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**Assessment of the Contribution of East African Community Common
Market Protocol to the Economic Growth of Kenya**

Emily Thaara Njuki



**Submitted in partial fulfillment of the requirements for the Degree of
Master of Business Administration at Strathmore University**

**Strathmore Business School
Strathmore University
Nairobi, Kenya**

June 2016

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Emily Thaara Njuki

June 2016



APPROVAL

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DEDICATION

This thesis work is dedicated to my loving daughter, Raine Tanna, for her love, encouragement and inspiration while writing this thesis.



ACKNOWLEDGEMENT

My profoundly gratitude goes to Almighty God for his abundant grace and mercies that enabled me to conduct the study and write this thesis.

I would like to most sincerely thank my supervisor Dr. Thomas Kibua for his immense insights, advice, assistance and encouragement that enabled me to research and write this thesis. My gratitude also goes the Strathmore Business School fraternity; students, faculty members and the study for walking the journey with me.

This thesis would have been successfully completed without the support of my family, friends and colleagues in one way or the other.

May the Almighty God bless you.



ABBREVIATIONS AND ACRONYMS

AEC	African Economic Community
CEN-SAD	Community of Sahel-Saharan States
CGE	Computable General Equilibrium
CMP	Common market Protocol
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
EAC	East African Community
ECCAS	Economic Community of Central African States
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
IGAD	Intergovernment Authority on Development
OECD	Organization for Economic Co-operation and Development
REC	Regional Economic Communities
RTA	Regional Trade Agreements
SADC	Southern African Development Community
TFTA	Tripartite Free Trade Area
UMA	Arab Maghreb Union
WAEMU	West African Economic and Monetary Union

ABSTRACT

Kenya considers Regional Economic Communities (RECs) such as the East African Community (EAC) as a facilitator for economic growth. However, the EAC regional integration process has achieved less than envisioned by EAC Common Market Protocol. The general objective of this study was to assess the contribution of East African Community common market protocol to the economic growth of Kenya. Specifically the study sought to: assess the contribution of the movement of labour and persons on the economic growth of Kenya, evaluate the contribution of the movement of capital on the economic growth of Kenya, explore the contribution of trade on the economic growth of Kenya and evaluate the challenges affecting the implementation of the Common Market protocol. The study employed an exploratory research design to establish the causal and effect between the variables. The population of study included 187 officers in senior management level working at the: State Department of East Africa Community, Directorate of Commerce and 3 companies operating across the East African region listed in the Nairobi Stock exchange. The primary data was collected and analyzed to complement the secondary findings and to confirm pragmatic coherence. The study found that movement of the persons and labour, capital, and intra EAC trade have positive influence on economic growth of Kenya, with trade making the highest contribution. The study findings revealed that movement of capital has negative influence on economic growth of Kenya owing to small capital inflow to Kenya from EAC in relation to the big capital outflow. The study also found that the EAC CMP is engulfed by a myriad of challenges requiring immediate and concerted effort by the EAC partners. The study further recommends further research on the implementation of foreign direct investment as an internationalization strategy by Kenyan firms in the East African Community, and on the challenges in harmonizing non-trade barriers under EAC Market Protocol.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This paper studied the East Africa Community (EAC) Common Market Protocol and its contribution to the growth of the Kenyan economy. The study looked at the four elements of the EAC common market protocol namely: free movement of persons, free movement of labour, free movement of capital and free movement of goods and services within the community, and how they have contributed to the growth of Kenyan economy.

The research project is divided into five (5) chapters. This chapter covers: the background of this study, statement of the problem, research objectives, research questions, significance of the study and the scope of the study. Chapter two covers the literature review section that incorporates the theoretical framework and empirical literature from which knowledge gap is identified. The conceptual and analytical frameworks are also defined in this chapter. Chapter three presents the research methodology, which covers the research design, population of the study, sampling, research instruments, and data collection as well as data analysis while chapter four and five discusses the study results, summary, conclusion and recommendations.

1.1 Background of the Study

Nations across the world are seeking ways of boosting international trade through economic blocs, integration and cooperation. The goals of countries coming together could vary from economical to political to environmental. Many bordering countries have formed Regional Economic Communities (RECs) to promote trade and cooperation amongst the partner states. Regional Trade Agreements (RTAs) are the framework on which member states/nations of the RECs undertake trade with each other. As of 15 January 2012, the World Trade Organization (WTO) had received 511 notifications of RTAs (counting goods and services separately); 319 of which were in force (Chiumya 2010).

The African continent too has not escaped the proliferation of Regional Economic Communities (RECs) in the existing global trade regime. The formation of RECs in Africa has mainly been championed to promote regional economic integration between member nations through the wider African Economic Community (AEC) that was established by the Abuja Treaty of 1991 (Chiumya 2010). Regional integrations are fundamental for Africa's growth and development particularly due to the prevailing political instability and economic weakness in the region. Africa is plagued with small national markets and fragmented economies. The efforts to remedy this resulted in many integration arrangements, with overlapping memberships and mandates, characterized by ambitious targets and low levels of achievements. This necessitated the division of the African continent into 8 Regional Economic Communities namely: Common Market for Eastern and Southern Africa (COMESA), Economic Community of West African States (ECOWAS), Arab Maghreb Union (UMA), East African Community (EAC), Economic Community of Central African States (ECCAS), Community of Sahel–Saharan States (CEN–SAD), Southern African Development Community (SADC) and Intergovernmental Authority on Development (IGAD). These RECs present a huge opportunity for the continent to address challenges of globalization and to foster intra-African trade. By reducing physical, political and economic barriers, the RECs work as the building blocks towards the creation of a United African Economy that can competitively participate in the world trade (Buthelezi, 2006).

In East Africa, regional integration predates independences and was developing without the advantage of structures and well-established plans. Okello (2002) notes that there was trade between the peoples of East Africa from as early as the eighteenth century and this is what set the trend for the formalization of the same in the following years. Over the twentieth century, the East African governments took a deliberate action to establish a legalized common market with the intention of benefiting from the economies of scale that the concept came with.

The East African Community (EAC) was originally formed by the Republic of Kenya, Republic of Tanzania, and Republic of Uganda in 1967 and collapsed a decade later due to political differences. Hazlewood (1979) attributed the collapse of the first East

African Community (1967-1977) to six major issues which include: lack of political goodwill, failure of the citizenry to appreciate the long-term benefits of the Community due to poor awareness creation, perceived or real inequitable redistribution of gains from the Community Inter-territorial imbalances in trade, disharmony of the currency system, and lack of homogeneity in constitutional and political architecture of the Partner States. The East African Community (EAC) was again reconstituted in 1999 as a regional intergovernmental organization consisting of 3 states namely the republic of Kenya, the republic of Uganda and the united republic of Tanzania. In 2007, the republic of Rwanda and the republic of Burundi acceded into the treaty. The Republic of Sudan, South Sudan and Somalia applied to join the bloc; Sudan's application was declined while that of Somalia is pending approval, (Mutisya, 2011). Southern Sudan application became the sixth member of the EAC in 2016. The broad objective of EAC as stipulated in Article 5 of the Treaty is to develop policies and programmes aimed at broadening and intensifying cooperation among the Partner States in economic, political, social and cultural fields, research and technology, defense, security and legal and judicial affairs. This is well articulated out in the EAC four pillars on integration namely: Custom union, Common Market, Monetary Union and ultimately Political Federation (Okello, 2002)

The EAC is an intergovernmental organization of five Partner States namely: Burundi, Kenya, Rwanda, Uganda, and Tanzania within the region. Together, the five Partner States cover a geographical area of 1.82 million square kilometers and have a total population of about 146 million people, with a combined Gross Domestic Product (GDP) of \$147.5 billion (OECD, 2015). It is worthwhile to note that the EAC people share history, heritage, dialect, culture and infrastructure; hence, these merits favor the Partner States for regional integration and cooperation (OECD, 2010).

The integration process of the EAC is sequential in nature. The Treaty on the formation of EAC was enacted in 2000 and the community has since made great strides in moving from one level of integration to another through negotiated protocols. The integration commenced with the signing of protocol for the Establishment of the EAC Customs Union in March 2004 and the launch of a Customs Union in January 2005.

The overall goal of the EAC Customs Union (EAC CU) is to enhance the integration process through liberalization and promotion of intra-regional trade. The EAC CU is also expected to promote the efficiency in production; enhance domestic, cross border and foreign investment; and promote industrial diversification and economic development.

The formation of EAC Common Market was launched after the ratification of the Common Market Protocol (CMP) by the five member states in the region on July 1, 2010 (Gathii, 2011). The EAC CMP provides for the four freedoms namely: free movement of persons, free movement of labour, free movement of goods and services, and free movement of capital. Full implementation of EAC CMP is imperative for the community's integration into a monetary union. The negotiations for the Establishment of the East African Community Monetary Union are ongoing and the agreement was signed on 30th November 2013. The aim of the monetary union is to promote monetary and financial stability that is essential for attainment of sustainable growth and development. The ultimate goal for the EAC integration is to attain Political Federation, which bids the partner states to the principles of democracy, the rule of law and maintenance of human rights standards.

Since the ratification of EAC CMP, there has been notable progress towards realization of the objectives of the CMP among them: increased intra-EAC Trade (Intra-EAC trade has grown by over 50% as a result of the Customs Union since its launch), signing of the Double Taxation Avoidance Agreement in December 2010 to increase benefits of Customs Union, significant cross-border investments and Foreign Direct Investment Inflows which have increased from USD 683m to USD 1.7b over the past five years. Contrary to the initial fears, there is a general fair spread and distribution of the integration benefits among the Partner States under the Customs Union such as: 24 hour opening of border points within the region; opening of more border points and creation of one stop border points for busy points like Malaba, Katuna, Namanga, Busia, Gasenyi/Nemba, Isebania; initiation of the Integration of financial markets project; ongoing negotiations on modalities of transfer of workers' social security benefits; review of internal laws to conform to the CMP

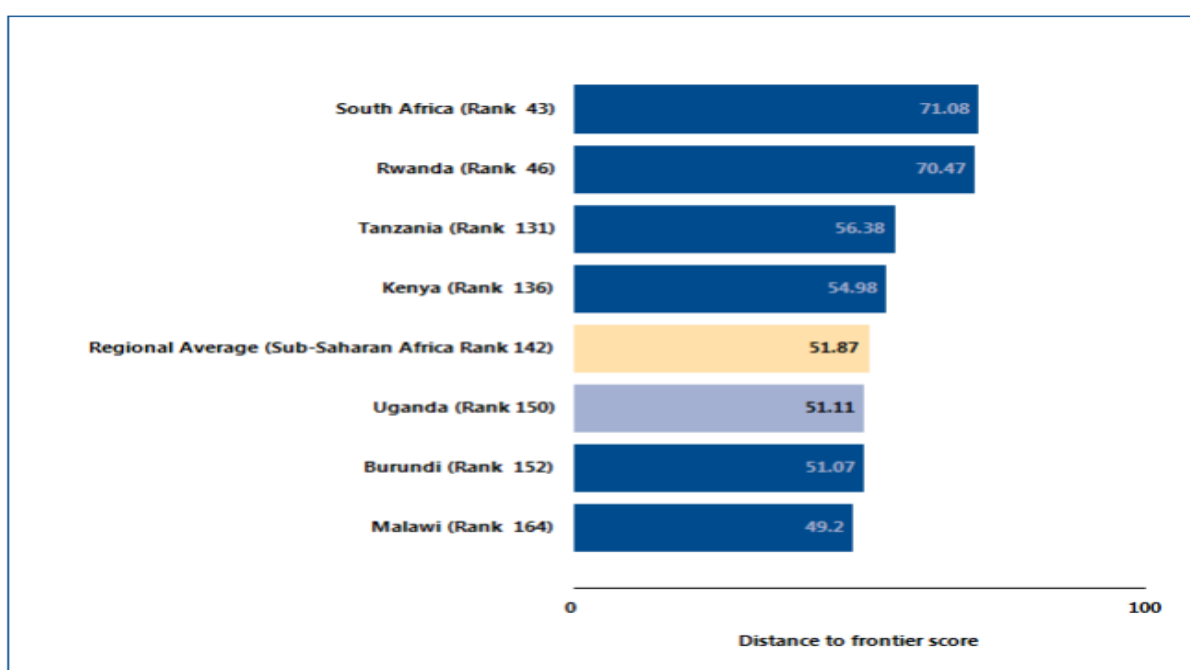
fully by 2016; relaxed travel and work permit requirements for East Africans by some Partner States; and joint infrastructural projects like roads, railways, inland waterways, ports and harbors, communications/ICT, energy and civil aviation, energy, environment and natural resources management and food security (Gathii, 2011).

