

**PERCEPTION OF EAST AFRICAN COMMUNITY  
CUSTOMS UNION: A CASE STUDY OF RETAILERS IN  
NAIROBI CENTRAL BUSINESS DISTRICT**

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**A Management Research Project submitted in Partial  
Fulfillment of the Requirements for the Degree of  
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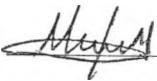
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## DECLARATION

I certify that this project is my original work and to the best of my knowledge it has not been presented for a degree or a diploma in any other university

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## DEDICATION

This project is dedicated to my God, who is the source of all knowledge and wisdom. I also dedicate this research to my husband Dr Saiba Eugene for his endless support during my studies and to my two daughters Keren Uwase and Keziah Ineza for giving me the inspiration to complete the project.

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God bless you all.

## ABSTRACT

“The world is a global village” is a common phrase that goes around nowadays. Borders are beginning to become less and less restrictive as countries realize the benefits of less restriction to cross border trade. The European Union has paved a path that countries around the world might follow in the next few years to come. The East African region nations are united in a customs union in a bid to increase the ease of cross border trade between Kenya, Uganda and Tanzania.

The East African Community (EAC) was formed in 2001, revamped after a collapse in 1977. It was officially launched in 2005. Kenya, Uganda and Tanzania resolved to create an enabling environment to attract foreign investors, allow private and civil society to play a leading role in development and to stimulate trade between the three countries. They signed a customs union protocol in March 2004. This paper surveys retail institutions in Nairobi’s Central Business District (NCBD) in a bid to establish the perceptions of traders to the East Africa Community Customs Union and the factors that influence this perception.

Chapter 1 of the study provides a brief background on the East African Community, its origins and the formation of the customs union. It also provided an insight into retail trade in Nairobi. The chapter also defines the problem. Chapter 2 builds the theoretical framework of the problem by providing literary works on regional integration, its benefits and flaws; the effect of customs union; and trade within the EAC. Chapter 3 defines the research methodology of the study.

The fourth chapter presents the data analysis and findings of the study. The analysis entails primarily quantitative methods of analysis. The findings are then discussed in Chapter 5, which is a summary of findings, conclusions and recommendations.

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## **ABBREVIATIONS**

EAC – East Africa Community

EACCU – East Africa Community Customs Union

EAHC – East Africa High Commission

EASCO - East Africa Common Services

ECA – Economic Commission for Africa

EU – European Union

IGAD – Inter-Governmental Authority on Development

IOC – Indian Ocean Commission

NCBD - Nairobi Central Business District

NEPAD – New Partnership for Africa’s Development (NEPAD)

SADC – South African Development Community

SPSS – Statistical Package for the Social Sciences

UNDP – United Nations Development Programme

UNEP – United Nations Education Programme

VAT – Value Added Tax

WTO – World Trade Organization

# CHAPTER I: INTRODUCTION

## 1.1. Background

Regional integration is not a new phenomenon in Africa. According to UNDP (2003), the world's oldest custom union exists in Southern Africa, and the continent's list of both past and present multilateral economic agreements is longer than that of any other.

For Africa, the future of all countries is interdependent (UNEP, 2006) , because this will provide opportunities for addressing common challenges such as improving economic policy, increasing market size and competitiveness, attracting foreign direct investment and pooling together resources for investments of mutual benefit . The revival of interest in regional integration and cooperation is a worldwide phenomenon, inspired by the success of the European experience (Laverne, 1997), also because of the challenge of the integration into the global economy, the increasing international competition, and the increasing economic difficulties.

There has been a renewed push in recent years for broader and deeper regional trade in Africa, some of the previously defunct regional arrangements is the East African Community. On 30 November 1999, the three presidents of Kenya, Tanzania and Uganda signed the Treaty establishing the EAC. On 15 January 2001, the East African Treaty was officially launched in Arusha after ratification by the three countries (Mohiddin 2005).

Prior to re-launch the East African Community, Kenya, Uganda and Tanzania had enjoyed a long history of co-operation under a successive regional integration arrangement. The former East African Community collapsed in 1977, when member states failed to pay their dues to the community and Tanzania closed its border with Kenya. It is hoped that the current cooperation arrangement will open up investment and trade opportunities for local producers to enjoy economies of scale and in the process lead to general increase in welfare and poverty reduction. Since its re-launch, East Africa Community has set targets in a number of areas of mutual cooperation and is achieving

some interesting results. The current integration efforts are being undertaken with a customs as the starting point.

The customs union protocol has been finalized and it was readily in legal form for endorsement by heads of state in 2005. Some agreements have been reached on eliminating tariffs, non-tariff barriers and non tariffs measures. Member countries have already identified those import goods whose tariffs will immediately be reduced to zero and those that qualify for phased tariff reduction. The countries have agreed on a common external tariff level of 25 per cent and a minimum of 0 per cent, but the sequencing of implementation and exceptions still needs a lot of work.

The culmination of much regional integration has been met with suspicion and fear by the member countries. In the case of EAC there has been fear by Uganda, for example, which argues that the Kenyan counterparts are going to benefit more than them, this in turn has delayed the process of having a fully pledged union. Other than the countries themselves, there are industries that also cry foul when the pacts of EAC are going to be adopted. Sugar industry is a case at point here. They are claiming to be so volatile if the liberalization is to be allowed without control. There can only be said to exist a mixed reactions regarding the custom union, this is because there are those that think this will affect them negatively while other think it will affect them otherwise. Cement firms in Kenya have welcomed the custom union for their market will extend without barriers to the five countries that are member to the EAC.

### **1.1.1 Regional Integration**

Some conceptual clarification of the term regional integration may be useful. Lavergne (1997), described differences between four concepts. Those of regionalism, regional integration, regional cooperation and economic integration.

The concept of regionalism, represent a regional approach to problem solving including regional integration, regional cooperation or both. The terms regional integration and

regional cooperation have in common the involvement of neighbouring countries in collaborative ventures. However regional cooperation implies that this is organized on an ad hoc and temporary basis through contractual arrangements of sort, around projects of mutual interest, while regional integration involves something more permanent. It can cover the full range of public-sector activity, including not only the coordination of the economic policies, but also regional security, human's rights, education, health, research and technology and natural resource management. The concept of regional integration is broader than that of economic integration. The concept of economic integration refer to increased trade and factor flows between neighboring counties, as a result of trade liberalization or the coordination of economic. According to Hill (1998), regional economic integration is an agreement between countries in a geographic region to reduce tariff and non tariff barriers to the free flow of goods, services and factors of production between each other.

There are five levels of economic integration (Rugman and Hodgetts, 1995); the free trade area, the customs union, the common market, the economic union and the political union. A free trade area is an economic integration arrangement in which barriers to trade such as tariffs among member countries are removed. Gross and Kujawa (1992) pointed out that the most of the integration efforts in the post World war II period have been from this basis, they further explain that the participant in the free trade area expects to gain by specializing in the production of goods and services in which it possesses comparative advantages and by importing from other countries in the groups products and services in which it faces comparative advantages.

A customs union is a form of economic integration in which all tariffs between member countries are eliminated and a common trade policy toward non member countries is established. A common market is a form of economic integration characterized by: no barriers to trade among member nations, a common external trade policy, and mobility of factors of production among member countries.

An economic union is a deeper form of economic integration characterized by free movement of goods, services and factors of production between member countries and

full integration of economic policies. An economic union also: unifies monetary and fiscal policy among the member nations, has a common currency (or a permanently fixed exchange rate between currencies), employs the same tax rates and structures for all members. A political union goes beyond full economic integration and results in a situation in which all economic policies are unified and there is a single government. Important examples of political unions are Canada, the Soviet Union and the United States, each of which combined independent states into a single country.

### **1.1.2 The East African Community**

The East Africa Community is composed of Kenya, Uganda and Tanzania. Recently in November 2006, Rwanda and Burundi were included in EAC. EAC covers a total area of 1,768,812sq.kms and is inhabited by 93 million people. It is located below the horn of Africa and with a coastline of 2,104 Kms on the Indian Ocean.

#### **1.1.2.1. The history of East African Community**

The integration process in East Africa can be traced to the colonial times; Kenya and Uganda have co-coordinated their economic activities and policies. In 1921, the colonial territories of Kenya and Uganda united to form free trade area, inaugurating the first phase of East African integration. Then Tanganyika later joined in 1923.

In 1948 to 1961, The East African High Commission was established for regional cooperation (EAHC), consisting of the Governors of Kenya, Tanzania and Uganda. Laws issued by the EAHC were enforceable in the three territories. This made it much easier to establish inter-territorial departments responsible for areas of common interest like transport, communications, customs and industry.

In 1961-1967, The East African Common Services (EACSO) was established at the London conference in 1961. By 1963, East African Community states had attained their independence, but establishing a political federation proved problematic. The main



disagreement centered on fears that Kenya would gain from a federation, to the detriment of her smaller neighbours. As a result, the countries moved towards a regional trade agreement instead of a political federation.

