

DETERMINANTS OF LOW PENETRATION OF KENYAN GOODS
INTO THE AMERICAN MARKET UNDER AGOA: A CASE OF
SELECTED COMPANIES UNDER EPZA.

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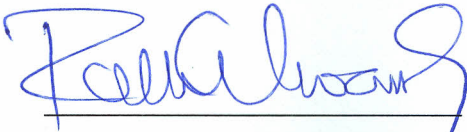
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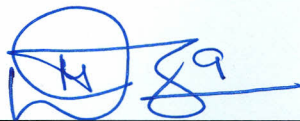


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DEDICATION

I dedicate this Project to my family. May the Almighty God bless you for your relentless support and the encouragement you accorded me while undertaking this study.

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ABSTRACT

The study sought to establish the possible determinants leading to low penetration of Kenyan goods into the American market. The study investigated the extent to which the Kenyan exports meet the US market requirements; the level of awareness about the US market requirements by Kenyan exporters; the consistency of supply by the Kenyan exporters to the US market and the level of government support extended to Kenyan exporters. A descriptive research design was adopted with a focus on the firms under Kenya's Export Processing Zones Authority. The study targeted all the companies under EPZA and sampled 33% of the 57 companies within Nairobi and Athi River to obtain 19 companies. The respondents were picked purposefully as the Chief Executive Officers and Heads of Sales and Marketing, making a total of 57 respondents. Questionnaires were used to collect primary data which was then analysed using descriptive statistics with the help of the Statistical Package for Social Scientists (SPSS). Qualitative data was collected through interviews that were also held to collect data. The recorded information was analyzed through content analysis and results given. Results of the quantitative data were presented using pie charts, bar graphs, percentages and frequency tables. The study established that a majority of exporters were not well informed on the US market requirements, most products do not meet US market requirements, there is no consistency in the supply and that the government has tried its best to offer necessary support to the Kenyan exporters though most of the exporters were not aware of the incentives provided. The study recommends that exporters should be made aware of the expectations of the US Customs and Border protection; they should produce goods that are tailor made for the US market and adopt ways of improving their production capacities to meet the expectation of US market. Finally, the study recommended a further research on the feasibility of export trade with the US under no special offers like the ones under AGOA initiative.

LIST OF ACRONYMS/ABBREVIATIONS

AGOA	:	African Growth and Opportunity Act
CBP	:	Customs and Border Protection
ELGH	:	Export-Led growth hypothesis
EPA	:	Economic Partnership Agreements
EPZA	:	Export Processing Zones Authority
EU	:	European Union
FDI	:	Foreign Direct Investments
FTZ	:	Foreign Trade Zone
ITDS	:	International Trade Data System
LDC	:	Less Developed Countries
US/USA	:	United States of America
SPSS	:	Statistical Package for Social Sciences

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DEFINITION OF OPERATIONAL TERMS

- America:** The territory that defines the United States of America
- Export Trade:** Refers to the business of selling items in countries other than a firm's home country.
- Penetration:** The measure of increasing market of a product or service through volume of product sale.
- Africa:** Africa is the second largest continent in the entire world and it stretches from the south of Europe and bordered to the west by the South Atlantic and to the east by the Indian Ocean
- Uptake:** the action of taking up or making use of something that is available.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Trade plays a key role in the economic development, wealth creation and employment generation of any country and its citizenry. The need for export trade as a key economic driver is paramount as it improves a country's balance of payments, foreign exchange earnings and foreign exchange reserves. Developing and least developed countries such as Kenya rely on export trade earnings to service their external debts, import critical capital goods and inputs needed in the production processes and other economic activities, in addition to procurement of key medical and security equipment, to mention but a few.

The benefits provided under the African Growth and Opportunities Act (AGOA) initiative fit very well within international trade environment. International trade can be traced back to ancient period dating as early as 2500 B.C and is the most traditional form of business activity that has played a major role in shaping world trade history (Seyoum, 2000). The Theory of Absolute Advantage as advanced by Adam Smith states that a country has an absolute advantage over another country in the production of a good or service if it can produce that good or service using fewer real resources; alternatively, using the same inputs, the country can produce more goods and or offer more services. The theory of comparative advantage states that countries tend to specialize and trade in goods and services in which they have a comparative advantage. The comparative advantage theory highlights the relative differences in productivity that exist between countries as the reason for international trade and hence, gains from trade.

The AGOA, 2000 is part of the U.S. Trade and Development Act of 2000. The policy sought to promote increased Sub-Saharan African country exports to the USA, by allowing for duty-free entry of eligible products for a period of 15 years. Studies have been done to show the level of effectiveness of the policy beneficiaries and the excluded African countries before and after the intervention.

The objectives of AGOA were well articulated and indeed empirical studies have shown that the policy intervention had a dismal effect on U.S. real imports from beneficiary countries. For example, studies have revealed that the estimated average marginal effect of the AGOA intervention on U.S. imports of textiles is found to be significantly smaller than a typical estimate of 42 percent found by Frazer and Biesebroeck (2010). The results suggest that the gains from the duty-free preferences could be much smaller than the previous literature has shown.

Developing countries have faced challenges in accessing markets for their export goods and services, particularly when trying to penetrate markets in the developed nations. These barriers include high tariff charges and standards imposed by the developed nations on imports from developing countries. The situation is worsened by the low quality levels of the goods and unprocessed raw materials, mainly agricultural produce, that form the bulk of exports from developing countries. The tariffs and non-tariff barriers set by developed countries render products from the developing countries uncompetitive in the developed nations' markets such as the Americas and European countries. It was therefore a welcome move when, in the year 2000, the Government of the United States of America, introduced the African Growth and Opportunity Act, to improve trade between America and sub-Saharan Africa by allowing duty free and quota free exports of selected products to the USA market.

The aim of the AGOA was to promote stable and sustainable economic growth and development in Sub-Saharan Africa and to develop vibrant private sector initiatives for countries that met the eligibility criteria as set out under the AGOA. The eligibility criteria included having a liberalized market-based economy and free enterprise, practicing democratic ideals, observing the rule of law, effective systems to combat corruption, non-engagement in activities that undermine the US national security and foreign policy, elimination of barriers to US trade and investment initiatives, protection of workers' rights, continuous compliance and continual progress, among others (Schneidman and Lewis, 2012).

Kenya was among the first countries in Sub-Saharan Africa to meet the eligibility criteria and this fulfillment widened the scope of exports to 6,400 products to be allowed into the US market duty-free and quota-free (Schneidman et al., 2012). Under AGOA, Kenya has been able to attract Foreign Direct Investments, establish economic zones and parks under the EPZA that have realized some improvements in the number of exports to the USA markets. It is however worth noting that this improvement in exports has not been significant as initially envisaged.

1.1.1 Export Processing Zones

The Export Processing Zones Authority (EPZA) was established to promote and facilitate export oriented investments and the development of enabling environment for such investment. However, the EPZ concept has evolved from just promoting manufacturing for export to a wider sense that encompasses more economic activities under the Special Economic Zones (SEZs).