This study focused on the establishment of a common market; the second pillar of the EAC integration. The ultimate goal of CMP as stipulated in Article 5 of the Treaty is to strengthen economic and social cooperation amongst the EAC member countries for sustainable growth and development. The protocol seeks to extensively promote trade and investment activities that would enable the five partner states have productive, vibrant and healthy economies. Even though free movement of people, labour, goods and services and capital have been identified as key objectives in the EAC CMP to promote the growth of the EAC economies, openness and economic growth has for long been a subject of much interest and controversy in international trade literature. With regard to a theoretical relationship between openness and growth, many studies provide support for the proposition that openness affects growth positively while others argue that the effect of openness on growth is doubtful. In the developing countries, only the long-run openness-led growth hypothesis holds, and growth seems to slow down openness in the long run (Gries & Redlin, 2012). Rodrik (1992) reports that economic openness may bring macroeconomic instability by increasing inflation, depreciating exchange rates and inviting balance of payment crisis. Thus, CMP may lead to greater exchange rate depreciation for partner states that may reduce aggregate supply of inputs by increasing prices of the imported inputs used in the production. As a result, the volume of domestic output tends to decrease (Adhikary, 2011).

Figure 1.1 shows how Kenyan economy compares to EAC economies in the ease of doing business report of 2015 based on the distance frontier score (100). The aggregate ranking by World Bank in 2015 focused on: ease of starting a business, access to permits, registration of property, access to credit facilities, protection of

investors, cross-border trade, enforcing contracts and resolving insolvency. Out of 189 countries, Kenya ranks in position 136 with Rwanda being the only EAC country below 50 while all rest of partner nations continue to perform poorly as per this report. This can explain the reason why Kenya may need to aggressively market itself as an FDI destination in order to drive increased inward FDI, not only from EAC partner states but also globally.

Figure 1.1: How Kenya compare to other EAC states on the Ease of Doing Business



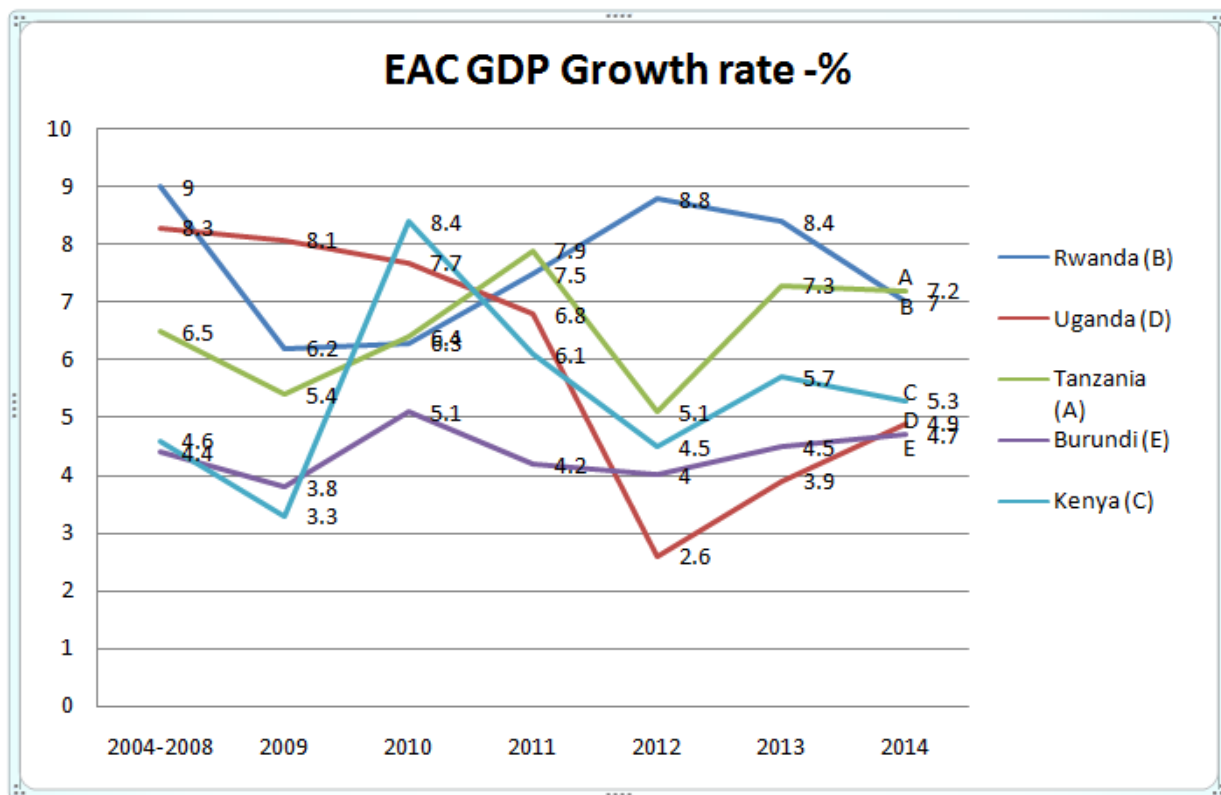
Source: Doing Business database, 2015

Note: The rankings are benchmarked to June 2014 and based on the average of each economy's distance to frontier (DTF) scores for ease of doing business parameters. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

Further, Kenya's GDP growth rate as shown in figure 1.2 continues to perform below the annual average growth projections of 6% from CBK and World Bank despite the country pushing integration agenda since 2010. Figure 1.2 shows that the economic

growth rate of EAC countries is unpredictable and doesn't follow a definite pattern even after the inauguration and patronage of the EAC CMP. The poor economic performance of Kenya in line with Kenya Vision 2030 poses a major concern as to whether the CMP objectives continue to be relevant in contributing to the economic growth of Kenya.

Figure 1.2: The GDP Growth Rate for the EAC Countries

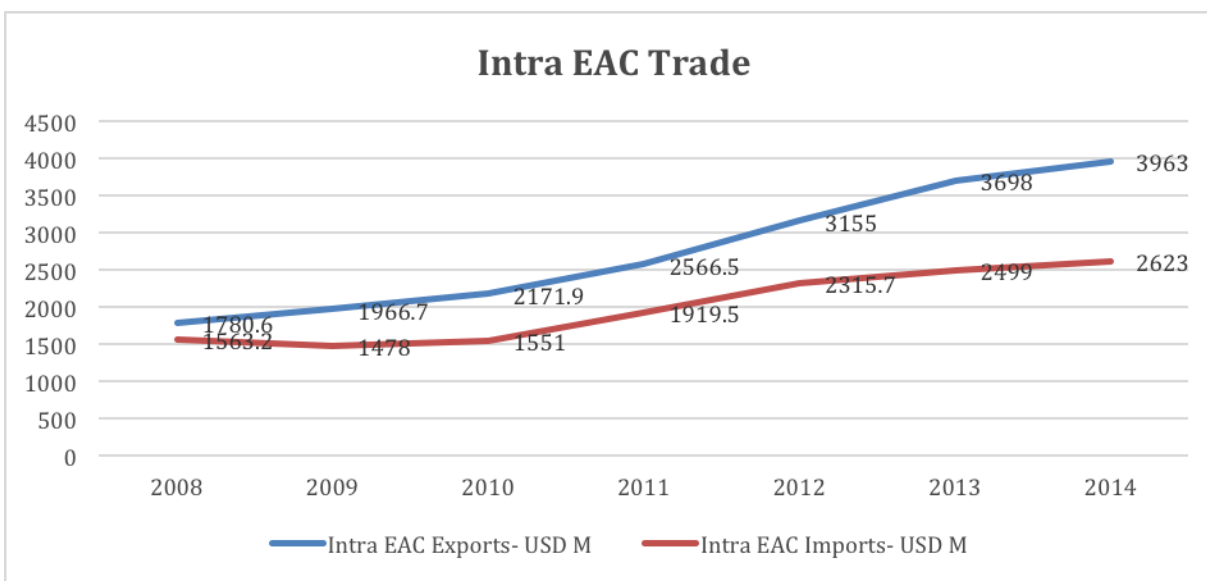


Source: OECD, 2015

A review of figure 1.3 indicates that growth of the regional aggregate intra-trade values for all the EAC partner states have not followed a definite path over the years, exhibiting cyclical trends. This is against the expectations of the nations' drive towards continuous growth of their trade values, which is expected to translate to an improved economic growth. Over a period of five years from 2008 to 2013 as analyzed, exports growth averaged at 13.2% while imports growth averaged at 6.98%. A comparison of the Kenyan GDP growth rates in figure 1.2 and the intra EAC

trade values shown in figure 1.3 indicated that though there has been an expansion in regional trade values, there has not been a corresponding growth rate of Kenyan GDP growth rates.

Figure1.3: Intra EAC Trade Values



Source: OECD, 2015

1.2 Statement of the Problem

Operationalization of the common market is a complex process that requires commitment of each partner state. In the EAC CMP, the process entails the establishment of common institutions, harmonizing of laws and regulations to ensure free movement of goods and services, persons and labour, capital, the rights of establishment and residence (Volz, 2011). Despite some notable progress on the CMP implementation in some partner states, there are barriers to free movement and allocation of factors of production across the EAC owing to various challenges that stem from partner states being economically and politically different. The delay in full implementation of common market protocols continues to deny Kenya benefits stemming from increased level of interaction with regard to economic, security, political, social and cultural cooperation.

Studies in the European Union show that regional integration and its effect on trade and growth has been positive in some analyses e.g. Badinger (2005) while in others like Abu (2014) note that EU membership appears insignificant in explaining GDP growth rates. Though a number of studies by Kinyua (2015), Kibua and Tostensen (2005), Jonyo (2005), Kariuki (2008), Nzioki (2013, Nyagwa (2012) and Jaaskelainen (2013) have been done previously on the implementation and impact of the EAC Treaty as a whole on the partner states, they have been largely deficient in outlining the extent to which the C.M.P. one of the milestones of the Treaty, has been implemented and its contribution to the growth of the Kenyan economy.

The preparations for the monetary union are ongoing comprising of the harmonization of monetary, exchange rates and fiscal policies through various committees. As the EAC moves to the third pillar of integration (monetary union), there still remains contradictory and inconclusive findings by various scholars on the contribution of common markets to member countries' economic growth. This study, therefore, seeks to fill this gap by establishing the contribution of EAC CMP to the economic growth of Kenya in line with the envisaged role of EAC CMP to cure the cyclical growth patterns of Kenya. This study is a departure from the other studies in that it focused on both primary and secondary data while previous scholarly works relied solely on the perceptions analysed from primary data collected from the respondents.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to assess the contribution of the EAC Common Market protocol to the economic growth of Kenya

1.3.2 Specific Objectives

Specifically, the objectives of the study were to:

1. Assess the contribution of the movement of labour and persons to the economic growth of Kenya
2. Find out the contribution of the movement of capital on the growth of Kenyan Economy.
3. Explore the contribution of Intra-EAC trade on the economic growth of Kenya.
4. Evaluate the challenges facing the implementation of the EAC Common Market protocol.

1.4 Research Questions

The study sought to answer the following questions:

1. To what extent has the movement of labour and persons contributed to the economic growth of Kenya?
2. To what extent has the movement of capital contributed to the economic growth of Kenya?
3. What is the contribution of intra-EAC trade to the economic growth of Kenya?
4. What are the challenges facing Kenya in the implementation of the EAC Common Market protocol?

1.5 Significance of the Study

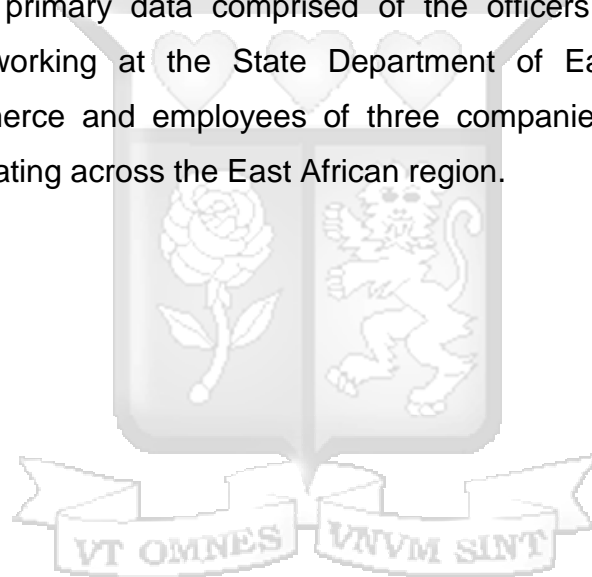
This study will be of great benefit to the following groups of people among them:

- a) Policy makers, in assessing how integration process in the East African region has affected respective economies and what can be done to hasten the process.
- b) Scholars and researchers, studying similar research topics will find the literature and the findings of this study crucial in furtherance of their research areas.

