table 4.4: Size of the Company**

Size	Frequency (n)	Percent (%)
Small	8	12.9
Medium	30	48.4
Large	24	38.7
<b>Total</b>	<b>62</b>	<b>100.0</b>

From Table 4.4 it can be observed that 13% of the companies are small, 48% are medium and 39% are large.

### e) Products the company manufactures

The study also sought to know what products are manufactured by the respondent companies. This information is summarised in Table 4.5.

**Table 4.5: Products the company manufactures**

Product	Frequency (n)	Percent (%)
Food	40	64.5
Beverages	7	11.3
Both food and beverages	18	24.2
<b>Total</b>	<b>62</b>	<b>100.0</b>

According to the results in Table 4.5, majority (64.5%) of the respondent companies are manufacturers of food products.

#### f) Listing in the Nairobi Stock Exchange (NSE)

When asked whether they were listed in NSE the respondent companies provided responses which are summarised in Table 4.6.

**Table 4.6: Listing in NSE**

Response	Frequency (n)	Percent (%)
Yes	0	0.0
No	62	100.0
<b>Total</b>	<b>62</b>	<b>100.0</b>

The results in Table 4.6 show that all the respondent companies are not listed in the Nairobi Stock Exchange.

#### g) Yearly sales turnover for the past three years

The companies were also asked to provide information on their performance in terms of sales during the past three years. Their responses are presented in Table 4.7

**Table 4.7: Yearly sales turnover for the past three years**

Sales turnover (Kshs. Millions)	Frequency (n)	Percent (%)
Less than 500	32	51.6
501-1000	8	12.9
Over 1000	13	21.0
Do no know	9	14.5
<b>Total</b>	<b>62</b>	<b>100.0</b>

The results in Table 4.7 indicate that slightly more than half (51.6%) of the responding companies had an annual sales turnover of less 500 millions Kenya Shillings in the past 3 years.

#### **h) Whether the company export its products**

When asked whether they export their products, the respondent companies gave answers which are contained in Table 4.8.

**Table 4.8: whether the company export its products**

Response	Frequency (n)	Percent (%)
Yes	51	82.3
No	11	17.7
<b>Total</b>	<b>62</b>	<b>100.0</b>

The results in Table 4.8 indicate that 82.3% of the responding companies export their products. The main destinations of the exports are Tanzania, Uganda, Rwanda and Zanzibar. Other destinations include Eritrea, Sudan, DRC, Zambia, Ethiopia, Burundi, Gulf Region, Ghana, Benin, Togo, Malawi, South Africa, United Kingdom, Australia, Belgium and Germany.

## **4.2 Awareness of Regional Economic Groupings and EACCU Protocol**

Awareness is a cognitive part of attitude which involves the information the individual has about an object. To measure the knowledge component one should begin by measuring awareness.

This section presents the results of the findings on the respondent companies regarding their awareness of regional economic groupings and the EACCU protocol.

### **a) Awareness of Regional Groupings**

Unaided recall was used to find out which regional economic groupings in Africa the respondents were aware of. Table 4.9 summarises the relevant responses.

According to the results in Table 4.10 Local companies are more aware of the regional economic groupings than the foreign and subsidiary companies.

**Table 4.9: Respondents level of awareness of regional economic groupings in Africa**

Regional economic grouping	No. of mentions	Percent (%)
EAC	51	28.0
COMESA	54	29.7
SADC	40	22.0
ECOWAS	22	12.1
Other	15	8.2
	N=182	100

The data in Table 4.9 indicate that most of the responding companies are aware of COMESA (29.7%), followed by EAC (28%).

**b) Respondents level of awareness categorized by nature of companies**

Companies were categorized as local, foreign or subsidiary. Their percentage level of awareness according to this categorisation are summarized in Table 4.10

**Table 4.10: Respondents level of awareness categorized by nature of company**

Regional economic grouping	Local (%)	Foreign (%)	Subsidiary(%)	Don't Know (%)	Total n=62 (%)
EAC	50.0	14.5	17.7	17.8	100
COMESA	58.1	14.5	14.5	12.9	100
SADC	35.5	14.5	14.5	35.5	100
ECOWAS	17.8	3.2	14.5	64.5	100
OTHERS	40.3	11.3	17.7	30.7	100

According to the results in Table 4.10 Local companies are more aware of the regional economic groupings than the foreign and subsidiary companies.

**c) Respondents' level of awareness of regional economic groupings in Africa categorized by age of respondent companies**

Respondent companies were categorized on the basis of number of years they have been in operation and their respective level of awareness are summarized in Table 4.11. The ages were categorized as follows: young companies (1-5years), middle age (6-10) and old companies (over 10 years).

**Table 4.11: Respondents' Level of awareness of regional economic groupings in Africa categorized by age.**

Regional economic grouping	1-5 Years	6-10 Years	Over 10 Years	Don't know	Total n=62
EAC	16.1	16.1	50	17.8	100%
COMESA	12.9	16.1	58.1	12.9	100%
SADC	9.7	11.3	43.5	35.5	100%
ECOWAS	9.7	4.8	21.0	64.5	100%
OTHER	0	6.5	17.7	75.8	100%

It is evident from Table 4.11 that companies which have been in operation for over 10 years (old companies) are more aware of the regional economic groupings than those which have been in operation for less than that period. It is also evident that ECOWAS is the least known possibly because it scarcely affects operations of business companies in East Africa.

**d) Respondents' level of awareness of regional economic groupings in Africa categorized by company's size**

The respondent companies were categorized as small, medium and large depending on number of employees and their level of awareness summarized in Table 4.12

**Table 4.12 Respondents' level of awareness of regional economic groupings in Africa categorized by company size**

Regional economic grouping	Small	Medium	Large	Don't know	Total n=62 (%)
EAC	12.9	35.5	33.9	17.7	100%
COMESA	9.7	43.5	33.9	12.9	100%
SADC	0	25.8	38.7	35.5	100%
ECOWAS	0	8.1	27.4	64.5	100%
OTHERS	0	3.2	21.0	75.8	100%

According to Table 4.12, the results indicate that medium and large companies are more aware of the regional economic groupings than small companies.