In 1967-1977, The East Africa Cooperation was established. After functioning for 10 years, the East African Community collapsed in 1977. One of the reasons advanced for the collapse of EAC was that Kenya was receiving a disproportionate share of the benefits of integration. Various measures were tested to redistribute the gains from the common market, but failed to produce the results Uganda and Tanzania wanted (Kasende and Ng'eno, 2000).

#### **I.I.2.2. The Revived East African Community**

As African Countries join regional trading blocks to catch up with global trends, increasing economic difficulties, African countries have largely been motivated by the continent's desire to promote growth through regional integration (Ndung'u, 2003).

According to Ajulu (2005), the present East African Community has its origin in the 1984 East Africa Mediation Agreement among Kenya, Uganda, and Tanzania, ratified in Arusha, through which the initial EAC was officially dissolved and which also divided the assets and liabilities of the former EAC. Through article 14.04 of this agreement, the three partner states agreed to explore and identify areas for future co-operation, and make the necessary arrangements to make good such co-operation.

Kenya, Uganda and Tanzania, were resolved to create an enabling environment to attract investments, and allow the private sector and civil society to play a leading role in development. In order to achieve this, the three partner states are determined to strengthen their economic, social, cultural, political, and other ties by establishing a customs union and common market as transitional stages, and subsequently a monetary union, and ultimately a political federation. The customs union protocol was signed in March 2004 (EAC, 2004) and came into force in January 2005 (Ajulu, 2005).

According to the protocol on the establishment of the East African Community Customs Union (EACCU) (2004), the objectives of the customs Union shall be: first, to further liberalise intra- regional trade in goods on the basis of mutually beneficial trade arrangements among the Partner States. Second, to promote efficiency in production within the community. Third, to enhance domestic, cross border and foreign investment in the community. Fourth, to promote economic development and diversification in industrialization in the community.

### **1.1.3 Retailers in Nairobi Central Business District**

Nairobi grew around the central business district. It takes a rectangular shape, around Uhuru Highway, Haille Selassie Avenue, Moi Avenue and University way. According to City Council, they have divided retailers in Nairobi Central Business District (NCBD) into 4 categories: first, Hypermarkets, multidepartmental stores, or mega stores. Second, Supermarkets and large traders. Third, Medium retailers. Fourth, Small traders or retail services, which are the dominant. The retail shops come in all shapes and sizes, new retail types keep emerging, and other retail shops close their doors.

According to Kotler (1999), retailing includes all activities involved in selling goods or services directly to final consumers for personal, non business use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing. Any organization selling to final consumers whether a manufacturer, wholesaler, or retailer is doing retailing.

According to Cox and Britain (2000), the retail sector is particularly important because: it is the final end of the distributions of goods and services to the consumer; it is a source of employment for a large pool of employees and accounts for a large percentage of consumer expenditure; it is an important tax collection point for state, particularly valued tax (VAT). It provides convenient location for consumers provides assortment of merchandise appropriate to the markets and finally provides competitive price for goods and services.

Retailers can be classified according to the types of product lines or assortment (Kotler, 1999). Specialty store carry narrow products lines with deep assortment, such as apparel stores, sporting goods stores, florists, and bookstores, furniture stores. Department store are retail firms which offer several products lines, typically clothing, home furnishing, and household goods. Supermarket are relatively large, low cost, low margin, high-volume, self service operation designed to serve total needs for food, laundry, and household maintenance products. Discount stores are retail firms with standard merchandise sold at lower prices with lower margins, higher volumes and offer mostly national brands.

## **1.2 Statement of the Problem**

The creation of a customs union can be associated with gains and losses. These may emerge from a number of dynamic sources, including specialization, economies of scale, changes in terms of trade, and forced changes in efficiency due to increased competition (Lipsey 1987). Additionally, customs union exposes firms to greater competition in the regional market. This can bring about greater efficiencies in production and marketing, which may lead to positive industrial restructuring. Trade integration also is associated with a number of costs, including the loss of sovereignty, as well as possible internal tensions caused by perceptions that are not being fairly distributed (Ajulu, 2005).

The perception of the role of the East Africa Community Customs Union is a topic of central interest to researchers because the EACCU have created opportunities for some, while posing challenges and threats for others, among those affected are retailers. This study therefore seeks to determine how retailers in NCBD perceive the role of EACCU (East African Community Customs Union).

According to Odera (2005), the customs union is a new development in East Africa, a lot is being said about the perceived effects of East African Community Customs Unions on the Kenyan manufacturing but no empirical study has so far been done to find how

various industries or economic sectors are likely to be affected. Some studies attempt to simulate the potential effects of the new customs union on the three countries, among such studies are by Ngeno et al (2003), Buss et al (2003), and DeRosa(2003). These studies are at country studies level. Only one study (Odera, 2005) looked at the effects of East African Community Customs Unions on the food and beverage industry in Kenya.

The study focused on a specific industry. No study has focused on the retailers in NCBD. Therefore, it is necessary to investigate the perceived effect of the East African Community Customs Union on retailers in Nairobi Central Business District. The study will provide much needed insight and knowledge that is currently not available with respect to the effect of the East African Community Customs Union. This research addressed the following questions: -

- a) How did retailers perceive the role the East African Community customs union?
- b) What factors influenced such retailers' perception?

### **1.3. Objectives of the Study**

1. The study sought to determine how retailers in Nairobi Central Business District perceive the role of the EACCU.
2. The study sought to determine the factors which influenced such perception.

### **1.4. Importance of the Study**

The fact that the revived East African Community recognizes the importance of the participation of the civil society in their programs of the community, this study will be useful to the ministry of East Africa Community in Kenya as a source of information for making sound decision. The study will also benefit the retailers in NCBD as it will be a source of information about the effect of EACCU on their business, so they can be aware of the opportunities and threats associated with the EACCU. The study will further add knowledge to the academicians by contributing to the existing knowledge in the area of regional economic integration in general and the role of EACCU in particular.

## CHAPTER 2: LITERATURE REVIEW

### 2.1 Role of Regional Integration

According to Livingston (1978), African countries generally share common problems such as limited market size and structural constraints including weak physical infrastructure, poor countrywide and intra-regional transport and communications systems as well as related limitations on their productivity and viability as trading nations. Many African countries are land locked small economies. Of the 53 African countries, 39 have fewer than 15 million people, and 21 have fewer than 5 million(Yongzheng, 2005).

Although Africa has 12 per cent of the world population, it produces just 2 per cent of the world's output because its productivity is low. Contemporary perspectives on the competitiveness, African countries within the context of globalization suggest that the regional integration framework is useful for learning to adapt to the pressure of international integration, particularly the challenges of increased global competition (UNCTAD, 1998). To this extent, regional integration is expected to provide a context for dealing with the common problems which African countries share.

Analysts have long recognized that most developing countries do not have the resources to cope with globalization on their own, thus they need to pool their resources in regional arrangements that will allow them to collectively confront the daunting challenges of the global markets, and strengthen their bargaining power on the global stage (Ajulu, 2005).By combining fragmented domestic markets, regional cooperation may spur economic growth and development by promoting intraregional trade and economies of scale (Ndung'u, 2001).

### **2.1.1 Advantages of Regional Integration**

#### **Free movement of goods produced inside the territories**

The free movement of goods produced inside the three territories, a common markets permits increased specialization along the lines of comparative advantages, implying in turn more effective use of resources. This is referred to as the “trade creation effect” of the customs union, since the absence of the internal tariffs permits additional specialization and trade (Livingstone, 1978). This allows African entrepreneurs and foreign investors, to respond to freer factor and product markets within the region.

#### **Overcoming small market size**

Integration is seen as a means of helping to overcome the disadvantages of small size and of making possible a greater rate of economic growth and development. Integration makes it possible on a basis of reciprocity, a larger market is necessary for established factories to be able to operate at efficient levels of output and to take advantage of differences in comparative advantage in the production of commodities. Further more, wider markets may make it possible to attract more foreign capital and to increase employment.

#### **Factor mobility and income distribution**

Another potential advantage of a customs union relates to factor mobility and income redistribution. The distribution of income may be affected by the movement of both goods and factors within the common market. Free trade permits exports commodities which are produced cheaply in one country, and thus raises the returns to abundant labours factors used in their production. This will tend to raise the low incomes of such abundant factors. For example the free export of maize from Uganda to Kenya would have reduced the price of maize in Kenya while increasing the incomes of the relatively poor maize producers in Uganda.

## **Increasing competitiveness**

The regional integration is viewed as a training ground to prepare local industries for broad based liberalization in the future (Sachs, Jeffrey and Warner, 1995).

For example, in regard to manufacturing sectors that are traditionally oriented towards the domestic market and are internationally uncompetitive, increased regional trade and investment can be a first step towards the closer integration with the economy. It would allow enterprises to gain experience in competing in foreign markets and dealing with customs and other trade related regulations; hence, they would gradually enhance their capacity to export to more demanding global markets (UNCTAD, 1998). Also organizations may benefit from economic integration efforts by establishing a joint venture with a company that is a member of that union.

