THE EFFECTS OF ECONOMIC INTEGRATION ON TOURISM PERFORMANCE IN KENYA AND THE MODERATING ROLE OF EXCHANGE RATES (EVIDENCE ON EAST AFRICA).

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DECLARATION

I declare that this work has yet to be submitted and approved for the award of a degree by this university or any other university. To the best of my knowledge and belief, the proposal contains no material previously published or written by another person except where due reference is made in the proposal itself.

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This research dissertation has been submitted for examination with my approval as the candidate's supervisor.

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DEDICATION

I dedicate this work to my entire family, all my lecturers, and my fellow graduate colleagues for their support, encouragement, and patience during my entire study period and their continued prayers for the successful completion of my course.

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ABSTRACT

Tourism serves as a crucial service export and foreign exchange earner for many developing countries, including Kenya, where its contribution has recently declined relative to diaspora remittances and agricultural cash crops like tea and coffee. Despite being Africa's second-largest growing industry, generating $38 billion dollars for the continent in 2019 according to UNWTO statistics, Kenya's tourism sector faces challenges. The East African Community (EAC) aims to enhance regional cooperation across economic, political, and social dimensions, raising questions about the impact of economic integration on service industries, particularly tourism. This study examines Kenya's tourism performance from the collapse of the EAC in 1977, revival in 2001 to 2023, focusing on a quantitative analysis using time-series data. By utilizing ADRL regression, the research evaluates the relationship between exchange rates and various indicators of economic integration, such as intra-regional trade intensity and price convergence. The findings indicate that while intra-regional trade intensity and exchange rates negatively affect tourism performance in the short term, a positive long-term trend emerges. Conversely, price convergence shows minimal positive short-term effects and relatively negative long-term impacts. Overall, the study highlights the progress made towards moderate economic integration in Kenya but underscores the need for deeper collaboration with neighbouring countries. Enhancing tourism through diversified services and robust cooperation is essential for maximizing economic integration benefits, ultimately contributing to sustained growth in the broader economic, social, and political landscape.

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GLOSSARY OF TERMS

Domestic tourism -refers to residents of a given domestic country, region, or group of countries traveling (as visitors) only within the regions listed above (UNWTO, 2008).

International tourism- refers to both inbound and outbound tourism (UNWTO, 2008).

Intra-regional tourism is the same as domestic tourism but is on the continent of origin (Diaz, d'hombres, & Ghisetti, 2017).

Outbound tourism- refers to residents traveling as visitors in an area other than their domestic country, region, or group of countries (Crouch & brent, 1999).

Inbound tourism- refers to non-residents traveling as visitors in any country, region, or group of countries (Crouch & brent, 1999).

Exchange Rate- the price of one currency in terms of another (Ding & Timmer, 2022).

ABBREVIATIONS

AfCFTA - African Continental Free Trade Area

AFTFP - Africa Finance and Private Sector Development

ARDL-Autoregressive distributed lag

ASEAN-Association of Southeast Asian Nations

COMESA-Common Market for Eastern and Southern Africa

CPI-Consumer price index

DCP-Dominant currency pricing

EAC- East African Community

EACSO- East African Common Society Organization

E.U-European Union

FDI- Foreign Direct Investment

GDP-Gross Domestic Product

IATA-International Air Transport Association

LOOP- Law of One Price

OECD-Organization for economic cooperation and development

OLS-Ordinary least squares

PPP-Purchasing power parity

NAFTA-North America Free Trade Agreement

NEER-Nominal effective exchange rate

PCP-Product contact point

REC- Regional Economic Community

REER-Real effective exchange rate

SADC-Southern Africa development community

SME- Small and medium enterprises

UNCTAD-United Nations Conference on Trade and Development

U.N.- United Nations

UNWTO- United Nations of World Travel Organization

WTTC-World Travel and Tourism Council

WTO- World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of study

Tourism is increasingly acknowledged as a crucial force for economic growth and job creation in Africa, a sentiment backed by forecasts from prominent international organizations. The World Travel & Tourism Council (2022) estimates that Africa's travel and tourism sector could add an extra US$168 billion to the continent's economy and generate over 18 million new jobs in the next ten years, provided there are improvements in infrastructure, visa regulations, and the investment climate. The World Bank (2024) anticipates that economic growth in Sub-Saharan Africa will increase from 2.6% in 2023 to 3.4% in 2024, underlining the service sector including tourism as a significant contributor to the recovery of private spending. Additionally, the United Nations Economic Commission for Africa (2024) recognizes tourism as a vital sector for inclusive development and significant transformation, highlighting the necessity for specific policy measures. This perspective is consistent with findings from UNCTAD (2017), which demonstrated the substantial contributions of tourism to GDP, employment, and export revenues in numerous African nations. Overall, this accumulated evidence underscores the rising significance of tourism as not only a means of recovery in the post-pandemic landscape but also as a key driver of sustainable development throughout the continent. Countries such as Kenya, Tanzania, and Uganda have prioritized tourism as a central component of their economic development plans, aware of its potential to generate substantial economic benefits (Signe & Johnson, 2018). Historically, tourism has been a leading foreign exchange earner for many African nations. For instance, in 2006, Kenya reported Kshs.56.2 billion from tourism, making it the top foreign exchange contributor at that time. However, fluctuations in the sector's performance have led to a decline, with tourism now ranking third behind diaspora remittances and agricultural cash crops. Despite challenges, tourism remains significant, with 67 million visitors generating approximately 38 billion dollars for Africa in 2019, and a forecasted growth rate of 3-5% from 2019 to 2022 by the UNWTO statistics in 2019.

Economic integration is a pivotal factor that can enhance tourism performance. Integrated economies, characterized by reduced barriers between countries, can facilitate tourism and allow nations to benefit financially from increased tourist arrivals (Ola, 2020). Economic integration involves various measures designed to minimize discrimination among economic entities within a defined geographic area to achieve collective economic goals. The levels of integration can vary widely, including free trade areas, customs unions, and economic unions, progressing towards more complex arrangements (Gajendrakar, 2024). The European Union serves as a prominent example of successful economic integration, functioning as the world's largest tourist destination and a single market. The E.U. has achieved significant trade integration, which has enhanced competitiveness in tourism, with statistics indicating that international inbound tourist numbers have tripled with the inclusion of each new member state (Nicolescu & Maria-Irina, 2018). Similarly, ASEAN's tourism cooperation reached a significant milestone in 1992, marked by the establishment of the ASEAN Tourism Forum and the creation of promotional chapters for tourism in key markets, aided by technical support from international partners. This cooperation resulted in a substantial increase in tourist arrivals, which more than doubled from 1991 to 1995, with expected growth rates of 7.6% and 4.9% in subsequent periods. By 2007, the tourism sector was projected to create around 21 million jobs and achieve a notable increase in capital investment within the ASEAN region. The tourism sector contributes significantly to GDP and promotes employment opportunities, income distribution, and poverty reduction. It stimulates demand for goods and services and generates foreign exchange and tax revenues for governments. Regional integration can facilitate economic growth by linking domestic producers to broader markets, thereby enhancing competitiveness and creating more sophisticated value chains (Owiro & Akoth, 2020). As one of the most internationalized sectors globally, tourism has the potential to connect various economic sectors, including travel, accommodation, hospitality, and leisure. This interconnectedness underscores the importance of prioritizing tourism within national economic strategies to harness its benefits effectively.

Economic integration has two development stages, which address economic and political issues. The study focuses on economic integration, and the theories to be discussed are customs unions and purchasing power parity (PPP) (Marinov, 2014).

1.1.1Economic integration

Economic integration occurs in various forms, each progressively deepening the connections between participating economies. The most basic level of this integration is free trade, which focuses primarily on reducing tariffs and quotas that restrict the exchange of goods. The goal here is to promote a greater flow of goods across borders. Building upon free trade is the concept of preferential trade, which expands the focus to include services alongside goods, prompting discussions around regulatory convergence and harmonization of operational rules. Labor mobility becomes crucial in this context, facilitating greater interdependence among economies engaged in increased trade, leading to regulatory convergence as highlighted by Burges (2022).

Following free trade and preferential trade are customs unions, which impose a standard external tariff on imports from non-member countries. This taxation is intended to protect competitive advantages within the union. When participating in economies achieve regulatory convergence, the challenges associated with monitoring and taxing external inputs diminish (Cheung, Yiu, & Chow, 2007). The next stage is the Common Market, characterized by unrestricted movement of people, goods, services, and capital among member countries (Owiro & Akoth, 2020). This unrestricted movement fosters the establishment of production chains that cross national boundaries and, as a result, diminishes the significance of borders, transforming them into merely internal barriers (Burges, 2022).

As integration deepens, the concept of a monetary union emerges, involving the adoption of a single currency for transactions within the common market (Owiro & Akoth, 2020). Even with open borders, the necessity for frequent foreign exchange transactions and navigating varying national economic policies incurs ongoing financial and administrative costs for businesses. A common currency or fixed exchange rates can mitigate these expenses and enhance economic coherence, ultimately leading to convergence in macroeconomic policies. This convergence can, however, limit the monetary policy autonomy of individual member governments (Burges, 2022). The final stage of economic integration is the federation, which is akin to a superstate. At this level, member countries synchronize all external tariffs, operational regulations, and macroeconomic policies under a common governance framework that mandates a unified economic policy. Member States typically surrender a significant degree of economic sovereignty in exchange for the expanded opportunities associated with a larger integrated market that

facilitates labor mobility, production factors, and the trade of goods and services (Burges, 2022). To assess the degree of economic integration, two primary categories are utilized: quantity-based and price-based measures. Quantity-based measures reflect openness and restrictiveness in trade, financial transactions, capital flows, and other economic correlations. Conversely, price-based measures examine price differentials in goods and financial markets, including variables like interest rates and price indices, which reflect regional price convergence. These assessments can adopt both macroeconomic (utilizing savings, output, and investment data) and microeconomic approaches (focusing on goods and financial prices). Generally, a smaller price differential indicates a higher level of economic integration, while a higher degree of openness translates to less restrictive trade conditions (Cheung, Yiu, & Chow, 2007).

Numerous methodologies exist for quantifying economic integration, with Foreign Direct Investment (FDI) and trade serving as the two leading indicators. Trade integration can be analyzed through metrics such as trade convergence or regional harmonization, while FDI is assessed via its ratio to gross domestic product (GDP). These can be categorized as trade-based and FDI-based indicators, as they are essential for firms seeking access to foreign markets and resources (Prakash & Hart, 2000). However, the intensity of trade among countries within the same region is influenced not only by regional integration agreements but also by overarching trade orientations and the relative levels of geographic and economic barriers impacting intra-regional and extra-regional trade (Iapadre & Luchetti, 2010). This study's focus will explore the intricacies of these dimensions of economic integration and their implications for participating in countries.

1.1.2 East African Community (EAC)

The East African Community (EAC) has a rich history that dates to 1917, with Kenya and Uganda being the first two countries involved. Tanganyika joined the alliance in 1927. The EAC's evolution began with the establishment of the East African High Commission from 1948 to 1961, which was succeeded by the East African Common Services Organization (EASCO) from 1961 to 1967. Following EASCO, a treaty for East African cooperation was enacted, but this initial framework collapsed in 1977 due to concerns about inequitable sharing of costs and benefits of regional integration, as well as the absence of policies to address these inequalities (Owiro & Akoth, 2020).

The EAC was revived with a treaty that was signed on November 30, 1999, and it came into force on July 7, 2000, after being ratified by Kenya, Tanzania, and Uganda— the original three member states. Subsequently, Rwanda and Burundi joined on June 8, 2007, becoming full members by July 1 of the same year. South Sudan followed suit on April 15, 2016, and became a full member in August 2016. More recently, the Democratic Republic of the Congo and the Federal Republic of Somalia acceded to the EAC on April 8, 2022, and December 15, 2023, respectively, fully joining the community by July 11, 2022, and March 4, 2024. Today, the EAC boasts an estimated population of 302.3 million people and a Gross Domestic Product (GDP) of approximately US$312.9 billion, encompassing a land area of 5.4 million square kilometers. The EAC established a customs union with a common external tariff in 2005, followed by the establishment of a Common Market in 2010.

The community aims to achieve a monetary union and political federation as its primary goals. Additionally, it has formed a tripartite free trade area in partnership with the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) to promote trade liberalization among 27 member states of these trade blocs. The headquarters of the EAC is in Arusha, Tanzania (Owiro & Akoth, 2020). The EAC recognizes tourism as a vital pillar for economic growth and poverty alleviation across member states. It is viewed as a mechanism for generating foreign revenue and enhancing wildlife conservation. Adventure tourism, a key sector, emphasizes collaboration in various aspects such as transport, accommodation, guided activities, and catering services, enabling members to negotiate competitive rates and optimize tour experiences.

In response to the COVID-19 pandemic, the EAC has developed a Regional Tourism Marketing Strategy to enhance cooperation among member states in promoting and marketing tourism both regionally and internationally. The strategy's objectives include creating high-quality travel experiences, developing competitive multi-destination tourism products, branding East Africa as a single destination, marketing the EAC as a premier regional tourism hub in Africa, building institutional capacity for market development, and enhancing financing mechanisms effectively.