According to Kippra (2013), most of the firms within EPZ are in the garment sector (26.83%), followed by agro-processing (21.95%). These sub-sectors also have the highest levels of investments, employment, sales and exports. The minerals/metals subsector, though constituting only 4.9 per cent of firms in EPZ, contributes to 20.3 per cent of investments, a reflection that it is a rapidly growing sub-sector due to recent mineral discoveries such as coal, and the expansion of the cement industry driven by the booming construction sector. EPZ contribution to total Kenyan exports is 7.72%.

The same 2013 KIPPRA report indicate that the number of free zone zones increased from 45 in 2011 to 47 in 2012. The number of firms operating in EPZ improved from 79 in 2011 to 82 in 2012. This yields an average number of 2 firms per free zone zone. This is unimpressive in terms of potential benefits arising from agglomeration economies.

1.2 Statement of the Problem

According to a report on International Trade Administration by the United States International Trade Commission (2010), it was noted that nearly a decade after the US

opened its market to African countries under AGOA; exporters across the continent are yet to diversify production to enjoy the maximum benefit from the initiative. Although the AGOA was created to provide incentives that would lead to increase and enhance trade between the USA and Sub-Saharan African countries such as Kenya, there has not been a significant increase in Kenya's exports to the USA market. The penetration of Kenyan allowable products under AGOA into the American market has been low and comprises mainly raw and unprocessed agricultural produce. A lot of these products have been exported to the USA market through Europe, considerably reducing the export gains and benefits to the exporters (UNCTAD, 2002). This is mainly due to the historical ties that these African countries have with their former European colonial masters. Since the inception of the AGOA initiative, no known research has been done to establish the reasons behind the low penetration of Kenyan goods into the American market under AGOA. The study therefore sought to establish what has contributed to the state of affairs given the goodwill from the Kenyan and American governments.

1.3 Research Questions

The researcher undertook the study with a view to obtaining answers to the following questions:-

1. To what extent do Kenyan exports meet the US market standards?
2. What level of awareness do Kenyan exporters have on the US market requirements?
3. How consistent are Kenyan exporters in supplying products to the US?
4. To what extent has the Kenya Government supported exporters to access the US market?

1.4 Objectives of the Study

1.4.1 General Objective

The broad objective of the study was to find out the factors contributing to low penetration of Kenyan goods into the American market despite opportunities provided under AGOA.

1.4.2 Specific Objectives

The study however sought specifically to:

1. Find out the extent to which the Kenyan goods meet the US market standards.
2. Examine the level of awareness about the US market requirements by Kenyan exporters.
3. Determine the consistency of supply by the Kenyan exporters to the US market
4. Establish the level of Government support extended to Kenyan exporters

1.5 Research Assumptions

The study was premised on the following assumptions:

1. Kenyan goods do not meet the US market standards.
2. Kenyan exporters have limited level of awareness about the US market requirements
3. There is no consistency of supply by the Kenyan exporters to the US market
4. There is limited Government support extended to Kenyan exporters

1.6 Significance of the Study

The study focused on the companies under the EPZA that were the first to take up the opportunities provided under the AGOA, and drew inferences to establish facts that

inform and guide policy makers and the exporting community to review the opportunities under AGOA, including the market avenues that would increase their uptake and improve their benefits under AGOA, and expand their export base to US and even other external markets. The main reason why the study focused on AGOA is that, AGOA was to promote stable and sustainable economic growth and development in Sub-Saharan Africa and to develop vibrant private sector initiatives for countries that met the eligibility criteria as set out under the AGOA legal framework.

The study was expected to offer solutions that would guide interventions in areas such as policy formulation, technological improvements, market awareness and capacity building for the exporting community so that they fully benefit from the AGOA, and increase Kenya's exports in general.

In terms of policy, the study would not only benefit the policy makers in the Kenyan government to formulate and come up with incentives that could increase export trade, but also the American government which is already undertaking a review of the AGOA Act. An increase in export trade would assist in increasing foreign exchange reserves, stabilize the Kenya shilling against major currencies, reduce inflationary pressure in the economy and improve balance of payments and assist in service external debts. In addition, increased exports would create wealth for the country, reduce poverty and increase employment opportunities as the enterprises expand to accommodate higher levels of production.

Exporters are now sensitized on the needs of the US and other external markets, which would lead to better quality products. Consumers in the US and other external markets will therefore be assured of better quality products. In the overall, the increased exports will lead to a more vibrant economy with increased resources to improve the domestic infrastructure (roads, schools, ports, power dams, etc) leading to higher standards of living. It is also expected that the resultant increase in export of Kenya products to the US market will improve the bilateral relations between Kenya and USA.

1.7 Scope of the Study

The study focused on the challenges faced by exporters leading to the low penetration of Kenyan goods into the American market despite the benefits provided under the AGOA initiative. The study was conducted by selecting firms from the 110 companies under EPZA.

1.8 Limitations and Delimitations of the Study

The study focused only on the possible factors that contribute to the low penetration of Kenyan goods into the US market under AGOA, which are not the only influencing forces on the performance of export trade.

The study did not establish external factors, particularly those that are consumer driven in the American market, and the extent to which they may contribute and affect the uptake of the opportunities provided under AGOA to the Kenyan exporters.

The study endeavored to further investigate other factors that influence export trade performance. It also considered other Kenyan export products to the US market that are not necessarily covered under the AGOA initiative.

To enrich the knowledge of external factors that affects penetration of Kenyan products to the US market, a desk study was done.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The aim of this section is to present scholarly work that has been done in the past on export trade thus develop a basis for assessing the possible impact that the AGOA initiative has had on Kenyan exports to the US market. The review takes two fronts; namely, a theoretical and empirical perspectives.

2.2 Theoretical Review

Economic growth has been viewed as an extremely complex process which depends on many variables such as capital accumulation, trade, price fluctuations, political conditions, income distribution, and even more on geographical characteristics (Emilio, 2001). Trade is key in the development of a country's economy, wealth creation for its citizens, improved balance of payments and increased foreign exchange earnings. Most countries improve their export trade volumes by exporting goods for which they have comparative advantage.

International trade can be traced back to ancient period dating as early as 2500 B.C and is the most traditional form of business activity that has played a major role in shaping world trade history (Seyoum, 2000). International trade allows manufacturers and distributors to seek out for products and services from foreign countries because of cost advantage made possible by advanced technologies. Apart from providing consumers with variety of goods and services, international trade increases income and employment. It also thrives on the basis that some countries produce more of a product than others in addition to those who produce more goods than other countries using the same amount of resources. There are a number of theories that can guide studies and discussions on international trade (Rehim, 2002). This study however will focus on two, namely: the theory of absolute advantage and the theory of comparative advantage.

2.2.1 Theory of Absolute Advantage

The theory of Absolute Advantage as advanced by Adam Smith (International Encyclopedia, 2007) states that a country has an absolute advantage over another country in the production of a good or service if it can produce that good or service using fewer real resources; alternatively, using the same inputs, the country can produce more goods and or offer more services (International Encyclopedia, 2007). This basically holds that different countries produce some goods more efficiently than other countries, thus, benefiting from enhanced efficiency (International Business Environments and Operations, 2004). This theory therefore asserts that, the production of more goods and services enables countries to export some of their products to other nations. For example under the AGOA initiative, many sub-Saharan countries would get a ready market in the United States to sell their goods and hence spur growth in the private sector.