### **2.1.2 Challenges of Regional Integration**

According to the Economic Commission for Africa (2006), the regional economic communities' success at deep regional integration is limited by inadequate capabilities, insufficient and unpredictable funding, poor remuneration for staff members, and weak capacity. The member countries are frequently late in paying their assessed contributions. For strategic and political reasons many African countries belong to more than one regional economic community, especially in East and Southern Africa (UNECA 2004a). The structure of each regional economic community varies, but they all share a common objective: reducing trade barriers among member countries by creating a common, larger economic space. However, the complex patchwork resulting from the multiplicity and overlapping membership in regional economic communities raises considerable problems for policy and programme coordination and harmonization. The multiplicity of regional economic communities has several drawbacks: fragmented economic spaces and approaches to regional integration, increased cost of membership in regional economic communities, unhealthy rivalry for donor funds, contradictory obligations and loyalties for member countries, inconsistent objectives and conflicting operational mandates, duplicated efforts.

The overall low level of effective demand in the region has also hindered regional integration. Although the number of conflicts has been significantly reduced and growth has resumed across much of the continent, poverty levels remain very high and purchasing power remains very low in all regions except North and Southern Africa. There is also very little manufacturing industry in Africa, reducing the degree of complementarity among and across economies. And except in Egypt and South Africa, existing industries are largely unsophisticated, which may explain the limited degree of intrafirm trade in Africa. In addition, weak transport and communication infrastructure and lack of a skilled workforce further constrain integration.

No mature business constituency for regional integration exists in Africa, and very few private citizens are aware of the anchor institutions of regional integration. African civil society organizations have yet to show sufficient interest in regional integration as an arena for policy activism. And there is very little domestic corporate pressure on African countries to provide an integrated regional or continental.

Tariff reduction targets have been implemented to various degrees but, in most cases, are behind schedule. Tariffs are not usually reduced on sensitive commodities. With the exception of SACU, none of the region trade arrangements has reached the point of making all regional trade free (Gupta, 2005). Some regional trade arrangements also stipulate the elimination of non tariff barriers but have made only limited progress toward that goal. Quantitative restrictions, import bans roadblocks and administrative charges are still in COMESA. The narrow focus on intraregional tariff reduction and failures to eliminate non tariff barriers limit the economic benefits of the regional integration.

Revenue losses are important concerns in regional integration design and implementation. Trade taxes generate almost one – third of all government revenues in African countries ( Agbeye, Stotsky, and WoldeMariam, 2004).

For example, by importing duty free Kenyan products instead of taking imports from outside East Africa the other two countries suffer a loss of customs revenue. This loss can



be substantial since customs duties form an important part of total tax revenue in both cases. Moreover it is an identifiable and tangible loss, unless of course compensation is paid.

### **2.1.3 Drivers of Regional Integration**

Major internal and external forces are significantly changing economic relations within Africa and with the rest of the world. Important aspects of these changes are the New Partnership for Africa's Development (NEPAD), the new trade geography where rich countries seek greater integration with poor countries through bilateral trade agreements, and new institutions of international trade (such as the World Trade Organization). The European Union's economic partnership agreements are also likely to considerably change the architecture of regional integration in Africa (Economic Commission for Africa 2006).

More recently Africa has witnessed the creation of several new regional economic groupings. For example, East and Southern Africa is home to the Southern African Development Community (SADC), the Indian Ocean Commission (IOC), the East African Community (EAC), and the Inter-Governmental Authority on Development (IGAD)—all formed in the last 30 years. African leaders recognize that economic integration cannot be successful without physical integration. NEPAD assigns a significant role to the regional economic communities, emphasizes regional and sub regional approaches, and encourages African countries to pool resources to enhance growth prospects and to build and maintain international competitiveness (Economic Commission for Africa, 2006).

Changes in the world trading regime are a major driver of Africa's regional integration agenda. The global trading system has evolved significantly in the last 20 years, with the general consensus that free trade is good for growth. The General Agreement on Tariffs and Trade, created more than 50 years ago, transformed into the World Trade Organization (WTO), which has significantly reduced tariff and non tariff barriers. Rich

economies now pursue bilateral trade liberalization with poor ones. The changes have resulted in greater integration of world markets and increased world trade. Since the Uruguay Round of trade negotiations in 1995 world trade increased 25%, twice as fast as production. This rapid expansion has been facilitated by developments in information and communication technology, liberalization of financial markets, and factor movements across national and regional borders. Countries' and regions' responses to these new opportunities have to some degree determined their share of the benefits (Economic Commission for Africa 2006).

Globalization is another factor driving Africa's regional integration agenda. It is sometimes seen as a benign process, full of advantages for all with a few manageable risks for poor countries. To African policymakers and leaders, though, globalization is increasingly marginalizing the continent. Globalization is not a new phenomenon (Diamond 1997), but it is now characterized by an accelerated pace of interdependence and connectivity and aided by innovations in communication technology.

Weak African economies have fared very poorly under this new regime. Few, if any, domestic protections were left after the structural adjustment programmes of the 1980s and 1990s, and the net effect has been suppressed domestic economic activity, depressed wages and tax revenues, a worsened balance of payments, and marginalization of the continent. The renewed emphasis on regional integration in the Lomé Treaty, the Abuja Treaty on the African Economic Community, and NEPAD reflects attempts by African leaders to stem this marginalization. Regional integration can provide space to grow and power to negotiate differential treatment with major trading partners (Economic Commission for Africa, 2006).

The regional group with the most influence on African regional integration is the European Union. The single European market and the euro have been important parts of this influence. The European Union has been so successful that its former competitor, the European Free Trade Association, is hardly noticed. With 25 member countries (after the

recent admission of 10 new members), the European Union today accounts for over 41% of world trade and is Africa's largest trading partner (ADB 2003).

A more recent development likely to have a significant impact on regional integration in Africa is the European Union's proposal to negotiate economic partnership agreements with regional integration communities. The economic partnership agreements will progressively eliminate tariffs and non tariff barriers on goods and services and address technical barriers to trade and other related matters. Some countries' self-interest is also driving regional integration. For example, South Africa has successfully negotiated a free trade agreement with the European Union and is negotiating similar arrangements with China and India.

## **2.2 The Effects of Customs Union**

Chacholiades (1990) argues that before the publication of Viner in 1950, it was generally believed that the formation of a customs union was a step toward free trade and that it therefore tended to increase welfare. Viner showed that this was not necessarily correct. He proved that the formation of a customs union may either improve or worsen resource allocation and welfare. He further explained that a customs union gives rise to two opposing tendencies. On the one hand, a customs union tends to increase competition and trade among the member countries, and this represents a movement toward freer trade. On the other hand, a customs union tends to provide relatively more protection against trade and competition from the rest of the world, and this represents a movement toward greater protection.

Viner's main tools of analysis were the concepts of trade creation and trade diversion. According to El-Agraa (1990), trade creation is the replacement of expensive domestic production by cheaper imports from a partner country. Lawler and Seddighi (2001), explained that trade creation relates to the increased volume of trade flows internally. Hence, new supplies of goods within the union replace higher-priced external goods, which were previously protected by tariff barriers. For example, suppose that before the

formation of EACCU, Kenya and Uganda were self sufficient in production of commodity X; neither Kenya nor Uganda imported commodity X because of the existing high tariffs. However, suppose that after the formation of the EACCU, Kenya finds it cheaper to import commodity X from Uganda because Uganda is more efficient than Kenya in the production of commodity X. The national locus of production of commodity X shifts from the higher-cost Kenyan producers to the lower-cost Uganda producers; thus new trade is generated between Kenya and Uganda; hence the trade creation.

According to El-Agraa (1988), trade diversion is the replacement of cheaper imports from outside world by more expensive imports from a partner country. Lawler and Seddighi (2001), explains that trade diversion refers to members being forced to purchase more expensive internal goods because a lower-cost foreign source is being discriminated against tariffs barriers. The formation of a customs union causes some products that were formerly imported (i.e. South Africa) to be imported from a partner country, because of the newly formed geographical tariff discrimination. Here the shift in production is from a lower –cost producer in the rest of the world to a higher-cost producer in a partner country (Chacholaides, 1990). He further argues that welfare improves only when trade creation outweighs trade diversion. When trade diversion outweighs trade creation, welfare deteriorates.

### **2.3 The Intra-EAC Trade**

According to the cabinet briefing on East African Community, the primary objective of the EAC is to creation of a single market and investment area encompassing the three East African countries of, Kenya, Uganda and Tanzania. The development in trade liberalization is proceeding on well, which could be illustrated by the data since 2000 four years after the commencement of the EAC negotiations in 1996.

Uganda is numbers one destination for Kenya's exports absorbing 36%, while Tanzania is second absorbing 17% of the total Kenya's exports to the African market in 2005. The economic survey trade statistics for the period 2001-2005 show overall increased trade

volumes between Kenya and the two partner states. The total trade between Kenya and Tanzania has grown from Kshs.12billion in 2000 to Kshs 22.8 billion in 2005. The total trade between Kenya and Uganda has grown from Kshs. 30.7billion in 2001 to 43.9billion in 2005. Kenya exports to Tanzania have grown from Kshs.13.5billion to Kshs. 19.9billion in 2005. Kenyan exports to Uganda have grown from Kshs 30billion in 2001 to Kshs. 42.6billion in 2005. Imports from Tanzania have increased from Kshs. 548.8million in 2001 to Kshs.2.9billion in 2005 while imports from Uganda have grown from Kshs. 683.4million in 2001 to Kshs. 1.4billion in 2005.