1.1.3 Tourism Performance

Tourism is a multidimensional sector that significantly influences economic, social, cultural, and environmental spheres. Economically, tourism promotes job creation, stimulates investment, revitalizes local enterprises, and contributes to overall national income. Socially and culturally, it transforms value systems, family dynamics, and lifestyles while fostering interest in both indigenous and global cultural heritage. Environmentally, tourism raises awareness about conservation, though it can simultaneously cause adverse effects such as pollution, natural resource depletion, increased taxes, and stress on wildlife (Kirilenko, Su, & Ma, 2021). Within Africa, tourism has emerged as the second-fastest-growing industry, generating approximately $38 billion dollars from 67 million international visitors in 2019 (UNWTO, 2019). This growth is partly attributed to policy reforms in countries such as Kenya, Rwanda, and South Africa, which have strategically positioned themselves as conferencing and tourism hubs.

However, the COVID-19 pandemic dealt a severe blow to the industry, resulting in global monthly losses of $3.4 billion dollars and approximately 50 million job losses (World Travel & Tourism Council [WTTC], 2020). Kenya, although heavily affected, demonstrated resilience, achieving a 93% recovery in tourist arrivals by 2023 relative to pre-pandemic levels, reaffirming its central role in the East African Community (EAC). Despite this recovery, the African tourism sector faces ongoing structural constraints, including limited intra-regional air connectivity, disproportionately high airfares, and inadequate accommodation infrastructure—only 10% of Africa's 390,000 hotels meet international standards, with half located in South Africa (Lain, Eneida, Messerli, & Twining-Ward, 2014). Countries like Kenya, Mauritius, and Seychelles have begun addressing these gaps through increased investment in hospitality infrastructure.

To remain competitive in the global tourism market, Sub-Saharan African countries must enhance transportation infrastructure, improve service quality, invest in workforce development, ensure safety, and align pricing with value delivery. Competitiveness also depends on addressing both demand-side factors such as income levels, leisure time, education, and demographic profiles and supply-side enablers, including political stability, accessibility, and effective promotion strategies (Grima, Boz, & Sackes, 2020). As tourists become increasingly informed and selective, destination competitiveness hinges on product and service diversification, strategic planning, and stakeholder

collaboration. Ultimately, tourism's potential to drive sustainable economic development in Africa can only be realized through coordinated policy frameworks and investment in quality and innovation across the tourism value chain (Dwyer, Forsyth, & Dwyer, 2011; Hoekman & Shingal, 2022).

1.1.3 Kenya's Tourism Performance

The current position of tourism as a foreign exchange earner is third after diaspora remittances, leading with 671 million from 645 million Kenya shillings and $4.03 to $4.19 in USD, a 4% increase. According to the latest CBK reports for 2024, agricultural cash crop produce follows tourism despite tourism's 93% recovery level compared to 2019, which recorded the highest tourist arrivals, eliminating COVID-19 as a possible cause of the decline. According to Kenya's annual tourism performance report of 2023, Tourism accounts for 10.4% of the country's GDP,5.5% of formal employment, and 4.2% of the National Gross Fixed Capital Formation. It has multiplier effects on trade, agriculture, construction, manufacturing, and transport, among others.

Tourism was among the worst-hit sectors that suffered the most losses during the COVID-19 pandemic, and the numbers tell it all. The hotel revenue losses in Kenya were about $511 million,36,800 jobs were at risk in the airline industry, and the government lost about 2.5 billion in revenue loss in Tourism levy and associated losses of $125 million, according to the Tourism Sector Performance report 2019. Diversification of tourism products has been a critical agenda after the COVID-19 pandemic, and hence the government's recent launch of a new five-year 2021-2025 tourism strategy. Kenya's tourist arrivals have undergone different variations since EAC's conception. The highest tourist arrivals ever recorded was in 2019, with 2,048,834, and the lowest ever recorded was in 2020, with 567,848.2021 and 2022 increased significantly with 870,465 and 1,483,752, respectively, representing the recovery period as shown in figure 1.2 derived from immigration data of 2022. According to the latest reports of the Kenya Tourism Board, the number of tourist arrivals in 2023 was about 1.96 million, almost a 93% recovery from 2019 despite the decrease in foreign exchange earnings. The second highest is 2018, with 2,025,000, and with the exceptions of 2007,2011 and 2015, with an average of about 1.81 million, 1.82 million, and

1.18million, respectively, the years from 2004 to 2017 are between 1.2-1.7 million, the latter being 2012 while the former is 2008. The years 2001 recorded 994,000, and 2002 had an increase of seven thousand, according to Kenya's tourist arrivals statistics data from the World Bank figure 1.1.

Some attributes of the increase are strategic destination marketing campaigns, entry of new domestic airlines, and resumption of cruise tourism, amongst others. If the sector maintains growth, most tourism sub-sectors will recover faster, while others will surpass the 2019 arrivals, revenues generated, and bed occupancies. The key highlights to recovery are Inbound tourism earnings, visitor arrivals and passenger flight landings, Tourism establishments and revenues performance, Bed nights and room occupancies, performance in the MICE subsector in local and international conferences, Tourism training performance, visitation to National Parks, Museums and Heritage Sites, Initiatives supporting sector performance in 2022. This is all according to Kenya's annual tourism performance report of 2022-2023.

Figure 1.1 Source World Bank Statistics

International tourist arrivals from 2001 to 2018.

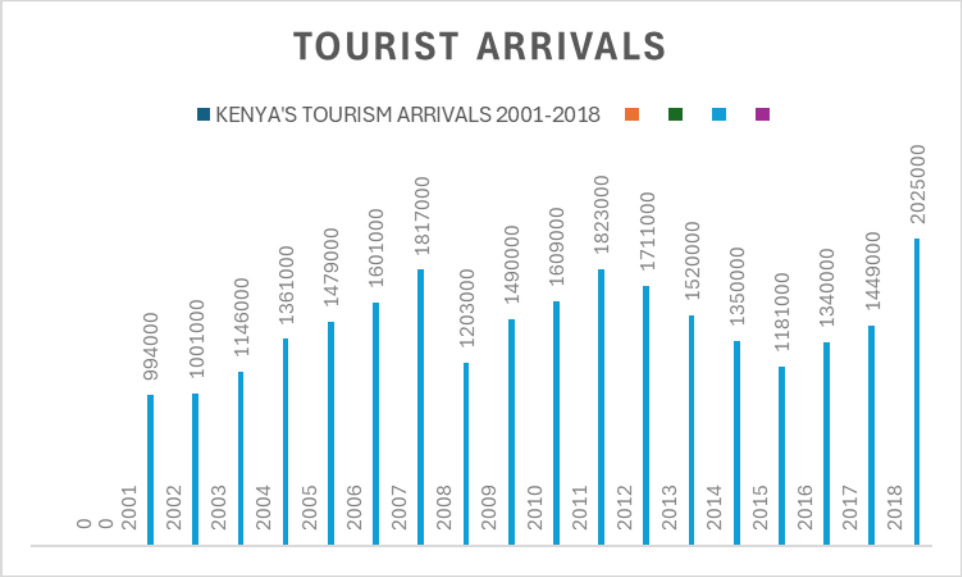

Figure 1.2

The graph below shows the trend of international tourism arrivals from 2019 to 2022.

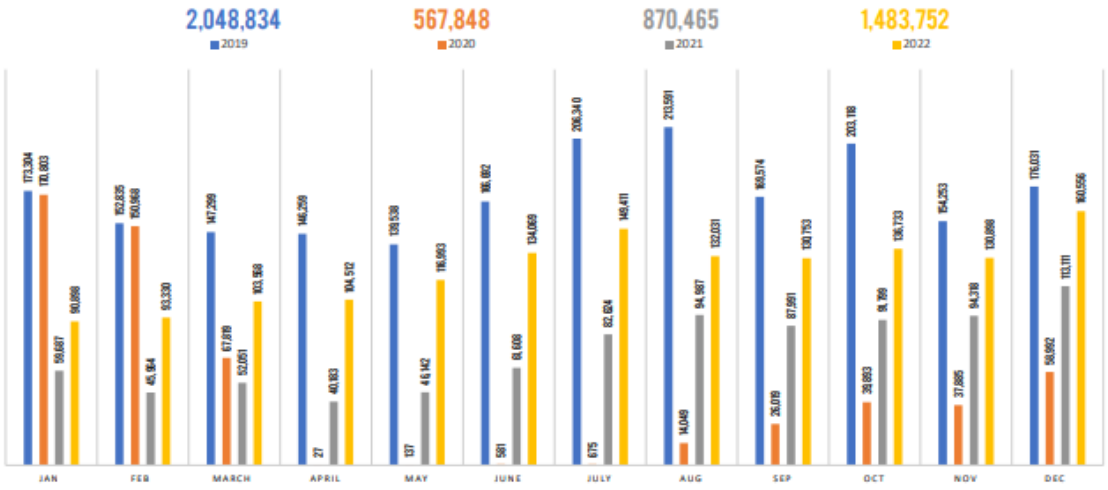

Figure 1: *International Arrivals over 2019, 2020, 2021 and 2022*

Source Immigration 2022

1.1.4 Exchange Rate and Tourism

One of the essential variables in international trade is the exchange rate due to the dynamic trade movements it causes, hence determining a country's international competitiveness. In developing countries, the prudent management of trade and exchange rate policies are associated with faster growth. A country's exchange rate (E.R.) is the rate the domestic currency exchanges for a foreign currency. The foreign exchange rate is crucial as it affects economic and monetary variables. The exchange rate can be expressed as bilateral or multilateral. The former entails the exchange rate of one currency in terms of another. e.g., the Kenyan shilling in terms of the U.S. dollar. The latter is the rate of one currency against a weighted composite basket of that country on trading partners' currencies. It can be referred to as a nominal exchange rate or nominal effective exchange rate (NEER) when inflation effects are embodied in the rate, i.e., it is not adjusted for inflation. (REER) the real effective exchange rate is when inflation influences are omitted in the computation, i.e., adjusted for inflation (Gachoki, 2020).

Previously, under the traditional Mundell Fleming framework, an exchange rate depreciation should positively impact export volumes. However, the recent development of dominant currency pricing (DCP) points out that the extensive use of the U.S. dollar in setting prices for international trade, regardless of the origin or the destination of trade flows, can mute the reaction of export volumes to exchange rate movements. The (DCP) offers strong evidence in goods trade, but empirical literature on trade in services is scarce (Ding & Timmer, 2022).

The U.S. dollar movements are essential drivers of tourism flows in that in the event of a 10 percent currency depreciation in the origin country relative to the currency of the destination country, bilateral tourism flows reduce by 1.1 percent without controlling how the origin country currency fluctuates against the U.S. dollar and when controlled the elasticity of the bilateral tourism flows decline to 0.7 percent. The same decline of 1.1 percent of bilateral tourism flows happens when there is a 10% decline in the currency of the origin country against the U.S. dollar. The above results vary across different countries; however, generally, tourism goes centrally to the implications of the conventional literature in which exporters are assumed to set prices of exports in producer currencies (PCP), and export volumes increase in the event of domestic currency depreciation. Thus, if a large share of hotels in a small country dependent on tourism set their prices in U.S. dollars. The strengthening of the U.S. dollar makes hotels more expensive for foreign tourists. Thus, foreign demand for hotels will decline regardless of the movements of the bilateral exchange rates and vice versa (Ding & Timmer, 2022).

The shilling has been depreciating from 2021 by 3.6% and further increasing to 5.5% in 2022 to exchange 158.3 against the dollar in the first quarter of 2024. The causes of the depreciation can be attributed to an increase in global oil prices, balance of payment deficit, public debt, declining forex reserves, and higher demand versus low supply of dollars following the reopening of economies from COVID-19 restrictions and lockdowns that slowed down economic growth. The Russia-Ukraine conflict also contributed to the depreciation as the cost of crude oil increased to $123 per barrel, holding above the $100 mark. Because oil imports account for nearly 20% of all imports, the increase in oil prices increases the amount of money for oil imports, thus exerting downward pressure on the shilling (Ariemba, 2023). The increase in Kenya's foreign debt due to the depreciation of the shilling is over 500 billion; thus, policies to boost exports are vital to reducing the Impact on the economy.

1.1.5 Economic Integration, Exchange Rate and Tourism Performance

Extensive studies on exchange rate regimes focused on currency unions in international trade flows, but fewer studies have focused on exchange rate regimes, currency unions, and international tourism. The type of exchange rate regime adopted fixed or flexible affects trade as exchange rates are usually associated with uncertainty in international transactions, transaction costs, and reduced market transparency, something fixed exchange rates countries need to contend with. However,

researchers have mixed results on the effects of either exchange rate regime (Santana, Rodriguez, & Rodriguez, 2010). Ndivhoniswani et al. (2022) conducted a study in South Africa from 1990 to 2022 investigating the effect of the exchange rate regime and international tourist inflows, and the findings revealed that the floating exchange rate supported international tourist inflows, but it has not significantly impacted tourist inflow. A study done in currency union countries i.e. U.S. dollar, French franc, New Zealand dollar, and Euro from January 2002 to 2010 found that the relevance of a common currency is a major factor in determining tourism arrivals and less flexible exchange rates promote tourism (Santana, Rodriguez, & Rodriguez, 2010).EAC is gearing up to be a monetary union whereby a common currency will be adopted by its member states thus warrants the study of exchange rate regimes especially in the tourism industry before integrating deeper economically to have a better understanding of what is to be expected.