- c) Existing and potential investors will rely on the findings of this research to evaluate possible investment opportunities and the enabling investment climate within EAC region.
- d) East African Assemblies, government bodies, Development organizations, and the EAC secretariat among other stakeholders will find the research work useful in providing a guide on creating enabling and supportive teams charged with legislative tasks.

1.6 Scope of the Study

The study was conducted in the year 2016 covering years 2000 – 2015. The respondents for the primary data comprised of the officers in senior and middle management level working at the State Department of East Africa Community, Directorate of Commerce and employees of three companies listed in the Nairobi Stock exchange operating across the East African region.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The theoretical and empirical literature relating to common market protocol and the extent of influence on economic growth has been outlined in this study culminating to a conceptual framework, literature summary and the research gap.

2.1 Theoretical Framework

This study was guided by five major theories, on which the common market elements are anchored. These theories explain the linkages of regional integrations and economic growth that form the subject of research in this paper. The theories forming the foundation of this research paper include: Neoclassical growth theory, Endogenous growth theory, Trade creation theory, Neo-functional theory, and Inter-governmental theory.

2.1.1 Neoclassical Growth Theory

The theory three driving forces: labour, capital and technology which results to steady economic growth. Variations of amount of capital and labour in a production function can result to the required equilibrium position. More emphasis is given to how changes in technology influences economic growth. It further argues that economic growth will not continue unless there are continuous advances in technology. Neoclassical theory proposes that long-run economic growth arises from two exogenous factors namely: technological progress and labour force growth.

Exports, FDI and imports inflows provide a solution in filling the: saving-investment gap, the foreign exchange gap, and the fiscal gap in less developed countries. Neoclassical theory considered the role of uncertainty in investment decisions. It

stipulates that if investors are uncertain of the future returns they may reduce the investments or completely fail to invest. The theory states that there is a negative link between uncertainty and investment thus foreign direct investment volatility has impacts on economic growth (Borensztein, Gregorio & Lee, 1998)

2.1.2 Endogenous Growth Theory

In this theory, human capital, technological change and knowledge accumulation are the primary drivers of economic growth (Romer, 1986). The endogenous growth theory points out that exports, imports and FDI in the long-run affect the growth of output. Explaining role of exports, FDI and imports in the long term growth of host countries, Solow's neoclassical growth model was amended by Romer, (1986) to include growth-driving factors of human capital as well as physical capital. Through knowledge transfer, it became possible to model exports, FDI and imports as economic growth stimulants.

Since knowledge is considered an externality, it will account for the non-diminishing returns that result in long run growth. Thus making the growth determinants - exports, FDI and imports - endogenous in the model in the long run. A particular channel through which technology spills over from advanced to less developed countries is through the flow of FDI. Thus exports, FDI and imports not only contribute to economic growth through capital formation and technology transfers but also through the augmentation of the level of knowledge through labor training and skill acquisition (Solow, 2000).

According to endogenous growth theory, exports, FDI and imports affect economic growth through three main channels. First, exports, FDI and imports increase capital accumulation by introducing new inputs and technologies; Secondly, they advance the level of knowledge and skills through labor and management training; and thirdly, they increase competition in the host country's industry by overcoming entry barriers and reducing the autonomy of existing firms. The theory postulates that exports, FDI and imports have a positive effect on economic growth, whereas the volatility in their

inflows has a negative effect on economic growth. It then states that exports, FDI and imports positively affect growth by decreasing the costs of research and development (R&D) through stimulating innovation. (Solow, 2000)

2.1.3 Trade Creation Theory

Trade creation is an economic term related to international economics in which trade flows are redirected due to the formation of a Free Trade Area (FTA) or a customs union. According to Viner (1950), the formation of an economic union increases efficiency of economic integration by enhancing productivity and reducing the cost of the goods. The essence of trade creation's elimination of customs tariffs on inner border of unifying states is to cause further decrease of price of the goods and this may result in creation of a new trade flow of the goods between the economically integrated states (Viner, 1950).

The opposite takes place in case of trade diversion, when the trade flow is diverted from a cost-efficient partner state to a less efficient one. This may also happens when a member of economic union makes its goods cheaper within a union, but higher compared to the rest of the world and member states buys goods from the member state. In practice, both trade creation and diversion effects take place due to formation of an economic union. Efficiency of economic integration of specific unions right now is assessed as a final outcome between trade creation and diversion effects; it is cost-effective in the case of prevailing trade creation effects, and vice versa. The creation of trade is important to the nation entering the customs union in that the increased specialization may hurt other industries. Producers in the importing country suffer losses as a result of the free trade area. The decrease in the price of their product on the domestic market reduces producer surplus in the industry. The price decrease also induces a decrease in output of existing firms, a decrease in employment, and a decrease in profit. Arguments for protectionism, such as the infant industry argument, national defence, outsourcing, and issues with health and safety regulations are pertinent. However, customs unions are typically formed with friendly nations, eliminating the national defence argument (Viner, 1950).

2.1.4 Intergovernmentalism Theory

The Intergovernmentalism theory, developed in the 1960s, explains how regional integration takes place. It posits that the degree and speed of regional integration is in the hands of the national governments. If there is more power at supranational level, then it is because the governments have allowed that to happen. According to this theory, the domestic political and economic issues prevalent usually dictate regional integration during that period. The Intergovernmentalism theory contradicts the spillover effect advanced by Neofunctionalists. Initially proposed by Hoffmann (1981), the theory suggests any increase in power at supranational level results from a direct decision by governments who make decisions based on a domestic agenda. The theory rejects the spillover-effect argument and the idea that supranational organizations wield political influence on par with that of national governments.

2.1.5 Neo functionalist Theory

Developed in the 1950s, the theory of regional integration places major emphasis on the role of non-state actors – especially, the “secretariat” of the regional organization involved and those interest associations and social movements that form at the level of the region – in providing the dynamics for further integration. Member states remain important actors in the process; they set the terms of the initial agreement, but they do not exclusively determine the direction and extent of subsequent change. Rather, regional bureaucrats in league with a shifting set of self-organized interests and passions seek to exploit the inevitable “spill-overs” and “unintended consequences” that occur when states agree to assign some degree of supra-national responsibility for accomplishing a limited task and then discover that satisfying that function has external effects upon other of their interdependent activities (Schmitter & Niemann 2003).

According to this theory, regional integration is an intrinsically sporadic and conflictual process, but one in which, under conditions of democracy and pluralistic representation, national governments will find themselves increasingly entangled in regional pressures and end up resolving their conflicts by conceding a wider scope and

devolving more authority to the regional organizations they have created. Eventually, their citizens will begin shifting more and more of their expectations to the region and satisfying them will increase the likelihood that economic-social integration will “spill-over” into political integration (Schmitter, 2002).

According to this theory, the society is made up of different categories of interests and the integration process would take place to better satisfy these interests. The theory outlines that originally countries integrate in limited functional or economic regions. Subsequently, incompletely integrated countries would increase their integration process to other neighboring countries based on their shared interests. Even though integration can be thwarted, it is not easy to halt the process of integration once it has started (Schmitter, 2002).

2.2 Empirical Literature

Small and fragmented economies with low incomes in Africa is a key hindrance to economic growth with per capita income averaging US\$ 688 in 2012 for 29 out of 53 countries. These countries have low gross national income per capita equal to US\$ 995 or less (World Bank, 2013). Low incomes limit implies limited domestic markets. Which inhibit economies of scale in production leading to low productivity. Africa has been characterized by relatively low level of intra-regional trade leading to low exports. Intra-African trade has been about 10 per cent compared to 60 per cent, 40 per cent, 30 per cent intra-regional trade achieved by Europe, North America and Asia respectively (African Union, 2012) prohibiting African countries from fully harnessing the complementarities of their economies and take full advantage of the economies of scale and other benefits such as income and employment generation.

Africa has witnessed renewed momentum for regional economic integrations geared towards promoting intra-regional exports. Ajayi (2005) who in West Africa reviewed the economic integration process found that participation in the Economic Community of West African States (ECOWAS) PTA appeared to have increased exports among the member countries. In this study, challenges of:, maintaining fiscal resources, political

instability and finding a suitable monetary unit for creation of a single West African Union presented considerable

Various debates on cost and benefit continue to intensify on the question of free movement of capital and cross border investments among economists. Interaction FDI with the level of human capital in the host country is the key enhance to the contribution of FDI to economic growth. Levine and Renelt (1992) FDI may support the expansion of domestic firms by increasing productivity through the spillover of advanced technology or by complementarity in production. Thus stimulating technological progress remains the main channel through which FDI contributes to economic growth rather than by increasing total capital accumulation in the host economy (Borenszteina, De Gregoriob & Lee, 1998).

Developing nations with higher availability of skilled labour, higher government spending and more efficient quality of governance attract Inward FDI's (Bogdanovska, 2012). Durham (2004) rather than establishing a positive relationship between FDI and economic growth found that effects of FDI are contingent on the "absorptive capability" of host countries while contribution of FDI to economic growth depends on many factors, Lall and Narula (2004) and varies from one host country to another over time. EAC partner states have been facing country specific challenges impeding growth and development even when the role FDI on economic growth can not be underscored.

Using annual data for the years 1991 to 1998 anchored on gravity model to estimate the intensity of trade creation or trade diversion in COMESA, ECCAS (Economic Community of Central African States) and ECOWAS Musila (2005), found that the intensity of trade creation or trade diversion varied from region to region and from period to period. The intensity of trade creation was strongest in ECOWAS countries, followed by those in the COMESA area .Minor and Mureverwi (2013) determine the impacts of several proposed trade agreements – such as: the completion of the regional integration with SADC, the Tripartite Free Trade Area (TFTA) and the African

Continental Customs Union - using computed General Equilibrium (CGE) model on Mozambique's poorest households. They found that households gained real income because of increased sugar prices, as exports to Kenya increased particularly from that the poorest agricultural sector. There was a difference in real income gain among the top two quintiles in both rural and urban areas because of higher rents on capital in the agricultural sectors. A negative impact on Mozambique was found with respect to poor households bearing a disproportionate burden.

Using CGE model to evaluate the impact of the SADC FTA on Madagascar's economy, Hallaert (2007) found that though Madagascar's trade and production pattern would change, the SADC FTA would have a limited impact on Madagascar's real GDP benefiting the textile and clothing sector. While the potential impact of the formation of a COMESA customs union through the use of the MIRAGE CGE model and the GTAP database, Dimaranan and Mevel (2008) found that in the region, the customs union would result in overall expansion of trade. Some members would be hurt though in terms of lost revenue and large terms of trade losses. The impact of further regional trade liberalization on the SADC region was studied by Mashayekhi et al. (2012) who using GTAP CGE model found that elimination of intra-SADC tariffs resulted to a positive welfare effect on the region and a positive employment effect

For ECOWAS and SADC, empirical literatures on SSA RTAs are limited especially with Gunning (2001) asserting that African RTAs are unable to induce bilateral trade flow, an assertion partly based on the performance of COMESA due to non-compliance of trade policies among member states. 80% tariff reduction target that was set in 1996 by 2001 was achieved by only 25% of member states. Some Southern African states have refused to join COMESA as regional bloc terming it as ineffective (Warin et al 2009). Thus, the case of COMESA may not be representative for African RTAs.

RTA will lead to trade divergence among low-income countries Venables (2003) and thus emphasized that LDCs are likely to derive potential benefit with North-South RTAs. Similarly, RTAs in Africa have failed to promote trade and opines Africa to focus more on broad-based liberalization to enhance regional trade, Yang and Gupta (2005).

In contrast to Yang and Gupta, Rodrik (1998) believes that if African economic performance is taken into consideration, intra-regional trade performance may not be that small. He attributes trade-barriers to be the cause of the low intra-regional trade to point that if they are eliminated among the member states; this would significantly improve trade and their economic performance. Few studies over time have employed econometric tools showing enough statistical evidence to buttress the significant impact of some Africa's RTAs on bilateral trade. Deme (1995) using trade flow from 1975-1991, finds a significant impact for ECOWAS; it causes members to trade 0.5 (PCS) and 1.7 (FE) times more than with non-members.

East African Community Common Market Protocol

November 2009 marked the signing off of the CMP by EAC partner states and effected on July 2010 with the key objective being to widen and broaden social and economic cooperation among the member states. To achieve this, barriers on movement of services, goods, persons, capital, labour, and the rights of establishment and residence were to be removed.

EAC establishment steps

Year: Description:

1999 – Treaty signed

November 2005 -Customs Union established

2007 - Rwanda and Burundi admitted in the union

November 2009 –CMP signed

July 2010- CPM operationalized

2012- Realize Monetary Union

2.2.1 Persons and Labour mobility in EAC

The ease at which workers can move to other countries in search of better employment opportunities is provided for in the CMP within East African region. Employment opportunities in other Partner States can be sought by the communities from the member states with the employees having the right to sign up contracts and take up employment. The region's economy has benefited in a number of ways from the free movement of persons more so diminishing unemployment.