**d) Respondents level of awareness of regional economic groupings in Africa categorized by nature of products**

The respondents were categorized in terms of the nature of products they manufacture and their level of awareness summarized in Table 4.13

**Table 4.13: Respondents' level of awareness of regional economic groupings in Africa categorized by nature of products**

Regional economic grouping	Food	Beverages	Both food & beverages	Don't know	Total n=62
EAC	51.6	11.3	19.4	17.7	100%
COMESA	51.6	11.3	24.2	12.9	100%
SADC	38.7	6.5	19.4	35.4	100%
ECOWAS	21	0	14.5	64.5	100%
OTHER	8.1	6.5	9.7	75.7	100%

The data in Table 4.13 indicate that the respondent companies that manufacture food and those that manufacture both food and beverages had more knowledge of regional economic groupings than those who manufacture beverages alone.



**e) Respondents' level of awareness of regional economic groupings in Africa categorized by size of sales turnover**

Respondent companies were categorized in terms of their sales turnover and the level of their awareness measured. The results are summarized in million Kenya shillings in Table 4.14

**Table 4.14: Respondents' level of awareness of regional economic groupings in Africa categorized by size of sales turnover**

Regional economic grouping	Less than 500 Kshs. million	501-1000 Kshs. million	Over 1000 Kshs. million	Don't know Kshs. million	Total n=62
EAC	48.4	8.1	21.0	22.5	100%
COMESA	48.4	8.1	21.0	22.5	100%
SADC	29.0	9.7	21.0	40.3	100%
ECOWAS	12.9	9.7	12.9	64.5	100%
OTHER	6.5	4.8	12.9	75.8	100%

According to the results in Table 4.14 the respondent companies with sales turnover of less than 500 millions were more aware of the regional economic groupings. This could be due to the fact that nearly more than half of the respondent companies (51.6%) fell within this category.

**f) Respondents' level of awareness of regional economic groupings in Africa categorized by whether the company exports**

The level of the respondent company awareness was also analysed on basis of whether the company was involved in exports business. The pertinent results are summarized in Table 4.15

**Table 4.15: Respondents' level of awareness categorized on whether the company engages in export business**

Regional economic grouping	Exporting	Non-exporting	Don't know	Total n=62
EAC	64.5	17.7	17.8	100%
COMESA	69.4	17.7	12.9	100%
SADC	53.2	11.3	35.5	100%
ECOWAS	32.3	3.2	64.5	100%
OTHER	21.0	3.2	75.8	100%

Table 4.15 reveals that respondent companies who export their products are more aware of the regional economic groupings than those who do not.

### 4.3 Knowledge and Understanding of the EACCU Protocol

#### a) Understanding of the EACCU Protocol

The respondent companies were asked to state whether they understand the protocol and the results are summarised in Table 4.16

**Table 4.16: Whether the respondents understand the EACCU Protocol**

Response	Frequency (n)	Percent (%)
Yes	43	69.4
No	19	30.6
<b>Total</b>	<b>62</b>	<b>100.0</b>

The results in Table 4.16 indicate that majority (69.4%) of the food and beverage manufacturing companies in Kenya understand the EACCU protocol. However, some 30% of the respondent companies do not understand the protocol.

#### b) Respondents rating of EACCU Protocol level of understanding

Respondent companies were asked to rate their level of understanding of the protocol and the results summarized in Table 4.17.

**Table 4.17: Respondents' ratings of the level of understanding of the protocol**

Rating	n	%
Very Good	2	3.2
Good	5	8.1
Average	40	64.5
Poor	7	11.3
Very Poor	8	12.9
<b>Total</b>	<b>62</b>	<b>100.0</b>
<b>Mean</b>	<b>2.8</b>	

The results of Table 4.17 reveals that 64.5% of the respondent companies rate their level of understanding of the EACCU Protocol as average.

#### 4.4 Effects of Regional Economic Grouping in the Marketing of products

##### a) Extent to which the regional economic groupings in Africa affect the marketing of respondents' products

The respondents were asked whether the regional economic groupings affect the marketing of their products. Table 4.18 summarises their responses.

**Table 4.18: Whether the regional economic groupings in Africa affect marketing**

Response	Frequency (n)	Percent (%)
Yes	43	69.4
No	19	30.6
<b>Total</b>	<b>62</b>	<b>100.0</b>

The results in Table 4.18 indicate that majority (69.4%) of the respondent companies' marketing of products is affected by regional economic groupings.

##### b) The regional economic groupings that affect the marketing of products

The respondent companies were asked to name the regional economic groupings in Africa that affect marketing of their products. Table 4.19 summarises the relevant responses.

**Table 4.19: Regional economic grouping that affect the marketing of respondent Company's products**

Regional economic grouping	No. of mentions	Percent
EAC	28	40.0
COMESA	27	38.7
SADC	12	17.0
ECOWAS	0	0.0
Other	3	4.3.0
Total	70	100%

Table 4.19 shows that the top most regional economic groupings that affect the marketing of food and beverages manufacturers are EAC and COMESA. ECOWAS is not perceived to affect any of the companies.

**c) Regional economic groupings in Africa that affect marketing of respondents' products categorized by nature of company ownership**

The respondent companies were categorized in terms of ownership and how the regional economic groupings affect them. The relevant results are summarized in Table 4.20

**Table 4.20 : How the regional economic groupings affect the respondent companies' categorized by nature of ownership**

Regional economic grouping	Local	Foreign	Subsidiary	Don't affect	Total n=62
EAC	21.0	11.3	12.9	54.8	100%
COMESA	22.5	11.3	9.7	56.5	100%
SADC	14.6	0	4.8	80.6	100%
ECOWAS	0	0	0	100	100%
OTHER	0	0	4.8	95.2	100%

Table 4.20 shows that overall, regional economic groupings do not affect significantly the marketing of the respondent companies' products. However, compared to the foreign and subsidiary companies, local companies are affected most (22% and 21% ) by COMESA and

EAC respectively. COMESA followed by EAC are the most dominant economic groupings perceived to affect marketing of the respondents' products.

**d) Regional economic groupings that affect the marketing of respondent companies categorized by nature of products**

How the regional economic grouping affect the marketing of respondents products was also assessed in terms of the nature of the products they manufacture. The relevant results are summarized in Table 4.21.