Umulisa, (2020) did a study on the effects of intra-trade among EAC countries and discovered that intra-trade had positive and significant effects on the member countries. However, there were permanent and transitory shocks that were interpreted as supply and demand shocks. The different members of EAC are still predisposed to asymmetric shocks that undermine economic trade, as EAC's significant challenges of regional integration are low productivity to trade, poor infrastructure connectivity, low competitiveness in the trade of goods and services, lack of complementarity in trading, and institutional capacity weakness among others. The fact that African countries offer almost identical exports and economic integration magnifies the problem, thus the issue of supply shocks that affect supply chains, which have over the decades been more complex, interconnected, and global, according to the 2020 Trade Report of the World Bank. COVID-19 highlighted the vulnerabilities of the supply chains, and there is growing economic literature that shows that supply chains can be made resilient by strengthening and diversifying them. For EAC, it will be beneficial in maximizing the benefits of regional integration (Umulisa, 2020).

Furthermore, tourism performance can accelerate competitiveness by adding economic, social, cultural, and environmental value as the increase in tourism performance creates demand for goods and services that were never available in the destination tourist supply chain. The most significant difference between the supply chain of goods and services is that there are more standardized

products with differentiations in the goods sector. However, services are personalized to the target markets, i.e., consumers (Mulyani, 2024).

According to the 2019 East African Economic Report by the African Development Bank, demand shocks are expected in a monetary union, but supply shocks pose significant problems in the affected countries; hence, the remedy given to EAC members to fully harmonize their policies and increase intraregional trade before adopting a common currency. Out of the EAC members, Kenya was the only country not affected by shocks from countries other than its own, suggesting that the economy is more resilient than the others. In addition, in 2018-2019, Kenya recorded the highest service growth in GDP, 71%. Lastly, it leads the EAC in tourism development according to the 2021 Travel and Tourism Development Index report, thus the study's focus.

1.2 Statement of the Problem

Tourism has long been celebrated as a cornerstone of Kenya's economic development, particularly for its role as a leading foreign exchange earner and employment generator (Mutile, 2013). It is frequently cited as a vital export sector in peripheral economies, providing critical revenue through international tourist arrivals (Sindiga, 2018). Yet despite its perceived importance, Kenya's tourism sector has faced sustained decline in recent years, revealing a central contradiction: while tourism is praised as an economic lifeline, it remains highly vulnerable, under-diversified, and poorly integrated into broader development planning (Mayaka & Prasad, 2012).

This contradiction is further exposed by Kenya's declining export performance. According to the Kenya National Bureau of Statistics (2019), exports as a share of GDP dropped from 22.2% in 2012 to 13.2% in 2018, even as in 2023, the World Travel & Tourism Council (WTTC) reported that travel and tourism injected KES 1 trillion into Kenya's economy, with domestic visitor spending reaching over KES 466 billion. The sector supported approximately 1.55 million jobs, accounting for one in thirteen jobs nationwide. Kemboi (2020) emphasizes that a higher export-to-GDP ratio is indicative of stronger economic health something Kenya is trending away from. While tourism is technically considered an "export," particularly in the services sector, its contribution is fragile and reactive to external shocks, such as global health crises, political instability, or climate variability (Ndivo, Waudo, & Waswa, 2013). This raises questions about how reliable tourism is as a long-term economic strategy. As another critical gap lies in the

overreliance on traditional wildlife and nature-based tourism, which has limited Kenya's ability to adapt to changing global demand and demographic shifts in travel preferences. Despite calls for product diversification (Mayaka & Prasad, 2012), progress has been slow, with little innovation in urban, cultural, or adventure tourism segments. The result is a sector that is economically important but strategically stagnant (Owiro & Akoth, 2020).

While economic integration offers a framework for increasing tourist flows within Africa, according to UNCTAD (2021) highlights Africa's intra-regional trade rate at just 15%, far below Europe (67%) and Asia (60%). This reveals a gap between regional policy intent and national implementation, where tourism remains disconnected from trade and investment strategies (Fofak, 2020). Further, the sector's sensitivity to exchange rate fluctuations (Maiyo et al., 2024; Mwangi, 2022; Njoya et al., 2022) and global shocks like COVID-19 underscores its instability. An appreciating Kenyan shilling makes tourism more expensive and less competitive, while a depreciating one may stimulate arrivals but does not address the underlying lack of resilience or diversification.

In summary, the controversy surrounding tourism's importance lies in the disparity between its celebrated economic role and its fragile foundations. It is both vital and vulnerable, celebrated in rhetoric but underserved in practice (Ndivo, Waudo, & Waswa, 2013). These contradictions and gaps between policy and implementation, potential and performance, importance and investment underscore the urgent need to reassess the sector's role in Kenya's development strategy, particularly within the evolving context of regional economic integration.Analyzing Kenya's progress since EAC's conception will help pinpoint strategic areas of need from past trends and present to give tourism performance a better footing for the future, especially with implementing the new free Trade AfCFTA. The aim is to maximize the benefits of diverse new markets and products, existing potential, and emerging opportunities, mitigate risks, and increase the industry's competitiveness in intra-regional tourism in EAC and Africa.

1.3 Research Objectives

1.3.1 General Objective

The research investigates the effect of economic integration and exchange rates on Kenya's tourism performance.

1.3.2 Specific Objectives

The study attempted to achieve the following specific objectives:

1. Determine the effect of intra-regional trade intensity on Kenya's tourism performance.

2. Establish the effect of intra-regional price convergence on tourism performance in Kenya.

3. Establish the moderating effect of the exchange rate on the relationship between economic integration and tourism performance in Kenya.

1.4 Research Questions

The study attempted to answer the following questions:

1. What is the effect of intra-regional trade intensity on tourism performance in Kenya?

2. What is the impact of intra-regional price convergence on Kenya’s tourism performance?

3. What is the impact of exchange rates on the relationship between economic integration and tourism performance in Kenya?

1.5 Scope of Study

The study sought to determine the effect of economic integration on Kenya's tourism performance. Kenya is a member of the East Africa Community (EAC). The study assessed the effect of the EAC integration process on Kenya's tourism performance. The focus was on international tourist arrivals from the collapse of the EAC in 1977 for the data available, revival in 2001 to 2023. This was because of the extreme variation of tourist arrivals from the lowest tourist arrivals ever recorded in 2020 to the highest in 2019. Economic integration was measured using intra-regional trade intensity and regional price convergence. The effects of the exchange rates as a moderate variable were also assessed.

1.6 Significance of the Study

It is beneficial for the following:

1.6.1 Policymakers and Regulators

With the recent plans to sell East Africa as a single tourist destination, governments in the East Africa region can use the information to allocate tourism resources effectively and efficiently and implement decisions by formulating the most effective policies that will support tourism diversification of products to maximize the benefits of regional integration.

1.6.2 Tourism Stakeholders in East African region and others

The study will benefit tourism stakeholders by identifying the gaps in the diversification of tourism products, which will open the tourism industry to new, diverse goods and services and diversify and strengthen the tourism supply chain. This will help to mitigate future risks from transport to accommodation facilities as well as create employment.

1.6.3 Academicians and Researchers

The study will help spur research in other mainstream service industries and sub-sectors to identify opportunities and increase literature in service industries. Initiating innovative and creative ways to help with discoveries, identification, and mitigation of risks in the service sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This Chapter reviews relevant literature from research journals, publications, and reports on theory and empirical literature conducted on economic integration in tourism performance. It also identifies the gaps the study aims to fill, outlines the conceptual framework, and analyzes the study's variables.

2.2 Theoretical Review

2.2.1 Customs Union Theory

Jacob Viner developed the theory in 1950 and was a central economic figure in the 20th century. His work spanned international economics, price theory, economic policy, and the history of economics (Oslington, 2015)

Viner's concept of the customs union depended on trade creation and diversion, showing that the effects of customs unions can be positive or negative. A customs union is defined as the complete elimination of tariffs between members, implementation of a uniform tariff on imports outside the union, and distribution of customs revenue between the members under an agreed formula (Pinelopi & Verboven, 2003).

Trade creation means changing trade from a more expensive to a less expensive producer. It is a process of creating economic welfare and new trade opportunities between two or more countries or regions, and it occurs with the reduction of trade barriers such as quotas, tariffs, and embargoes. It can lead to increased competition for businesses and lower prices for consumers. Trade diversion is switching from a less expensive to a more expensive producer in that it redirects trade flows between two countries because of the formation of a customs union or free trade area (Mahr n., 2023)

The higher the elastic demand and supply of a country participating in a customs union, the greater the trade creation. The trade creation and benefits are superior when the union is between two rival countries. The conclusion that trade creation is a 'good thing' and trade diversion is a 'bad thing'

results from the welfare judgment, where benefits from the customs union are critical in deciding the goodness of the trade or badness (Pinelopi & Verboven, 2003).

When forming a Customs Union, relative prices in the domestic markets of the member countries change due to tariffs on removing some imports. These tariffs have two crucial initial effects: One, they may influence the World's location of production in various ways, and two, they may have a parallel effect in increasing consumption between members of a customs union while reducing imports from the rest of the World. The former is classified under production effects, while the latter is under consumption effects. One emphasis is that, in the event of fixed world production, a customs union will cause changes in consumption patterns because of relative prices in the domestic markets of the member countries. Thus, the consumption effect may operate without production (Pinelopi & Verboven, 2003).

Trade creation benefits welfare as it changes welfare by replacing the higher costs of domestic production or imports with lower costs. On the contrary, trade diversion is a change of welfare due to the replacement of imports from a low-cost source to a higher one. A customs union is economically justified if it leads to trade creation and diversion towards deeper protectionism and decreased efficiency (Odoom, 2020). The customs union theory is primarily concerned with trade creation and diversion. As tourism is a service export where production and consumption co-occur, there must be some form of trade creation and diversion in intra-regional tourism among countries, hence the theory, and since the EAC already attained a customs union.

2.2.2 Purchasing Power Parity (Law of One Price)

Purchasing power parity theory PPP, founded by Swedish economist Gustav Cassel, states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries, meaning the exchange rate between two countries should equal the ratio of the two countries' price levels of similar goods and services. (Werner, 2024)

The acronym LOOP refers to the law of one price, an economic theory that states that the price of identical goods in different markets must be the same after considering the exchange. Free competition in the market, absence of trade restrictions, and price flexibility(i.e., sellers or buyers cannot manipulate the price of goods, and prices are adjusted freely)are assumptions that competition in the markets, absence of trade restrictions and price flexibility the loop primarily

holds due to arbitrage opportunities; if the prices of identical goods diverge from each other across the market arbitrage opportunities arise since a trader may purchase a good in a market at a lower price and immediately sell it to another market at a higher price for a net profit. Subsequently, the forces of supply and demand will converge prices across the market, eliminating the arbitrage opportunities. (Wolman, 2011)

For the strict version of LOOP to hold, arbitrage must be possible, though commodity prices can converge without arbitrage. Price convergence is the tendency for similar goods or services to align to a standard level over time. Factors such as market dynamics, data availability, behavioral factors, and external factors, among others, affect price convergence. The absence of price convergence when arbitrage is impossible does not conflict with any basic assumptions of economics. The absence of price convergence when arbitrage is possible indirectly rejects the assumption of utility maximization and directly rejects the assumption of wealth maximization. Arbitrage is possible when commodity prices converge, but it must be possible for the strict version of LOOP to hold. (Pinelopi & Verboven, 2003)

In tourism, these theories hold significant practical relevance. International tourists are particularly sensitive to value, often making decisions based on the relative strength of their home currency. When PPP conditions are met, destinations where their money can go further become more appealing, leading to increased demand in countries with lower costs. Conversely, if a destination faces high inflation not matched by currency depreciation, it risks losing appeal, which can deter tourist visits. This is particularly important in Africa, where costs for accommodation and transportation heavily influence destination competitiveness. For instance, airfares in Sub-Saharan Africa are approximately 50% more expensive than in other regions, with charter tours priced 20–30% higher (Lain, Eneida, Messerli, & Twining-Ward, 2014). Such pricing disparities limit the region's potential to capitalize on growing tourist numbers.

In Kenya, understanding relative PPP is vital as most tourism transactions occur in U.S. dollars, meaning that fluctuations in the exchange rate significantly impact travel costs and perceived value. The economic disturbances caused by the COVID-19 pandemic, including inflation and currency depreciation, have altered Kenya's real exchange rate, affecting inbound tourism. Relative PPP helps clarify these shifts by illustrating how adjustments in exchange rates can either enhance or diminish destination competitiveness. A real exchange rate that is too high where local

prices increase faster than the exchange rate can adjust and may make tourism more costly, potentially driving demand to other locations. Conversely, stable prices and a favorable exchange rate can establish Kenya as an attractive, high-value choice, particularly against pricier international options. By grasping the implications of PPP and LOOP, policymakers and tourism stakeholders can refine pricing strategies, engage in value-oriented marketing, and anticipate changes in tourism demand. These theories also contribute to broader economic planning, aiding in aligning tourism development with macroeconomic objectives like controlling inflation, stabilizing currency, and improving trade balances. In a competitive and price-sensitive global market, understanding PPP and LOOP is vital for enhancing the appeal, resilience, and sustainability of tourism destinations both in Africa and around the world.

2.3 Empirical Review

Empirical studies examine past studies to answer a particular question. The main aim is to identify the research gaps and help to review the theoretical view. The theoretical review mainly entails past theories that exist, relationships between and among them, and the extent of research on reliability and relevance.