CMP has enabled Kenyans travel to the other East African countries in pursuit of employment opportunities with a whopping 500,000 Kenyans living and working in other East African countries. It is estimated that Kenya's diaspora remittances stood at \$951m, of which about 23% of this was from the East African region alone (Hope, 2012). The country's skills base have been increased by coming of workers from other East African countries to Kenya. Immigrants have filled some skilled positions or undesirable jobs that most domestic workers are not interested in, such as language teachers. Thus, this has made Kenya's economy more flexible and able to overcome skill shortages, (Hope 2012).

On emigration it is estimated that over 110 million people now reside outside the country of their birth (United Nations, 2002 clearly demonstrating major economic and political implications for both the sender and recipient countries. More than 215 million international migrants exist in the world with developing countries receiving US\$325 billion in 2010 exceeding by far the volume of official aid flows. This is more than 10 percent of gross domestic product (GDP) in many developing countries, (United Nations, 2002).

While applying panel data, Jongwanich (2007) examines the impact of workers' remittances on growth and poverty in Asia-Pacific developing countries over the period 1993-2003 showing that remittances have a trivial impact on growth but significant impact on poverty reduction. Using conventional neoclassical growth framework and unbalanced panel data spanning, Fayissa and Nsiah (2008) covered periods 1980 to 2004 for 37 African countries and found that where financial systems are not very strong remittances enhance economic growth by providing an alternative way to finance investment and help to overcome liquidity constraints.

In Pakistan, Iqbal and Sattar (2005) showed that real GDP growth is positively correlated to workers' remittances during 1972-73 to 2002-03 and workers' remittances emerged to be the third important source of capital for economic growth. Using data of 71 developing countries, Adams and Page (2005) in their study on remittances,

inequality, and poverty and concluded that remittances significantly reduce the level, depth and severity of poverty in the developing world. Further, Leon-Ledesma and Piracha (2004), showed that international migrations bring about dependence on remittances which has a tendency to distort income inequalities development in the country.

2.2.2 Movement of capital

Partner States to EAC CMPO are required to abolish limitations to the free movement of capital within the region by the citizens of the region. The limitations discourages any unfair practices based on the citizenship or on the place of residence of the individuals or on where the capital is invested. Yabara (2012) emphasizes that capital and related payments, and transfers should be allowed, such as: direct investment, equity and portfolio investments, and repatriation of profits due to engagement in commercial activities. The Protocol requires the Partner States to protect and secure cross border investments of EAC citizens. These investors are to be given proper treatment without any discrimination. Hindelang (2009) points out that capital movements on a cross-border basis have several benefits, including: financing for high-return investments that raises growth rates, improved provision of services, and efficient allocation of resources.

The cross-border capital movements have assisted in spurring the economic growth of the region. It has increased the pace of development of industries and physical infrastructure within the country. Since Kenyan nationals are free to move capital from their country to any country within the EAC, this has resulted in the establishment of sister companies in those countries and consequently more tax revenues to the Kenyan government (Hindelang, 2009). Anderson and Babula (2008) using time series data on the US asserted that the economic theory distinguishes between two sources of GDP-per-capita growth: capital accumulation (physical and human) and productivity growth. Openness may affect both. First, openness to international flows of capital may raise the speed at which physical capital and human capital are accumulated locally (at

least temporarily). Second, openness may speed up productivity growth through faster technological progress.

Cross-border investments take place when a resident in one economy (the direct investor) acquires a lasting interest in an enterprise in another (the direct investment enterprise). FDI involve the creation of a new establishment or investment (Greenfield investments), joint ventures, or the acquisition of an existing enterprise abroad (cross-border mergers and acquisitions) OECD, 2001). Economists argue that FDI can help to fill an “idea gap” between developed and developing, or host countries and provide greater opportunities for growth in the host markets (Romer 1993). In this regard, inward FDI represents a particularly important potential source of capital for developing countries and in particular Kenya, as FDI usually entails the importation of financial and human capital by the host economy with measurable and positive spillover impacts on host countries’ productivity levels (Holland and Pain, 1998).

In a survey by Ilhan (2007) of over 50 empirical investigations on the relationship between FDI and economic growth, 40 of such studies have showed a positive relationship with only 2 reporting negative and the rest demonstrating no effect. These empirical evidences point to the fact that most FDIs are associated to growth. Furthermore, Lumbila (2005) tests a hypothesis on whether FDI has an overall effect on economic growth and the results revealed a statistically significant difference; that a 10 percent increase in FDI can bring about 0.34 percent growth. In another study, Feridun and Sissoko (2006) examine the relationship between FDI and economic growth for the period 1976 to 2002 in Singapore using Granger causality and vector auto regression (VAR). Their findings revealed a unidirectional causation running from FDI to economic growth.

Apergis et al. (2004) used a panel data set covering 27 transitional economies over the period 1991 to 2000 to investigate the direction of the relationship between FDI and economic growth in transitional economies by applying what they call the “novel methodology of panel co-integration and causality” because of the belief that there is

significant heterogeneity in cross country economic growth so as to allow them estimate presence of heterogeneity in the parameters and dynamics across countries. Their findings suggest that FDI has a significant positive relationship with economic growth in cases where all countries are included in the sample. On the other hand, when the samples were split into high-income countries and countries with successful privatization and those without successful privatization programmes, the findings were the same.

Otinga (2009) using a linear model, investigated the impact of international trade on Kenya's economic growth by specifically examining the role of exports vis-a-vis other components of the GDP over a span of about twenty-two years. The impact of imports on economic growth was also examined. The study adopted a linear model to examine the impact of both public and private investment, government expenditure, foreign aid, imports and exports to the GDP. Overall, the results showed that growth in real exports caused real GDP growth. Moreover, it was found out that: Government expenditure and Foreign aid were positively correlated with the GDP and statistically significant; Public investments though statistically significant, were found to be negatively correlated to the GDP; and Private investments were found to be negatively correlated to the GDP and statistically insignificant. In broad terms, the results of this study were supportive of the Export Led Growth Strategy that postulates that exports lead to economic growth.

Data from firm surveyed in Kenya, Tanzania, and Uganda suggest that there are important positive effects from FDI for both the host economies and the workers in foreign-owned firms (Todd et al. 2004). FDI can contribute, in significant ways, to breaking of the growth-poverty vicious circle, and therein lies Africa's hope. The continent hopes that FDI can: make up for domestic capital shortfalls; provide technology, management and marketing skills; facilitate access to foreign markets; and generate both technological and efficiency spillovers to local firms. By providing access to external markets, transferring technology, and building capacity in the local firms, generally FDI is expected to improve the integration of the continent into the global economy, spur economic growth and alleviate poverty (Ikiara, 2002). Ewelukwa (2011)

posits that the impact of FDI on job creation has been weaker than expected. On average, the labour intensity of FDI projects in LDCs in sub-Saharan Africa is low compared to that in other developing countries, reducing its developmental and social impact. Transfers of skills have also been notoriously difficult to measure and evaluate.

Ngeny (2013) investigated the impact of FDI volatility in Kenya. Secondary data sourced from the United Nation Centre on Trade and development (UNCTAD), World Bank database and Kenya National Bureau of Statistics was used. The period of study was 1970–2011. An endogenous growth model was estimated using the ordinary least squares to determine the relationship between the FDI volatility and economic growth. Using bounds testing approach, it showed that FDI volatility retards long-run economic growth in Kenya. Results suggested that FDI had a positive result on growth whereas FDI volatility had a negative impact on growth. Trade openness was not FDI inducing, thus affecting growth negatively. Labour force had a positive impact on growth.

Overall, FDI does seem to have positive effects on GDP growth although the effects may be questioned when it comes to their strength (Moura & Forte, 2009). Some evidences however show that FDI does not always increase economic growth. In a recent paper, Ocaya, Ruranga and Kaberuka (2013) used Granger causality to test the relationship between FDI inflows into Rwanda and economic growth. The tests found out that FDI and GDP are independent of each other.

2.2.3 Movement of goods and services

The relationship between openness and economic growth has long been a subject of much interest and controversy in international trade literature. With regard to a theoretical relationship between openness and growth, most of the studies provide support for the proposition that openness affects growth positively. Gries and Redlin, (2012) using panel co-integration tests and panel error-correction models (ECM) studied short-term and long-run dynamics between per capita GDP growth and openness for 158 countries over the period 1970-2009. He found that in developing countries only the long-run openness-led growth hypothesis holds, while growth seems to slow down openness in the long run. In his study Kaltani et al (2005) using simple

Harris–Todaro model opined that openness promotes the efficient allocation of resources through comparative advantage, allows the dissemination of knowledge and technological progress, and encourages competition in domestic and international markets. On the contrary Rodrik and Rodríguez (2001) argue that the effect of openness on growth is doubtful.

Rodrik (1992) using time series analysis in Bangladesh covering 1986 to 2008 reports that economic openness may bring macroeconomic instability by increasing inflation, depreciating exchange rates and inviting balance of payment crisis. Rodrik's argument was supported by Levine & Renelt (1992) position that a high degree of trade openness might increase inflation and lower the real exchange rates that may create negative impact on domestic investment. Thus, a liberalized trade regime may lead to a greater exchange rate depreciation that may reduce aggregate supply of inputs by increasing prices of the imported inputs used in the production. As a result, the volume of domestic output tends to be decreased.

Yanikkaya (2003) used data of 100 developed and developing economies for the period 1970 to 1997 for a cross-country panel regression. The variables included are human capital, physical capital, telephone mainlines, life expectancy and a variable representing openness indicators. The author used two openness indicators, one using trade shares and another one using the ratio of imports plus exports to GDP (methodology used). The coefficient of openness was positive and significant. Alesina et al. (2005) analyzed the impact of an economy's trade openness on economic growth for a sample of countries since 1960. The panel data relied on a three least squares (3 SLS) procedure. It is shown that a simultaneous consideration of an economy's openness and of its size led to strong effects of economic growth. This implies that, openness has a large effect on small countries but these effects become zero as the country's size increases. The measure of openness involves variables in current prices.

Kibua et al. (2007) in their study on contribution of EAC integration to East African development found that the integration process of the East African Community does have potential to improve the prospects for poverty-reducing economic growth. They

posited that the potential of EAC integration is greatest in two areas: cooperation in infrastructure and other public-goods provision, and growth-enhancing institutional change.

Yanikkaya (2003), reviewed the literature of trade and growth theories, he suggested that although trade theory provides little guideline as to the effects of international trade on growth and technical progress, new trade theory makes it clear that the gains from trade can arise from several fundamental sources: differences in comparative advantage and economy wide increasing returns. He also supported the endogenous growth theory, which has been diverse enough to provide a different array of models in which trade restrictions can decrease or increase the worldwide rate of growth. He observed, from the empirical results, that the border points in East African Community play an important part in trade facilitation if impediments to trade are addressed .The 8 border points in the study exhibited cross cutting nontariff barriers which impacted negatively on trade facilitation and increased costs of doing business. Trade facilitation led to enhanced trade flows and economic growth. Recommendations made were that governments should invest in trade facilitation initiatives for economic growth of East African Countries among others (Yanikkaya, 2003).

To foster the free movement of goods and services, the Partner States agreed to implement the Common External Tariff (CET). The CET has assisted to liberalize the region and significantly lower the costs of doing business. In Kenya, the CET has improved the predictability for exporters and investors, since they are currently paying reduced tariffs (Ng'eno, 2003).

2.3 Synthesis

The theoretical as well as the empirical literature reviewed in this study highlights the contribution of common market protocol on the economic growth of nations. While there has been a generally accepted finding on the role of regional integrations on economic growth, this seems to vary from one nation to another depending on: the level of development, poverty levels, taxation policies, and exchange rates. A high degree of trade openness, for example, may increase inflation and lower the real

exchange rates, which may create negative impact on domestic investment. It has also been documented that openness has a large effect on small countries but these effects reduces as the country's size increases.

The role of FDI on economic growth has also remained antagonistic with various scholars giving it a credit while other says the role of FDI and employment creation coupled with skills transfer is only a mirage to the LDCs. Remittances have also been criticized by some scholars as only effective in countries with poorly developed financial systems. As a result of the aforementioned, there is a clear concern on whether formation of EAC common market makes any contribution on the economic growth of Kenya. From the literature reviewed, none of the studies has specifically addressed how EAC CMP has contributed to the economic growth of the partner states. This study has filled this gap assessing how the EAC common market protocol has contributed to the economic growth of Kenya.

2.4 Conceptual Framework

This section gives a summary of the expected nature and direction of relationships that exist between the variables studied here in. The study is modeled to examine the contribution of the four elements of CMP (freedom of movement of persons, labour, capital and goods & services) to the Kenyan economic growth and how they explain the direction of the dependent variable - economic growth - measured by the GDP growth rate. The variables and terms are defined below.