**Table 4.21: Regional economic groupings that affect the marketing of respondent companies' products categorized by nature of products**

Regional economic grouping	Food	Beverage	Both F&B	Not affected	Total n=62
EAC	27.5	3.2	14.5	54.8	100%
COMESA	35.5	3.2	4.8	56.5	100%
SADC	4.8	0	14.6	80.6	100%
ECOWAS	0	0	0	100	100%
OTHERS	0	0	4.8	95.2	100%

From Table 4.21 the food manufacturing companies are perceived to be the most affected by the regional economic groupings namely COMESA (35.5%) and EAC (27.5%) . The results also indicate that ECOWAS does not seem to affect the respondent companies' businesses

**e) Regional economic groupings that affect the marketing of respondents' products categorized by whether the company is exporting**

The respondent companies were categorized in terms of whether they are exporting to the region and their responses summarized in Table 4.22

**Table 4.22: Regional economic groupings that affect the marketing of respondent companies products categorized on whether the company is exporting.**

Regional economic grouping	Exporting	Don't export	Not affected	Total n=62
EAC	40.4	4.8	54.8	100%
COMESA	43.5	0	56.5	100%
SADC	14.6	4.8	80.6	100%
ECOWAS	0	0	100	100%
OTHER	4.8	0	95.2	100%

Table 4.22 shows that companies that export their products are the ones affected by the regional economic groupings of COMESA and EAC

#### 4.5 Level of satisfaction with the East African Community Customs Union

##### a) How EACCU Will Affect Marketing of Products

The respondents were asked to state how they think the EACCU protocol will affect marketing of their products using a scale of 1 to 7 (1=very positive, 4= neutral and 7= very negative). The results that were obtained are listed in Table 4.23.

**Table 4.23: How EACCU is expected to affect Marketing of Products**

Marketing Elements	Mean
Product decisions	3.6935
Price decisions	4.3710
Promotion decisions	3.6290
Distribution decisions	3.7742
Marketing research	3.8548

Table 4.23 indicates that according to the food and beverage manufacturing companies the EACCU will affect the marketing of their products slightly positively except for the "price" which will be affected slightly negatively.

**b) How the EACCU will affect the marketing of respondent companies' products categorized by nature of company ownership**

The respondent companies were categorized by nature of ownership and their perceptions of how the EACCU is expected to affect them is summarised in Table 4.24.

**Table 4.24: How EACCU is expected to affect marketing of respondents' products categorized by nature of ownership**

Marketing Elements	Local	Foreign	Subsidiary
	Mean score	Mean score	Mean score
Product decisions	3.81	3.89	3.09
Price decisions	4.48	4.55	3.81
Promotion decisions	3.55	4.33	3.36
Distribution decisions	3.60	4.11	4.18
Marketing research	3.88	4.11	3.55

The results in Table 4.24 indicate that in general EACCU is perceived to have a slightly positive influence in the marketing of respondents products. Local companies feel that with the exception of price EACCU will have a positive effect on other P's of marketing. On the other hand foreign companies except for the "P" of product all other P's will be negatively affected. Finally, subsidiary companies expect to be positively influenced except in the "P" of place (distribution).

**c) How the EACCU will affect the marketing of products categorized by nature of the products the companies manufacture**

The responding companies were also categorized by the nature of the products they manufacture and their responses regarding how the EACCU is expected to affect the marketing of their products. The results are contained in Table 4.25

**Table 4.25: How EACCU will affect respondent companies marketing categorized by nature of the products the company's manufacture**

Marketing elements	Food	Beverages	Both
	Mean score	Mean score	Mean score
Product decisions	3.88	3.71	3.20
Price decisions	4.60	4.28	3.80
Promotion decisions	3.65	4.00	3.40

Distribution decisions	3.85	3.71	3.60
Marketing research	3.97	3.71	3.60

The data in Table 4.25 show that, in general, all the Ps of marketing except the "P" of price for the food companies will be slightly positively influenced. In the case of beverage manufacturers, P's of price and promotion will be negatively affected while in the case of companies which manufacture both products, all the P's of marketing will slightly be positively affected by EACCU.

**d) How EACCU will affect marketing of products categorization by whether the company exports**

The respondent companies were categorized by whether they export or not and their views of how they expect marketing of their products to be affected by EACCU summarized in Table 4.26.

**Table 4.26: How EACCU will affect the marketing of products categorized by whether the company exports.**

Marketing elements	Export	Don't Export
	Mean score	Mean score
Product decisions	3.72	3.54
Price decisions	4.39	4.27
Promotion decisions	3.65	3.54
Distribution decisions	3.86	3.36
Marketing research	3.96	3.36

From Table 4.26 it can be observed that all the companies whether they currently export or not perceive EACCU to affect the marketing of products slightly positively except the "P" of price.

**e) Respondents' level of satisfaction with EACCU Objectives**

The respondent companies were asked to state on a Likert-type scale whether they were strongly satisfied (5), satisfied (4), Neutral (3), dissatisfied (2) and strongly dissatisfied (1) with a number of statements that made the foundation of the EACCU. The pertinent results are presented in Table 4.27.



**Table 4.27: Respondents' level of satisfaction with EACCU objectives**

Objectives	Mean score
The EACCU will further liberate regional trade in goods on the basis of mutually beneficial trade arrangements	3.34
The EACCU will promote efficiency in production within the community	3.42
The EACCU will promote domestic, cross border and foreign investment in the community	3.74
The EACCU will promote economic development in the community	3.69
The EACCU will promote diversification and industrialization in the community	3.76
The EACCU will facilitate the adoption of standard system of valuation of goods based on principles of equity, uniformity and simplicity of application in accordance with internationally accepted standards and guidelines	3.58
The EACCU will facilitate the adoption of common procedure for the establishment and operation of export promotion schemes and free ports	3.47
The EACCU will harmonize and simplify customs and trade formalities including documentation and dissemination of information	3.31

The results depicted in Table 4.27 indicate that the respondents are slightly satisfied with the EACCU objectives. However, the absolute size of the mean scores show that the respondents are relatively more satisfied with some objectives than with others.

#### **f) Respondents' level of satisfaction with EACCU objectives categorized by nature of company ownership**

The respondent companies were categorized by nature of ownership and their level of satisfaction with the EACCU objectives summarized in Table 4.28

Table 4.29: Respondents' level of satisfaction with EACCU objectives categorized by

**Table 4.28: Level of satisfaction with EACCU objectives categorized by nature of company ownership**

Objectives	Local	Foreign	Subsidiary
	Mean score	Mean score	Mean score
The EACCU will further liberate regional trade in goods on the basis of mutually beneficial trade arrangements	3.38	3.55	3.00
The EACCU will promote efficiency in production within the community	3.40	3.33	3.54
The EACCU will promote domestic, cross border and foreign investment in the community	3.83	3.55	3.54
The EACCU will promote economic development in the community	3.74	3.11	4.00
The EACCU will promote diversification and industrialization in the community	3.78	3.33	4.00
The EACCU will facilitate the adoption of standard system of valuation of goods based on principles of equity, uniformity and simplicity of application in accordance with internationally accepted standards and guidelines	3.52	3.33	4.00
The EACCU will facilitate the adoption of common procedure for the establishment and operation of export promotion schemes and free ports	3.45	3.11	3.82
The EACCU will harmonize and simplify customs and trade formalities including documentation and dissemination of information	3.36	3.11	3.27

The results of Table 4.28 show that in general local and foreign respondent companies are satisfied with the EACCU objectives but subsidiary companies are neutral (mean score of 4.0) with respect to three of the objectives.