2.3.1 Intra-Regional Trade Intensity and Tourism Performance

Intra-regional trade refers to economic exchanges that occur within a specific region, covering trade between towns or provinces within a single country or between different countries. The primary means of measuring this trade is the intra-regional trade intensity index, which indicates the ratio of intra-regional trade to the region's share of world trade. This index not only reflects economic integration but also signifies the degree of connectivity, cooperation, and openness between nations within the region (Iapadre & Luchetti, 2010). A higher index signals that trade among regional partners is much more significant than expected based on their global trade share, fostering enhanced economic interaction that supports cross-border mobility, infrastructure development, and institutional harmonization all key factors that drive international tourism. Specifically, an index value exceeding one indicates that trade flows between countries or regions are more substantial than anticipated (Iapadre & Luchetti, EU Working Papers European Report on Development, 2010).

International tourism flows are substantially influenced by regional trade agreements. The extent to which a country integrates into the global economy directly correlates with the movement of

goods, services, and international tourists within its tourism sector. These dynamics encompass variations in leisure and business travel, alongside increased awareness and interest in destination countries. Economic development, illustrated by improved communication and transportation infrastructure, plays a pivotal role in meeting the needs of tourists through an expanded variety of available goods (Pham, Trinh, Le, & Vo, 2023).

Research exploring the link between regional trade and tourism performance, particularly tourist arrivals, has yielded mixed results. Chang and Lai (2011) conducted a study on three major regional trade agreements—ASEAN, EU, and NAFTA—covering 36 nations from 2000 to 2005. Their findings revealed that while the EU and NAFTA negatively impacted international visitor arrivals, ASEAN had a positive influence. Gil-Pareja et al. (2007) examined the impact of free trade agreements on tourism demand among G7 countries—Canada, France, Germany, Italy, Japan, the UK, and the USA—demonstrating that countries engaged in such agreements experienced significant tourism benefits (Gil et al., 2007). Llorca Vivero (2008) supported these conclusions by showing an increase in business travel linked to close trade relations, both studies employing a tourism demand model. A broader study using a large cross-country dataset highlighted that the strength of trade cooperation between countries fosters bilateral tourism, concluding that being a signatory to a regional trade agreement positively impacts international tourism (Fourie, Santana, M., & Rossello, 2020).

In another comprehensive study, Sang (2010) analyzed 196 countries and found evidence that regional trade agreements boost tourism arrivals, with a more pronounced effect when assessing the annual variations rather than controlling for specific origin and destination fixed effects. Culiuc (2014) echoed similar results, finding that regional trade agreements positively impact tourism for both destination and tourist origin countries, even when accounting for yearly effects in 204 countries. He compared intra-OECD relations with regional trade agreements and determined that the latter had a more pronounced effect (Sang, 2010). While most studies employed demand models, one study utilized a gravity model focusing on 29 countries with significant tourist inflows to Vietnam from 2007 to 2019. The results indicated that all countries with regional trade agreements with Vietnam positively influenced international tourist demand in comparison to Vietnam's participation in ASEAN (Pham, Trinh, Le, & Vo, 2023).

Several mechanisms have been identified through which higher intra-regional trade intensity can enhance tourism performance: 1. Improved Connectivity and Infrastructure: Increased trade often requires investments in transport networks (roads, railways, airports) and communication systems, which also facilitate international travel and consequently boost tourism flows (Pham, Trinh, Le, & Vo, 2023). 2.Harmonization of Policies and Visa Procedures: Deep trade integration usually includes the reduction of regulatory barriers, like simplified visa processes and mutual recognition of travel documents. This regulatory alignment eases the movement of both traders and tourists (Gil et al., 2007). 3.Business Travel Spillovers: Greater intra-regional trade leads to increased business interactions such as trade missions and conferences which can extend leisure stays and encourage repeat visits, contributing to overall tourist arrivals (Llorca Vivero, 2008). 4. Economic Growth and a Rising Middle Class: Trade-driven economic improvements raise income levels, particularly among regional partners. A growing middle class with more disposable income is likely to travel more, further driving intra-regional tourism (Pham, Trinh, Le, & Vo, 2023).

The study will utilize the Autoregressive Distributed Lag model to investigate the relationship between Kenya's tourism performance and the East African Community (EAC) since its establishment in 2001. The primary objective is to elucidate the relationship among these variables and to help mitigate both unforeseen and existing systemic risks to Kenya's international tourism, especially as the EAC prepares to move towards a monetary union and implements Africa's first ratified free trade agreement, the AfCFTA, uniting the continent.

2.3.2 Regional Price Convergence and Tourism Performance

Price convergence is a dynamic process that unfolds across various markets, regions, and time frames, challenging traditional assumptions about market efficiency and rational behavior. This study specifically focuses on the macroeconomic perspective, analyzing price convergence in relation to exchange rates, interest rates, and inflation rates. Several critical factors drive this convergence, including arbitrage opportunities, regulatory changes, information flows, market integration, and technological advancements (Hacker & Umulisa, 2022).

A significant aspect of price convergence is regional price convergence, which refers to the tendency for prices within a specific geographic area to align more closely over time. This

phenomenon is influenced by factors such as trade flows, transportation costs, labor mobility, and policy harmonization (Faster, 2024). Understanding these influences is crucial for evaluating how interconnected markets influence tourism economics. In the context of tourism, demand is notably affected by two primary factors: income and prices. This study will focus on the latter, as price dynamics play a crucial role in determining tourist behavior. The tourism industry recognizes two main approaches to price determination: own prices and substitute destination prices. Essential components contributing to tourism costs include transportation, accommodation, meals, sightseeing, and entertainment. Ideally, a tourism price index should encapsulate a combination of these goods and services. However, due to the complexities of accurately pricing travel services, researchers often rely on the Consumer Price Index (CPI) when specific tourism data are lacking (Quang, 2022).

Further emphasizing the importance of price sensitivity, Dogru et al. (2017) define the own price also known as relative price as the price in a destination relative to that in the tourist-originating country. This distinction is crucial, as international tourism prices are not solely determined by local factors; they also incorporate additional costs related to services at departure airports and fluctuations in bilateral exchange rates, as well as fundamental components like transport, accommodation, and leisure activities (Quang, 2022).

A comprehensive study by Quang (2022) analyzed tourism demand relative to income and prices across both international markets and regional markets, specifically targeting Vietnam. The findings revealed that tourism demand from major intercontinental markets is relatively price inelastic, whereas demand from Asian markets is notably price sensitive. This insight underscores the necessity for destination countries to be cognizant of competitive pricing strategies, especially when catering to travelers from regions with varying sensitivities.

Additionally, research assessing the impact of relative prices on tourism flow in Mauritius through dynamic time series analysis illustrates that relative price measures significantly influence long-term international tourism flows. The results indicated that tourists demonstrate considerable sensitivity to price levels, highlighting the importance of competitive pricing relative to other destinations (Seetanah, Sannassee, & Sawkut, 2015). This reiteration of relative pricing emphasizes the need for countries to adopt pricing strategies that respond to shifts in competitive landscapes (Kemoe, Mbohou, Mighri, Quayyum, & Quayyum, 2024).

In a different context, Raifu & Afolabi (2024) investigated the influence of inflation on the Nigerian tourism industry, specifically analyzing the relationship between tourism receipts and arrivals from 1995 to 2024. Their findings revealed a tradeoff between inflation and these indicators, suggesting that rising inflation discourages international tourist arrivals and diminishes tourist revenue. They advocate for maintaining price stability to foster a more attractive environment for tourists, thus reinforcing the critical role of pricing dynamics in tourism development (Raifu & Afolabi, 2024). Collectively, these studies establish a clear link between price dynamics and international tourism behavior.

This research aims to build on this foundation by investigating how inflation specifically influences tourism performance, with a focus on calculating regional inflation variance between Kenya and the East African Community (EAC). By drawing connections across these areas, the study seeks to contribute to a deeper understanding of how economic factors influence tourism demand and market behavior within the region.

2.3.3 Effects of Exchange Rates on Tourism Performance

Currencies represent the different types of money used by various countries, each with its own unique value. The exchange rate plays a crucial role in this context, as it defines how one currency can be exchanged for another. This relationship is influenced significantly by the strength of a country's currency against the U.S. dollar, the world's primary reserve currency. As most exchange rates are not static, they fluctuate constantly based on numerous factors, including economic stability, the demand for the currency, and the political landscape in each country (Mahr N. , 2023).

Several studies have examined how exchange rates affect tourism demand, revealing intricate relationships that highlight the interconnectedness of economic factors and tourism. For instance, Irandoust (2019) conducted a study on ten European countries from 1995 to 2016 that utilized cointegration regression to analyze the relationship between exchange rates and tourism. The findings indicated that exchange rates could have both positive and negative impacts on tourist arrivals, illustrating that the effects of currency fluctuations are contingent on specific monetary policies enacted in each country (Irandoust, 2019).

Expanding on this theme, Dogru et al. (2019) and Isik et al. (2019) both investigated the impact of exchange rates on the tourism balance of trade in their respective regions. Dogru et al. employed ARDL techniques, discovering that a higher exchange rate enhances the tourism trade balance particularly in bilateral relationships while a lower exchange rate tends to have the opposite effect. This study, which included data from the United States, Canada, Mexico, and the United Kingdom, concluded that a stronger U.S. dollar adversely affected the U.S. travel trade balance with Canada and the U.K. and did not establish a long-term relationship with Mexico (Dogru, Isik, & Sirakaya, 2019). Simultaneously, Isik et al.'s research focused on the dynamics between Turkey and Spain, utilizing a nonlinear ARDL cointegration approach. They found that a depreciation of the Euro currency significantly benefited Turkey's tourism trade balance.

Contrastingly, the appreciation of the Euro did not exhibit a compelling influence on Spain's tourism trade balance, indicating that the effects of currency values may vary significantly between countries based on their specific contexts (Isik, Radulescu, & Fedajev, 2019). In a broader context, a study that analyzed the relationship between exchange rates and foreign tourist numbers in Vietnam from 2006 to 2018 highlighted that a reduction in the value of the domestic currency could stimulate demand from foreign travelers (Tung, 2019). This indicates that a weaker currency might make a destination more attractive to tourists looking for favorable exchange rates. Additionally, research by Meo et al. (2018) in Pakistan demonstrated the interplay among oil prices, exchange rates, and inflation on tourism demand. Their evaluation of data from 1980 to 2015 found that an increased exchange rate, while devaluing the host country's currency, could ironically boost tourism demand. However, they also noted that poor institutional quality and high inflation contributed to higher living costs, which subsequently deterred both domestic and foreign tourists (Meo, et al., 2018).

These studies collectively suggest that understanding the impact of exchange rates on tourism can provide valuable insights for enhancing the tourism balance of trade. As the current focus turns to the effects of economic integration, analyzing the tourism balance of trade between Kenya and the East African Community (EAC) countries becomes essential. Such analysis could significantly promote intra-regional tourism and cooperation, ultimately fostering economic growth and development across the region. By leveraging favorable exchange rate dynamics, these countries

could attract more tourists from within the EAC, benefiting their tourism sectors and local economies (Oloo, 2023).

2.4 Summary of Research Gaps

Looking back in history, theories supporting trade in services were almost nonexistent. However, as researchers develop new theories and frameworks, more research needs to be done to reduce the gap between service and goods trade and help regional economic communities maximize the benefits of regional integration.

The benefits of tourism convergence are that it redistributes income from developed countries to less developed ones by promoting regional development and reducing economic differences among regions. (Proenca & Soukiazi, 2008) Thus, national and international investment in the tourism sector would positively affect development in various regions, especially in developing countries; thus, the sector needs much more attention.

Global tourist destinations are unique; thus, there needs to be more literature studies with a standard model that identifies the different characteristics and attributes of critical success factors of finances, human resources, and product customer relations. (Milandrie, Plessis, & Saayman, 2017)With the recent regionalism, industries must be ready to respond appropriately to economic and cultural strains generated by the Globalization of market forces. (Molchanov, 2005) This study aims to fill the gaps and identify opportunities that come with service liberalization to maximize the benefits of regional trade.

Table 1.1 The table below shows a summary of the research gaps.

AUTHOR	TITLE	FINDINGS	GAPS IN STUDY
David Owiro and Joan Akoth. (2020)	Fundamental lessons from regional economic communities for the African continental free trade area; A case for East African community.	Countries /tourism stakeholders need to learn lessons from the Regional economic communities for the successful	Focused on the qualitative study of Tourism in the East African Region creating a quantitative study gap.

		implementation of AfCFTA.	
John Bosco Nyanzi, Nicholas Kimani, John Bosco Oryema. (2022)	Real exchange rate undervaluation, regional integration, and services sector performance; Evidence from East African Community.	Exchange rate volatility negatively impacts the service sector in the long run. The solution given is to formulate strategic policies to curb the issue.	Focused on the service sector with no specialization in any industry.
Raifu I.A and Afolabi J.A(2024)	Does Rising inflation affect the Tourism industry? Evidence from Nigeria.	Inflation negatively impacts international tourism, which in turn negatively affects tourism revenue. The recommendation is to use macroeconomic policies to stabilize prices.	The study focuses on the qualitative effects thus, creating a quantitative research gap and a contextual gap since it was done in Nigeria.
Boopen Seetanah, Raja Sannassee and Sawkut Rojid (2015)	The Impact of relative prices on tourism demand for Mauritius: An empirical analysis	Relative prices have a long-run impact on international tourism flows and changes in relative prices in foreign destinations competing with Mauritius matter indicating a certain substitutability between Mauritius and regional competitors.	The study assesses the Impact of relative prices on tourism flows in Mauritius. Thus, has a contextual gap since it was done in Mauritius.