To the extent that a country does not have an absolute advantage in the production of goods and services, it can rely on some factors that will affect and influence her production of goods and services and international trade with other countries. In this fact, the theory of comparative advantage comes in to explain production of certain goods by some countries compared to others.

2.2.2 Theory of Comparative Advantage

The theory of comparative advantage states that countries tend to specialize and trade in goods and services in which they have a comparative advantage. The comparative advantage theory highlights the relative differences in productivity that exist between countries as the reason for international trade and hence, for gains from trade (Kowalski, 2011). This theory advocates that, each country concentrates its production on what it is comparatively best at, not necessarily absolutely best at. According to this theory, even if a given country has a below-average level of labor productivity in every branch of production, there will always be some branch where it will enjoy a comparative advantage enabling it to prevail in international competition.

For example, a country produces steel and cloth with less resources compared to another country. The relative costs of producing these two materials also differ in the two countries. It is very expensive to produce steel than cloth in the country that uses many resources while both products are produced cheaply in the other country. Even though it is cheaper to produce cloth in the first country that uses fewer resources to produce both products, they can decide to produce more steel and exchange it with the other country's cloth. Both countries will benefit from each other and specialize in the commodity in which they have a comparative advantage to trade internationally, thus the export trade and the growth of both countries economy (Seyoum, 2000). According to this theory, a country will produce and export goods in which they have comparative advantage as compared to the other. By this theory, eligible countries under AGOA would benefit by concentrating on goods in which they have a comparative advantage in such a manner as to deliver beyond the expectations of the American markets.

The association between exports and growth is linked with economy arising from participation in world markets (Emilio, 2001). Economic growth based on export trade is associated with sustainable increase in per capita income and can be explained by Export-Led growth hypothesis. The export-led growth hypothesis (ELGH) postulates that export expansion is one of the main determinants of growth. It holds that the overall growth of countries can be generated not only by increasing the amounts of labour and capital within the economy, but also by expanding exports. Export-led growth is important for two main reasons. The first is that export-led growth can create profit, allowing a country to balance their finances, as well as surpass their debts as long as the facilities and materials for the export exist. Second is that increased export growth can trigger greater productivity, thus creating more exports in an upward spiral cycle (McCombie and Thirlwall, 1994).

From as early as 1960s, studies have been done to examine the role of export performance in the economic growth process. Promoting exports is beneficial for countries since through export trade, they generate greater capacity utilization, take

advantage of economies of scale, bring about technological progress, create employment and increase labor productivity, they improve allocation of scarce resources throughout the economy and finally, they relax the current account pressures for foreign capital goods by increasing the country's external earnings and attracting foreign investment (World Bank, 1993).

This study relied on the Comparative Advantage Theory as it seeks to promote a comparative advantage in production relative to others. The theory can be used to explain Kenya's involvement in international trade especially in agricultural products to which it has relative advantage compared to highly industrialized nations.

2.3 Empirical Review

The AGOA market access allows eligible African countries such as Kenya to access and export their products to the US without duty or quota restrictions. The accessibility of the market without restrictions should be a benchmark for Kenyan goods to enter the American market. As discussed earlier, the penetration of Kenyan goods into the American market has been slow and the export levels low. The literature reviews the areas that impact the export of Kenyan goods into the US market. The thematic areas reviewed are the US market requirements, level of awareness of the US market among Kenyan exporters, consistency of Kenyan exports to the US and the level of government support to the export.

2.3.1 The US Market Requirements

International trade happens based on the fact that there are individuals, businesses or governments in other countries who would want buy products produced by other countries. This provides a greater selection to choose from and often at a lower cost. This trade links connects countries such that economic trends and conditions of a particular nation can affect the economy of the other in terms of wages, employment and even production; a condition known as interdependence. Because of interdependence, all governments regulate their foreign trade just as much as they do with domestic trade

although the amount of government involvement in trade varies from country to country and from product to product (Gonnelli, 1993). Governments use a variety of tools to manage their countries' international trade positions; an example is the tariff, a tax that is imposed on an imported good or service. Governments sometimes restrict sales of foreign goods by imposing import quotas. These limit the quantity of a foreign good that can be imported annually and help domestic producers by limiting the share of the market that can be taken by foreigners.

The presence of the US trade activities in Africa is not large compared to other export destinations, but is improving gradually. According to Schneidman and Lewis (2012) the US investment in Sub Saharan Africa is less than 1% of US direct investment worldwide. The department of Commerce reported US regional investment by the end of 2009 as \$22.6 billion. The state department has emphasized on US relations with emerging markets in an effort to create jobs and stimulate economic renewal (International Trade Administration, 2010). The Greater Exports to Africa Act was a legislation seeking to create jobs in the United States by increasing United States exports to Africa. This legislation reflects the growing importance of the region, specifically mentioning the rapid growth and development taking place in Africa and its position as the “next frontier market” (U.S. Department of Commerce, 2011). If successful, the legislation was to result in more trade especially exports to Sub-Saharan Africa. Under these circumstances, trade with Africa would support more than 310,000 jobs in the U.S. Not only is this significant in itself, but it also indicates that the United States’ relationship with Africa is changing fundamentally from the time when AGOA was developed and went into effect.

Every country has its trade regulations and policies that determine how that country conducts business with others or within its boundary. In order to avoid potential problems in the clearance of merchandise, there are procedures that are required before importing and/or exporting. In the US, the U.S. Customs and Border Protection (CBP) strongly recommend that one familiarize themselves with CBP policies and procedures prior to actually importing and exporting goods. The US has entry requirements for specific

commodities of which one must be aware of. For example, the CBP does not require an importer to have a license or permit, but other agencies may require a permit, license, or other certification, depending on the commodity that is being imported (Customs and Border Protection (CBP), 2011).

The CBP also supervises the Foreign Trade Zones (FTZ) which secures areas outside the Customs territory of the US for the purposes of duty payment. Foreign and domestic merchandise subject to FTZ may be moved into zones for operations not otherwise prohibited by law involving storage, exhibition, assembly, manufacturing, and processing. All zone activity is subject to public interest review, and all manufacturing and processing activity requires a case-by-case review. Under zone procedures, the usual formal customs entry procedure and payment of duties are not required on the foreign merchandise unless and until it enters customs territory for domestic consumption, in which case the importer normally has a choice of paying duties either on the original foreign materials or the finished product. Domestic goods moved into a zone for export are considered exported upon entering the zone for purposes of excise tax rebates and drawback. FTZ sites and activities remain within the jurisdiction of federal, state and local governments and agencies (International Trade Data System [ITDS], 2012). Zones are sponsored by qualified public or public-type corporations, and the operations are conducted on a public utility basis, with published rates. A typical general-purpose zone provides leasable storage and distribution space to users in general warehouse-type buildings with access to all modes of transportation.

The main reason for establishing FTZ was to encourage and expedite United States' participation in international trade such that foreign goods may be admitted to an FTZ without being subject to Customs duties or certain excise taxes. Another reason was to defer payment of duties until goods are entered into the commerce of the United States. The usual Customs entry procedures and payment of duties are not required on foreign merchandise until it enters Customs territory for domestic consumption.