**g) Respondents' level of satisfaction with EACCU objectives categorized by nature of the product the company manufactures**

The respondent companies were also categorized by the nature of the products they manufacture and their respective responses summarized in Table 4.29

**Table 4.29: Respondents' level of satisfaction with EACCU objectives categorized by nature of products**

Objectives	Food	Beverages	Both
	Mean score	Mean score	Mean score
The EACCU will further liberate regional trade in goods on the basis of mutually beneficial trade arrangements	3.30	3.86	3.20
The EACCU will promote efficiency in production within the community	3.52	3.29	3.20
The EACCU will promote domestic, cross border and foreign investment in the community	3.70	3.86	3.80
The EACCU will promote economic development in the community	3.80	3.29	3.60
The EACCU will promote diversification and industrialization in the community	3.70	3.57	4.00
The EACCU will facilitate the adoption of standard system of valuation of goods based on principles of equity, uniformity and simplicity of application in accordance with internationally accepted standards and guidelines	3.60	3.86	3.40
The EACCU will facilitate the adoption of common procedure for the establishment and operation of export promotion schemes and free ports	3.40	3.57	3.60
The EACCU will harmonize and simplify customs and trade formalities including documentation and dissemination of information	3.15	3.57	3.60

The results in Table 4.29 have revealed that in general all the manufacturers of food and beverages are slightly satisfied with the objectives of EACCU.

**h) Respondents' level of satisfaction with EACCU objectives categorized by whether the company exports**

Companies again were categorized by whether they export their products or not and their level of satisfaction with EACCU objectives summarized in Table 4.30

Category A are goods which are eligible for immediate duty-free treatment while B are eligible for gradual duty reduction. Respondents were asked to state which category they belong to and using Likert-type scale to rate their satisfaction. The results are summarized in Table 4.31 and 4.32

**Table 4.30: Level of satisfaction with EACCU objectives categorized by whether the company exports**

Objectives	Export	Don't Export
	Mean score	Mean score
The EACCU will further liberate regional trade in goods on the basis of mutually beneficial trade arrangements	3.43	2.91
The EACCU will promote efficiency in production within the community	3.47	3.18
The EACCU will promote domestic, cross border and foreign investment in the community	3.72	3.82
The EACCU will promote economic development in the community	3.70	3.64
The EACCU will promote diversification and industrialization in the community	3.82	3.45
The EACCU will facilitate the adoption of standard system of valuation of goods based on principles of equity, uniformity and simplicity of application in accordance with internationally accepted standards and guidelines	3.67	3.18
The EACCU will facilitate the adoption of common procedure for the establishment and operation of export promotion schemes and free ports	3.57	3.00
The EACCU will harmonize and simplify customs and trade formalities including documentation and dissemination of information	3.39	2.91

The results in Table 4.30 have revealed that both exporters and Non-exporters seem to be slightly satisfied with EACCU objectives

**i) Respondents' level of satisfaction with categorization of products in the EACCU**

**Protocol**

According to article 11 c. of the EACCU protocol, goods from the Republic of Kenya into the Republic of Uganda and United Republic of Tanzania are categorized into A and B. Category A are goods which are eligible for immediate duty-free treatment while B are eligible for gradual duty reduction. Respondents were asked to state which category they belong to and using Likert-type scale to rate their satisfaction. The results are summarized in Table 4.31 and 4.32

**Table 4.31: Number of respondents in each category of products**

Category	n	%
Category A which shall be eligible for immediate duty free treatment	8	12.9
Category B which shall be eligible for gradual tariff reduction	43	69.4
Do not Know	11	17.7
<b>Total</b>	<b>62</b>	<b>100.0</b>

Table 4.31 shows that majority (69.4%) of the respondent companies belong to category B of products.

**Table 4.32: Overall level of respondents' satisfaction**

Level of satisfaction	n	%
Strongly satisfied	3	4.8
Satisfied	8	12.9
Neutral	23	37.2
Dissatisfied	19	30.6
Strongly dissatisfied	9	14.5
<b>Total</b>	<b>62</b>	<b>100.0</b>
<b>Mean</b>	<b>2.63</b>	

The results depicted in Table 4.32 suggest that only about 17% of the respondent companies are satisfied with the categorization. Some 45% of the respondents are dissatisfied while another 37.1% are neutral.

#### j) Respondents' level of satisfaction with EACCU protocol on the basis of category A or B

The respondents were classified into category A or B products and their level of satisfaction measured. The results are presented in Table 4.33

**Table 4.33: Level of Satisfaction with the Categorization on the Basis of whether the company manufactures category A or B**

Category	Mean
Category A	2.75
Category B	2.44

The data in Table 4.33 reveal that the respondent companies in category B are relatively more dissatisfied with the categorization.

### k) Respondents' level of satisfaction with a three band CET

Under article 12, of the EACCU protocol, a three band CET with a minimum rate of 0% for raw materials, 10% for semi finished goods and a maximum rate of 25% for finished goods was established. The respondents were asked to rate their level of satisfaction with the CET and the results obtained are contained in Table 4.34.

**Table 4.34: Respondents' level of satisfaction with a three brand CET**

Satisfaction	n	%
Strongly satisfied	3	4.8
Satisfied	17	27.4
Neutral	27	43.5
Dissatisfied	7	11.4
Strongly dissatisfied	8	12.9
<b>Total</b>	<b>62</b>	<b>100.0</b>

Table 4.34 indicates that 32% of the respondent companies are satisfied while another 43.5% are neither satisfied nor dissatisfied.

### 4.6 Relationship Between the Level of Awareness and Satisfaction with EACCU

This section presents the relationship between level of awareness of EACCU and satisfaction with EACCU in terms of promotion of trade, categorization of goods and satisfaction with CET arrangement. A correlation analysis is used to determine degree of relationships.