2.5 Conceptual Framework

It is a graphical representation of the critical variables used to answer the specific study's objectives. Its function is to inform the study's design in assessing and refining its goal, develop realistic and relevant research questions, select appropriate methods, and identify potential validity threats to the conclusions. (Ewnetu, 2016)

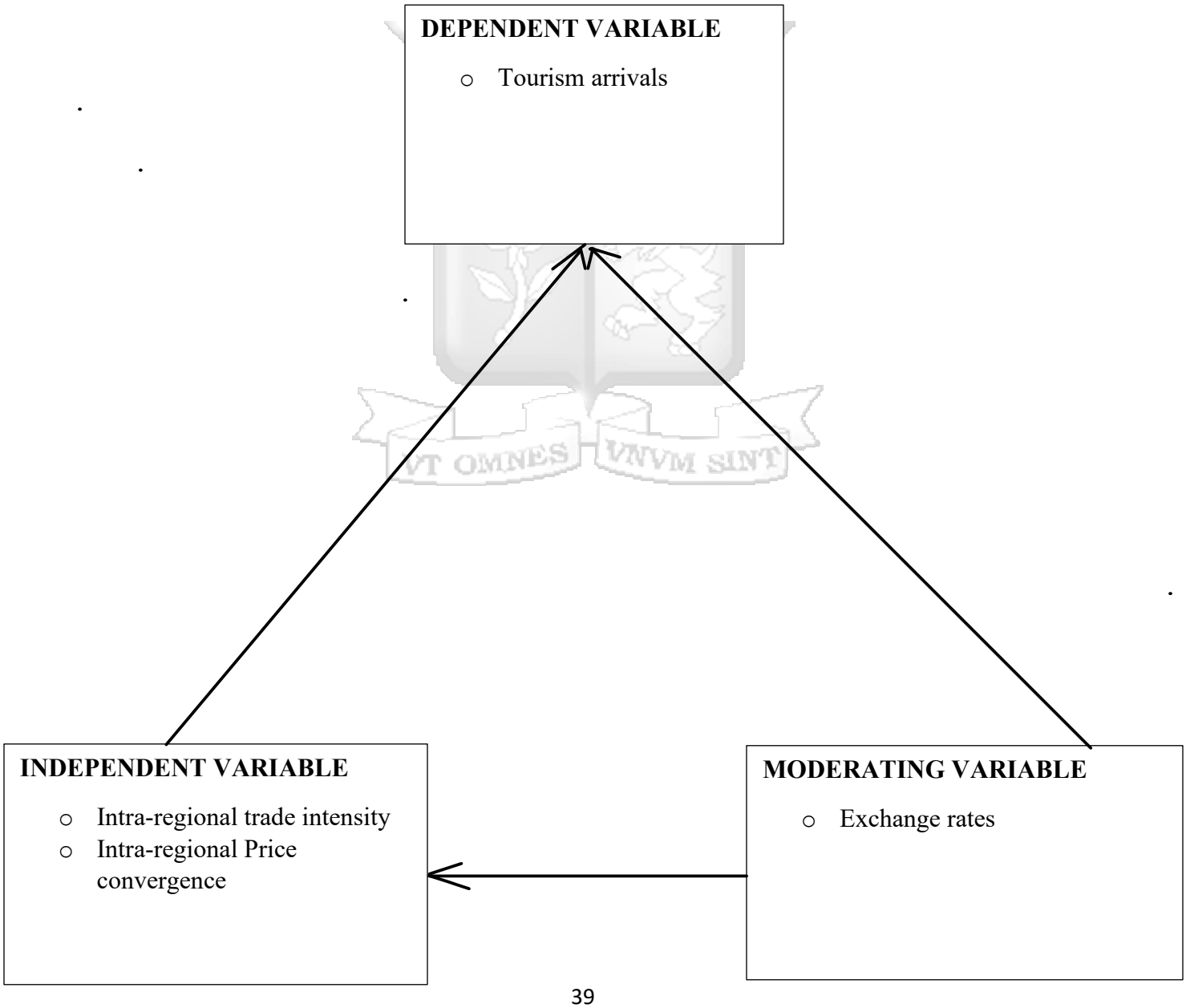

Table 1.2

2.5.2 Operationalization of the Study Variables

VARIABLE	VARIABLE TYPE	INDICATOR	INDICATOR MEASURE	SOURCE
INTRA-REGIONAL TRADE	INDEPENDENT	INTRA-REGIONAL TRADE INTENSITY INDEX	$\frac{T_{ii}}{T_i} \div \frac{T_j}{T_w}$	PROVEN MATHEMATICAL FORMULA (Dent, 2008)
REGIONAL PRICE CONVERGENCE	INDEPENDENT	INFLATION VARAINCE IN EAC	INFLATION VARIANCE	PROVEN MATHEMATICAL FORMULA
EXCHANGE RATE	MODERATING	EXCHANGE RATE	ANNUAL EXCHANGE RATE BETWEEN USD AND KENYA	CENTRAL BANK OF KENYA https://www.centralbank.go.ke.
TOURISM PERFORMANCE	DEPENDENT	INTERNATIONAL TOURISTS' ARRIVALS	NUMBER OF ANNUAL TOURISTS' ARRIVALS INTO KENYA	WORLD BANK DATA

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter outlines the research approach that was adopted. The methodology includes research philosophy, design, population and sampling, data collection and quality, and ethical considerations.

3.2 Research Philosophy

Research philosophy is a foundation that steers the way for conducting research based on ideas about reality and knowledge. The two main research philosophies are positivism and interpretivism. Positivism is a philosophical viewpoint that asserts that only scientific knowledge is genuine. It contends that valid knowledge can be obtained exclusively through the positive verification of theories using rigorous scientific methods, empirical observation, and logical or mathematical analysis. Interpretivism posits that knowledge is acquired by understanding the meanings individuals attribute to their social environments. Researchers are required to interpret these meanings within the cultural and historical contexts in which they occur. Post-positivism is the combination of both philosophies which balance the approaches by basing research issues in the context of experiences of the majority and announcing results based on what the majority define as acceptable (Fischer, 1998).

The study adopted quantitative research design. Fischer (1998) defined post-positivism and quantitative analysis as historical, comparative, philosophical, and phenomenological perspectives. The focus is mainly on a proper understanding of the directions and perspectives of any research study from multi-dimensions and multi-methods striving to explore phenomena, however; the absolute truth cannot be arrived at (Wildermuth, 1993). The study adopted a post-positivism philosophy as the outcomes of data are never set in stone but acceptable at the time of research.

3.3 Research Design

A research design is a framework of research methods and techniques that allows researchers to sharpen the research methods suitable for the subject matter.

The type of research design was descriptive correlational because it seeks to describe characteristics, averages, and trends and understand the relationship between the variables, respectively. However, it does not provide definitive proof of causation and does not attempt to influence the variables (Mccombes, 2021). The primary variable of the study was international tourist arrivals in Kenya since the conception of EAC.

3.4 Population and Sampling

The research employed a case study approach focusing on Kenya as a member of the East African Community (EAC). It utilized time series analysis from 1977 for the data found but officially EAC reformed in 2001. Thus, data collected was from 1977 - 2023 annually, aligning with the period from the EAC's inception to the year Kenya recorded its highest and lowest tourist arrivals. In this study, Kenya served as the dependent variable, representing the tourism performance outcomes. At the same time, the EAC functioned as the independent variable, representing the regional integration influence on Kenya's tourism sector.

3.5 Data Collection

The data was collected from secondary sources, mainly the World Bank website, the Central Bank of Kenya, journals, and study materials. The number of annual international tourism arrivals from the collapse of EAC 1977 for data available and revival in 2001 was sourced from the World Bank and Kenya National Bureau of Statistics. The annual exchange rates between USD and KES were sourced from the Central Bank of Kenya https://www.centralbank.go.ke/, and the formulas were based on study materials and journals.

3.6 Research Quality

Guided by the criteria of secondary sources, authenticity, credibility, representatives, and meaning, the study emphasized on the authenticity of the data source, which enabled accurate data without misrepresentations, making the data analysis reliable and deemed valid. All the data was collected from credible sources, namely the World Bank, the Central Bank of Kenya, the Kenya Bureau of Statistics, and UNCTAD.

3.7 Data Analysis

The data analysis used was descriptive and inferential analysis. The former gave comprehensive details of characteristics, behaviour, and attributes of the data quality collected through mean, median, skewness, and standard deviation. The latter inferred the relationship of the variables and gave predictions of the short-term and long-term effects using correlation and regression, respectively.

The data used was a time series using the Autoregressive Distributed lag ADRL regression model, widely used in time series analysis, especially when dealing with variables that are a mix of I (0) and I (1) (stationary and non-stationary). It is particularly popular for estimating long-run relationships and short-run dynamics between variables (Ilu, 2020). This is appropriate for the study due to the use of exchange rates known to be non-stationary.

For Autoregressive Distributed lag (ARDL Model)

ARDL model with one regressor

$$Y_t = \alpha_0 + \sum_{i=1}^{p} \alpha_i Y_{t-i} + \sum_{j=0}^{q} \beta_j X_{t-j} + \varepsilon_t$$

ARDL model with multiple regressors and moderate variable

$$Y_t = \alpha_0 + \sum_{i=1}^{p} \phi_i Y_{t-i} + \sum_{j=0}^{q1} \beta_{1j} X1_{t-j} + \sum_{k=0}^{q2} \beta_{2k} X2_{t-k} + \sum_{l=0}^{q3} \beta_{3l} M_{t-l} + \sum_{m=0}^{q4} \beta_{4m} (X1 * M)_{t-m} + \sum_{n=0}^{q5} \beta_{5n} (X2 * M)_{t-n} + \varepsilon_t$$

Where:

Y_i= tourist arrivals at time t

$X1_i$= intra-regional trade intensity at time t

$X2_t$= regional price convergence at time t

M_t= Exchange rate at time t

α_0= constant term

β_0 = intercept β_1 , β_2, β_3, β_4= slope of coefficients

ε_i = random error term

p = Number of lags for dependent variable

q = Number of lags for independent variable

3.7.1 Normality Test

The study used Parametric test and standard normal distribution, which included skewness and Kurtosis, which measure the degree of asymmetry and the height of distribution, respectively. Negative skewness slopes to the left, positive slopes to the right, and zero indicate perfect symmetry. Negative Kurtosis has a flatter peak than average, while positive has a sharper peak. An average peak indicates zero Kurtosis. Asymmetrical distribution significantly impacts the mean and median, while high kurtosis distribution could lead to more significant standard errors. Jarque Berra was used to test the normality of the residuals.

3.7.2 Heteroscedasticity Tests

Heteroscedasticity tests were crucial since the study was a time series. It described a situation where the error, any random disturbance in the relationship between the independent and dependent variables, was constant across all independent variables. For regression to hold, the variance of error terms should be constant. The white's test for heteroscedasticity was used as it gives the standard error estimate if there is no heteroscedasticity. A significant level of 0.05 was applied.

3.7.3 Autocorrelation Tests

Autocorrelation refers to the degree of strength of a bivariate analysis between two variables and the direction of the relationship between the values of the same variables across different observations. The correlation value varies between +1 and -1, with the former indicating a perfect degree of association between the variables. The Woolridge was used to check for autocorrelation of unbalanced data.

3.7.4 Multicollinearity Tests

Multicollinearity refers to the linear relation between two or more variables. It is a data problem that needs fixing with the reliability of the estimates of the model parameters. (Alin, 2010) Since the problem has the challenge of inflating the standard error of the regression coefficient, the study used Variance Inflation Factors (VIF) to determine the level of collinearity that could be tolerated without distorting the regression analysis. The threshold of less than ten was applied.

3.7.5 Stationarity Tests

Stationarity tests are crucial in time series to determine whether the data has stationarity properties in error means, variances, and moments that change over time. The assumption that stationary property is constant over time helps predict data trends because the relationship between variables is stable. The study used the augmented Dickey-Fuller test since it is mainly used in time series data and checked for any presence of a unit root. The significance threshold level of 0.05 was applied.

3.7.6 Bound Test

The Bounds Test is a statistical method designed to assess the presence of a long-run relationship (cointegration) among variables in a time series dataset, particularly when the variables are a combination of stationary I (0) and non-stationary I (1) series. Introduced by Pesaran, Shin, and Smith in 2001, Bounds Testing operates within the Autoregressive Distributed Lag (ARDL) framework. It is used to determine whether cointegration exists, irrespective of whether the variables involved are stationary or non-stationary (Pesaran & Y., 2001).

It evaluates the null hypothesis H0; No long run relationship (no cointegration) against the alternative H1; Long run relationship exists (cointegration).

3.7.7 Stability Test

A stability test is a statistical technique designed to evaluate whether the parameters of a model remain consistent over time. This test is instrumental in determining if a model is structurally sound, meaning it can accurately predict outcomes across various time frames or in response to shifting economic conditions (Greene, 2018).

3.7.8 Co-integration Test

A cointegration test is a statistical method that assesses whether two or more non-stationary time variables have a long-term equilibrium relationship, even though each variable may be non-stationary on its own (which means they display trends over time). In simpler terms, if a set of variables is non-stationary individually but their linear combination results in a stationary series, those variables are cointegrated (Pesaran & Y., 2001).