2.3.2 Level of Awareness about US Market Requirement by Exporters

Over the years, experience shows that the level at which one understands the market is vital to business success. There are levels in which the trader knows the market. Borderlines indicate the trader's path towards optimum efficient vision of the market. At each given point in his trading career, the trader positions himself somewhere on the borderline and, thus, on a certain level of market awareness (Vonko, 2006). Increasing globalization and investor appetite for diversification offer opportunity to companies looking to tap a new investor base, expand awareness, or raise capital. By creating a depository receipts program, you gain the flexibility and access you need to achieve your company's strategic goals. There are a number of things a business person or a company ought to do to foster awareness of emerging opportunities in the marketplace. These includes keeping abreast of the latest market trends, consumer trend awareness and necessary industry exposure.

AGOA was not designed to support U.S. trade and investment in Africa, apart from improving Africa's investment environment and strengthening African entrepreneurs. However, the increased competitiveness in African markets and US effort to increase exports as a stimulus to U.S. job creation, has taken Africa's commercial potential on a new significance for the U.S. The nations of Africa meet regularly at the summit level with their most important commercial partners, including the European Union and China. The U.S. and African nations similarly could benefit from regular meetings at the highest levels of government. After all, the United States' relationship with Africa is changing to one that is increasingly mutually beneficial; at the same time, the nations of Africa have more options for commercial partners than ever before (Schneidman and Lewis, 2012).

Although Africa is still confronting many challenges, it is increasingly a continent of opportunity. U.S. policy needs to respond accordingly by strengthening and extending AGOA and passing and implementing the Increasing American Jobs through Greater Exports to Africa Act. These initiatives would enable the United States to pursue a

deeper, more mutually beneficial commercial relationship with its partners in Sub-Saharan Africa.

2.3.3 Export Supplies to the US

The Sub-Saharan Africa has a long trading history with the countries that now belong to the European Union. This can be linked to the colonial ties with the region. During the past several years, however, the European Union has been aggressively competing with other emerging powers in the African market through the imposition of reciprocal free trade agreements, known as Economic Partnership Agreements (EPAs). The stated goals of these EPAs are to enhance trade and development, sustainable growth and poverty reduction. (European Commission, n.d). The EPAs replaced the preferential, nonreciprocal trade system between the EU and the African, Caribbean and Pacific Group of States that expired in 2007.

The EU has initiated EPA negotiations with more than 35 African countries. However, the EU has also encountered resistance in some African capitals. Talks have stalled with the East African Community, for example, due to concerns over reduced tariff revenue, damage to local industry from EU imports and a loss of related development assistance. The EPAs would also confer most-favored-nation status on EU-based companies. Not only would this undermine regional integration by creating an impediment for African companies investing in other African nations, it would put U.S. companies at a commercial disadvantage in Africa (Kuhlman and Kimenyi, n.d). The EPAs are also considered harmful and unnecessary as Chukwuma (2012) states that they can divide Africa. Recently the EU Commission informed its African partners that more stringent rules of origin and higher duties on imports into the EU will be imposed if the EPAs are not concluded by December 31, 2013.

The African Growth and Opportunity Act (AGOA) was enacted in 2000 to help diversify Africa's export production, expand trade and investment between the United States and sub-Saharan Africa, and accelerate Africa's economic growth. Countries must qualify for

AGOA benefits based on criteria which include the establishment of a market-based economy, rule of law, and enactment of poverty reduction strategies. Forty African countries are currently eligible for AGOA benefits, which provide preferential access to the US market above and beyond the Generalized System of Preferences (GSP) and Most-Favored Nation (MFN) systems (Partnership to Cut Hunger and Poverty in Africa, 2009). AGOA has contributed to a significant increase in African exports to the US, but most of the export growth has come from oil and gas products, and, in a few years, increases in textile products. Considering that agriculture has been identified as a key driver for poverty alleviation and economic growth, US policy can serve to strengthen the export performance of this important sector. The success of US policies however, should not only be measured by the impact US trade preferences have on African exports to the US, but also more broadly on whether they contribute to increased competitiveness of African producers in diverse markets.

2.3.4 Government Support to the Exporters

In today's competitive global environments, public organizations formulate export promotion policies with the aim of assisting companies to develop their internationalization processes. The governments of a growing number of countries have promoted industrial-scale production to support export trade (Calderón, *et al*, 2005). Organizations seeking to penetrate foreign markets often encounter obstacles that hinder their international expansion and most of the time they are incapable of solving these problems on their own. In such cases, public organizations generate export promotion policies like market knowledge provision, trade fairs assistance, distributors search, export insurances and training, with the aim of collaborating in the process of companies' international expansion. Export promotion policies are government financed. Governments of less developed countries (LDCs) usually adopt policies that will stimulate economic growth in their countries.

Governments can support export credits in two ways: through direct loan and subsidy programs and through insurance and guarantee programs. Under direct loan programs,

government institutions extend export credits directly, often in association with private financing. Under subsidy programs, governments operate indirectly on export credits by extending preferential refinancing. For example in the US, Canada, and Japan, official export institutions lend directly to both domestic exporters and foreign importers at fixed subsidized rates. In Germany, France, the United Kingdom, and Italy, official institutions combine direct lending, refinancing of private export credits at preferential rates, and interest rate subsidies to achieve similar results (Fleisig and Hill, 1984).

Like many governments in the region, Kenya has introduced reforms to quicken and simplify the process of starting a new business in order to remain competitive in attraction and retention of investment. One common approach to this challenge has been establishment of a one-stop –shop (OSS), expanding the range of incentives to cover a wider spectrum of the business community, strengthening the regulatory environment, enhancing private sector involvement in policy formulation and implementation; and enhanced investments in infrastructure. The political reforms to be ushered in by the new constitution are business friendly with regard to guarantee of title, governance and right of investments (Schneidman& Lewis, 2012).

In an international trade environment of declining tariffs, trade facilitation (policies aiming at reducing export and import costs) has been in the spotlight in policy fora as the next key option to reduce trade costs in developing countries. The relationship between export performance and trade facilitation is complex, not only because a country's trade flows may change through its own trade facilitation reforms and through its trading partners' reforms, but also because of the multi-dimensionality of trade facilitation (Portugal-Perez & Wilson, 2010).

Kenya's main trading partners are Europe, other African countries, and the Middle East. However, the United States has rapidly increased in importance due to AGOA, which has had a positive impact on job creation and investment although this may be a temporary phenomenon unless AGOA is made permanent. Kenyan horticultural exports to the United States are severely constrained by the stringent U.S. rules imposed on these

products. The United States could have a large pro-growth and poverty reducing impact by supporting capacity building to enable Kenyan horticultural exporters to meet these standards (World Bank, 2004b).

According to Kippra (2013), Kenya's share of manufacturing exports to the global market is about 0.02 per cent. Kenya's total exports grew by only a meagre one per cent (1%) from Ksh 512.6 billion (US\$ 6.03 billion) in 2011 to Ksh 517.8 billion (US\$ 6.09 billion) in 2012 while total imports grew by 5.7 per cent from Ksh 1,300.7 billion (US\$ 15.3 billion) in 2011 to Ksh 1,374.6 billion (US\$ 16.2 billion) in 2012.