Common market Protocol (CMP): This is an agreement that bides the partner states of EAC to operate on a single market without restrictions

Exports: Represent the value of all goods and other market services provided by a country to the rest of the world. The study looked at the relationship between export and the growth of the Kenyan economy.

Foreign Direct Investment (FDI): Refers to the sum of equity capital, reinvestment of earnings, and other capital. FDI is an independent variable in the study and it was of

major interest to establish how the FDI affect the growth of Kenyan Economy. FDI, one of the elements of the Common Market, was used to measure the movement of Capital across EAC.

Foreign Remittances: Migrant worker funds transfer from a host country to their families or other individuals in their home countries (Central Bank of Kenya, 2012). Foreign Remittance will be used as a proxy to measure the movement of labour and persons. Kenyan working abroad, contribute greatly to economic growth of the country through their remittances.

Gross Domestic Product (GDP) Growth Rate: Changes in GDP at market prices based on constant local currency. Aggregates are based on constant 2005 U.S. dollars. It forms the proxy value for the economic growth

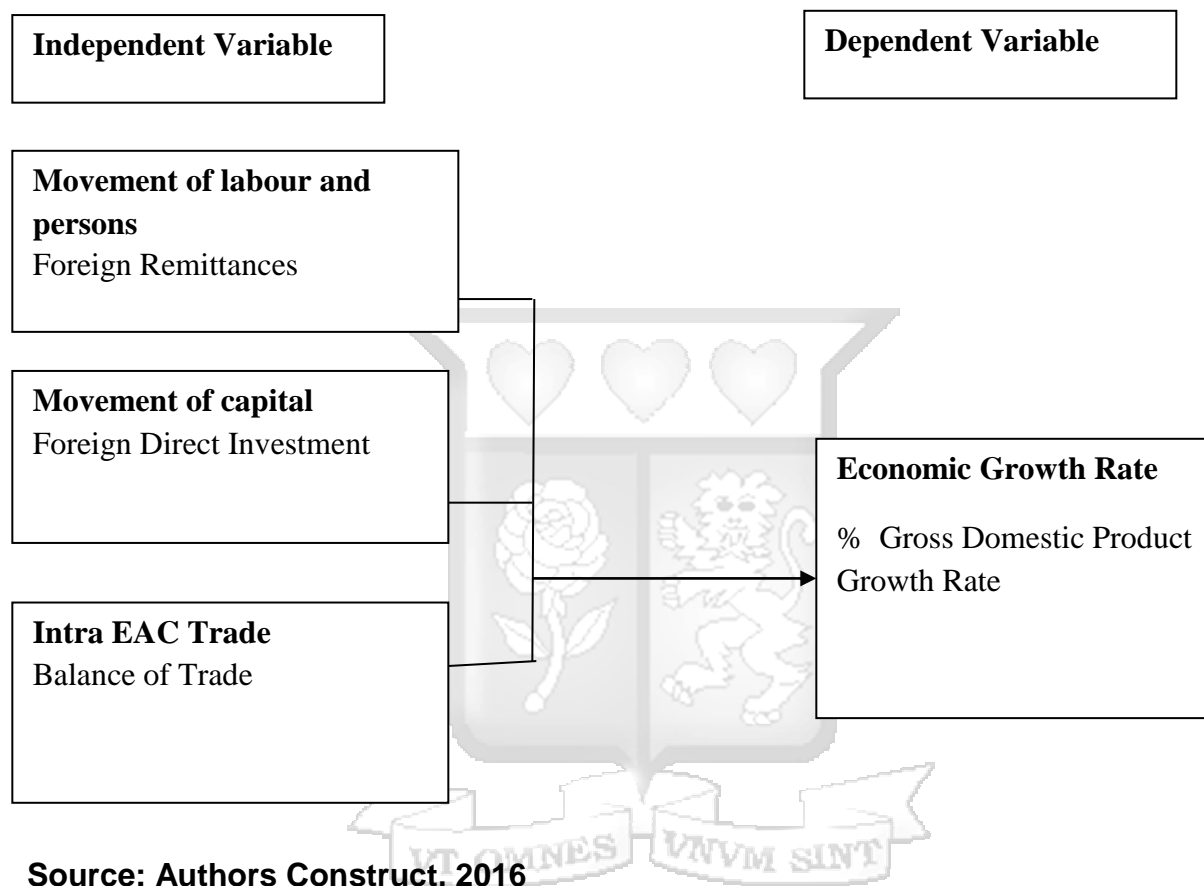
Imports: Represent the value of all goods and other market services received from the rest of the world. The study sought to establish if there is a relationship between the imports and economic growth and the nature of the relationship.

Challenges facing implementation of EAC CMP: Despite the various strides made under EAC CMP, there continues to be innumerable challenges inhibiting smooth implementation. Programs have however been put in place through Customs Union and Common Market in close collaboration with EAC Partner States and East African Business Council. Awareness creation by the EAC Secretariat and the MEACs in Partnership with the Private sector at national and regional levels on the benefits of the CU and CM have also been used to tackle these challenges, while the removal of trade barriers through simplification/ harmonization of procedures signal Commitment to total removal of Non trade barriers is ongoing

Based on these definitions a model that addressed the research questions was developed. The model simply assumed that if the four elements of the common market protocol were operationalized, they would result in economic growth. The elements of EAC CMP are measured by the study's independent variables namely: movement of persons, movement of capital and intra EAC trade while the economic growth rate, is

the dependent variable measured by the GDP growth rate. Below is a diagrammatical illustration of this model

Figure 2.1 Conceptual Framework Diagram



Source: Authors Construct, 2016

This chapter has extensively reviewed the theoretical and empirical literature. Based on the literature reviewed, a model was developed that was to be applied to the four elements of EAC CMP to raise the growth rate of Kenyan economy. The conceptual framework was premised on the three propositions tested to prove the validity of the theory.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter is structured to demonstrate the methodology adopted towards discovering how EAC Common Market protocol affect economic growth of Kenya. The outline include research design, research instruments, procedure of data collection and data analysis.

3.1 Research Design

An exploratory research design was used adopted in this study relying on secondary data from various economic reports derived from World Bank and Central Bank of Kenya over the years to address the first three research questions on freedom of movement of persons, labour, capital and intra EAC trade. In the last research question, the study sought to find out the challenges that have hindered Kenya's economic growth from achieving intended form EAC common market. The respondents' perceptions obtained from primary data served to validate the findings from the secondary data obtained from various economic reports. Multiple linear regression analysis used in other studies like that of Asaolu and Ogunmuyiwa (2010) will be used to carry out the basic empirical investigation - to determine whether there exists a relationship between EAC CMP and the Kenya's economic growth.

3.2 Target Population

Population is defined as the universe or entire elements possessing certain characteristics for inclusion in a study (Burns and Grove 2003). The population of this study comprised of the 187 officers in senior management level working at the: State Department of East Africa Community; Directorate of Commerce; and employees of

Equity Bank Ltd, Uchumi Supermarket Ltd, and Kenya Airways Ltd. The three companies are quoted at the NSE and they have operations across the East African region. The State Department of East Africa Community manages, coordinates and implements East African community affairs, Programmes and projects. The Directorate of Commerce manages Kenya's international trade; export promotion and the development of markets. The managing directors, finance managers, heads of business development, customer service, investment, treasury and the operations from Equity Bank Ltd, Uchumi Supermarket Ltd, and Kenya Airways Ltd were included to get opinions and insights into how the formation of the common market has impacted on their regional business and trade. The senior management was targeted as respondents because information of strategic nature like the one required in this study can only be accessed from them due to their role in their companies and government departments. Further besides, the three listed companies representing the financial, transport as well as retail chain industries in Kenya having invested in other partner states in EAC, they are the leading Kenyan employers and capital owners across these states making them suitable respondents.

3.3 Sampling Frame and Sampling Design

This study used stratified random sampling technique, as the population is heterogeneous. Thus, the accessible population was stratified/grouped into homogeneous sub populations of the 59 officers in the State Department of EAC, 93 officers in the Directorate of Commerce and 35 managers of the three companies before sampling to enhance representation of the subgroups and reduce bias (Mohammad & Dougherty, 2014). Simple random sampling was used to identify individual respondents per strata who were issued with questionnaires to respond to research questions.

Target sample size of 123 constituted 66% of the target population. According to the laws of large numbers, increase in sample size leads to meaningful generalizations about the general characteristics of a study population. The target sample size is distributed within the three strata using the study population ratio representation. This

ensures that sample distribution is unbiased and balanced. Table 3.1 details a sample distribution.

Table 3.1: Sample Size

Category	Targeted Employees	Sample Size - Employees	Percentage
State Department of East Africa Community	59	39	66%
Directorate of Commerce	93	61	66%
NSE Listed Companies	35	23	66%
Total	187	123	66%

(Source: Human Resource Database of Relevant Offices)

3.4 Data Collection

To confirm pragmatic coherence in this study between perceptions from the respondents and the documented data by various government agencies on contribution of CMP to economic growth, the study employed both the primary collected by use of questionnaires consisting of a series of specific and short questions answered by the senior and middle management employees who formed the respondents in this study secondary data was collected using data collection sheet. The questionnaire was made up of open ended likert scale based questions which consist of several sections among them: general /demographic data which collects the respondents' details, sections collecting specific information on the dependent, and independent variables anchored on the research questions. Research assistants were engaged to administer and follow up on the questionnaires using well- spaced phone calls.

Data collection sheet was used to collect the secondary data on the GDP growth (the dependent variable) as well as the independent variables proxy data namely; foreign

remittances, FDI, trade balance from years 2005 to 2014 from the websites of World Bank and Central Bank of Kenya.

3.5 Pilot Test

A pilot test was carried out on the questionnaire to ensure that there are no questions that people would fail to understand or interpret in different ways invalidating the study results.

3.5.1 Instrument Reliability

To measure the ability of the questionnaire to generate consistent results repeatedly, 5% of the questionnaires were. Seven (7) randomly selected respondents completed the questionnaires to test reliability. The questionnaire responses were input into (SPSS) to generate Cronbach's Alpha coefficient evaluated against the 0.7 threshold for a newly developed research instrument.

3.5.2 Instrument Validity

The questionnaire was divided into several sections addressing each specific tied to the conceptual framework for this study after which two randomly selected respondents evaluated the statements in the questionnaire for relevance with their inputs used to revise the questionnaire accordingly

3.4 Model and Key Hypothesis

The following model multiple linear regression model was used to test the significance of the influence of all the variables used in the study

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 D + e$$

Where:

Y = GDP Growth rate – dependent variable

{ β_i ; $i=1,2,3$ } = Coefficients

X_i for;

X_1 = Movement of persons and labour

X_2 = Movement of capital

X_3 = Intra EAC trade

D = Dummy denoting introduction of EAC CMP i.e. D=1 after introduction of CMP, D=0 before introduction of CMP

e is normally distributed white noise with mean zero and constant variance.

Using SPSS, the model was tested with data on each of the variables used to establish the effect of predictor variables on the economic growth rate.

The study focused on the following Hypothesis:

Hypothesis 1: The higher the foreign remittance, the higher the GDP and hence growth and therefore a country with less foreign remittance is likely to grow at a slower rate than a country with higher ones. Foreign Remittance is positively correlated to Kenyan economic growth. The study looked at these relationships over ten years.

Hypothesis 2: Foreign Direct Investments are directly related to the growth of a country. Increase in FDI, leads to increase in GDP growth rate. The study analyzed the effect of FDI on economic growth of Kenya over a period of fifteen years. It then looked at whether establishment of EAC CMP affected the level of FDI and its effect on growth.

Hypothesis 3: The higher the balance of trade the higher the growth. Trade surplus and deficits have a direct relationship to a country's GDP growth rate. Exports impact positively on; total factors of productivity, the foreign exchange, and efficient price mechanism that foster optimum resource allocation. The endogenous growth models have shown that imports play a pivotal role in channeling new technology and knowledge for one country into the domestic economy. Imports are expected to drain the economies forex stability and this study anticipated to find an inverse relationship between imports and economic growth rate.

Hypothesis 4: The dummy component measures the variance between economic growth rates with CMP and without CMP. It was to help validate the expected finding that CMP influences economic growth of Kenya. The study expected to find that the introduction of CMP positively influences the direction of economic growth rate.

3.5 Data Processing and Analysis

Time series data for the years 2000 to 2015 meant to capture documented statistics on foreign remittance, FDIs and balance of trade was gathered from the World Bank and CBK records and other economic reports. This was followed by generation of inferential statistics. Primary data capturing perceptions was coded and entries keyed into SPSS. Descriptive statistics was used to summarize the data in form of charts and tables as well as means and standard deviation. To measure the study's objectives, the research objectives were computed whereby values were accorded in accordance with the ratings and total score computed.