#### Correlation Coefficient

The simple correlation coefficient ( $r_{xy}$ ) represents a measure of the degree to which two variables (one dependent and one independent) are associated. That is it symbolizes the strength (or closeness) as well as the direction of the relationship between two variables (Dodge, 1982). This is defined as:

$$r_{xy} = \frac{\sum_{i=1}^n (X_i - \bar{x})(Y_i - \bar{y})}{\sqrt{\left[ \sum_{i=1}^n (X_i - \bar{x})^2 \right] \left[ \sum_{i=1}^n (Y_i - \bar{y})^2 \right]}}$$

where:  $X_i$  is the  $i^{\text{th}}$  observation of the independent variable,  $X$   
 $\bar{x}$  is the mean value of the  $X_i$ s  
 $Y_i$  is the  $i^{\text{th}}$  observation of the dependent variable,  $Y$   
 $\bar{y}$  is the mean value of the  $Y_i$ s  
 $n$  is the sample size

### a) Promotion of trade

Different statements in the research instrument were used to capture the pertinent data. The statements include liberation of regional trade, promotion of efficiency, domestic and cross-border investment, diversification, adoption of standards, common procedures for operation and harmonization of customs. The respondents rated the statements in the scale as strongly satisfied (5), satisfied (4), neutral (3), dissatisfied (2), and strongly dissatisfied (1). The overall mean scores were used to perform a correlation analysis between the level of awareness and satisfaction with EACCU in terms of trade promotion in the region.

Perceived effect	Frequency (n)	Percent (%)
The correlation coefficient was found to be $r_{xy} = -0.183$ and computed $\alpha = 0.154$ with $N = 62$ using SPSS. This correlation coefficient shows that the level of awareness of EACCU protocol has a low negative correlation with the satisfaction and not significant at $\alpha = 0.05$ .		

### b) Categorisation of goods

Level of awareness and satisfaction with EACCU protocol in terms of categorization of goods was also measured and correlated. The correlation coefficient was found to be  $r_{xy} = 0.137$  and computed at  $\alpha = 0.289$  with  $N = 62$ . This correlation coefficient shows that the level of awareness of EACCU protocol has a low positive correlation with the satisfaction in terms of categorization of goods for different tariffs. However, this correlation is again not significant at 0.05 level of significance.

### c) EACCU CET Arrangement

Finally, a correlation analysis was carried out between the level of awareness and satisfaction with EACCU in terms of CET arrangement. The correlation coefficient was found to be  $r_{xy} = -0.067$  and computed at  $\alpha = 0.606$  with  $N = 62$ . The correlation coefficient shows that the level of awareness of EACCU protocol has a very low negative correlation with satisfaction and not significant at 0.05 level.

The correlation coefficient (-0.067), shows that the level of awareness of EACCU protocol has a very slight negative correlation with the satisfaction with EACCU CET arrangements. Again this correlation is not significant at 0.05 level of significance.

## 4.7 Perceived Effects of the EACCU Protocol on the Food and Beverages Companies

The study also sought to assess the general perception of the company executives on the perceived effects of the EACCU protocol on their companies. Their perception was rated as either positive, negative or no effect. The findings are summarized in Table 4.35

**Table 4.35: Perceived effects of the EACCU Protocol on the Food and Beverages**

### Companies

Perceived effect	Frequency (n)	Percent (%)
Positive	28	45.2
Negative	20	32.2
No effect	14	22.6
<b>Total</b>	<b>62</b>	<b>100.0</b>

The results in Table 4.38 indicate that a substantial proportion (45.2%) of the company executives expect their companies to benefit from the EACCU protocol. These respondents stated that the protocol will create more opportunities for the growth of the company; it will reduce dependency on external imports and enable EAC countries to be self sufficient; it will intensify competition and thus improve quality of products; give opportunities for investment and that it is good for regional integration. Those with negative perception believed that the protocol will bring unnecessary competition; only some countries will benefit; and that implementation of the Customs Union is improper in terms of discriminatory duty structure. Those who stated that the protocol will have no effect based their assertion on the nature of their products, and because they do not export.



## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS AND IMPLICATIONS OF THE STUDY

#### 5.1 Introduction

This chapter briefly discusses the summary of research findings and conclusions; implications of the study and suggests direction for further research.

#### 5.2 Summary of research findings

The research findings are briefly discussed in terms of the research objectives which were to assess Kenya's food and beverage manufacturers' level of awareness and knowledge of EACCU protocol; to determine the level of their satisfaction with the protocol; and to assess the relationship between levels of awareness/ knowledge and satisfaction with EACCU.

##### a) Level of Awareness and Knowledge of EACCU Protocol

The study has revealed that among the top known regional economic groupings by the food and beverage manufacturers in Kenya are COMESA (29.7%) and the EAC (28%). It is imperative to note that these two groupings affect the country directly as Kenya is a member of both economic blocs. The executives of local companies were more aware of these economic groupings than their counterparts from foreign or subsidiary companies. This may arise from the fact that foreign companies are likely to second executives who have not had prior exposure to African setting and are therefore at a learning stage. In terms of export businesses, companies which export their products were more aware of the regional economic groupings than those who are not. The research results also show that "old" and large companies are more knowledgeable in regional economic groupings in Africa than the relatively new companies. This is possibly because new companies have not been around long enough to interact with markets outside Kenya.

The study has further revealed that although the majority (69.4%) of the executives from the food and beverage manufacturers in Kenya understand the EACCU protocol, some 30.6% of them do not understand the protocol at all. Again although the majority of the executives

understand the protocol, their level of understanding can only be rated as average with only about 11% of them fully understanding the protocol. This implies that stakeholder education about the Protocol has not been quite successful in this manufacturing sector.

#### **b) Level of Satisfaction with EACCU**

The executives' perception on how EACCU will affect the marketing of their products was a major issue in the current study. An examination of the relevant results shows that according to the food and beverage manufacturing companies, the EACCU will affect the marketing of their products slightly positively except for the "price" which will be affected slightly negatively. This arises from the fact that the EACCU is expected to widen the scope of competition. Non-exporters believe that the Protocol will affect distribution decisions and marketing research positively. The concern may have arisen from the fact that they will now have to sell their products within the three East African countries. In order to accomplish this export oriented expansion, they will now need to intensify their marketing research activities and to develop a more encompassing distribution strategy.

The respondents' ratings of their extent of satisfaction with EACCU objectives were also an important result of the study. A critical look at the relevant results shows that the respondents are slightly satisfied with the EACCU objectives. However, they are relatively satisfied with some objectives than others. The study has further revealed that only about 17% of the respondent food and beverage manufacturing companies are satisfied with Article 11 of the EACCU protocol that has categorized their products on the basis of being eligible for immediate duty free treatment or being eligible for gradual tariff reduction. Some 45% of the respondents are dissatisfied while another 37.1% are neutral.