On a similar front, the KNBS (2013) Economic Survey shows that Kenya's balance of trade deficit rose from Kshs. 803.63 billion in 2011 to 856.7 billion in 2012 (an increase of 6.6%). The major exports in 2012 included tea, horticulture, apparels and coffee all contributing for 43% of the merchandise exports, while the major imports were crude petroleum and oil products, industrial machinery and transport equipment, and crude vegetable oils.

The top export region remains COMESA with export values decreasing marginally from Kshs. 181.5 billion in 2011 to Kshs. 175.7 billion in 2012, which accounted for 35.5% and 33.9 of total exports respectively. Exports to Africa increased marginally from Kshs. 247.6 billion in 2011 to Kshs. 250.5 billion in 2012, which accounted for 48.5% and 48.3% of total exports respectively. Exports to EU also decreased marginally from Kshs. 126.4 billion in 2011 to Kshs. 114.4 billion in 2012 which accounted for 22.5% and 22.1% of total exports respectively. Uganda retained the top destination for Kenya's merchandise exports although the value of exports decreased from Kshs. 75.95 billion in 2011 to Kshs. 67.4 billion in 2012; followed by UK and Tanzania who respectively imported products worth Kshs. 40.6 billion in 2012 down from Kshs. 47.1 billion in 2011 (a decrease of 13.8%) and Kshs. 46 billion in 2012 up from Kshs. 41.7 billion in 2011 (an increase of 10.3%).

Countries where Kenya registered significant growth in exports were the United Arab Emirates, from Kshs. 19.9 billion in 2011 to Kshs. 28.6 billion in 2012, representing a 43.7% growth, Nigeria, from Kshs. 1.80 billion in 2011 to Kshs. 2.92 billion in 2012, representing a 62.2% growth, and Comoros, from Kshs. 0.77 billion in 2011 to Kshs. 1.21 billion in 2012, representing a 57.14% growth.

In order to encourage the production, processing and transporting of more, and better quality exports, the United States should support AGOA-eligible countries in technical training and capacity building in agricultural production, trade, processing, research and markets, infrastructure development, including the creation of modern packaging plants, increased investment in storage plants, regional bulk commodity management facilities, and value-added processing, improvement of transport and communication networks to reduce transaction and marketing costs related to agricultural trade, market product and price information gathering, delivery and access to farmers, traders, processors and policy makers and by creating a comprehensive information database on U.S. and African agribusinesses to serve as a clearinghouse for specific inquiries regarding international trade, laws and contacts (Bread for the World, 2003).

2.4 Summary of Literature Review

There have been in-depth arguments on the impact on developing countries of unilateral trade preferences programs. These programs, like AGOA were designed to spur economic growth in developing countries by expanding their exports, have sparked controversy since their inception in the 1960s. Many developing countries argue that the programs are necessary, but that restrictive product eligibility rules limit their effectiveness. Some trade advocates worry that preferences create a disincentive for multilateral trade liberalization. Unanswered in such debates is whether or not unilateral trade preferences can achieve the goal of promoting economic development through increased trade.

Indeed considerable disagreements in the literature as to whether the unilateral and nonreciprocal preferences have succeeded in promoting developing countries' exports have existed for a while. One strand of the literature suggests that multilateral removal of tariffs is more effective than unilateral trade preferences. For example, Francois et al (2006) find that developing countries underuse preferences to an average of 4 percent of the goods traded due to burdens directly associated with administration of preferences. Unilateral preferences are criticized for limited product coverage, stringent eligibility rules and selectiveness of inclusion and exclusion of countries. The World Trade Organization (WTO) offers no formal redress mechanism for ironing out disagreements on country eligibility and product coverage for trade preference agreements. The preference-giving countries and potential beneficiaries have such obligations at own levels. Another strand of the literature suggests that the preferences are good for developing countries, arguing that multilateral removal of tariffs without discrimination erodes the gains for preferences receiving countries. Whereas there is no reported disagreement that increased openness is better for countries; variants of the literature for example Ng and Yeats (1996) suggest that the underperformance can be attributable to developing countries' failure to effectively seize the opportunities granted under the preferences. The preferences are often initiated by the preference-giving countries with a view to realizing better outcomes for the beneficiary countries. However, empirical evidence on the outcomes achieved is limited.

The literature review has dwelt extensively on the US market requirements touching on customs and border protection policies and procedures as well as its foreign trade zones. In addition the review has touched on the EU markets and the governments involving in creating environments that support export trade. The conceptual framework has clearly laid out the interplay between the dependent variable and independent variables of the study.

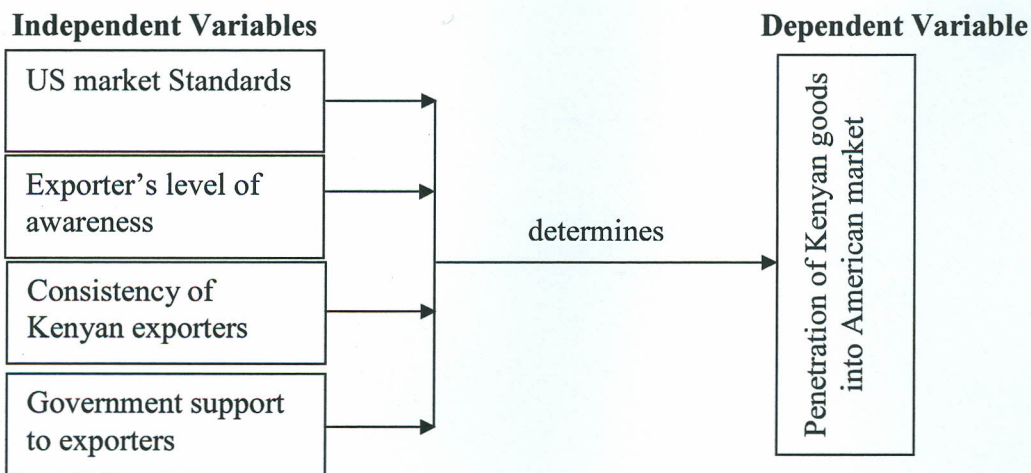
In addition, there are no known studies that have been done on trade that have dwelt on low penetration of Kenya goods into the American market, and hence, the need for this

study. Secondly, there is no documentary evidence on the specific level of penetration to the US market under the AGOA initiative by Kenyan firms, more so those operating under EPZA. The study therefore aims at bridging this knowledge gap.

2.5 Conceptual Framework

The study sought to find out the determinants of low penetration of Kenyan goods into the American market under AGOA initiative by finding out the extent to which Kenyan exports meet US market requirements, the level of awareness about US market requirements by Kenyan exporters, the consistency of supply by Kenyan exporters to the US market, the level of government support extended to Kenyan exporters and establishing the efforts Kenyan exporters are making to improve their products to adapt to the demands of the American market.

Figure 1: Conceptual Framework



Source: Researcher (2014)

This conceptual framework is informed by the assumption that the AGOA initiative ought to have a positive influence on Kenyan exports particularly those destined for the US market. Thus, the penetration of Kenyan goods into the American market becomes the dependent variable. Penetration was measured by the number of Kenyan products

being exported to American markets under AGOA. The dependent variable was reliant on other factors which in this case we call independent variable. Adherence or lack of it by Kenyan exporters to these factors (independent variables), determined the level to which the Kenyan products reach the American market. The concept holds constant any other possible intervening variables that might have a significant contribution to the penetration of Kenyan goods into the American market.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the approach the study will adopt in carrying out the research. It describes the research design, population and sampling design, data collection method, research procedure, data analysis and presentation.