3.8 Ethical Considerations

The researcher sought a Nacosti permit to approve data collection from World Bank and EAC to ensure credibility. Regarding the validity and appropriateness of the study, the data was purely secondary data, which eliminated any bias due to the chosen data collection methods, which were based on facts and figures only.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This section details the descriptive statistics, pre-estimation and post-estimation tests, and estimation techniques applied to the research variables to identify patterns and relationships, ultimately leading to findings and conclusions. It includes descriptive statistics related to the study variables, diagnostic assessments, both pre- and post-estimation tests, checks for heteroscedasticity, correlation analysis, and the use of regression models. The analysis outcomes are discussed in the context of the intra-regional trade intensity index, regional price convergence, and inflation rates, while also considering the moderating effect of exchange rates on international tourism arrivals in East Africa, particularly focusing on Kenya

4.2 Descriptive Statistics

Descriptive statistics the study considered are the measures of central tendency such as mean, media, standard variance, minimum, maximum, kurtosis and skewness. Table 4.1 shows the descriptive statistics results

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. dev	Min	Max	Kurtosis	Skewness	Jarque-Bera
Price convergence	47	4.5187	6.6904	-12.725	33.322	9.7218	1.3945	103.717
Tourism Arrival	47	105107	503899.6	346500	2086800	2.1555	-0.4309	2.8514
Trade Intensity Index	47	1.0424	0.09073	0.7890	1.17	4.9526	-1.5699	26.7747
Inflation Rate	47	11.463	8.058	1.554	45.979	8.8294	2.1139	101.55
Exchange rate	47	59.949	36.477	7.421	139.85	1.9040	-0.0439	2.3675
Exchange*price convergence	47	29.463	127.256	-33.305	859.20	2.4175	-0.1586	0.8617
Exchange*trade intensity index	47	459.05	1233.1	-783.7	7129.6			

Source: Study Data

The study collected data on all study variables from 1977-2023 annually. The analysis was conducted at 5 percent significance level. The data shows that price convergence has a mean value of 4.5187 with a standard deviation of 6.69 implying that the prices are not converging but diverging due to wide dispersion indicated by standard deviation. Regional price convergence was measured using absolute inflation rate between Kenya and the rest of EAC countries. The minimum value was negative (12.73) percent with a maximum value of 33.32 percent. However, the Kurtosis value which is a measure of peakedness of the data distribution shows that the regional price convergence has a high peak with a small tailed indicated by 1.395 skewness value. The number of tourism arrival measured by the actual number of tourists arriving in Kenya from the rest of world had a mean value of 1,051,068 with a standard deviation of 503,899.6 implying that the number of tourists arriving in Kenya does not vary so much during the period of study. The data also point out that during the period, the country received 346,500 tourists as the minimum with the highest number being 2,086,800 tourists. However, the Kurtosis value shows a low peak implying that the distribution is platykurtic with skewness to the left indicating the arrivals tend towards the left or the number of tourists arriving in Kenya was reducing over the period.

The results also indicate that inter-regional trade between Kenya and the rest of the EAC countries measured by trade intensity index had a mean value of 1.04 with a standard deviation of 0.091 implying that Kenya's trade with EAC countries partners is more intense that the rest of the world. The minimum and the maximum values also show that inter-regional trade between Kenya and her EAC partners is still more intense than the rest of the world, however, the distribution is more concentrated given by the low kurtosis value less skewed to the right.

The moderating effect measured by the exchange rate had a mean value of 59.95 shillings per dollar with a standard deviation of 36.48 implying low deviation of the exchange rate from the mean value. The lowest exchange rate was 7.42 Kenya shillings per dollar and a maximum value of 139.85 Kenya shillings per dollar implying that over the period of study, the exchange rate experienced in the country was 139.85 shillings per dollar.

The moderating effect of exchange rate on trade intensity is a mean value of 459.05 with a standard deviation of 1233.1 implying a wide deviation from the mean values. However, the mean value during the period was negative 783.7 with a maximum value of 7129.6. Further, the moderating effect of exchange rate on price convergence had a mean value of 29.46 with a standard deviation

of 127.3 indicating some level of deviation. The variable had a minimum value of negative 33.3 and a maximum value of 859.2 during the period of study.

4.3 Time Series Tests

The study conducted several time series tests including stationary test, correlation analysis, co-integration test and lag selection criterion.

4.3.1 Correlation Analysis

The analysis was conducted using Spearman Moment of correlation to ensure that variables do not have high association. Variable such as tourism arrival which was nominal was first transformed into log before the analysis. The results are presented in table 4.2

Table 4.2: Correlation Analysis Matrix

	Price Convergence	Exchange rate	Log Tourism Arrival	Trade index	Exchange* trade index	Exchange*price convergence
Price Convergence	1.000					
Exchange rate	0.4261	1.000				
Log Tourism Arrival	-0.1013	0.0646	1.000			
Trade intensity index	0.0035	0.1009	-0.0272	1.000		
Exchange*trade intensity index	0.5468	0.8992	0.0495	0.5513	1.000	
Exchange*price convergence	0.6420	0.6759	0.0046	0.4161	0.8561	1.000

Source: Study Data

The correlation analysis was carried out at 5 percent statistical level and all Spearman Moment correlation coefficients were less than 0.8 and according to the rule of the thumb a correlation coefficient less than or equal to 0.8 indicate absence of high correlation among the study variables. This implies that all the variables the study considered were used in the investigate the effect of economic integration and exchange rates on Kenya's tourism performance. In addition, some variables were negatively correlated while others were positively correlated, this is due to the negative and positive coefficients obtained in the correlation analysis. It is also important to note that gross domestic product had a negative association with all the variables except log tourism arrival indicating an inverse relationship with the variables.

4.3.2 Stationary Test

The test was conducted using Augmented Dickey Fuller (ADF) on all study variables at both intercept and intercept and trend. In addition, the test was also carried out at level and after first difference to ensure that all the variables were stationary before any analysis could be conducted to ensure that chances of getting spurious results were minimal. Table 4.3 shows the results.

Table 4.3: Stationarity Test

Variable	Level	t-Statistics	P-value	Remarks
Exchange*trade intensity index	Intercept	-5.990	0.000	Stationary
	Trend & Intercept	-5.917	0.000	Stationary
Exchange* price convergence	Intercept	-6.590	0.000	Stationary
	Trend & Intercept	-6.556	0.000	Stationary
Price Convergence (I0)	Intercept	-4.856	0.0002	Stationary
	Trend & Intercept	-4.8054	0.0018	Stationary
Exchange rate (I1)	Intercept	-4.9288	0.0002	Stationary
	Trend & Intercept	-5.0061	0.001	Stationary
Log Tourism Arrival (I1)	Intercept	-5.9514	0.000	Stationary
	Trend & Intercept	-5.9299	0.0001	Stationary
Trade intensity index(I1)	Intercept	-6.9370	0.000	Stationary
	Trend & Intercept	-6.9407	0.000	Stationary

Source: Study Data

The test was conducted at a 5 percent level of significance on all the study variables to test the presence of a unit root. According to Dickey and Fuller (1979), a series is stationary if the mean and variance are constant over time and non-stationary if the mean and variance are changing over time. The results show that variables such as inter-regional price convergence and trade intensity index were stationary at level, however, exchange rate and log tourism arrival were stationary after first difference.

4.3.3 Lag Selection

Lag length selection was carried out using five selection criteria. Final Prediction Error (FPE), Hannan and Quinn Information Criteria (HQIC), Akaike Information Criteria (AIC), Likelihood Ratio (LR) and Schwarz's Bayesian Information Criteria (SBIC) were considered as the optimal selection criteria. The test was conducted on log tourism arrival, inter-region price convergence, trade intensity index, exchange rate and the results are presented in table 4.4

Table 4.4: Lag Selection Criterion

Lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-612.102				4.00E+06	29.3858	29.4616	29.5927*
1	-575.012	74.18	25	0	2.3e+06*	28.8101*	29.265*	30.0513
2	-560.734	28.555	25	0.283	4.00E+06	29.3207	30.1548	31.5962
3	-533.143	55.183	25	0	4.00E+06	29.1973	30.4105	32.5071
4	-507.821	50.644*	25	0.002	5.30E+06	29.1819	30.7743	33.5261

Source: Study Data

The results show that out of the five criteria, three criteria indicate that the optimal lag length is 1 lag. Therefore, one lag was selected for the model using AIC criteria.

4.4 Diagnostic Tests

Diagnostic tests were conducted on the estimated model and the error term to check the validity and reliability of the model. The tests conducted include bound test, heteroscedasticity test, multicollinearity test and Ramsey RESET test.

4.4.1 Bound test

The test was conducted using ARDL bound test at 5 percent level of significance and the results are presented in 4.5

Table 4.5: ARDL Bound Test

Test Statistics	Value	k
F-statistics	7.5875	4
Critical Values		
Significance	Lower Bound	Upper Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

Source: Study Data

The results show that the value of F-statistics is 5.5875 which is higher than the critical value at all levels of significance. Pesaran *et al.,* (2001) stated that when the value of F-statistics is higher

than the critical value at lower bound (I0) then there is no long-run relationship among the variables. When F-value is higher than the F-statistics value is greater than the critical upper bound(I1) then there is long-run relationship among the variables exists. The results indicate that the F-statistics that the F-statistics values is greater than the critical upper bound (I1) at 5 percent statistical level hence the study then concludes that there is long-run relationship among the variables, therefore, the estimation model would be ARDL with error correction model to estimate the effect of regional trade intensity and exchange rate on tourism arrival in Kenya.

4.4.2 Heteroscedasticity Test

The test was conducted using white test. The test was necessary to determine whether the variance and mean of the error term are dependent on independent variables over time. The results are shown in table 4.6

Table 4.6: Heteroscedasticity test - White test

F-Statistics	151.4072	**Probability F (44,1)**	0.0944
Observed R-Squared	45.9931	**Probability Chi-Square (44)**	0.3897
Scaled explained SS	163.0692	**Probability Chi-square (44)**	0.231

Source: Study Data

The results show that the P-values of F-statistics is greater than 0.05 at 5 percent level of significance. The null hypothesis is that the variance of the residuals is constant while the alternative hypothesis is that the variance of the error term from the independent variables is not constant. According to the rule of the thumb, if the p-value of F-statistics is less than 0.05 then the variance of the error term is not constant and if the p-value is greater than 0.05 at 5 percent level of significance then the variance of the error term is constant. From the results, the study concludes that the variance of the error term is constant from the independent variance hence heteroscedastic as opposed to homoscedastic.

In addition, the probability of observed R-squared is not significant at 5 percent level of significance indicating absence of heteroscedasticity. Lastly, the probability of scaled explained sum of squares is also not significant at 5 percent level of significant, strongly suggesting heteroscedasticity. Based on the above results the study concludes that there is absence of heteroscedasticity in the model hence the model was fit for the analysis.

4.4.3 Stability Test

The test was carried out using Ramsey RESET test. The test was necessary to determine the specificity of the model. The results are presented in table 4.7

Table 4.7: Ramsey RESET Test

	Value	df	Probability
t-Statistics	0.4597	36	0.6485
F-Statistics	0.2113	(1, 36)	06485

Source: Study Data

The test was carried out to check whether the non-linear values have the power to explain any change in the dependent variable. The results show that the p-values of t-statistics and F-statistics are all greater than 0.05 at 5 percent level of significance indicating that the model was well specified, and the variables considered by the study have the power and capability to explain the effect of economic integration and exchange rates on Kenya's tourism performance

4.4.4 Multicollinearity Test

The test was conducted using Variance Inflation Factor (VIF) to check the collinearity among the independent variables. The test was carried out at both uncentered and centered as well as the coefficient. The results are presented in table 4.8

Table 4.8: Variance Inflation Factor

Variables	VIF	1/VIF
Price Convergence	1.54	0.6502
Exchange rate	126	0.7958
Trade Intensity Index	1.14	0.8772
Mean VIF	1.33	

Source: Study Data

The test was conducted at 5 percent significant level. The results indicate that the coefficients of the independent variables are all less than 10 and according to the rule of the thumb, a coefficient greater than 10 signifies multicollinearity while a coefficient less than 10 shows no multicollinearity. Therefore, from the findings, the study concludes that there is no multicollinearity among the independent variables the study used for analysis.

4.4.5 Normality Test

The test was carried out using Shapiro-Wilkoson test for normality. The test was necessary to ensure that the data collected over the study period is normally distributed. The test is presented in table 4.9

Table 4.9: Shapiro-Wilk White test

Variables	Obs	W	V	z	Prob>z
Log Tourism performance	46	0.70638	12.935	1.1260	0.09674
Trade Intensity Index	47	0.78722	9.373	1.324	0.1794
Exchange rate	46	0.80206	8.720	0.035	0.6471
Price convergence	47	0.83034	7.601	0.018	0.4367
Exchange*trade intensity index	47	0.56097	19.340	0.015	0.4939
Exchange*price convergence	47	0.27149	32.092	1.361	0.5596

Source: Study Data

The results show that all the P-values of the study variables are all greater than 0.05 at 5 percent significance level. According to the rule of the thumb, a p-value greater than 0.05 at 5 percent significance level indicate that the data is normally distributed and if the p-value is less than 0.05 at 5 percent level of significance implies that the data is not normally distributed. From the findings the study comprehensively concludes that the data is normally distributed hence good for the analysis of the effect of economic integration and exchange rate on tourism performance in Kenya.