The results of the findings on the extent to which the respondent companies are satisfied with the three band common external tariff (CET) revealed that a substantial (43.5%) number of the companies are neutral about the CET arrangement. A possible explanation for this position could be lack of proper understanding of article 12 or a wait and see approach. Those which are satisfied represent 32.2% while those which are dissatisfied represent 24.5% of the respondents.

### c) Relationship between Level of Awareness and Satisfaction with EACCU

The results of the correlation analysis between level of awareness and satisfaction with EACCU protocol showed low correlation. This means that awareness of Protocol does not necessarily influence satisfaction with the protocol. A possible explanation is that there are elements of the Protocol which are either not clear or not agreeable to the food and beverage manufacturing companies.

## 5.3 Conclusions

The conclusions of the study are that:

- Local and large companies with big turnovers are more aware of regional economic groupings
- The most known regional economic groupings by food and beverage manufacturers are COMESA and EAC
- The main regional economic groupings that are perceived to affect the marketing of the food and beverage manufacturers in Kenya are EAC (40%) and COMESA (39%). SADC is also said to affect the marketing though to a lesser extent (17%).
- Although a majority (69.4%) of the executives of the food and beverage manufacturing companies understand the EACCU protocol, only about 11% are confident of their understanding while some 30% of them do not understand the protocol at all.
- Local companies feel that a part from the “P” of price EACCU will have a positive effect on the marketing of their products. On the other hand foreign companies feel that apart from the “P” of product all the other “P’s” will be affected. Finally subsidiary companies feel that EACCU will affect them positively except for the “P” of place (distribution).
- Some 32% of the food and beverage manufacturers in Kenya are satisfied with the CET arrangement

- There is no statistically significant relationship between the level of awareness, and satisfaction with EACCU protocol
- Overall, a substantial number (45.2%) of the company executives perceive the EACCU protocol positively. Some 22.6% are neutral while some 32.2% perceive the Protocol negatively.

#### 5.4 Implications of the study

The results of this research study has got implications for the food and beverage manufacturers, the Government of Kenya, KAM and the academicians. For the food and beverage sector the study has shown that the Customs Union is relatively perceived positively by the manufacturers and the sector is likely to attract more investments. For the Kenya Government the study provides a positive feedback and a re-assurance that the Government made the right move by signing the Treaty. As expected, more investment in this sector is likely to come along with job creation which was a major pledge by the current coalition government. For KAM, the realization that only 11% of the respondents understand fully the EACCU protocol is a wake-up call for them. It means that KAM needs to educate its members on the potential benefits of the Protocol. For the academicians this study should act as a launching pad for further research regarding different aspects of the East African Community.

#### 5.5 Suggestions for future research

- The current research was limited to food and beverage manufacturers and its findings cannot be generalized to other manufacturing sectors. There is, therefore, a need to replicate this study in other sectors of the economy
- The study focused specifically on perception. The real situation after full implementation of the protocol may vary. Future studies should therefore research on the effects of the Protocol after implementation.
- Finally, research should be conducted to determine whether private and public companies are similar as far as the pertinent dependent variables are concerned.

## Appendices

### Appendix 1: List of companies under Food and Beverage Sector of KAM

NO.	COMPANY NAME	PRODUCTS/SERVICES	LOCATION
1	Agro Chemicals	Rectified Spirits, Methylated Spirit,	Muhoroni
2	Alpine Coolers	Rental of Water Dispensers, Processing and Distribution	Nairobi
3	Aquamist	Aquamist Mineral Water	Nairobi
4	Arkay Industries	Sunflower Oil and Animal Feeds	Eldoret
5	Belfast Millers	Poultry, Cattle, Pig, Dog Feeds	Nairobi
6	Bidco Oil Refineries Ltd	Edible Oils, Cooking Fats and Soaps	Thika
7	Bio foods Products Ltd	Yoghurt, Jams, Creams, Shakeym Whole Milk	Nairobi
8	British American Tobacco Kenya	Cigarettes and Cured Tobacco	Nairobi
9	Broadways Bakery Ltd	Bread and Wheat Flour	Thika
10	Brookside Dairy Ltd	Milk (Standard, Whole Milk, Low Fat) Lala	Ruiru
11	Cadbury Kenya Ltd	Food Drinsk, Chocolate & Sugar Confectionery	Nairobi
12	Candy Kenya	Confectionery	Nairobi
13	Chemelil Sugar Company Ltd	Mill White Sugar, Mollasses	Kisumu
14	Cirio Del Monte Ltd	Pineapple Concentrate, Pineapple Slices	Thika
15	Coastal Bottlers Limited	Sodas - Bottles of Coca-Cola Products	Mombasa
16	Coca-Cola East Africa Ltd	Coca-Cola Products	Nairobi
17	Confec Industries Ltd	Hardboiled Confectionery "Kido candy"	Nairobi
18	Corn Products Limited	Maize (Corn) Starch, Glocuse (Corn) Syrup, Dextrose	Nairobi
19	Crown Foods Ltd	Mineral Water, Juices, Potato Crisps and P.E.T	Molo
20	Cut Tobacco (K) Ltd	Cigarettes - Horseman King Size Filter Cigarettes	Nairobi
21	Deepa Industries	Spices and Snacks	Nairobi
22	East African Sea Food Ltd	Alpha (Brand) Frozen and Chilled Sea Food	Nairobi
23	East Kenya Bottlers Ltd	Sodas - Bottlers of Coca-Cola	Machakos
24	Equator Bottlers Ltd	Sodas - Bottlers of Coca-Cola	Kisumu
25	Erdemann Co. (K) Ltd	Vodka, Whisky, Cane, Gin and Brandy	Nairobi
26	Excel Chemicals	Fruit Drinks - Excel and Quencher	Nairobi
27	Excel Industries	Confectionery	Nairobi
28	Farmer's Choice	Sausages, Hams, Bacons, Fresh Bacon	Nairobi
29	Flamingo Bottlers Ltd	Sodas - Bottlers of Coca-Cola	Nakuru
30	Frigoken Ltd	Processed Green Beans in Jars, Cans and Frozen	Nairobi
31	Giloil Company Ltd	Vegetable Cooking Oils	Nairobi
32	Globa Allied Industries Ltd	Biscuits	Nairobi
33	Global Beverages Ltd	Black Diamond ( Whisky/Vodka/Gin/Cane Spirit	Nairobi
34	Hail & Cotton Distillers Ltd	Distillation and Packaging - Sapphire Cane	Nairobi
35	Highlands Canners	Beans	Nairobi
36	Highlands Mineral Water Co	Bottled Water, Cordials and Ready To Drink Water	Nyeri
37	Jambo Biscuits (K) Ltd	Biscuits, Sweets, Toffees, Curry Powder, Potato	Nairobi
38	Jettak Foods Ltd	Fruit Juices, Ready- to -drink, Nuts Based Spread	Ruiru
39	Kabrass Millers Ltd	Bread	Kakamega
40	Kapa Oil Refineries	Edible Oils, Soaps, Detergents, Baking Powder	Nairobi
41	Karirana Estate Ltd	Tea Manufacturers and Exporters	Limuru
42	Kenafric Industries Ltd	Hardboiled candies (Sweets) Ballgums Bubble Gums	Nairobi
43	Kenblest Limited	Bread	Thika
44	Kenchic Ltd	Processed Chicken, Broiler days old chicks ISA	Nairobi
45	Kenya Breweries td	Tusker Lager, Tusker Malt Lager, Tusker Export	Nairobi
46	Kenya Millers Ltd	Gram Flour, Gram Dhall, Moong Dhall, Uri Dhall	Nairobi
47	Kenya Nut Company Ltd	Roasted and Salted Macadamia Nuts Groundnuts	Nairobi
48	Kenya Sweets Ltd	Confectionery Products	Nairobi
49	Kenya Tea Packers Ltd (KETEPA)	Safari Pure Tea, Kenya Tea Bags, Fahari Ya Kenya	Kericho
50	Kenya Wine Agencies Ltd	Wines and Spirits	Nairobi
51	Kevian Kenya Ltd	Pick N Peel Juice, Alfa Juice and Mt. Kenya Drink	Nairobi
52	Kisii Bottlers Ltd	Soft Drinkns and Mineral Water	Kisii
53	Krystaline Sales	Salts	Mombasa
54	Kwality Candies & Sweets Ltd	Hard and Soft Boiled Confectionery -Toffees	Nairobi
55	London Distillers (K)	Alcoholic Drinks - Safari Cane, Kenya King	Nairobi