3.2 Research Design

A research design gives a description of how the researcher intends to answer the research questions, (Taylor, *et al*, 2006). Given that the main goal of this research was to describe the data and characteristics about what is being studied, it therefore took descriptive approach focusing mainly on quantitative data. According to Hopkins (2000), quantitative studies aim to establish the relationship between an independent and a dependent variable by taking keen interest on frequencies, averages, and other statistical calculations of the data collected. On the other hand, a descriptive design describes phenomena (Kombrabail, 2009) and tends to explore the ‘what’ and how questions in a study (De Vaus, 2003). Since this research aimed to assess the impact of AGOA initiative on Kenya exports, the study answered the question on to the factors that contribute to the low penetration of Kenyan goods into the American market.

3.3 Target Population

The population of the study comprised the staff of companies under Export Promotion Zone Authority (EPZA Kenya, 2013). As at March, 2013, there were 110 firms under EPZA in Kenya, located in different parts of the country. The list of the firms is given in appendix IV. The target population of this study was EPZA firms based in Nairobi and Athi River.

3.4 Sample Size

There are 17 firms in Nairobi and 40 in Athi River, giving a total of 57 companies. The researcher selected 33% of the 57 EPZA firms in Nairobi and Athi River translating to 19 firms in total, which represented 17.3% of the EPZA firms in Kenya. Thus, the total respondents were 57. According to Mugenda and Mugenda (2003), a sample size that is considered representative is one that is at least 10% of the population. This sample size was therefore significantly representative of the entire population.

3.5 Sampling and Sampling Design

From the above population, the study adopted purposive sampling in order to get the sample size. In purposive sampling, the selection of the sample size is done with a predetermined aim (Särndal, *et al*, 2003).

In this study, the respondents were the chief executive officers and heads of sales and marketing picked purposively from the companies under EPZA based in Nairobi and Athi River, because, they are the ones specifically charged with the marketing of the produce in the US under the AGOA initiative.

3.6 Data Collection Instruments

The study used questionnaires, given that it is the preferred instrument when descriptive design is used in a study (Mcnabb, 2008). In addition, it is cost effective and can be answered at the respondent's convenience. The questionnaire was made up of both open and closed ended questions. In addition, an interview guide with open-ended questions was used to give the researcher a broader and in-depth understanding of information on qualitative data from the respondents.

3.7 Reliability and Validity

Reliability and validity tests are fundamental cornerstones of research especially in quantitative research. Brink (2000) asserts that reliability is the test of the likelihood of

obtaining similar results if the researcher measures the same variable more than once, or if different people measure the same variable. According to Golafshani (2003), reliability is the extent to which results of a research are consistent over time and an accurate representation of the population under study. If tests and retests can be done under similar methodology to produce consistent results, then the study or the research instruments used are considered to be reliable. In other words, it relates more with the measurement accuracy of the data collection instrument. In this study, reliability was determined by ascertaining the accuracy of the questionnaire. The respondents for the pilot test were not part of the sample size in the main study.

Validity on the other hand is the test of how truthful and accurate the research or research instruments measure what they are intended to measure (Golafshani, 2003). Validity determines if the research instruments captures information that is relevant to the research or study. Thus, validity was ensured by doing a pilot study among three firms located in Nairobi and Athi River, which were not part of the sample. This was useful in testing the reliability and validity of the research instruments. Any inconsistencies in the pilot test were corrected more so those that affected the questionnaire. Test and pre-tests was done to ensure accuracy of the research instruments; besides seeking for expert opinion. The pilot study was intended to detect any weaknesses in the research design, thus ensuring accurate data collection.

3.8 Data Collection Procedures

After the University approved the proposal and gave the researcher the authority to collect data, the researcher visited the identified firms to seek permission to conduct the study, before identifying the respondents. The respondents were then informed of the purpose of the study and what was required of them. A date was then agreed upon for the researcher to distribute the questionnaires and collect them at an agreed date. The questionnaires were distributed through hand delivery or through email, depending on the preference of the respondents.

3.9 Data Analysis and Presentation

The collected data was checked for completeness, coded and summarized in tables. Content analysis was used to analyze qualitative data. Descriptive statistics was used to analyze the data, draw comparisons and conclusions. Data was also thematically analyzed in order to capture different views, ideas and perceptions. Statistical Package for Social Science Program (SPSS) was used in processing data. The results were presented using pie charts, bar graphs, percentages and frequency tables for easy interpretation. These presentation methods were used because they are easy to understand and summarize.

3.10 Ethical Considerations

The study took into consideration the need for informed consent among respondents, given that the information sought for aimed at exposing hindrances to the maximization of AGOA by Kenyan exporters. The study therefore promised confidentiality to everyone including those who were willing to share such censored information. Confidentiality was ensured by using random numbers to identify respondents and their respective firms as opposed to using names. The researcher therefore upheld confidentiality on the data collected. Firms and respondents were assigned numbers as opposed to names to uphold anonymity.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents and discusses the results of the study in details.

4.2 General Information

4.2.1 Return rate

Out of the 57 questionnaires, 39 were filled and returned, representing a 68% responses rate, which was adequate for analysis. According to Babbie (2010), 50% response rate is considered adequate for analysis, thus, 68% is adequate for this study. Most of the companies interviewed were found to be locally owned having been in business for more than 5 years and engaged mostly in food manufacturing and Business Process Outsourcing (BPO).

4.2.2 Type of firm Ownership

The researcher captured the different forms of firm's ownership whose respondents participated in the study. The results were presented in the pie chart below.

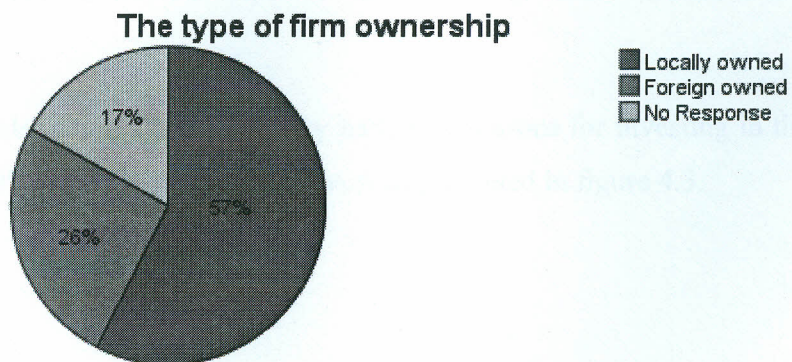


Figure 4.1: Type of Firm ownership

From the results, it is evident that slightly more than half of the respondents were drawn from locally owned firms, while 26% indicated that their firms were foreign owned. Some respondents (17%) did not indicate the ownership of the firms they worked for.

4.2.3 The Nature of Business

The study also sought to establish the kind of business the firms engaged in. It was established that 38% of the firms engaged in food manufacturing and 15% were service centre firms.