4.4.6 Co-integration Test

The test was conducted using Johansen co-integration test. The test is necessary to check the relationship between the variables. Table 4.10 shows the results

Table 4.10: Johansen Co-integration test

Maximum rank	Params	LL	Eigen value	Trace Statistics	Critical Value (5 %)
0	5	-660.632	.	98.9181	68.52
1	14	-640.898	0.584	59.4497	47.21
2	21	-626.682	0.46839	31.0168	29.68
3	26	-618.712	0.29827	15.0774*	15.41
4	29	-614.143	0.18379	5.9387	3.76
5	30	-611.173	0.12363		

Source: Study Data

The results from the unit root test had shown that the variables are stationary at both level and after first difference, therefore, it was necessary to carrying out co-integration test to check the relationship that exist among the variables.

Further, the results indicate that the variables were co-integration at order 3 that is I(3) since the value of trace statistics is less than critical value at 5 percent level of significance which indicates that there is a long-run relationship among the variables and therefore the study fails to reject the null hypothesis and rejects the alternative hypothesis of long-run relationship meaning there is co-integration among the variables hence Autoregressive Distribution Lags (ARDL) with error correction model was appropriate for the achievement of the study objectives.

4.5 Empirical Analysis

The study sought to investigate the effect of economic integration and exchange rate on tourism performance in Kenya. In addition, the study also sought to achieve three objectives, the first objective was to determine the effect of intra-regional trade intensity on Kenya's tourism performance. The second objective was to establish the effect of intra-regional price convergence on tourism performance in Kenya and lastly was to establish the moderating effect of the exchange rate on the relationship between economic integration and tourism performance in Kenya. To achieve the objectives, the study carried out ARDL with EC and presented the results in table 4.11

Table 4.11: ARDL regressing results

Variables	Coefficient	Standard error	t	P>|t|
Adjustment Speed Tourism Arrival-L1	-0.91509	0.15686	-5.83	0.0000
Long-run Effect				
Trade intensity index	0.56591	0.16499	3.43	0.000
Inter-region price convergence	-0.00298	0.001361	2.19	0.011
Exchange rate	0.01312	0.00544	2.41	0.016
Exchange*trade intensity index	0.0005	0.0002	0.21	0.837
Exchange*price convergence	-0.0001	0.0012	-0.13	0.900
Short-run Effect				
Trade Intensity Index	-0.94915	0.44561	-2.13	0.013
Exchange rate	-0.00825	0.00247	-3.34	0.005
Inter-region price convergence	0.00449	0.00157	2.86	0.023
Exchange*trade intensity index	-0.0001	0.0002	-0.47	0.642
Exchange*price convergence	0.0057	0.0104	0.55	0.585
Constant Term	-0.21981	0.09493	-2.32	0.026
Number of Observations	**45**	**R-Squared**		0.8971
Log Likelihood	**8.6636**	**Adjusted R-Squared**		**0.8192**
Durbin Watson	**2.211**	**F (4, 41)**		**3.19**
		Probability>F		**0.0228**

Source: Study Data

The results show that the probability of f-statistics is less than 0.05 at 5 percent level of significance implying that the model was good to estimate the effect of economic integration and exchange on tourism performance in Kenya. It is also important to note that the value of Durbin Watson is 2.211 which is above 1.8 and according to the rule of the thumb, Durbin Watson value above 1.8 is good enough to conclude that there was no serial autocorrelation among the independent variables hence the model was fit to analyse the study findings. Moreover, the value of F-statistics was 3.19 with a p-value of 0.0228 which is less than 0.05 at 5 percent significance level implying that the model was well specified, fit and good for the analysis of the effect of economic integration and exchange rate on tourism performance in Kenya. Further, adjusted R-squared was 0.8192 implying that about 81.92 percent of the variation in tourism performance is caused by economic integration measured by regional trade intensity index and price convergence as well exchange rate and only 18.08 percent of the variation are caused by other factors that the current study did not consider due to being beyond the scope of the study.

Lastly, the coefficient of the constant term was found to be negative (-0.21981) and statistically significant implying that in the absence of the factors the study considered, tourism performance in Kenya would be negative meaning that the sector would be contributing negligence to the

economic growth of Kenya. The speed of adjustment of past equilibrium or disequilibrium of tourism performance to future equilibrium is -0.9268 implying that tourism performance adjusts at a higher rate to change in the sector affecting tourism arrival hence performance affecting the tourism performance to stable equilibrium.

4.5.1 Effect of intra-regional trade intensity on Kenya's Tourism Performance

The first objective of the study was to determine the effect of intra-regional trade intensity on Kenya's tourism performance. To achieve the objective, the study carried out autoregressive distributed lags with error correction model and the coefficient was interpreted by discussing the direction of the relationship. In the short-run, the coefficient of trade intensity index is negative (-0.9492) and statistically significant at 5 percent indicating a negative relationship between trade intensity index and tourism performance in the short-run. This implies that an improvement in trade intensity between Kenya and the regional partners relative to the rest of the world by one percent leads to a reduction in tourism performance by 0.9492 percentage points. However, in the long run, the coefficient of trade intensity index is positive (0.56591) and statistically significant implying there is a positive relationship between trade intensity index and tourism performance in Kenya. The long-run coefficient also implies a moderate relationship between the two variables.

4.5.2 Effect of intra-regional price convergence on tourism performance in Kenya

The second objective of the study was to establish the effect of intra-regional price convergence on Kenya's tourism performance. To achieve the objective, the study carried out autoregressive distributed lags with error correction model and the coefficient was interpreted by discussing the direction of the relationship. The coefficient of inter-regional price convergence was positive (0.00449) and significant at 5 percent level of significance in the short run indicating a minimal positive relationship due to low magnitude coefficient, this means that an increase in price convergence by one percent point leads to an increase in tourism performance by 0.004 percentage points. In the long-run, the coefficient is negative (-0.003) though very low, this means that in the long-run the relationship between inter-regional price convergence and tourism performance is negative, meaning that one percent point improvement in price convergence leads to a fall in tourism performance by 0.003 percentage points. This is because as prices in Kenya tends towards

regional prices relative to the world prices according to the law of one price, the performance of tourism declines since decline in expectations of the tourists.

4.5.3 Moderating effect of the exchange rate on the relationship between economic integration and tourism performance in Kenya

The third objective of the study was to establish the moderating effect of the exchange rate on the relationship between economic integration and tourism performance in Kenya. To achieve the objective, the study further conducted autoregressive distributed lags with error correction model and the coefficient was interpreted by discussing the direction of the relationship. The finding shows that coefficient of moderating exchange rate was found negative (-0.00825) in the short-run and statistically significant at 5 percent level of significant, this means that there is low negative relationship between moderating exchange rate and tourism performance in Kenya indicating that one percent point increase in exchange rate leads to a fall in tourism performance by 0.0083 percentage points however, the fall is less in magnitude. On the other hand, in the long run the moderating effect of exchange rate is positive (0.01312) and statistically significant at 5 percent level. This implies a positive relationship between exchange rate and tourism performance in the long-run, this is because in the long-run tourists shall have acclimatized to the changes hence the price of one currency in terms of another currency has a negligent effect on tourism performance in Kenya. The positive coefficient indicates that one percent point increase in tourism performance by 0.01312 percentage points.

However, exchange rate moderating effect was insignificant both in the short-run and long-run. This is ascertained by the p-value values which is more than 0.05 at 5 percent level of significance. Further, the coefficient of exchange rate moderating trade intensity index is negative (-0.0001) implying that exchange rate worsens trade intensity index in Kenya with her trading partners in the region. On the other hand, the coefficient of exchange rate moderating price convergence was positive (0.001) implying exchange rate strengthens price convergence between Kenya and her trading partners in the region.

4.6 Summary of the Chapter

The study implemented both pre-estimation and post-estimation tests on the variables to confirm the reliability of the results and to allow for validation in future research. The stationarity test

indicated that some variables were stationary at the level, while others required first differencing. Correlation analysis revealed that all study variables had correlation coefficients below 0.8, suggesting low multicollinearity, which justified their inclusion in the analysis. The findings indicated that the trade intensity index exerted a significant negative influence in the short run, while displaying a significant positive effect in the long run.

Conversely, intra-regional price convergence had a significant positive impact in the short run, but a negative effect in the long run. Additionally, the exchange rate variable demonstrated a significant negative effect on tourism arrivals in Kenya in the short run, with a positive long-run impact. However, the study also noted that the moderating effect of the exchange rate on both the trade intensity index and intra-regional price convergence was found to be insignificant for both variables.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the discussions of the findings with respect to study objectives. This is relative to the findings of past studies. In addition, the study presents the conclusions based on the findings of the study. Thereafter, the study makes recommendations based on the study findings and areas for further studies.

5.2 Summary of the Findings

The research findings indicate that the trade intensity index significantly influences tourism arrivals in Kenya from both regional and global trading partners, affecting both the short and long term. Additionally, intra-regional price convergence has a noteworthy impact on tourism arrivals in the short run and long run; however, the results reveal a negative effect in the short term and a positive effect in the long run.

Furthermore, the exchange rate plays a significant role in tourism arrivals in Kenya, showing a negative impact in the short term and a positive effect in the long term. Interestingly, while the exchange rate itself as a moderator did not have a significant effect on either time frame, it appears to slightly weaken the trade intensity index in the short term yet strengthen it in the long run. This suggests that in the short term, an increase in the exchange rate can hinder trade with regional partners compared to global ones, while in the long term, trade improves, indicating that Kenya is able to enhance trade with its regional partners compared to its global counterparts.

Additionally, the moderating role of the exchange rate on intra-regional price convergence shows both positive and negative impacts in the short and long runs, respectively. This indicates that the exchange rate enhances price convergence in the short run while weakening it in the long run. Thus, as the exchange rate rises, regional prices may diverge in the short term but tend to converge towards a single price in the long term, consistent with the law of one price.

5.3 Discussion of the Findings

The study sought to investigate the effect of economic integration and exchange rate on Kenya's tourism performance. The indicators that were used to investigate the effect of economic

integration on tourism performance in Kenya intra-regional trade intensity, intra-regional price convergence and moderating effect of exchange rate. The intra-regional trade intensity was measured using trade intensity index, intra-regional price convergence was measured by obtaining the difference in inflation rate between Kenya and EAC regional inflation rates and exchange rate was measured using price of domestic currency to dollars. The findings with respect to each variable are presented as follows.

5.3.1 Effect of intra-regional trade intensity on Kenya's tourism Performance

The first objective of the study was to determine the effect of intra-regional trade intensity on Kenya's tourism performance. To address this, the study employed the Autoregressive Distributed Lag (ARDL) model with an Error Correction Mechanism (ECM). The analysis revealed a dual effect of intra-regional trade intensity: a statistically significant negative short-run impact and a positive long-run effect on tourism performance.

Economic integration is a multi-stage process involving the reduction of trade barriers and the promotion of cross-border flows of goods, services, capital, and labour. It progresses through stages including free trade, customs union, common market, monetary union, and federation. Each stage deepens regional cooperation, with common markets allowing free movement of goods, services, capital, and people, while monetary unions establish a shared currency, enhancing macroeconomic policy alignment. The final stage, federation, entails a high level of policy and institutional convergence akin to a supranational state.

Trade intensity within a region is influenced by the existence and effectiveness of regional integration agreements, the orientation of trade policies, and geographical and economic barriers. Measuring the level of economic integration can be approached through quantity- and price-based metrics, including trade openness, capital flows, and correlations in consumption and output across countries. Research from regions such as Europe and North America shows that countries pursue regional integration to protect their shared economic interests and reduce vulnerability to external shocks (Pham et al., 2023).

The empirical results from Kenya's case demonstrate a short-run negative coefficient (-0.9492), which is statistically significant at the 5% level. This suggests that while an increase in trade intensity among East African Community (EAC) members can spur infrastructure development

and demand for local goods and services, the immediate effects may disrupt existing tourism dynamics, causing short-term volatility. This is likely due to market adjustments and the time required for tourists and service providers to adapt to new trade environments. This result contrasts with findings by Pham et al. (2023), who reported a positive short-run effect of trade agreements on international tourist demand in Vietnam, and by Fourie et al. (2020), who found that trade cooperation enhances bilateral tourism flows.

Conversely, in the long run, the coefficient of the trade intensity index was positive (0.5659) and statistically significant at the 5% level. This implies that a 1% increase in trade intensity with regional partners, relative to global trade, leads to a 0.5659 percentage point improvement in tourism performance. The long-run positive effect is attributed to the stabilizing benefits of sustained regional cooperation, improved infrastructure, harmonized policies, and increased business tourism and cross-border mobility. These structural improvements offset initial shocks and stimulate consistent tourism growth. This finding supports Pham et al.'s (2023) conclusion that long-run trade integration enhances tourism performance within trading blocs.

5.3.2 Effect of intra-regional price convergence on tourism performance in Kenya

The second objective of the study was to establish the effect of intra-regional price convergence on Kenya's tourism performance. To achieve this, the study utilized the Autoregressive Distributed Lag (ARDL) model with an Error Correction Model (ECM) framework. The focus was on analysing both short-run and long-run effects, with interpretation based on the direction and significance of the coefficients obtained.

Price convergence refers to the tendency of prices across different regions or countries to move toward a uniform level over time. This phenomenon is typically driven by market integration, trade liberalization, improvements in transportation and communication, and the harmonization of trade and economic policies. As economic barriers diminish and information asymmetry reduces, price disparities between countries shrink, leading to more consistent pricing across regions (Faster, 2024).