56	Mafuko Industries Ltd	Bread	Meru
57	Maizena Millers Ltd	Maize Flour	Nairobi
58	Mastermind Tobacco (K) Ltd	Tobacco & Tobacco	Nairobi
59	Mayfair Holdings Ltd	Fish Fillets and Bakery - Premium, Sweets and Bread	Kisumu
60	Menengai Oil Refineries Ltd	Special Baker's Fats Deep Frying Cooking Fat	Nakuru
61	Milly Fruit Processors Ltd	Pican bottled Juice RTD Juices, Vimto Soda	Mombasa
62	Mini Bakeries (Nbi) Ltd	White and Brown Bread - Supa Loaf & Hot Loaf	Nairobi
63	Miritini Vet & Agro Supplies	Jaffa Gold Juices	Nairobi
64	Mombasa Salt Works Ltd	Iodized Table, Drycrushed, Coarse	Mombasa
65	Mount Kenya Bottlers Ltd	Sodas - Bottlers of Coca-Cola	Nyeri
66	Mumias Sugar Company Ltd	Sugar	Mumias
67	Nairobi Bottlers Ltd	Sodas - Bottlers of Coca-Cola	Nairobi
68	Nairobi Flour Millers Ltd	Jimbi Sifted Maize Meal Flour	Nairobi
69	Nairobi Mineral Water Company Ltd	Bottlers Water, Juices and Tomato Sauce	Nairobi
70	NAS Airport Services Ltd	Airline Food and a Meat Processing Division	Nairobi
71	Nestle Foods Kenya Ltd	Beverages, Baby Foods, and Culinary Foods	Nairobi
72	Njoro Canning Factory (Kenya) Ltd	Canned, Forzen & Dehydrated Vegebles	Nakuru
73	Oil Corp Development Ltd	Sowing Seeds	Nakuru
74	Palmac Oil Refineries Limited	Cooking Oils and fats, Laundry Bar Soaps	Nakuru
75	Patco Industries Ltd	High Boiled Sweets, Bubble Gums Toffees	Nairobi
76	Pembe Flour Mills Ltd	Maize Meal, Maize Germ, Maize Bran	Nairobi
77	Premier Flour Mills Ltd	Home Baking Flour "Chef" Brand "Premier" Brand	Nairobi
78	Premier Food Industries Ltd	Sauces, Juices, Canned Products, Squashes	Nairobi
79	Proctor & Allan (E.A) Ltd		Nairobi
80	Promasidor (Kenya) Ltd	Milk Powder, Snacks and Dog Meal	Nairobi
81	Pwani Oil Products Ltd	Deep Frying Fat, Vegetable Oil, Cooking fat	Mombasa
82	Rafiki Millers Ltd	Bakers Flour, Home Baking flour	Nairobi
83	Razco Ltd		Nairobi
84	Rift Valley Bottlers Ltd	Coca Cola Products	Eldoret
85	Salt Manufacturers Kenya Ltd	Salt	Mombasa
86	Sigma Suppliers Ktd	One day Chicks, Ideal Chicks	Nairobi
87	Softa Bottling Ltd	Sodas - Babito & Softa Brands	Nairobi
88	Spin Knit Ltd	Fresh Milk, Flavoured Milk, Butter, Cream, Ghee	Nairobi
89	Super Bakery Ltd	Bread	Nairobi
90	Swan Industries Ltd	Sugar and FLOUR Confectionery	Kisumu
91	Swan Millers Ltd	Wheat Mill Maize Mill	Nairobi
92	Teita Estate Ltd		Nairobi
93	UDV Kenya Ltd	Spirits	Nairobi
94	Unga Group Ltd	Wheat Flour Maize Flour Animal Feeds	Nairobi
95	United Millers Ltd	Wheat Flour, Maize Flour, Bread, Dog Meal	Kisumu
96	Uzuri Foods Ltd	Wheat Flour, Bakery Products	Nairobi
97	Virani Curry powder & Flour Limited	Spices, Curry Powder, Condiments	Nairobi
98	W. E. Tilley ( Muthaiga) Ltd	Nile Perch Fillets - Skinkless, Skin on (Fresh or Fried)	Nairobi
99	Wainanchi Marine Products	Tuna Loins and Runa Fish Meal	Mombasa
100	Wrigley Company Ltd (E.A) Ltd	Confectionery	Nairobi

## APPENDIX II: QUESTIONNAIRE

### Instructions

This survey offers you an opportunity to express your views on a variety of issues related to the East African Community Customs Union (EACCU). When answering the questions please note that there are no right or wrong answers. I am simply asking for your opinions, based on your perceptions of the way the Customs Union is supposed to operate.