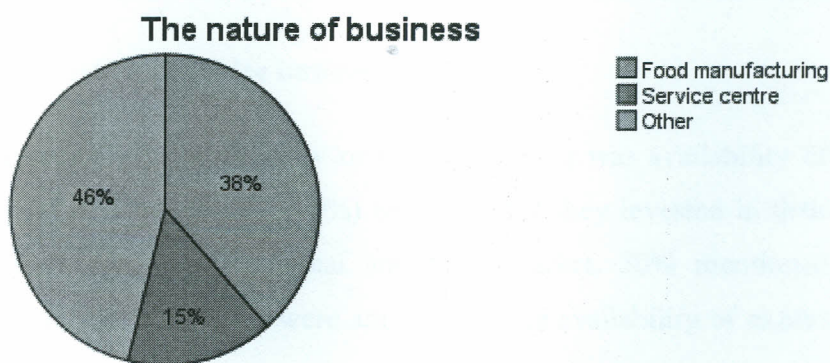


Figure 4.2: The nature of Business

Other firms (46%) engaged in different business lines including but not limited to BPO and pharmacy.

The respondents were also asked if they had any particular reasons for investing in their choice of business and they gave a variety of answers as presented in figure 4.3.

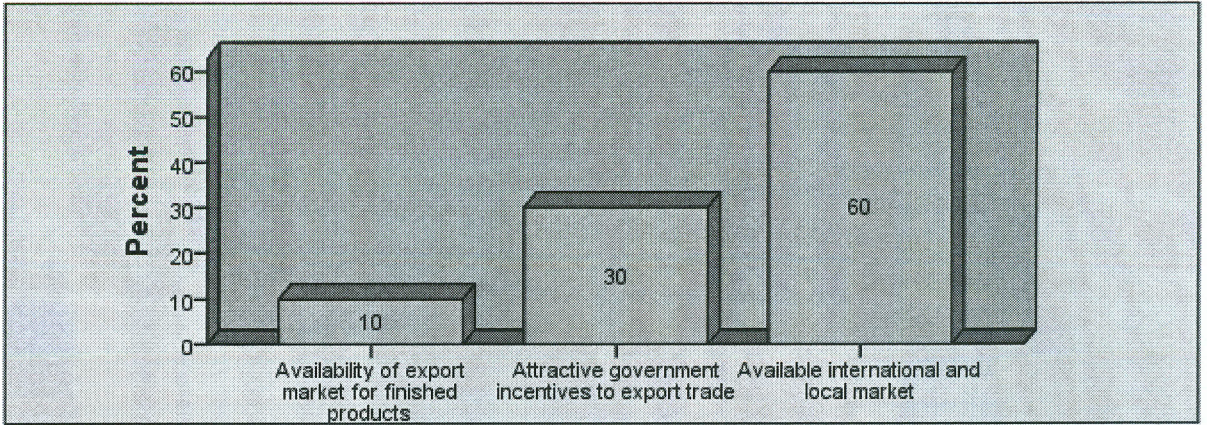


Figure 4.3: Reasons for investing in choice business

The main reason that was cited by the majority of the respondents was availability of international and local market. The majority (60%) indicated that they invested in their business line because of available international and local market, 30% mentioned attractive government incentives while 10% were attracted by the availability of export market for finished products.

Another matter that the researcher inquired about was the duration of business operations. The respondents were asked to indicate for how long they have been in their respective businesses.

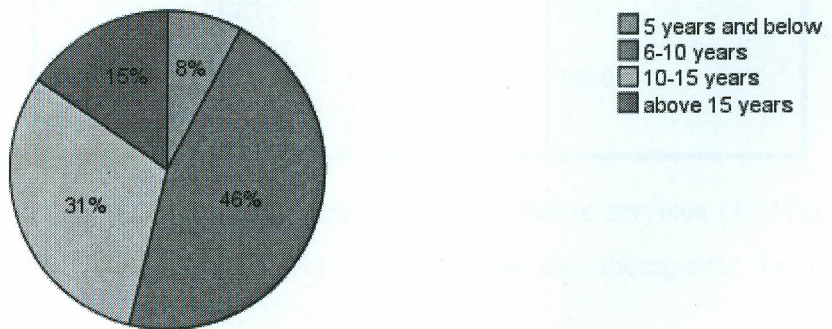


Figure 4.4: Duration in business

As the figure shows, the majority of the businesses (46%) have been in operation between 6 and 10 years, while 31% have existed for between 10 and 15 years, and 15% having been in business for over 15 years, while the remaining 8% had been in operation for less than 5 years. Thus, most firms had been in business for a sufficient time, and therefore were able to give informed opinion on the study questions.

4.2.4 Major Exports

The study sought to establish the main export products of the various firms. The respondents were required to mention their main export products and their replies were as given in table 4.1.

Table 4.1: Main export products
What are the main export products

	Frequency	Percent	Valid Percent	Cumulative Percent
Call centre services	9	23.1	23.1	23.1
Crude vegetable oil	3	7.7	7.7	30.8
Oil	3	7.7	7.7	38.5
Pharmaceutical products	6	15.4	15.4	53.8
Plastic haners	3	7.7	7.7	61.5
Ready to use therapeutic food, insta health builders	6	15.4	15.4	76.9
Ready to use therapeutic good	3	7.7	7.7	84.6
Supercereal, Ready to use therapeutic food	3	7.7	7.7	92.3
Vegetable oil	3	7.7	7.7	100.0
Total	39	100.0	100.0	

According to the table, majority of the businesses operate call centre services (23.1%), followed by pharmaceutical products (15.4%) and ready to use therapeutic foods (15.4%).

4.2.5 Export Destinations

The researcher sought to find out the major market destinations for the export companies. The respondents were to give their answers in order of priority where 1-highest priority and 5-lowest priority. The results were presented in figure 4.5.