The results from secondary data analysis were compared with primary data results to determine pragmatic coherence between respondents' perceptions and the documented data on contribution of CMP to economic growth in Kenya. These individual score for the objectives were regressed using a multiple-linear regression model to generate inferential statistics between CMP and economic growth in Kenya.

Diagnostic tests to explain the auto-correlation and multicollinearity of the data were applied. Durbin–Watson statistic set at between 1 and upon detection, stepwise auto regression method, will be used until all remaining autoregressive parameters have significant t-tests which must be significant at the .05 level. VIF set at below 10 was used to test Multicollinearity.

Correlation results were generated to determine relationships existed between independent and dependent variable followed by R square results that explained the variations on the dependent variable caused by the independent variables. Coefficients results representing Betas were generated to determine the direction (measured by the sign) of the independent variables in relation to dependent variables i.e. how much

variations results from (1) one unit change in the independent variable on the dependent variable. To test the model significance, p values were generated and compared to the 0.05 significant level. A model whose p value was less than 0.05 was considered significant.

3.6 Ethical Considerations

Anonymity of the respondents was maintained while the study results were for academic purposes only. Dignity of the research participants was strictly maintained during the research making the respondent open and free to give information.



CHAPTER FOUR

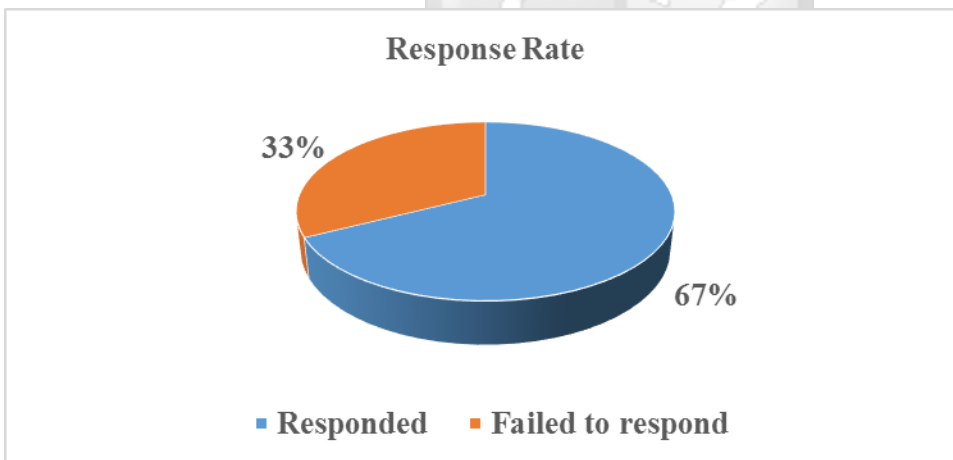
RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter presents the research findings and the corresponding discussions organized as follows: response rate, demographic characteristics and the research findings for the four study objectives based on descriptive and inferential statistics from both the primary and secondary data. Collaboration using theoretical and empirical literature from other related studies have been used to enrich this study

4.1 Response Rate

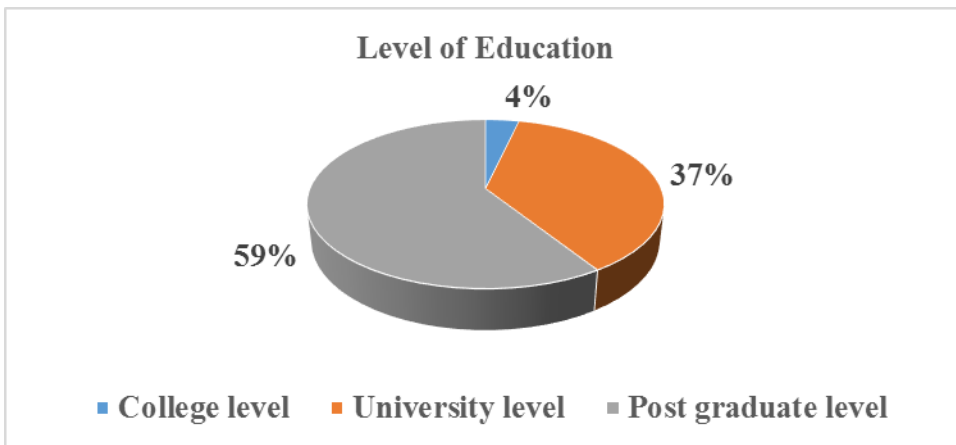
Of the 123 questionnaires sent out, 83 questionnaires representing 67% were returned fully completed; with only 40 questionnaires, a 33%, failing to return. The number of questionnaires returned was hence adequate for this study as Mugenda and Mugenda (2008) together with AAOPR (2011) says 50% as well as over 70% is very good respectively



4.2 Level of Education

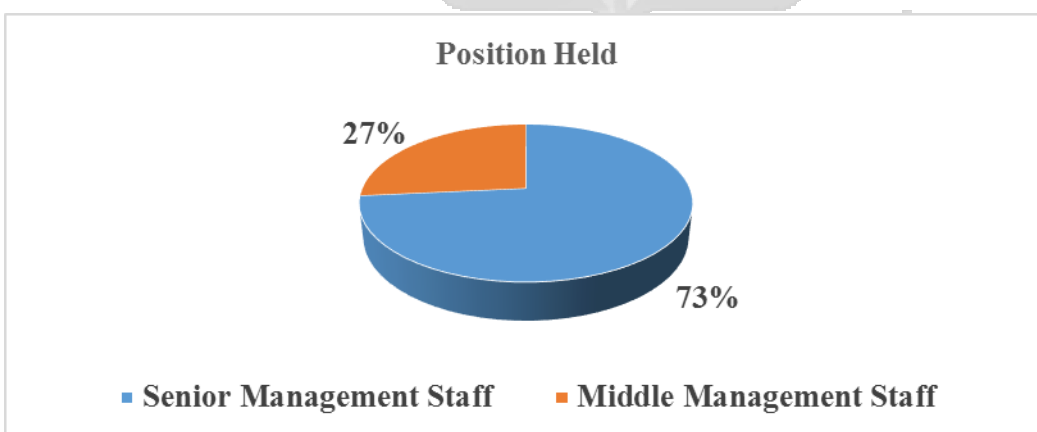
Out of the respondents who returned the questionnaires complete, 4% had a college level of education, 37% had a University education while 59% had a post graduate education as the highest education level. The education contributed to the success of

the study in that, highly trained respondents understand the subject of research, as is the case in this study.



4.3 Position Held

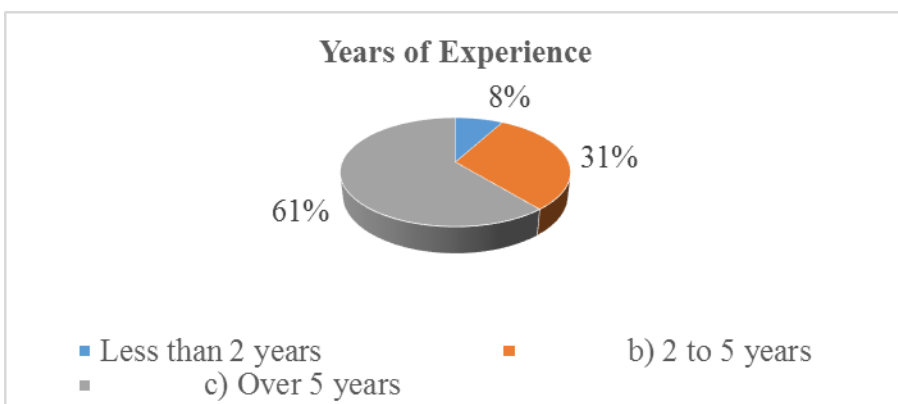
Of the 83 respondents who fully completed and returned their questionnaires, 73% belonged to the senior management cadre while only 27% worked in the middle management cadre. The cadre of information contributed significantly to the success of this study as the information sought in this study is of strategic nature and could only be availed by people who sit in strategic senior positions like the one used in this study.



4.4 Years of Experience

Out of the 83 respondents, 61% have worked over 5 years in the East Africa region, 31% have worked for a period between 2-5 years, with only 8% having worked for a period of less than 2 years. The majority of respondents in this study played a key role

in providing accurate and timely information sought for during the research owing to their number of years working in EAC region.



4.5 Reliability tests

Reliability tests present in table 4.1 show that the questionnaires had high Cronbach alpha, which indicated higher internal consistency. According to Kurpius & Stafford (2006), when the Cronbach is between 0.6 and 0.7 it is considered adequate for a newly developed tool in non-clinical studies. It can be noted that the overall coefficients were adequate and therefore the internal consistency of the questionnaire as a whole was sufficient.

Table 4.1: Reliability Tests

Variable	Number of items	Cronbach's Alpha
Economic Growth	7	0.834
Capital Mobility	8	0.756
Trade	7	0.859
Movement of Labour	6	0.865

4.6 Diagnostic Tests

Multicollinearity and Autocorrelation Findings

Diagnostic Tests in table 4.2 reveal that variables in the model were not highly correlated, as Variance Inflation Factor (VIF) was less than 10 and greater than 1 implying that the beta values of the regression equation of all the independent variables were stable with low standard errors. Durbin-Watson statistic results was equal to 1.323 implying that there was no concern for autocorrelation implying the residuals do not form any unique pattern.

Table 4.2: Diagnostic Tests (Secondary Data)

Variable	VIF	DW Test
Capital Mobility	1.209	1.323
Trade	1.272	
Movement of Labour	1.035	

(Source: SPSS Results)

4.7 Summary of Descriptive Statistics

The study analyzed the questionnaire responses as detailed in table 4.3 below using percentages and averages. Further, 34% average of the respondents when asked on the role of CMP in capital mobility, trade and movement of labour on economic growth in Kenya disagreed with the statements, with the highest number of respondents standing at 46% featuring on how movement of labour has influenced economic growth in Kenya. 37% of the respondents above the average disagreed on the direction and status of economic growth in Kenya with regard to EAC CMP. From the table, an average of 19% of the majority of the respondents indicated that they strongly disagreed on how the capital mobility, trade and movement of labour have influenced economic growth in Kenya. Majority of the respondents standing at 28%, seconded by movement of labour at 25% disagreed on how EAC CMP role on capital mobility has contributed to economic growth in Kenya.

An average of 21% of the respondents indicated a neutral position on how EAC CMP has influenced the economic growth in Kenya with a mere 14% indicating that they either agree or they strongly agree. Among the respondents who agreed with the role

of EAC CMP, majority standing at 53% agreed with only 10% of the respondents disagreeing with the overall role of CMP on its contribution to economic growth in Kenya with a whopping 64% of the respondents agreeing that CMP is critical on economic growth in Kenya.

Table 4.3: Descriptive Statistics

Variable	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Totals
Economic Growth Rate	19%	37%	31%	12%	0%	100%
Capital Mobility	28%	28%	37%	6%	1%	100%
Trade	2%	25%	2%	53%	17%	100%
Movement of Labour	25%	46%	14%	8%	6%	100%
Totals	75%	136%	86%	80%	24%	
Average	19%	34%	21%	20%	6%	
Overall contribution of CMP on Economic growth (Dummy)	4%	6%	16%	28%	46%	100%

4.8 Multiple Regression Model

The multiple regression equation modeled is as shown:

$$ECONG = \beta_0 + \beta_1 LPM + \beta_2 CM + \beta_3 IET + \beta_4 D + \epsilon_i \dots \dots \dots \text{(Equation 4.7)}$$

Where;

ECONG = Economic Growth (DDP at current prices)

β_0 = Constant term

$\beta_1, \beta_2, \beta_3, \beta_4$ = the coefficients:

LPM= Labour and Persons Movement proxied by foreign remittances

CM= Capital Movement proxied by foreign direct Investment

IET = Intra EAC Trade proxied by trade balance

D= Dummy Variable

ϵ_i = error term

The regression analysis results generating coefficient of determination as shown in table 4.4 indicates that from secondary data, $R = 0.863$ and $R^2 = 0.745$ while from primary data $R = 0.940$ and $R^2 = 0.883$. The results imply that the EAC CMP can explain the variations in economic growth rate in Kenya. The R-square of 74.5% and 88.3% from secondary and primary data respectively revealed that the model fit the data better implying that 74.5 % and 88.3% of the variations in economic growth in Kenya was due to change in the EAC CMP variables; movement of labour and persons, capital and intra EAC trade. The R-values indicate very strong linear relationships.

The findings of this study ratifies the model specified in this study as none of the independent variables was dropped upon testing in the linear regression model given that all the variables yielded significance results on their influence on the dependent variable.