## **2.4 Perception**

Brooks (1999), argues that in simple terms perception it is how we view and interpret the events and situations in the world about us. According to Schiffman and Kanuk (1996), individuals tend to see the world in their own special ways. Four people can view the same event at the same time, and each will report in total honesty a story different from all the others. They further argues that two individuals may be subject to the same stimuli under apparently the same conditions, but how they recognize them, select them and interpret them is a highly individual process based on each person's own needs, values and expectations. Kiilu (2005) argues that when someone perceives something he becomes aware of it especially through the eyes or the mind. Therefore perception is the process by which one becomes aware of changes in the environment through senses such as hearing and seeing. Robbins (2003) defines perception as the process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment. Huczynski and Buchanan (2001), say that each individual perceive the world around them in different ways. It is their personal perception of that reality which shapes and directs their behavior, and not "objective" understanding of the external reality. Therefore perception is important simply because people behavior is based on their perception of what reality is, not on reality itself by (Robbins, 2003). Human behavior is thus a function of the way in which individuals perceive the world around them, and how they perceive other people and events in that world.

### **2.4.1 Factors Influencing Perception**

According to Robbins (2003), a number of factors operate to shape perception. These factors can reside in the perceiver, in the object or target being perceived, or in the context of the situation in which perception is made. Perception is influenced by internal and external factors leading people to see some perceived objects or persons differently (Nzuve, 1999). The internal factors are attitudes, motives, interests, experience and expectations. The external factors include size, intensity, contrast, repetition, motion, novelty and familiarity. The principle of size says that the larger the object the more likely it will be perceived. Intensity principle of attention states that the more intense the external stimulus, the more likely is to be perceived. The contrast principle states that the external stimuli which stand out against the background or which people are expecting will receive their attention. Novelty and familiarity states that either a novel or a familiar external situation can serve as an attention getter, new objects or events in a familiar setting are familiar objects or events in a new setting will draw attention of the perceiver. Schiffman and Kanuk (1994) explain that the stimuli which get selected depends on the individual previous experience as it affects her expectations, "what she is prepared, or "set" to see", and her motives at the time such as her needs, desires, interests and so on. According to Luthans (1992) people will select out stimuli or situations from the environment that appeal to, and are compatible with, their learning and motivation and with their personality. He further argues that perception begins when a person is confronted with a stimulus or a situation. This confrontation may be with the total physical and social cultural environment. In addition to the situation, person interaction they are the internal cognitive processes of registration, interpretations and feedback.

### **2.4.2 Measuring Perception**

According to Luck and Rubin (2002), measurement is the determination of the dimensions of something. Tull and Hawkins (2002) defined measurement as the assignment of numbers to characteristics of the objects, persons, states, or events, according to rules. They explain further that it does not necessarily mean numbers that

can be added, subtracted, divided, or multiplied. Instead, it means that numbers are used as symbols to represent certain characteristics of the object. Green, Tull and Alboum (2003) argue that behavioral scientists have proposed techniques whose primary purpose is to scale respondents along some attitude continuum of interest. Three of the better known procedures for doing this are the summated scale or Likert scale, the Q-sort technique, the differential scale. Mugenda and Mugenda (1999) contend that the rating scales are used to measure perception, attitudes, values and behavior. They further explain that the rating scales consist of numbers and descriptions which are used to rate or rank the subjective and intangible components in research. The numerical scale helps to minimize the subjectivity and makes it possible to use quantitative analysis. The most common used rating scale is the Likert or summated scale ( Mugenda and Mugenda1999) which was originally proposed by a psychologist Rensis Likert, his findings require a respondent to indicate a degree of agreement or disagreement with each of a series of statements related to the attitude object ( Tull and Hawkins, 2002).

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Research Design**

The survey design was appropriate for this study because the researcher was interested in collecting original data for the purposes of describing a population which was too large to observe directly. Also the survey design was an excellent vehicle for the measurement of characteristics of large populations.

### **3.2 Population of Interest**

The population refers to an entire group of individuals, events or objects having a common observable characteristic. The target population was all the retailers in NCBD (Nairobi Central Business District). According to the Nairobi City Council department of licensing, in September 2006 there were 2,280 retailers in NCBD that were registered in data register books.

### **3.3 Sample Design**

In this study, the sample units were all the retailers in NCBD. The sampling frame was obtained from Nairobi City Council licensing department. The most appropriate sampling method was disproportionate stratified sampling. This was due to the fact that the three strata have significantly varying numbers, which would lead to lack of adequate information in some of the smaller strata if proportionate sampling was used. The criteria under which the sample was stratified was based on the type of the retailers in NCBD at the Nairobi City Council has categorized them. The three strata identified amongst retailers were supermarkets and large traders, medium retailers and small retailers. Given a sample size of 90 retailers each, each retailer was to be given an equal allocation. Thus, we had a sample size of 30 for each category.



**Table 3.1: Retailers sampled from each category**

<u>Category</u>	<u>Computation</u>	<u>Retailers sampled from Each strata</u>
Supermarket and large traders	$0.3 * 90$	30
Medium retailers	$0.3 * 90$	30
Small retailers	$0.3 * 90$	30
<u>Total</u>		<u>90</u>

Source: Research data

### **3.4 Data Collection Methods**

Since the research design of this study was the survey design, primary data was collected in order to achieve the objective of the study. The main instrument for collection of data was therefore a questionnaire. The drop and pick method was used. Information was sought either from the managers of the business, or the owner of the business. Out of the 90 managers or owners of the business to whom the questionnaire were delivered , only 69 respondents properly filled and returned the same, indicating a response rate of 77 per cent. The questionnaire was divided into 2 sections. Section 1 consisted of questions on the business background. Section 2 contained questions aimed at determining the perception of East African Community Customs Unions by retailers in NCBD. A mixture of open-ended, closed-ended questions was used.

### **3.5 Data Analysis Methods**

This being descriptive study, descriptive statistics was used to analyze the data and was analyzed with the aid of SPSS (statistical package for the social science). Frequency, means scores and standard deviation was used to determine how retailers in Nairobi Central Business District perceive the EACCU. The Chi-square and correlation was used to determine the relationship between perception and factors which influence their perception.

## CHAPTER 4: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

### 4.1 Introduction

In this section the findings of the survey are presented and discussed. The purpose of this study was to determine how retailers in Nairobi Central Business District (NCBD) perceive the East Africa Community Customs Union (EACCU). The sample was made up of 90 retailers in NCBD. Useful responses were obtained from 69 informants representing a response rate of 77%. The data collected was coded and entered in SPSS package which was used to conduct the analysis.

Table 4.1 indicates the demographics of the various respondents interviewed. This table captures key personal data of the respondents such as education level, gender of their business partners and the partner's age category. Majority of the respondents had been educated at tertiary level. Some respondents 27.5% had achieved diploma education. An equal percentage had bachelor's degrees, with 5 having Masters Degrees. This brings to 61.5% the respondents who had tertiary level education. This indicates that education levels of persons in managerial positions in the NCBD retail shops are relatively high. Majority of the business owners / managers indicated that their partners gender was male (85.0%) in contrast to 15.0% who had female partners. This indicates that majority of persons who own or manager retail businesses are males. A third (30.0%) of the retailers chose not to indicate their ages. The highest age group represented was age 50 and above. This indicates that majority of business owners / managers in the city are equal to or over 50 years. This is perhaps due to individuals investing retirement funds in self managed businesses, and / or the preference of experienced managers in some businesses. The respondents of 12 (17.5%) were between 40 and 49 years of age. The age groups 30 to 39 and 20 to 29 years each had 9 (12.5%) of the respondents.

**Table 4.1: Respondent's Demographics**

	<b>Frequency</b>	<b>Percent</b>
<i>Respondents' Educational level</i>		
Masters degree	5	7.5
Bachelors Degree	19	27.5
Diploma	19	27.5
O level	12	17.5
A level	10	15
Other	3	5
<b>Total</b>	<b>69</b>	<b>100.0</b>
<i>Partners' Gender</i>		
Male	59	85.0
Female	10	15.0
<b>Total</b>	<b>69</b>	<b>100.0</b>
<i>Partners' Age category</i>		
20 – 29	9	12.5
30 – 39	9	12.5
40 – 49	12	17.5
50 and above	19	27.5
Not indicated	20	30.0
<b>Total</b>	<b>69</b>	<b>100.0</b>

Source: Primary data

## 4.2 Business Background

The study investigated the legal status of the surveyed businesses and obtained the findings shown in Table 4.2 below.