### SECTION A: Company Demographics

1. Name of the company.....
2. Year of the establishment of the company.....
3. Position of the respondent in the company (e.g. Sales Manager).....
4. Number of years the respondent has worked for the company.....
5. What is the nature of ownership of the company (please tick appropriately).

Nature of ownership	(tick)
Local	
Foreign	
Subsidiary	
Other (specify)	

6. Does the company have branches/ affiliates outside Kenya?

Yes ( ) No ( )

7. If yes, where else? (a).....  
(b).....  
(c).....  
(d).....  
(e).....

8. Is the company listed in the Nairobi stock exchange?

Yes ( ) No ( )

9. What is the total number of employees in the company?.....

SECTION B: Awareness/ Knowledge

10. Indicate the products your company manufactures

Product	(tick)
Food	
Beverages	
Both food and beverages	

11. What is the yearly average sales turnover of your firm in Kenya shillings for the last three years?

Turnover (millions)	(tick the appropriate range)
100-500	
501-1000	
Over 1000	
<b>Total</b>	

12. Does your company export its products?

Yes ( ) No ( )

13. If yes, to which countries? (a).....

(b).....

(c).....

(d).....

(e).....

(f).....

(g).....

18. In what ways do they affect the marketing of your products?

(a).....

(b).....

19. Do you understand the East African Community Customs Union (EACCU) protocol?

Yes ( ) No ( )



**SECTION B: Awareness/ Knowledge**

Please answer the following questions as honestly as you can.

14. Which of the regional economic groupings in Africa are you aware of?

- a).....
- b).....
- c).....
- d).....
- e).....

15. Is there any of the above Regional economic groupings that affect the marketing of your products? Yes ( ) No ( )

16. Give reason(s) for your answer.....  
.....  
.....

17. If your answer in 15 is yes, which regional economic groupings affect the marketing of your products most

- (a).....
- (b).....
- (c).....

18. In what ways do they affect the marketing of your products?

- (a).....  
.....  
.....
- (b).....  
.....  
.....

19. Do you understand the East African Community Customs Union (EACCU) protocol?

Yes ( ) No ( )

20. State briefly according to your understanding what the protocol entails

.....

.....

.....

.....

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.....

21. Have you or other employees of your company received specific training(s) in the EACCU protocol? (tick appropriately)

Others (specify)

Received training in EACCU protocol	Yes	No
Respondent		
Other Employees		

22. What specific areas did the training cover?

.....

.....

.....

.....

.....

.....

23. Overall how well would you rate your knowledge of the EACCU protocols? (tick the most appropriate answer)

	Tick the most appropriate
Very good	
Good	
Average	
Poor	
Very poor	

**SECTION C: Satisfaction with EACCU**

24. How do you think the EACCU will affect your company in terms of marketing your products in the region? (Rate this on a scale of 1 to 7 by circling the most appropriate number).

- |                            | Positively |   |   |   |   | Negatively |   |
|----------------------------|------------|---|---|---|---|------------|---|
| (a) Product decisions      | 1          | 2 | 3 | 4 | 5 | 6          | 7 |
| (b) Price decisions        | 1          | 2 | 3 | 4 | 5 | 6          | 7 |
| (c) Promotion decisions    | 1          | 2 | 3 | 4 | 5 | 6          | 7 |
| (d) Distribution decisions | 1          | 2 | 3 | 4 | 5 | 6          | 7 |
| (e) Marketing research     | 1          | 2 | 3 | 4 | 5 | 6          | 7 |
| Others (specify)           |            |   |   |   |   |            |   |

25. To what extent are you satisfied with the following statements in relation to your company.

	Strongly satisfied	satisfied	Neutral	Dissatisfied	Strongly Dissatisfied
a) The EACCU will further liberate regional trade in goods on the basis of mutually beneficial trade arrangements					
b) The EACCU will promote efficiency in production within the E. A community					
c) The EACCU will promote domestic, cross border and foreign investment in the E.A community					
d) The EACCU will promote economic development in the E.A community					
e) The EACCU will promote diversification and industrialization in the E.A community					
f) The EACCU will facilitate the adoption of standard system of valuation of goods based on principles of equity, uniformity and simplicity of application in accordance with internationally accepted standards and guidelines					
g) The EACCU will facilitate the adoption of common procedures for the establishment and operation of export promotion schemes and free ports					
h) The EACCU will harmonize and simplify customs and trade formalities including documentation and dissemination of information					

26. According to Article 11 of the EACCU protocol, the partner states agreed that upon coming into force and for the purpose of transition (five years) into a customs union:

- (a) goods to and from Uganda and the United Republic of Tanzania shall be duty free
- (b) goods from the Republic of Uganda and the United Republic of Tanzania into the Republic of Kenya shall be duty free
- (c) goods from the Republic of Kenya into the Republic of Uganda and the United Republic of Tanzania shall be categorized as follows:
  - (i) Category A goods which shall be eligible for immediate duty free treatment, and
  - (ii) Category B goods which shall be eligible for gradual tariff reduction

Question: To which category do your products (goods) belong? Category A ( )

Category B ( )

27. To what extent are you satisfied with this arrangement?

	Tick the most appropriate
Strongly satisfied	
Satisfied	
Neutral	
Dissatisfied	
Strongly Dissatisfied	

28. What implications does this arrangement (in Q 26 above) portend to the marketing of your products?

.....

.....

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.....

.....

29. Under Article 12, of the EACCU protocol, a three band common external tariff (CET) with a minimum rate of 0 percent, a middle rate of 10 percent and a maximum rate of 25 percent was established for raw materials, semi-finished and finished goods respectively.

In relation to your company to what extent are you satisfied with this CET arrangement?

	Tick the most appropriate
Strongly satisfied	
Satisfied	
Neutral	
Dissatisfied	
Strongly Dissatisfied	

30. Please give reason(s) for your answer above.....

.....

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.....

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31. Do you think the assumption that Kenya is more industrialized than Tanzania and Uganda true? Yes ( ) No ( ) Don't know ( )

32. In your own words briefly explain what you think of the EACCU in relation to your company.....

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