Table 4.4: Overall Model Coefficients of Correlation and Determination

Indicator	Secondary Data Value	P Value	Primary Data Value	P value
R	0.940	0.000	0.863	0.000
R Square	0.883		0.745	
Adjusted R Square	0.880		0.741	

Based on the results of R^2 from both the secondary and primary data and the p values= $0.000 < 0.05$ confidence interval, the study concluded that EAC CMP significantly contributes to the variations of economic growth rate in Kenya.

From table 4.5 And 4.6 on ANOVA results, the full model is significant given that the p-values equal to 0.000 and 0.02 are less than 0.05 implying that the model is significantly fit.

Table 4.5: Anova Statistics From Secondary Data

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	33972.144	1	33972.144	1017.736	0.000
Residual	1396.402	3	465.467		
Total	35368.546	4			

Table 4.6: Anova Statistics from Primary Data

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.424	1	0.424	0.379	0.002
Residual	2316.428	82	28.249		
Total	2316.852	83			

As shown in table 4.7 on the beta coefficients, the regression model reveals that the secondary data coefficients $\beta_1 = 0.603$ $\beta_2 = -1.168$, $\beta_3 = 0.931$ and $\beta_4 = 0.568$ significantly influences the economic growth with p values 0.000 respectively being less than 0.5 significance level.

Table 4.7: Beta Coefficients (Secondary Data)

Variable	B	Std. Error	T	Sig.
Foreign Remittances -FR	0.603	0.245	2.461	0.000
Foreign Direct Investment-FDI	-1.168	0.834	-1.400	0.000
Trade Balances –TB	0.931	0.402	2.315	0.000
Dummy –DV	0.237	0.178	1.331	0.000

Table 4.8: Beta Coefficients (Primary Data)

Variable	B	Std. Error	T	Sig.
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Labour and Persons Movement- LPM	0.844	0.136	6.213	0.003
Capital Movement –CM	0.234	0.726	0.322	0.000
Intra EAC Trade- IEC	0.391	0.636	0.614	0.002
Dummy –DV	0.568	0.359	1.582	0.000

4.8.1 Contribution of labour and persons movement on the economic growth

From the results, movement of labour and persons positively and significantly affect economic growth. The positive coefficients of labor and persons movement equal to 0.603 leads to the conclusion that labor and persons movement, move in the same direction with economic growth in Kenya and that a 1 unit change in labor and persons movement leads to 0.603 units change in growth of Kenyan economy.

These findings are in disagreement with that of Barajas et al., (2009) who argued that remittances might influence economic growth through their influence on the growth rate of labor productivity. He noted that remittance receipts might negatively affect labor force participation because income transfers may substitute labor income. Second, remittances may be plagued by severe moral hazard inducing recipient households to substitute remittance inflows to leisure spending problems Chami et al. (2005).

The findings of this study are however in agreement with those of Ratha (2013) who argued that Governments receiving large remittance inflows can opt to liberalize trade policies and to increase spending on infrastructure thereby driving exports and also contribute to improved labor productivity and competitiveness. Findings in this study are further supported by Aggarwal, Demirgüç- Kunt, & Martínez Pería (2011) who found that because remittances expand the quantity of funds flowing through the banking system, remittance flows may affect the ability of the recipient economy's financial system to allocate capital by creating economies of scale thus improving the quality of financial intermediation remittances which improve the efficiency of domestic investment.

From the research findings, the study confirm the proposition that the higher the foreign remittance, the higher the GDP and hence growth and therefore a country with less foreign remittance is likely to growth at a slower rate than a country with higher ones. Foreign Remittance is positively correlated to Kenyan economic growth.

4.8.2 Contribution of capital movement on the economic growth

Capital movement measured by FDI flows was found to have a negative but significant effect on the growth of Kenyan economy. FDI negative coefficient equal to 1.168 implies that FDI and economic growth rate in Kenya move in different directions. A 1 unit increase in FDI stock decreases the Kenyan economic growth to the tune of 1.168 units. To some extent, this may be explained by the fact that Kenya receives less capital investment from EAC than its FDI inflow. The findings are in disharmony with a study by Ram and Zhang (2002) who concluded that FDI promotes economic growth in 11 countries studied through trade liberalization, increased job skills and education of a country work force. It also offers global markets leading to development of a conduit for the host country to participate in the globalization process, Ram and Zhang (2002).

Further the findings in this study are in disagreement to some extent with those of Admas (2009) who found out that FDI is positively and significantly correlated with Economic growth . He intimated that FDI initially has negative effect on economic growth and has subsequently positive effect in the latter periods for the countries studied thus in his conclusion, determinants of FDI have the net crowding out effect.

From the study results based on secondary data the study reject hypothesis that Foreign Direct Investments is positively and significantly related with a country's' growth hence the conclusion that establishment of EAC CMP has not positively affected the level of FDI which impacts on economic growth.

4.8.3 Contribution of the intra EAC trade on the economic growth

From the results, intra EAC trade, the coefficient of EAC trade is a positive 0. 931 and this implies that EAC trade and economic growth rate in Kenya move in the same direction and that a 1 unit increases in EAC trade leads to a decrease in economic

growth rate with 0.931 units. The findings in this study resonates well with that of Irwin and Tervio (2002) who concluded that the countries that the ration of trade to GDP results to higher incomes. Trade to GDP leads to increased real income and per capita growth thus preventing deterioration in the growth of real incomes.

The study results further confirms contribution of exports on country's' economic growth similar to that of Mohan and Nandwa (2007) who re-examined the relationship between exports and economic growth concluding that there existed a bidirectional causality, running from exports to economic growth and recommended that promotional and sustainable export enhancing policies be adopted in Kenya. Similarly, a study carried out by J. Medina-Smith J (2001) analyzing the time series data for the period 1950-1997 using the famous Engel Granger two step procedure, Johansen maximum likelihood and ECM ascertained that exports positively affect economic growth in Costa Rica supporting the findings in this study.

Anchored on the study results, the study accepts the hypothesis that the higher the balance of trade, the higher the economic growth. Trade surplus and deficits have a direct relationship to a country's GDP growth rate. Exports impact positively on: total factor productivity, the foreign exchange, and efficient price mechanism that foster optimum resource allocation.

4.8.4 Overall Regression Model

Primary data results indicate that all the variables in this study significantly influence the direction of economic growth rate in Kenya, which agrees with the findings from the secondary data. The findings from the primary data on the direction of capital movement or FDI differed with those of secondary data in that the coefficient for the secondary data is negative indicating an increase on FDI results to a decrease in economic growth rate in Kenya as opposed to the primary data findings that indicates an positive variations in capital movement leads to a corresponding increase in economic growth. Movement of persons and intra EAC trade follow the same direction with economic growth rate in Kenya.

Based on the coefficient results from secondary data in table 4.7 the overall modeled regression equation is:

$$ECONG = 0.603FR - 1.168FDI + .931TB + 0.237 DV$$

Based on the coefficient results from primary data in table 4.8 the overall modeled regression equation is:

$$ECONG = 0.844 LPM + 0.234 CM + 0.391IEC + 0.568DV$$

From the secondary and primary data resulting to the coefficients in table 4.7 and 4.8, there is evidence that, Intra EAC trade, contribute positively and significantly to the model since their p-values = 0.000 and 0.002 are less than 0.05 significant levels respectively.

4.9 Challenges affecting the implementation of the Common Market protocol.

The study sought to find out the challenges affecting the implementation of the Common Market protocol. The respondents indicated the likely challenges that faced implementation of EAC CMP and the answers were summarized in table 4.9. From the study results as analyzed, the majority of the respondents totaling to 72% felt that EAC CMP is faced with poor rail and road infrastructural development which has led to the increased cost of doing business. The EAC rail and road are the major routes of goods and services delivery and are poor, dilapidated as well as unreliable. Poor roads are subject to weather conditions as well as traffic jams causing unnecessary delays. The railway transport is limited and unreliable yet an instrumentals means for bulky goods.

Corruption malpractices among various units facilitating CMP protocol as well as financial constraints to execute the CMP strategies ranked second at 70%. The respondents indicated that CMP is underfunded and relies on external funding from donors. Allocated annual budgets by member states are never adequate while the few resources committed by the donors and the member states are misappropriated thus hindering implementation of the protocol. The respondents also indicated that there exists rampant corruption among the trade borders and immigration agencies thereby increasing inconveniences as well as costs of services.

63% of the respondents indicated that EAC CMP has not taken care of private players' engagement and citizen awareness. The private sector actors are considered the beneficiaries of integration efforts, and yet they can also be the implementers and drivers of the process. In the EAC, the private sector represented by the East African Business Council (EABC) plays an observer role thus; it has limited participation in the integration process in regards to influencing policy.

Weak regional currencies and suspicion among the partner states reduced political commitment as challenges were ranked forth with the respondents standing at 55%. The respondents indicated that the regional currencies have performed poorly against the Kenya Shillings that have affected the value of trade as well as incentive to invest away from home, as profits repatriated fetch far less. Further the respondents indicated that there continues to be mistrust and suspicion among the partners states evidenced by the nature of political commitment to the CMP implementation process.

The respondents standing at 52% further highlighted that there have been lack of adequate and clear assurance on investment incentives for the injecting capital among the member states. This may explain why Kenya has attracted extremely low numbers of companies from EAC partner states working negatively on FDI to Kenya from EAC states. Looming insecurity such as terrorism and inter clan conflicts in Kenya have been identified as a key challenge to the implementation of CMP and in particular threatening cross border movements. The insecurity has heightened fears and concerns among the EAC members viewing Kenya as "bedrock of terrorism". Respondents also cited regional trade barriers among them taxation, duties and Trans boarder regulations as a bottleneck towards EAC CMP. They cited cases of non-harmonized regional trade barriers at the borders impeding free movement of goods and services as well as people and in particular on Tanzania side.

The respondents cited cultural differences and attitudes, low level of literacy like language barriers leading to slow paced decisioning together with a lack of commitment in policy harmonization, co-ordination and implementation seem to be

less of challenges towards CMP Protocol with only a handful of respondents standing at 24%, 18% and 12% citing them as challenges respectively.

Table 4.9: EAC CMP Challenges

Challenges	Frequen cy	Percenta ge	Rank
Poor infrastructural developments	60	72%	1
Financial constraints to execute the CMP strategies	58	70%	2
Corruption malpractices among various units	58	70%	3
Lack of private players engagement and citizen awareness	52	63%	4
Weak regional currencies	46	55%	5
Suspicion among the partners lessening political commitment	46	55%	6
Lack of adequate and clear assurance on investment Incentives	43	52%	7
Internal insecurity like terrorism, inter clan conflicts Threatening cross border movements	43	52%	8
Regional trade barriers i.e. taxation, duties and trans boarder Regulations	43	52%	9
Differing political systems and structures e.g. Capitalism and Socialism	36	43%	10
Unequal level of economies e.g. different resources, Infrastructure and currency	35	42%	11
Cultural differences, attitudes/ beliefs i.e. fear of loss of Sovereignty, leadership/ jobs	20	24%	12
Low level of literacy i.e. language barriers/ slow decision making process of consensus	15	18%	13
Lack of commitment in policy harmonization co-ordination and implementation	10	12%	14

4.10 Summary of Findings

The findings in this study differ from those of other scholars in the sense that this study utilized both primary and secondary data while rest of the studies applied or utilized either of the data.

Contribution of the movement of labour and persons on growth of Kenyan economy

Movement of labour and person was found to positively influence economic growth rate in Kenya. As a result of foreign remittances from people who settle in the member states for work as well as business ventures, there is some notable economic growth. Our findings reveal that few respondents agreed on the significant role played by movement of labour and person on the economic growth in Kenya. The positive coefficients further demonstrate that labour and person movement followed the same direction with economic growth rate in Kenya and that an change in labour and person movement increases economic growth rate.

Contribution of the movement of capital on the economic growth

Based on whether movement of capital or FDI influence economic growth in Kenya, the study results found out that a significant influence exists given that the p values are less than .05 significance level. The study findings revealed a negative coefficient between movement of capital and Kenyan economic growth using secondary data which implies that movement of capital and economic growth moved in the opposite direction with economic growth in Kenya and that an increase in movement of capital leads to a decrease in economic growth owed to the fact that Kenya has a negative net FDI from EAC CMP.

Contribution of intra EAC trade on the economic growth.

From the findings in this study, the results revealed that intra EAC trade has significant influence on economic growth rate in Kenya. As a result of increased export volumes from Kenya to the EAC member states outweighing the imports, trade balance contributes significantly to Kenyan economic growth as the p value < 0.05 significant level. The positive net trade balances through the EAC CMP influences significantly Kenyan economic growth explained by the positive variations in economic growth.



CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Conclusion

Based on literature review and study results, the researcher found out that that implementation of EAC CMP process is critical for economic development and all the member states need is to refocus their energies, policies and resources to help the closure of implementation at the earliest. Despite the contribution of CMP on Kenyan economic growth, the implementation process is marred by a myriad of challenges impeding the full implementation process. As to the extent of contribution of CMP to economic growth, trade balance has the highest positive contribution to economic growth with foreign remittances following next. Net FDI to Kenya from EAC CMP has remained low and negative as EAC member states have invested little capital in Kenya despite the fact that a number of Kenyan firms have invested among the member states.