The short-run findings of the study indicate that intra-regional price convergence has a positive coefficient of 0.00449, which is statistically significant at the 5% level. This suggests that a one-point increase in price convergence leads to an approximate 0.0045 percentage point improvement in Kenya's tourism performance. This relationship implies that when tourism-related prices in Kenya begin aligning with those in partner countries, potential tourists are more likely to visit, as perceived value parity between the origin and destination markets increases. This confirms the findings by Quang (2022), who highlighted that as tourism prices converge between origin and destination countries, tourist flows increase. The result also supports Faster's (2024) argument that convergence is promoted through enhanced trade flows, reduced transport costs, labour mobility, and coordinated policy frameworks. Similarly, Raifu and Afolabi (2024) found that relative price convergence positively influenced tourism performance in Nigeria.

In the long run, however, the coefficient of price convergence becomes negative (-0.003), though it remains statistically significant at the 5% level. Despite the sign change, the magnitude is notably smaller than the short-run effect, indicating a diminishing influence over time. This inverse relationship may be attributed to the full realization of the Law of One Price (LOOP), where prices across countries converge completely, thereby eliminating arbitrage opportunities. While this could standardize tourism costs and attract consistent tourist flows, the reduced-price differentiation may also limit the unique value proposition of the destination. Nevertheless, this outcome remains consistent with the findings of Raifu and Afolabi (2024), who also observed a positive long-term impact of LOOP and price convergence on tourism, especially when price equality reduces economic uncertainty for tourists and supports predictable travel expenditure.

Overall, the study underscores that short-run price alignment creates immediate competitiveness and boosts tourist demand, while long-term convergence fosters stability and integration, albeit with a moderated impact. Understanding this dynamic enables policymakers and tourism stakeholders to design responsive pricing strategies and regional coordination efforts that sustain Kenya's tourism competitiveness within the East African Community and broader regional trade blocks.

5.3.3 Moderating effect of the exchange rate on the relationship between economic integration and tourism performance in Kenya

The third objective of the study was to assess the moderating effect of the exchange rate on the relationship between economic integration and tourism performance in Kenya. To achieve this, the study employed an Autoregressive Distributed Lag (ARDL) model with an Error Correction Model (ECM) specification, analysing both short-run and long-run dynamics.

In the short run, the coefficient for the interaction term between economic integration and the exchange rate was found to be negative (-0.00825) and statistically significant at the 5% level. This finding suggests that a 1% increase in the exchange rate interpreted as an appreciation of the Kenyan shilling relative to regional trading partners results in a 0.008 percentage point decline in tourism performance. This outcome is consistent with the theoretical expectation that currency appreciation makes domestic goods and services more expensive for foreign visitors, thereby reducing Kenya's attractiveness as a tourist destination. The appreciation reduces international tourists' purchasing power, which directly impacts the demand for tourism-related services. This result aligns with Tung (2019), who found a negative relationship between currency appreciation and tourism performance in Vietnam. However, it contradicts Dogru et al. (2019), who reported an insignificant impact of currency appreciation on tourism performance in Spain.

In the long run, however, the relationship reversed. The coefficient for the moderating effect of the exchange rate was positive (0.01312) and statistically significant at the 5% level, indicating that over time, exchange rate movements positively affect tourism performance in Kenya. Specifically, a one-point increase in the exchange rate (suggesting a depreciation of the Kenyan shilling) leads to a 1.312 percentage point improvement in tourism performance. This long-run effect reflects the price competitiveness advantage that a weaker domestic currency offers, making Kenya a more affordable destination for foreign tourists. The result supports the findings by Dogru et al. (2019), who highlighted that a depreciated domestic currency could attract more foreign tourists by lowering the relative cost of services. It also aligns with Tung (2019), who demonstrated that currency depreciation encourages foreign spending and increases tourism receipts.

Overall, the findings underscore that exchange rate fluctuations have both short-run and long-run effects on tourism performance, but in opposite directions. In the short run, appreciation harms tourism, while in the long run, depreciation enhances tourism performance by improving Kenya's relative affordability.

5.4 Study Conclusion

The research aimed to explore the connection between economic integration and tourism performance in Kenya, focusing on three key areas: intra-regional trade intensity, intra-regional price convergence, and the influence of exchange rates.

Firstly, the findings indicated that intra-regional trade intensity negatively impacted tourism performance in the short term but had a positive effect in the long term. The initial negative impact was attributed to adjustment shocks stemming from evolving trade relations. In contrast, the long-term benefits were linked to continuous regional trade, which supports infrastructure development, economic stability, and market openness factors that are beneficial for tourism growth.

Secondly, intra-regional price convergence was shown to positively influence tourism performance in the short run. This suggests that as prices become more aligned across borders due to market liberalization and trade integration, Kenya becomes a more reliable and appealing destination for tourists. However, the long-term impact was slightly negative, likely reflecting diminished price variations that could limit Kenya's competitive edge once prices align under the law of one price.

Lastly, the study found that exchange rates play a crucial moderating role. In the short term, an appreciation of the exchange rate led to a decline in tourism performance due to higher costs for international visitors. Conversely, in the long run, currency depreciation improved competitiveness, making Kenya a more attractive destination. These contrasting effects emphasize the necessity of maintaining stable and competitive exchange rates for sustainable tourism growth. In summary, the research highlights that regional integration, through trade and price harmonization along with sound exchange rate management, can significantly impact Kenya's tourism sector. The mixed short- and long-term effects suggest that the timing and coordination of

economic policies are essential to maximizing the tourism benefits associated with regional integration.

5.5 Recommendations

The examination of intra-regional trade intensity reveals a complex relationship with tourism performance, exhibiting negative effects in the short run while showing positive impacts in the long run. To address these dynamics, it is essential for the government to enforce policies that promote regional trade liberalization and globalization. This support should also include logistical enhancements in transportation, communication networks, and customs procedures to mitigate any initial disruptions that could hinder tourism activities.

Additionally, findings indicate that intra-regional price convergence can have both positive and negative implications in the short and long run. Consequently, government agencies and institutions, particularly tourism boards, should devise policies aimed at balancing regional prices. This approach ensures short-term affordability for tourism services while preserving long-term competitive pricing advantages against other regions and global tourist offers. The significant role of exchange rates in influencing tourism performance underscores the need for effective stabilization policies. The government and its monetary authority should implement measures to smooth out currency fluctuations, utilizing tools such as hedging or managing floats. This would protect the tourism sector from short-term shocks and facilitate adapting to exchange rate volatility.

Additionally, adopting a mixed exchange rate regime can help stabilize fluctuations that may deter tourism activities. Based on these insights, several policy and strategic recommendations emerge: 1. Strengthen Regional Trade Agreements; The Kenyan government, in collaboration with EAC partners, should enhance the monitoring and implementation of trade agreements. This will ensure smoother transitions and minimize short-run shocks that negatively affect tourism performance. 2.Support Gradual Price Harmonization: Policymakers must aim for gradual price convergence within the region, allowing the tourism sector to adjust without eroding Kenya's relative price advantage. Promoting competitive service pricing can make Kenya more attractive to both regional and global tourists.

3.Maintain a Competitive Exchange Rate: The Central Bank of Kenya should focus on maintaining exchange rate stability while ensuring that the currency remains competitively valued. This is particularly crucial during peak travel seasons to attract foreign tourists. 4. Invest in Tourism Infrastructure: Strategic investments in tourism-related infrastructure such as roads, airports, accommodations, and digital platforms can help capitalize on the long-term effects of trade and price convergence, thereby enhancing service delivery and customer satisfaction.

5.Promote Regional Tourism Packages: To harness the benefits of economic integration, tourism boards should collaborate with neighboring countries to design multi-country tourism packages. These offerings can provide tourists with seamless regional experiences and encourage longer stays. 6.Tourism Market Intelligence: Stakeholders should implement data analytics and market surveillance tools to monitor changes in exchange rates, pricing dynamics, and trade patterns, enabling real-time assessments of their implications for tourism performance. By integrating these strategies, the tourism sector can navigate the challenges posed by intra-regional trade dynamics and optimize growth opportunities in both the short and long run.

5.6 Study Limitations

The study relied on secondary data sources on all study variables. However, the quality of data in the region and global arena varied over the study period with some data missing or limited with some reports missing. Sampling was also deliberate thereby limiting the scope of the study. In addition, the analysis of the study was restricted to economic integration and tourism sector in the service industry in Kenya and there are other contributors to tourism performance other than economic integration.

5.7 Areas for further research

The study has shown that intra-regional trade intensity has both positive and negative significant effects on tourism performance in Kenya. This finding highlights the need for further research to explore the inverse relationship between intra-regional trade intensity and tourism performance in the short run. To build on the current findings, it would be beneficial to employ various estimation techniques, such as the Vector Error Correction Model (VECM), alongside the Autoregressive Distributed Lag (ARDL) with Error Correction Model (ECM) used in this study. This further

investigation will help to clarify the relationship among the study variables over both the short and long runs.

Additionally, diversifying tourism products can be advantageous as economic integration shows positive effects. However, understanding the specifics of how to achieve a competitive edge and deepen regional integration will be crucial for maximizing benefits, especially in the context of broader integration initiatives like the African Continental Free Trade Area (AfCFTA). Future research should also delve into specific segments of the tourism industry such as eco-tourism, cultural tourism, and conference tourism to see how integration impacts them differently. Qualitative and behavioural studies that investigate how tourists respond to macroeconomic changes, such as exchange rate fluctuations and pricing dynamics, would enhance our understanding of demand-side behaviour. Investigating the role of economic integration in helping the tourism sector recover from systemic shocks, such as the COVID-19 pandemic, is both timely and relevant for policymaking. Moreover, with the rise of fintech and digital platforms in Africa, future studies should examine how technological integration is influencing tourism patterns.

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APPENDICES

Appendix I: **East African Countries since 1977-2023**

COUNTRIES	KENYA	TANZANIA	UGANDA	RWANDA	BURUNDI	SOUTH SUDAN	CONGO
TOTAL YEARS	46	46	46	14	14	7	1
1977	❁	❁	❁	⁂	⁂	⁂	⁂
1978	❁	❁	❁	⁂	⁂	⁂	⁂
1979	❁	❁	❁	⁂	⁂	⁂	⁂
1980	❁	❁	❁	⁂	⁂	⁂	⁂
1981	❁	❁	❁	⁂	⁂	⁂	⁂
1982	❁	❁	❁	⁂	⁂	⁂	⁂
1983	❁	❁	❁	⁂	⁂	⁂	⁂
1984	❁	❁	❁	⁂	⁂	⁂	⁂
1985	❁	❁	❁	⁂	⁂	⁂	⁂
1986	❁	❁	❁	⁂	⁂	⁂	⁂
1987	❁	❁	❁	⁂	⁂	⁂	⁂
1988	❁	❁	❁	⁂	⁂	⁂	⁂
1989	❁	❁	❁	⁂	⁂	⁂	⁂
1990	❁	❁	❁	⁂	⁂	⁂	⁂
1991	❁	❁	❁	⁂	⁂	⁂	⁂
1992	❁	❁	❁	⁂	⁂	⁂	⁂
1993	❁	❁	❁	⁂	⁂	⁂	⁂
1994	❁	❁	❁	⁂	⁂	⁂	⁂
1995	❁	❁	❁	⁂	⁂	⁂	⁂
1996	❁	❁	❁	⁂	⁂	⁂	⁂
1997	❁	❁	❁	⁂	⁂	⁂	⁂

1998	֍	֍	֍	⁂	⁂	⁂	⁂
1999	֍	֍	֍	⁂	⁂	⁂	⁂
2000	√	√	√	⁂	⁂	⁂	⁂
2001	√	√	√	⁂	⁂	⁂	⁂
2002	√	√	√	⁂	⁂	⁂	⁂
2003	√	√	√	⁂	⁂	⁂	⁂
2004	√	√	√	⁂	⁂	⁂	⁂
2005	√	√	√	⁂	⁂	⁂	⁂
2006	√	√	√	⁂	⁂	⁂	⁂
2007	√	√	√	⁂	⁂	⁂	⁂
2008	√	√	√	⁂	⁂	⁂	⁂
2009	√	√	√	√	√	⁂	⁂
2010	√	√	√	√	√	⁂	⁂
2011	√	√	√	√	√	⁂	⁂
2012	√	√	√	√	√	⁂	⁂
2013	√	√	√	√	√	⁂	⁂
2014	√	√	√	√	√	⁂	⁂
2015	√	√	√	√	√	⁂	⁂
2016	√	√	√	√	√	√	⁂
2017	√	√	√	√	√	√	⁂
2018	√	√	√	√	√	√	⁂
2019	√	√	√	√	√	√	⁂
2020	√	√	√	√	√	√	⁂
2021	√	√	√	√	√	√	⁂
2022	√	√	√	√	√	√	√
2023	√	√	√	√	√	√	√

Symbols.

‡ Not a member of EAC **√ Member of EAC**

֍ Member but EAC was not operational

Appendix II**: Ethical Approval**

16th September 2024

Ms Mungai Nelly,
nelly.mungai@strathmore.edu

Dear Ms Mungai,

RE: The Effects of Economic Integration and a Moderating Role of Exchange Rates on Tourism Performance in East African Community. Evidence from Kenya

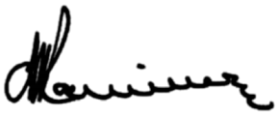
This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC2318/24.** The approval period is from **16th September 2024 to 15th September 2025.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU- ISERC within 72 hours.
v. Clearance for the export of biological specimens must be obtained from relevant institutions. vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days of completion of the study to SUISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://researchportal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,



Mr Ambrose Rachier, Chairperson; SU-ISERC

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