**Table 4.2: Legal Status of Business**

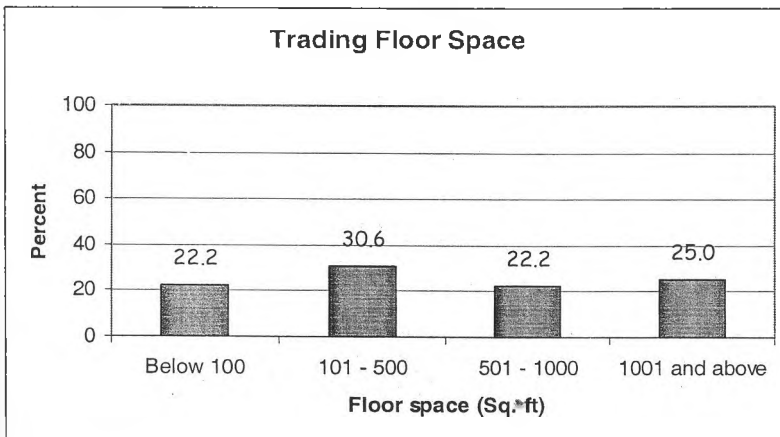
Legal status	Frequency	Percent
Independent sole ownership	19	28.2
Private Limited Company	32	46.2
Limited partnership	12	17.9
Public Limited Company	2	2.6
Other	4	5.1
<b>Total</b>	<b>69</b>	<b>100.0</b>

Source: Primary data

It was established that 46.2% of the businesses operated as private limited companies while 28.2% were sole proprietorships.

The study observed the trading floor space occupied by the surveyed companies as an indicator to their size. The findings are as illustrated in figure 4.1 below.

**Figure 4.1: Trading Floor Space**



It is shown in Figure 4.1 that 30.6% of the companies surveyed had floor space of between 101-500 square feet while one quarter of the companies had above 1,000 feet. Companies with less than 100 sq feet made up 22.2% of the sample. The maximum floor space was found to be 16,000 square feet occupied by a retail supermarket. The average floor space was 1,815 with a standard deviation of 3,621 implying a huge variation in space occupied by the surveyed companies.

Another indicator of the magnitude of a company as observed in this study was the number of employees. This variable was included to give a glimpse of the size of the organization where firms with 10 employees and below, between 11 and 50, and above 51 employees are considered as small, medium, and large respectively (Aosa, 1992).

**Table 4.3: Number of Employees**

	<b>Frequency</b>	<b>Percent</b>
10 and Below	49	71.8
11 - 50	11	15.4
51 and above	9	12.8
<b>Total</b>	<b>69</b>	<b>100.0</b>

Source: Primary data

Table 4.3 shows that majority (71.8%) of the companies surveyed had a number of employees not exceeding 10 while 12.8% had above 51 employees. This finding indicates that most of the companies surveyed were small enterprises. The maximum number of employees was found to be 202 and the minimum was 1. The average number of employees was 22.85 with standard deviation of 47.323. It can be seen that a wide dispersion existed in the staff size of the companies surveyed probably dictated by their operations. It is noteworthy that the companies, both large and small, had collectively played a significant role in employment creation.

The businesses were again classified into categories that depicted their operations. The findings are as shown in Table 4.4.

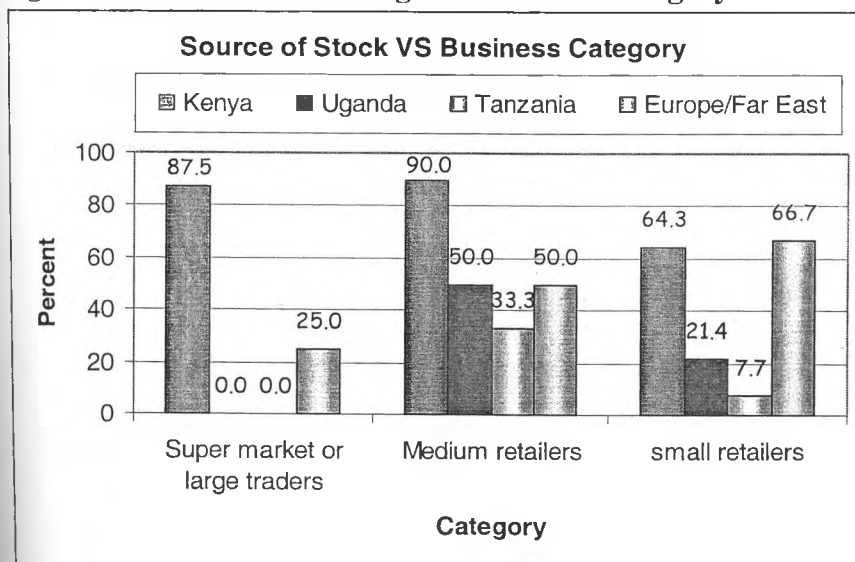
**Table 4.4: The category of business**

Category of business	Frequency	Percent
Super market or large traders	14	20.0
Medium retailers	19	27.5
Small retailers	30	45.5
Other	6	7
<b>Total</b>	<b>69</b>	<b>100.0</b>

Source: Primary data

Majority of the businesses (45%) classified themselves as small retailers and supermarkets or large traders made up 20% of the sample. The study the investigated the source of the items stocked with respect to the country of origin. This was with the intention of unraveling the trading practices of various companies alongside the extent of involvement in cross-border trade. The findings are as illustrated in Figure 4.2 below.

**Figure 4.2: Source of stock against business category**



It was found out that all the categories of businesses surveyed sourced their products from a combination of sources. Figure 4.2 illustrates that 87.5% of the supermarkets obtained their stock within Kenya while none got any of it from Uganda or Tanzania. A paltry one quarter of the supermarkets sourced some products from Europe or Far East. These findings indicate that most supermarkets concentrated on retailing and any importation was probably done by their suppliers.

Medium retailers on the other hand were found to be the most active in cross border trade. Ninety percent of traders in this category sourced products from within the country, 50% and 33.3% did so from Uganda and Tanzania respectively. One half of the medium retailers sourced products from Europe and the Far East. Of all the categories the medium categories were found to carry out the highest level of importation from the East African Community.

The highest proportion of those that imported from Europe and the Far East was found to be small retailers. This most likely comprised of traders with exhibitions and stalls. The findings generally show relatively more traders sourcing products from Uganda than Tanzania.

The respondents enumerated the reasons for preference of the source of goods as shown in Table 4.5 below.

**Table 4.5: Major reasons for sourcing goods from a particular country**

<b>Reason</b>	<b>Frequency</b>	<b>Percent</b>
Cost Effective/ Good prices	23	34.9
Quality and uniqueness guaranteed	13	18.6
Readily available and wide range of products	11	16.3
Locally because of no capital to import	6	9.3
To promote our country and local enterprises	5	7.0

To add African Variety	3	4.7
Transport facilities Available	2	2.3
Its the only alternative available	2	2.3
Low Taxes	2	2.3
Few legal requirements	2	2.3
<b>Total</b>	<b>69</b>	<b>100</b>

Source: Primary data

It was established that price (34.9%) was the major motivation for businesses' choice of country from which to buy goods. This implies that the traders mainly opted to buy goods from a source that offered competitive prices. It can also be seen that quality and uniqueness motivated the choice of source for 18.6% of the traders as did availability and variety for 16.3% of the respondents.

### 4.3 The Perception of EAC Customs Union

The first objective of the study sought to capture the understanding, attitudes and expectations of the traders with respect to the establishment of the EAC customs Union. The response of this caliber of respondents is particularly important because it will directly influence their options of trade. The respondents were required to rate their understanding of the extent to which the EACCU was characterized by given aspects. A five point scale was used where 1 signified not at all and 5 signified to a very great extent. The means of each of the aspects were calculated as shown in Table 4.6.

**Table 4.6: Traders' Ranking Perception Aspects of EACCU**

Aspect	Mean	Std. Deviation
Creation of wider market	3.54	1.220965
Increase competitiveness	3.51	1.172514
Enhance economic growth	3.40	1.102333



Enhance economic development	3.40	1.142752
Contribute to employment creation	3.34	1.136115
Facilitate factor mobility and income distribution	3.31	0.963188
Allows firms to deal with customs and other trade related regulations	3.29	1.059714
Enhance firms capacity to export to more demanding global markets	3.29	1.059714
Increase trade within members	3.29	1.296407
Facilitate African entrepreneurs to invest in the region	3.29	1.152272
Facilitates free movement of people	3.29	1.273518
Make it possible for firms to take advantage of differences in comparative advantage	3.24	1.046171
Facilitates free movement of goods	3.23	1.238731
Attract foreign investors	3.23	1.285341
Encourage joint venture between organizations member countries	3.17	1.224402
Allows firms to gain experience in competing in foreign markets	3.06	1.109925
Protects interest of members	3.00	1.180652
Allow specialization	3.00	1.128152
Act like a training ground to prepare local firms to the globalization	2.94	1.211291
Relaxed tariff barriers	2.91	1.173893
Enables factories to operate at efficient levels of output	2.88	1.148509

Thus, the closer a value is to 1, the less significant the respondents perceive it. As for standard deviation, a standard deviation equal to or below 1 indicates an insignificant difference between respondents responses, i.e. responses did not vary greatly from the mean. A standard deviation above 1 indicates that responses varied significantly from the mean.

The findings in Table 4.6 above show that Creation of wider market (mean 3.54) was the aspect the respondents most characterized with the EACCU. This indicates that most of the traders favourably viewed the EACCU because of its potential to amalgamate the three East African economies into one wide market. The respondents also highly associated the EACCU with increased competitiveness. This is probably due to exposure of all players within EAC into one playing field without preferential terms and protection from their respective governments.