5.1 Recommendations

Even though CMP has been found to spur economic growth for Kenya as well as the rest of member states, if meaningful benefits have to be made, there is need to:

Address the poor infrastructural development challenges. The member states need to work on their transport and communication networks to ease the burdensome costs of traders as well as investors. This will see increased volumes of trade as well as capital inflows. The completion of standard gauge railway line, lappset project, additional berths at port of Mombasa, road network coverage among member states will be key in spurring economic growth.

The member states need to end corruption by deploying technology across all the border points, ports as well as at immigration offices. The countries must enhance the

level of transparency and accountability in all the points of cross border contacts to raise confidence, trust and reduce cost of doing business as well as transactions.

On the issue of financial constraints to support execution of CMP strategies, all the member states need to mobilize adequate internal and external funding to support operationalization of the EAC CMP. Limited funding poses a great threat to the collapse of the CMP or prolonged delay in implementation of some critical pillars. All the member states need to contribute their budget allocation on timely basis for timely implementation of all the strategic timelines; short, medium and long-term plans. Indeed, the respective treasuries and budgetary organs of the member states need to ensure all the policies and procedures are clearly outlined to support the funding framework.

The challenge of limited private players' engagement and citizen awareness require to be addressed as they form a key stakeholder with a lot of influence and interest in the CMP owing to their participation in cross border engagements. Consultative forums need to be jointly held between the drivers or senior management of the EAC CMP in liaison with representatives of these stakeholders such as the business councils, chambers of commerce among others. Where necessary, decisions made should be collegial and that regular feedback on the performance of the CMP needs to be collected, evaluated and deviations corrected for in harmony with the CMP objectives per pillars of formation.

Weak regional currencies against the hard currencies need to be addressed to create investment appetite. Policies on exchange controls, exports promotion mechanisms, building local industries need to be addressed. The member states need to build forex reserves while maintain adequate import cover levels to facilitate trade as well as encourage investors from other member states. Exchange rate stability needs much attention as fluctuations of currency of the nation bring impact on trading. It makes export cheaper and import relatively expensive. The reason being in-elastic demand of import and export that would cause further increase in trade deficit because of fluctuations. Currency depreciation increases value of import resulting to heavy burden

for trade balance of the country. Moreover, the depreciation of the national currency affects the higher cost in purchasing goods and services from foreign countries.

To completely deal with challenge of suspicion among the partners lessening political commitment, there is a dire need to hold regular consultative meetings among the member states to address possible grievances or concerns among the member states. The political leaders need also to champion the EAC CMP during their debates and facilitate dialogue in circumstances where there exists miscommunication and mistrust. Openness, accountability and transparency ought to be used as key values among member states if the CMP will ever see the light of the day at the earliest. The region needs to put in additional efforts in addressing conflicts and insecurity as these may have a spill-over effect and do drive away investors

The challenges of inadequate and ambiguous investment incentives, trade barriers and insecurity have been cited that to some extent they continue to be threats affecting cross border movements. The member states need to detail elaborate and attractive investment incentives as well as guarantee against expropriation in order to attract investors from the member states that will build their levels of FDI. Trade barriers remain a bottleneck among the traders requiring harmonization of taxation regimes among the member states to boost trade and investment. Insecurity threat has further remained a challenge among the member states hampering free movement of goods and services, capital, persons and labour.

Cases of cross border conflicts, clan wars as well as sporadic terrorism attacks portrays Kenya in particular in bad taste deterring possible investors from the region from putting up new investments despite the CMP objectives. EAC member states need to put in place-concerted efforts to secure their borders, which ensure investors of their stable earning as well as safety of their capital. This will deepen and broaden the FDI inflow, which has positive impact on knowledge transfer as well as capital flow; a great panacea to poor economic growth among EAC member states. There is need to educate regions businesspersons and the government departments and agencies

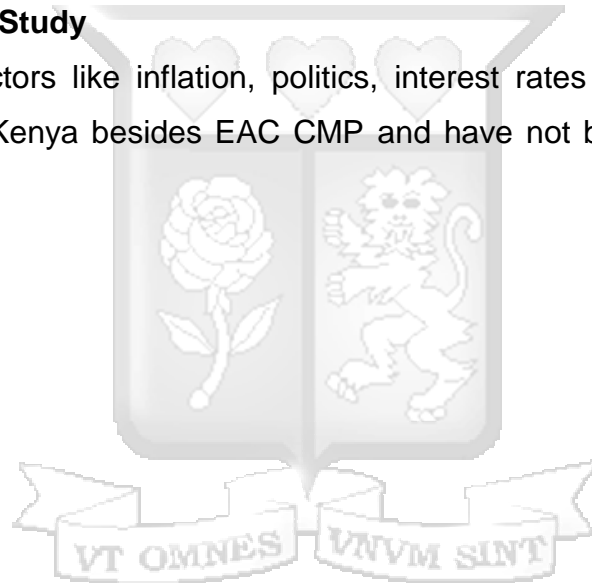
on NTBs to deal better with cross-border which has a great influence on the regional trade. NTBs lead to informal trade hence inability to harmonize tax systems owing to smuggling in business transactions.

5.2 Suggested Areas for Further Studies

In furtherance of this area of research, this study recommends that future research can be focus on: the implementation of foreign direct investment as: Challenges of internationalization strategy by faced by East African Community firms, and the challenges experienced in harmonizing NTBs under EAC CMP.

5.3 Limitation of the Study

Macro -economic factors like inflation, politics, interest rates etc. do also influence economic growth in Kenya besides EAC CMP and have not been considered in this study.



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APPENDICES

Appendix I: Introduction Letter

Date.....

Chairman.....

P.O Box.....

Dear Sir,

RE: ACADEMIC RESEARCH PROJECT

I am an MBA student at the Strathmore University. I wish to conduct a research entitled “**Assessment of the Contribution of East African Community Common Market Protocol to the Economic Growth of Kenya**”.

A questionnaire has been designed and will be used to gather relevant information to address the research objectives of the study. The purpose of writing to you is to kindly request you to grant me permission to collect information on this important subject from randomly selected senior and middle level management.

Please note that the study will be conducted as an academic research and the information provided will be treated in strict confidence. Strict ethical principles will be observed to ensure confidentiality and the study outcomes and reports will not include reference to any individuals.

Your acceptance will be highly appreciated.

Yours Sincerely

Emily Thaara Njuki

Appendix II: Questionnaire

This questionnaire has statements regarding how East African Community common market protocol has contributed on the economic growth of Kenya. Kindly take few minutes to complete the questionnaire as guided. Your responses will be handled confidentially and ethically.

SECTION A: GENERAL /DEMOGRAPHIC DATA

1. Kindly indicate your gender
 - a) Male
 - b) Female
2. Please indicate the highest level of education you have ever attained
 - a) Secondary level
 - b) College level
 - c) University level
 - d) Post graduate level
3. How many years have you been involved in EAC ministry?
 - a) Less than 2 years
 - b) 2 to 5 years
 - c) Over 5 years
4. What position do you hold in EAC ministry?
 - a) Senior Management Staff
 - b) Middle Management

Section B: Economic Growth of Kenya

This section aims at establishing the contribution of CMP to the economic growth of Kenya. Please indicate your agreement or otherwise with the following statements using the following likert scale.

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	EAC CMP has significantly contributed to the growth of Kenya over the last 5 years					
2	All partner states have harmonized their medium and long term growth strategic directions based on EAC CMP					
3	Kenya has achieved equal ratings and benefits from the EAC CMP partners					
4	Kenya's FDI from EAC has consistently grown outperforming FDI from rest of the world					
6	Since the EAC CMP was signed, the BoP accounts deficit status have tremendously improved					

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
7	EAC CMP has increased openness of the Kenya					
8	EAC CMP has witnessed increased movement of Kenyans equally among all the partner states					
9	EAC CMP has led to total removal of labour barriers for Kenyans					
10	Kenyan remittances have grown considerably from all EAC partner states					

Section C: Capital Mobility

This section aims at establishing the contribution of capital mobility on the economic growth of Kenya. Please indicate your agreement or otherwise with the following statements using the following likert scale.

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	All partner states have opened up their capital accounts for Kenya					
2	The protocol has increased flow of capital (money) to Kenya through the legal channels					
3	Kenya has benefitted from harmonized regulations on foreign exchange by all partner states					
4	Kenyans have not faced restrictions on the free movement of investment capital					
5	Decision on restriction of free movement of capital by Kenyans is clearly communicated to the other East African countries supported with evidence.					
6	Increased capital mobility among partner states has enhanced the gross fixed capital formation of Kenya					
7	The partner states have put in place market regulations governing various financial transactions					
8	The state partners freely allow Kenyans to invest or raise capital from capital markets across the EAC					
9	Movement of capital across the states for investment purposes is free and no is not taxed by respective countries					
10	Corporations investing in the states are free to bring along experts from home countries to manage their investments					

Kindly indicate challenges faced in capital movement across EAC states and give some possible solutions.....

Section D: Movement of Goods and Services

This section aims at establishing the contribution of movement of goods and services on economic growth of Kenya. Please indicate your agreement or otherwise with the following statements using the following Likert scale.

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	Kenya has not experienced any tariff barriers and Non-Tariff Barriers (NTBs) as detailed in CMP					
2	Kenyan importers do not experience challenges on origination of Certificate of Origin from EAC competent authorities					
3	Various bribery incidences have hindered effective implementation of movement of goods by Kenyans					
4	Kenya has benefitted from ongoing trainings by various chambers of commerce among the partner states on expectations of the CMP					
5	Kenya Export promotion Council have held workshops, conferences to disseminate knowledge on the EAC CMP					
6	Partner states have embraced and recognized the use of quality marks as outlined in the protocol eliminating counterfeits					
7	All partner states have continued to adhere to common standards for goods traded across EAC borders					
8	There exists no discrimination on services movement among Kenyans to partner states					
7	The partner states have discriminated Kenya on capital requirements for commercial services like setting up a bank					
8	There have been procedural frustrations among Kenyans in setting up commercial enterprises					
9	Kenya has not experienced challenges remained on Progressive Liberalization of Services documented as reserved services categories as per the Schedule of the Commitment					
10	Movement of Kenyans as service providers requiring physical travels to another country to provide a service is well supported by all partner states as per the protocol					

Kindly indicate challenges faced in movement of persons across EAC states and give some possible solutions.....

.....

Section E: Movement of Labour

This section aims at establishing the contribution of labour movement on economic growth of Kenya. Please indicate your agreement or otherwise with the following statements using the following Likert scale.

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	No challenges have been reported on the freedom of movement of Kenyans -labour - workers as well as the spouses, children and dependents of workers					
2	Kenyan labour mobility is prohibited by the bureaucracies in obtaining of work permit					
3	Kenya has reported cases of discrimination among the approved workers on the basis of remuneration, conditions of work and employment					
4	Kenyans have experienced delays and frustrations to receive the six month pass aimed at facilitating application for a work permit from the partner states					
5	All partner states have implemented national passport of an East African country) or a machine readable national identity card					
6	Partner states adhere to 30 days period on processing the self-employed person work permit application					
7	Denials of work permits for Kenyans are communicated in writing and in time to the applicants					
8	Kenyans applying for permits have the right to appeal against the decision, in line with the national laws of the host East African country without prejudice					
9	Kenyans under Professional and Trade Organizations are not discriminated their right to join professional or trade organizations and to be elected or appointed to high office within those organizations rest if the organization is connected with public authority,					

Kindly indicate challenges faced in labour movement across EAC states and give some possible solutions.....

.....

Section F: Movement of Persons

This section aims at establishing the contribution of movement of persons on economic growth of Kenya. Please indicate your agreement or otherwise with the following statements using the following Likert scale.

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	Partner states have implemented free movement of persons across borders without discrimination					
2	Partner states have invested in technology and people resources in all legal entry and exit points to enable free flow of EAC persons					
3	Valid common standard travel document are acceptable by all immigration departments among partner states					
4	EAC CMP has facilitated acquisition of knowledge and skills from institution of higher learning without discrimination					
5	The terms and conditions governing the schooling by Kenyans across state partners are prohibitive to free movement of persons					
6	Movement of Kenyans seeking medical services among partner states is well governed by the CMP reducing overseas medical expenses					
7	EAC protocol embraces Kenyans and supports traveling in transit					
8	There is freedom of movement across all countries in EAC					
9	Movement across all countries in EAC is not accompanied by hidden costs from corrupt officials from immigration or airports					

Kindly indicate challenges faced in persons movement across EAC states and give some possible solutions.....

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Thank you for participating in this research.