The least aspect associated with EACCU was 'Enabling factories to operate at efficient levels of output' as indicated by a mean of 2.88 and 'relaxed tariff barriers, mean (2.91). This implies that the respondents did not foresee the manufacturing sector to benefit from the EACCU.

**Table 4.7: Grouping of perceptions into common factors**

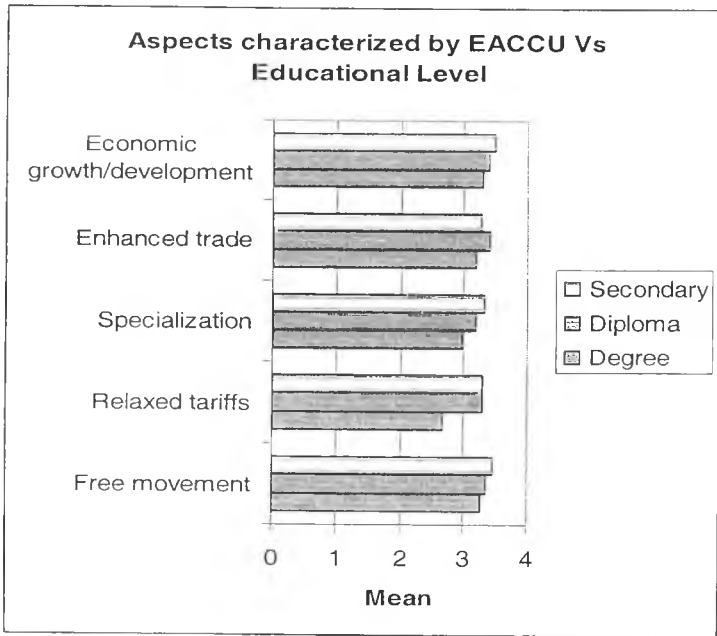
<b>Factor</b>	<b>Aspect</b>	<b>Mean</b>	<b>Std. Deviation</b>
1) Economic growth / development	Enhance economic growth	3.40	1.142752
	Enhance economic development	3.40	1.102333
	Contribute to employment creation	3.34	1.136115
	Facilitate African entrepreneurs to invest in the region	3.29	1.152272
	Attract foreign investors	3.23	1.285341
<b>Overall</b>		<b>3.33</b>	<b>1.071646</b>
2) Enhanced trade	Creation of wider market	3.54	1.220965
	Increase competitiveness	3.51	1.172514
	Enhance firms capacity to export to more demanding global markets	3.29	1.059714
	Encourage joint venture between organizations member countries	3.17	1.224402
	Increase trade within members	3.29	1.296407
	Allows firms to gain experience in competing in foreign markets	3.06	1.109925

	Act like a training ground to prepare local firms to the globalization	2.94	1.211291
	Enables factories to operate at efficient levels of output	2.88	1.148509
<b>Overall</b>		<b>3.21</b>	<b>1.122153</b>
3) Specialization	Make it possible for firms to take advantage of differences in comparative advantage	3.24	1.046171
	Allow specialization	3.00	1.128152
<b>Overall</b>		<b>3.20</b>	<b>1.090526</b>
4) Relaxed restrictions	Allows firms to deal with customs and other trade related regulations	3.29	1.059714
	Protects interest of members	3.00	1.180652
	Relaxed tariff barriers	2.91	1.173893
<b>Overall</b>		<b>3.07</b>	<b>1.168972</b>
5) Free movement	Facilitate factor mobility and income distribution	3.31	0.963188
	Facilitates free movement of people	3.29	1.273518
	Facilitates free movement of goods	3.23	1.238731
<b>Overall</b>		<b>3.28</b>	<b>1.199862</b>

Table 4.7 above indicates the grouping of perceptions in EACCU into common factors. Questions which enquired about economic growth and development had an overall mean of 3.33, indicating a relatively neutral response to this factor. The standard deviation was 1.07, which indicates there was a significant variation in responses, with some respondents perceiving the economic growth prospects due to the EACCU to be substantial while others perceiving them to be small. Respondents were also neutral in their queries related to enhanced trade within the EAC. This factor had an overall mean of 3.21 and a standard deviation of 1.12. All remaining factors had an overall neutral

mean as well. Respondents were neutral on their perception that the EACCU will lead to greater specialization among various industries, relaxed restrictions and free movement. The study attempted to establish the relationship between wider aspects of perception towards EACCU and the respondent's educational level.

**Figure 4.3: Relationship between perception and Respondents' Educational Level**



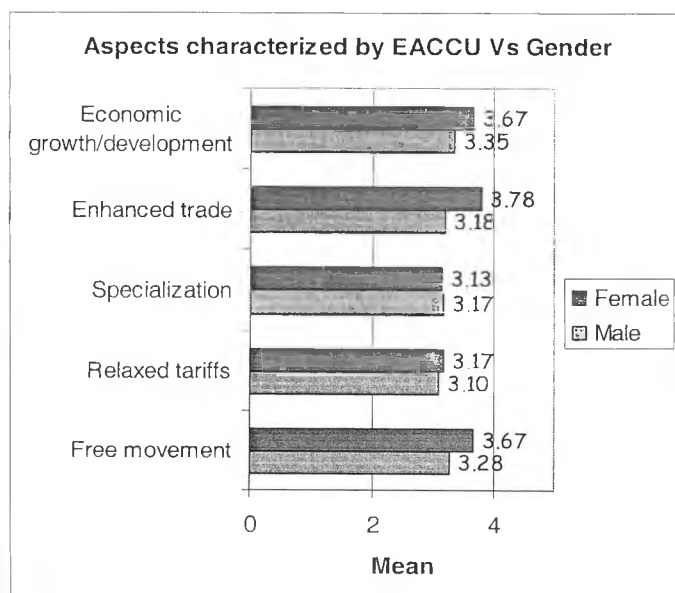
It is generally observable that respondents with secondary education were more positive in perception towards EACCU. They scored highest in aspects relating to free movement with EA bloc, Economic growth/development as well as specialization. Surprisingly, respondents with the highest level of education had the lowest rating in perception towards EACCU. Better tariffs was the aspect they least expected to yield from the customs union.

**Table 4.8: Chi square test and Spearman's r for aspects characterized by EACCU against education level**

Wider Aspect	Category of business (Chi Square statistic)	p-value	Category of business (Spearman's rho)	p-value
Economic growth/development	3.63	0.751	0.24	0.512
Specialization	2.57	0.562	0.22	0.499
Relaxed tariffs	2.22	0.587	0.14	0.430
Free movement	1.35	0.611	0.15	0.463
Enhanced trade	1.22	0.604	0.14	0.447

The chi square test of significance and Spearman's correlation tests reveal no significant influence of education on the perception of EACCU. Thus, we conclude that perception levels of the EACCU are not necessarily influenced by the manager's education levels.

**Figure 4.4: Relationship between wider aspects and Respondents' Gender**



**Table 4.9: Chi square test and Spearman's r for aspects characterized by EACCU against gender**

Wider Aspect	Category of business (Chi Square statistic)	p-value	Category of business (Spearman's rho)	p-value
Economic growth/development	4.36	0.805	0.24	0.631
Specialization	3.11	0.787	0.15	0.540
Relaxed tariffs	2.80	0.755	0.15	0.477
Free movement	2.24	0.582	0.13	0.459
Enhanced trade	1.94	0.779	0.21	0.470

Table 4.9 above indicates the chi square tests and Spearman's correlations. These statistics are not significant at 5%, indicating that there were not significant differences in the perceptions of males and females towards the benefits of the EACCU.

With respect to the relationship between wider aspects of perception towards EACCU and the respondent's gender it is illustrated in Figure 4.4 that females were generally more optimistic in all aspects of except specialization.

The study attempted to establish the relationship between the category of business and perception aspects relating to EACCU. The categories of business were Supermarkets/large traders, Medium retailers and small retailers.

**Table 4.10: Chi square test and Spearman's r for aspects characterized by EACCU against category of business**

Wider Aspect	Category of business (Chi Square statistic)	p-value	Category of business (Spearman's rho)	p-value
Economic growth/development	2.72	0.970	0.15	0.419
Specialization	1.99	0.923	0.14	0.447
Relaxed tariffs	2.00	0.925	0.11	0.555

Free movement	1.88	0.863	0.09	0.627
Enhanced trade	1.66	0.901	0.05	0.778

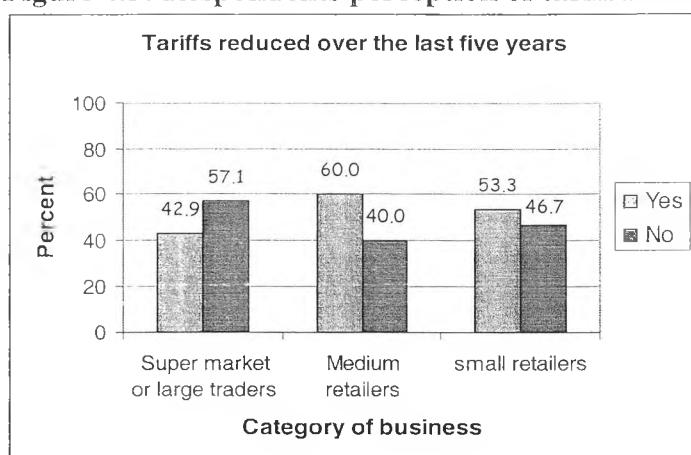
The chi square tests and correlations of table 4.10 sought to establish whether there were any significant differences in responses between the various business categories. The results were not significant at 5%, indicating no significant variation in responses between the businesses.

The findings in Table 4.7 show that a very weak correlation existed between perception to EACCU and Category of business as indicated by the values of rho approaching zero. The same is reiterated by the p-values > 0.05 implying insignificant correlations for each of the aspects. The implication of these findings is that none of the perceptions towards EACCU were

significantly influenced by the category of business the retailers operated.

The respondents were asked whether they had witnessed the tariffs of some goods from Tanzania and Uganda reducing in the last five years. In general, majority (55.9%) said they had reduced while 44.1% maintained that no significant reduction in tariffs had been realized. This finding was further clustered by category of business as illustrated in Figure 4.5 below.

**Figure 4.5: Respondents perception of tariff reduction in last five years**



It was observed that medium traders were the most active in carrying out trade with the EAC (fig 4.5). In the findings shown above, it can be seen that they (medium traders) had the largest proportion of those agreeing to have witnessed a reduction in tariffs on goods from Uganda and Tanzania over the five years preceding the study.

**Table 4.11 Effect of tariff reduction**

Effect	Frequency	Percent
Improved sales and turnover of stock	6	28.6
Has no effect	5	23.7
Competitive market prices	3	14.3
Great ,bigger and wider market	3	14.3
More variety available	2	9.5
Production costs reduced	1	4.8
Increased Competition	1	4.8
<b>Total responses</b>	<b>43</b>	<b>100.0</b>

Source: Primary data



As shown above the respondents most attributed the reduction of tariffs to ‘Improved sales and turnover of stock’ (28.6%) while a 23.7% of those that had witnessed reduction in tariffs said there was no visible effect. Generally, the respondents had reported positive effects of the witnessed tariff reduction. It is deducible therefore that the EACCU if well implemented would be beneficial to many on the businesses.

The respondent’s perception of the business opportunities within East African Community was sought and findings are as shown in Table 4.12.

**Table 4.12: Respondents perception of business opportunities**

	<b>Frequency</b>	<b>Percent</b>
Very high	17	26.5
High	14	23.5
Moderate	32	47.1
Low	2	2.9
<b>Total</b>	<b>67</b>	<b>100.0</b>

Source: Primary data

As shown above, majority of the businesses surveyed (50%) rated the business opportunities within EAC to be high/very high. The other half reported the opportunities to be moderate or low. Those that gave a high/very high rating gave the reasons shown in table 4.13.

**Table 4.13: Reason for rating**

Reason	Frequency	Percent
A wider market	29	45.5
Partner states do not have the type of goods we deal in	19	27.3
Free movement of goods and services	11	18.2
Lack of proper information and capital	4	9.1
<b>Total</b>	<b>64</b>	<b>100.0</b>

Source: Primary data

The main reason given for perception of high opportunities was availability of a wider market (45.5%). Another 27.3% of the respondents had observed that unavailability of the kind of goods they traded in within the partner countries which therefore meant virgin market for their products. On the downside, 9.1% intimated that the high opportunities notwithstanding, there was lack of information flow and adequate capital necessary to tap into the existing potential.

The respondents that rated the business opportunities within EAC to be low suggested the lowering interest rates and taxation as well as enhancement of political good will to bolster access and utilization of business opportunities with the region.

**Table 4.14: What EAC can do to enable retailers exploit trade opportunities**

	Frequency	Percent
By removing trade barriers/ Standardizing taxes	32	48.2
By becoming one big EA Country politically and economically/Harmonize the structure	11	18.5
Allow open market i.e. free movement of goods and people	11	18.5
Improve infrastructure	4	7.4

Ensuring that manufactures do not directly distribute goods	3	3.7
Be more educated to know availability of opportunities	3	3.7
<b>Total</b>	<b>65</b>	<b>100.0</b>

Source: Primary data

The respondents urged the EAC member countries to further remove trade barriers and standardize taxes to facilitate more effective trade within the region. Some respondents championed for political and economic integration as one big step to boosting trade across member countries. Some respondents reiterated that lack of information on the available market opportunities was hindrance to enhanced trade within the EAC.

The study also investigated the trader's perception of the competition trend in the five years preceding the study. The findings are as shown in Table 4.15.

**Table 4.15: Level of competition in the last 5 years in Kenya**

	<b>Frequency</b>	<b>Percent</b>
Weak competition	4	5.3
Strong competition	40	55.9
Very strong competition	26	33.6
Hyper competition	4	5.3
<b>Total</b>	<b>78</b>	<b>100.0</b>

Source: Primary data

As shown above majority of the respondents attested to the increase in the intensity and magnitude of competition in the last five years. However only 25% of the respondents attributed competition to the formation of East African Community Customs Union. Further the effect of the competition was reported to have an effect of lowering of prices and inherently thinning of profit margins for the traders.

The respondents were asked the form competition took in their line of business. The responses elicited are as shown in the table below.

**Table 4.16: Effects of competition**

<b>Form of competition</b>	<b>Mentions</b>	<b>Percent</b>
Price cutting	24	47.1
Product quality	19	37.3
Advertising	8	15.6
<b>Total responses</b>	<b>51</b>	<b>100.0</b>

Source: Primary data

Majority of the traders mentioned price cutting as the main form in which competition manifested itself in their line of business. Advertising was the least mentioned with 15.6% of the responses. The findings imply that when faced with competition most retailers resorted to reducing prices as a strategy to woo clients. This strategy adopted by majority of the traders is however not sustainable since there is a limit beyond which prices can not be reduced.

# **CHAPTER 5: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

## **5.1 Introduction**

This chapter gives a summary of the study findings gathered from the analysis of the data. It also bears the recommendations, conclusion and areas for further research. The broad objective was to investigate how retailers in Nairobi Central Business District perceive the role of the EACCU and factors influencing such perception. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and recommendations for action are also given.

## **5.2 Summary of Findings**

The main findings obtained from the study are summarized as follows: -

Almost three quarters (71.8%) of the companies surveyed had a number of employees not exceeding 10 and therefore fall in the category of small companies. The average number of employees was 22.85 with standard deviation of 47.323 illustrating the role played by the companies in employment creation.

It was found out that most supermarkets or large traders mostly (87.5%) obtained their stock within Kenya while none got any of it from Uganda or Tanzania, this suggests that they relied on the suppliers to source the products from the origin. Medium traders were found to be most active in cross border sourcing of goods whereby 50% and 33.3% did so from Uganda and Tanzania respectively.

The highest proportion of those that imported from Europe and the Far East was found to be small retailers (66.7%). More goods were sourced from Uganda than Tanzania. The main reason advanced for choice of country from which to buy goods was price (34.9%). Quality and uniqueness (18.6%) also motivated the traders to source goods from a particular country.

Creation of wider market (mean 3.54), Increased competitiveness (mean 3.51) and Enhanced economic growth (mean 3.4) were the aspects the respondents rated to be most characterized with the EACCU. Implying most of the traders favourably viewed the EACCU because of its potential to amalgamate the three East African economies into one wide market. The least aspect associated with EACCU was 'Enabling factories to operate at efficient levels of output' as indicated by a mean of 2.88 and 'relaxed tariff barriers, mean (2.91). This implies that the respondents did not foresee the manufacturing sector to benefit from the EACCU.

Majority of the respondents (55.9%) said tariffs had reduced which they attributed to improved sales and turnover of stock and competitiveness in market prices. Although majority of the respondents attested to the an increase in the intensity and magnitude of competition in the last five years, only 25% of these attributed the competition to the formation of East African Community Customs Union.

### **5.3 Conclusions**

The formation of the East African Community and the EACCU are integral components for the eventual establishment of a EA federation as stipulated in the EAC objectives. The seamless rollout of the EACCU would be beneficial to the entire population of the region if it is fully implemented and would benefit from the availability of a wider range of goods and services. Whilst the traders were largely welcoming of the EACCU they were found not to have exploited the opportunities it unveiled. Standing in the way of enhanced trade was lack or insufficient flow of information on what the EACCU entailed as well as the nature and location of the new opportunities.

### **5.4 Recommendations**

Following the study findings, the following are the recommendations made.

- The study found out that many respondents did were aware of the opportunities within the EAC that they could exploit. The three governments spearhead campaigns to sensitize their populace about the business environment in the other countries. This would help the traders identify investment and trade opportunities.
- The respondents did not identify specialization as a major advantage that EACCU could encourage. Cross border traders should be urged to study this aspect carefully in order to more accurately identify business opportunities to venture into.
- It was found out that small scale traders sourced goods more from the East than they did from the EA region. It is recommended that the EAC device

strategies on how to counter competition from the Far East by instituting measures that would make trading within the EA bloc more sustainable.

- The government should give more information about the products whose tariffs have been relaxed or abolished. This can be achieved through the gazette of such goods, products or services.
- The study found out that most respondents were not well informed on matters relating to EACCU. The government should create more awareness on the same as this would cultivate positive perceptions towards the EA cooperation and its objective of eventual integration.
- The three countries need to harmonize their manufacturing industries to be in line with their productive advantages. This would bolster specialization which is a necessary for the sectors' growth and for more trade within the region.

## **5.5 Limitations of he Study**

The study was limited to retailers. Nairobi is a major business city with several international links. Results may have differed if responses were taken from across the nation. The study could also not obtain responses form Ugandan and Tanzanian retailers.

The accuracy of user defined scales is a key issue in questionnaire design. The scale that consisted of 21 questions measuring the perception of EACCU by retailers was tested using Cronbach's Alpha test. It produced a result of 0.79, indicating that it is suitable. For Cronbach's Alpha, values below 0.70 indicate an unsuitable scale.



The data collection process was arduous due to skepticism by many retailers. Some were under the perception that the study was a survey by the Kenya Revenue Authority in a bid to increase taxes attributable to them.

## **5.6 Areas for Further Research**

Due to resource constraints and time limit the study was carried out in Nairobi only. More research can be carried out in other parts of the country especially those nearer to the border points where the impact of EACCU would be greater to gather adequate information on the subject.

The study focused on traders that sourced products from EAC. More research can also be conducted to establish the impact of EACCU on manufacturers of FMCG to who are more likely to have exported goods to the EA community to explore how they are affected by the regulations.

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## APPENDICES

### APPENDIX 1: LETTER OF INTRODUCTION TO RESPONDENTS

University of Nairobi  
School of Business  
Dept. of Business Administration  
PO BOX 30197 – 00100  
NAIROBI  
10th March 2007

Dear Respondent,

#### RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, School of Business. In order to fulfill the degree requirements; I am undertaking a management research project on **“the perception of the East African Community Customs Union: a case study of retailers in Nairobi Central Business District”**.

You have been selected to form part of the sample for this study. Therefore, I kindly request you to assist me to collect the data by filling out the accompanying questions.

The information provided will be used exclusively for academic purposes and will be held in strict confidence.

Thank you;

Yours faithfully,

MATAMA NGABO  
STUDENT

DR. OGUTU  
SUPERVISOR

## APPENDIX 2: QUESTIONNAIRE

### SECTION 1: BUSINESS BACKGROUND

1. What is the name of your business?.....
  
2. Title of the respondent:  
Manager ( )                      Owner ( )  
Other (Specify).....
  
3. Legal status of the business
  - Independent sole ownership            ( )
  - Private Limited Company            ( )
  - Limited partnership                    ( )
  - Public limited liability                ( )
  - Other (specify).....
  
4. Trading floor space in square feet.....
  
5. Number of employees in the business.....
  
6. The category of the business:
  - Supermarket or large trader            ( )
  - Medium retailers                        ( )
  - Small retailers                          ( )
  - Other (Specify).....
  
7. What is the country of origin of the items found in your business?
  - Kenya                                    ( )
  - Uganda                                      ( )
  - Tanzania                                    ( )
  - Other (Specify).....
  
8. Why do you buy your goods in a particular country? Please explain  
.....  
.....

9. Please indicate the level of education of the respondent?
- PHD ( )
  - Masters degree ( )
  - Bachelors degree ( )
  - Diploma ( )
  - O Level ( )
  - A Level ( )
  - Other (Specify).....
10. Partners' gender?
- Male ( )
  - Female ( )
11. Partners age: .....

## SECTION 2: PERCEPTION OF EAST AFRICA COMMUNITY CUSTOMS UNION

**SECTION 2A: To what extent is the East Africa Community Customs Union characterized by the following aspects? Use a five point scale where 1 = not at all and 5 = very great extent. Please tick accordingly.**

No.	Aspects	1	2	3	4	5
1	Relaxed tariff barriers	( )	( )	( )	( )	( )
2	Facilitates free movement of people	( )	( )	( )	( )	( )
3	Facilitates free movement of goods	( )	( )	( )	( )	( )
4	Protects interest of members	( )	( )	( )	( )	( )
5	Allows specialization	( )	( )	( )	( )	( )
6	Increased trade within members	( )	( )	( )	( )	( )
7	Facilitates African entrepreneurs to invest in the region	( )	( )	( )	( )	( )
8	Attracts foreign investors	( )	( )	( )	( )	( )
9	Creation of wider market	( )	( )	( )	( )	( )
10	Enhanced economic growth	( )	( )	( )	( )	( )
11	Enhanced economic development	( )	( )	( )	( )	( )
12	Enables factories to operate at efficient levels of output	( )	( )	( )	( )	( )
13	Makes it possible for firms to take advantage of differences in comparative advantage	( )	( )	( )	( )	( )
14	Contributes to employment creation	( )	( )	( )	( )	( )
15	Facilitates factor mobility and income distribution	( )	( )	( )	( )	( )
16	Acts like a training ground to prepare local firms for globalization	( )	( )	( )	( )	( )
17	Allows firms to gain experience in competing in foreign markets	( )	( )	( )	( )	( )



No.	Aspects	1	2	3	4	5
18	Allows firms to deal with customs and other trade related regulations	( )	( )	( )	( )	( )
19	Enhance firms capacity to export to more demanding global markets	( )	( )	( )	( )	( )
20	Increase competitiveness	( )	( )	( )	( )	( )
21	Encourages joint venture between organizations member countries	( )	( )	( )	( )	( )

**SECTION 2B: To what extent is the East Africa Community Customs Union characterized by the following aspects? Use a five point scale where 1 = not at all and 5 = very great extent. Please tick accordingly.**

1. Have the tariffs of some goods from Tanzania and Uganda reduced in the last five years?
  - Yes ( )
  - No ( )
  
2. What do you attribute the above to?
  - East Africa Community Customs Union
  - COMESA
  - Other (please specify).....
  
3. What is the effect of reduction of tariffs on your business? Referring to questions 1 and 2 above.
 

.....

.....

.....

.....
  
4. How do you perceive the business opportunities in the East African Community?
  - Very high ( )
  - High ( )
  - Moderate ( )
  - Low ( )
  - Very low ( )
  
5. If high, please explain. ....

.....  
.....

6. If low, why and what can be done to increase its potential? .....  
.....  
.....

7. Do you think that the East African Community Customs Union has created business opportunities in the retailing sector? .....  
.....  
.....

8. What can East Africa Community do to enable retailers fully exploit these opportunities? .....  
.....  
.....

9. What has been the level of competition in the last 5 years in Kenya?  
▪ Weak competition ( )  
▪ Strong competition ( )  
▪ Very strong competition ( )  
▪ Hyper competition ( )

10. Is the rate of competition in your business attributed to the formation of East African Community Customs Union? .....  
.....  
.....

11. What form does competition take in your form of business?  
▪ Price cutting ( )  
▪ Product quality ( )  
▪ Advertising ( )  
▪ Other (specify) .....  
.....  
.....

### APPENDIX 3: LIST OF RESPONDENTS

1. Preeti Studio
2. M.A.Tayebjee
3. Alibhai Shariff & Sons Ltd
4. Aquarius Ltd
5. Kenta Manufacturers Ltd
6. Pajay Enterprises
7. Highfield Trading Co. Ltd
8. Modana Pharmaceutical
9. Ngema Autospares &  
Hardwares
10. Hotline Sounds and Visions  
Ltd
11. Jack & Jill Supermarket
12. Dharamshi Laskamshi & Co.  
Ltd
13. Sagana Provision Store
14. Uchumi Supermarket Ltd
15. Tesco Supermarket
16. Kiarie Enterprises
17. Shoes Experts Enterprises
18. Ukwala Supermarket
19. Nakumatt Holdings Ltd
20. Ken Shades Ltd
21. Fornu Computer College
22. Nila Pharmaceuticals
23. Tabby Cosmetics
24. Infinity
25. Sagitarian Suppliers
26. Equity Ltd
27. Small Scale Business
28. Kimani Talius
29. Sunbeam Exhibition
30. Jesmiras
31. Roka electricals
32. Delta autospares
33. Lyma autospares
34. Jolivina enterprises
35. Jaribu emporium
36. Framaka
37. Geomar
38. Johewa supplies
39. Njamwa
40. Seasons autospares
41. Nairobi velocity enterprises
42. Jamu
43. Jackana
44. Arcos mattress
45. Mini price hardware
46. Sleptight enterprises
47. Hypertech electricals services

48. OTC electronics
49. Lino stanioners
50. highfieds trading
51. Tusker mattress
52. Woolmart
53. Goodfare stores
54. Super bargains
55. Biashara selection shop
56. Sunu's baby shop
57. Candy shop
58. Kiddie sport
59. Walibhai Karim
60. Hitesh(H.D) Shah
61. Hopes garments
62. Kenya linen drapers
63. Lakhashmir
64. Khashmir crafts
65. Executive curtains
66. Haria's
67. Menlow fashions
68. Gallery ethnic
69. Dash