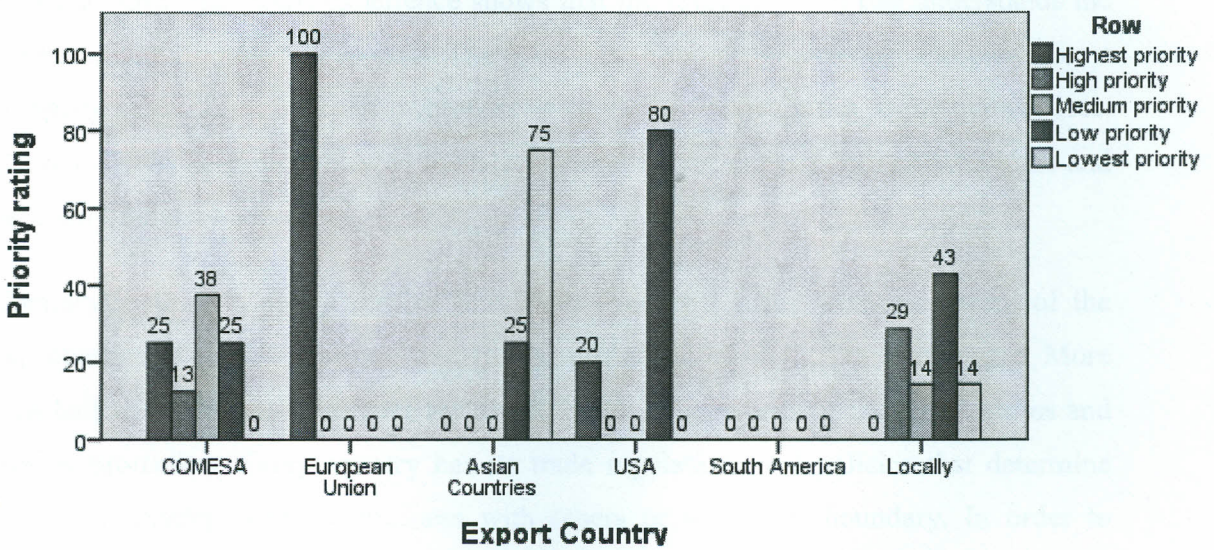


Figure 4.5: Export destinations

According to the results, the region with highest export priority is the European Union followed by the COMESA. Some companies also export to the US but as a low priority destination. This implies that, the low penetration of Kenyan goods into the American market can be attributed to minimal consideration given to the market as an export destination. These results support Schneidman and Lewis (2012) and European Commission (n.d) who saw EU as the main exporter who aggressively compete over African unions such as AGOA. As such the aggressiveness of EU has limited penetration of African goods.

4.3 Kenyan Exporters' Awareness of US Market Requirements

The study sought to find out if the respondents were aware of the US market regulations. The results were presented in figure 4.6.

Almost half of the respondents agreed that they are well informed on AGOA and the US market in general. Those who disagreed were only 18% while 27% were not sure of their response. Over the years, experience shows that the level at which one understands the market is vital to business success. There are a number of things a business person or a company ought to do to foster awareness of emerging opportunities in the marketplace. These includes keeping abreast of the latest market trends, consumer trend awareness and necessary industry exposure.

Contrary to this, from the results, it is clear that most firms were not aware of the expectations of the US Customs and Border protection as only 27% were aware. More than half of the respondents were not aware of the expectations of the US Customs and Border protection. Every country has its trade regulations and policies that determine how that country conducts business with others or within its boundary. In order to succeed in trade, it is important to understand the regulations and the policies involved in the trade. In order to avoid potential problems in the clearance of merchandise, there are procedures that are required before importing and/or exporting, which potential traders must be familiar.

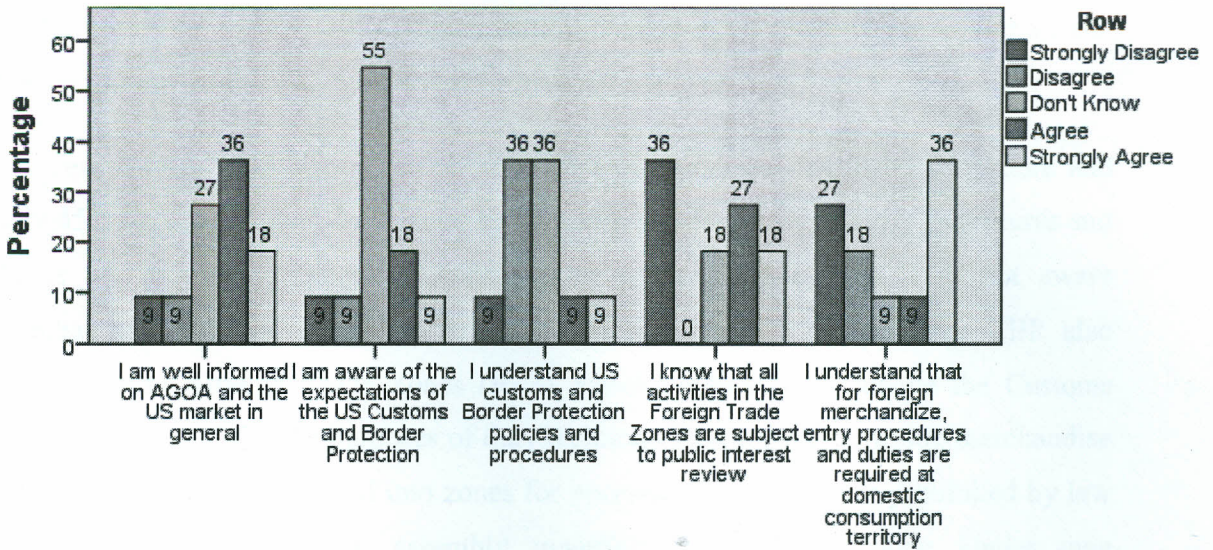


Figure 4.6: Exporters' awareness of US market requirements

The U.S. Customs and Border Protection (CBP) strongly recommend that one familiarize themselves with CBP policies and procedures prior to actually importing and exporting goods. The results reveal that respondents did not understand the US customs and Border Protection policies and procedures. A small percentage (18%) understood the customs and procedures, 36% were vague when asked about their level of awareness of border protection policies, while 45% admitted that they do not understand the policies and procedures. The US has entry requirements for specific commodities of which one must be aware of. For example, the CBP does not require an importer to have a license or permit, but other agencies may require a permit, license, or other certification, depending on the commodity that is being imported (Customs and Border Protection (CBP), 2011).

Concerning the activities that go on in the foreign trading zones, less than half of the respondents (45%) agreed that they knew that the activities in the foreign trade zones are subject to public interest review, 18% did not know; while 36% were totally unaware. According to International Trade Data System (2012), all zone activity is subject

to public interest review, and all manufacturing and processing activities require a case-by-case review to ascertain if they meet consumer requirements.

The respondents were also asked if they understood merchandise entry procedure and only 45% agreed that they understood that for foreign merchandise, entry procedures and duties are required at domestic consumption territory while 46% were not aware merchandise entry procedure. It is good to understand this because the CBP also supervises the Foreign Trade Zones (FTZ) which secures areas outside the Customs territory of the US for the purposes of duty payment. Foreign and domestic merchandise subject to FTZ may be moved into zones for operations not otherwise prohibited by law involving storage, exhibition, assembly, manufacturing, and processing. Under zone procedures, the usual formal customs entry procedure and payment of duties are not required on the foreign merchandise unless and until it enters customs territory for domestic consumption, in which case the importer normally has a choice of paying duties either on the original foreign materials or the finished product ([ITDS], 2012).

4.4 The Level to which Kenyan Exports Meet the US Market Requirements

In regard to whether Kenyan export products complying with the US market requirements, only 45% of the respondents agreed that their products met the requirements under domestic consumption. This implies that most of Kenyan products do not meet domestic consumption requirements of the US market. Every country has its trade regulations and policies that determine how that country conducts business with others or within its boundaries. In order to avoid potential problems in the clearance of merchandise, there are procedures that are required before importing and/or exporting. For example, the CBP does not require an importer to have a license or permit, but other agencies may require a permit, license, or other certification, depending on the commodity that is being imported (Customs and Border Protection (CBP), 2011). Without meeting these requirements, it may be difficult to conduct business.

Complying with the market requirements includes products quality. When asked about their products adherence to the procedures in the US foreign trade zone. The results show that 54% agreed that their products adhere to the procedures in the US foreign trade zones, while 27% were not aware of the procedures. To be successful, the products should meet the regulations and policies of the consumer country (CBP, 2011).

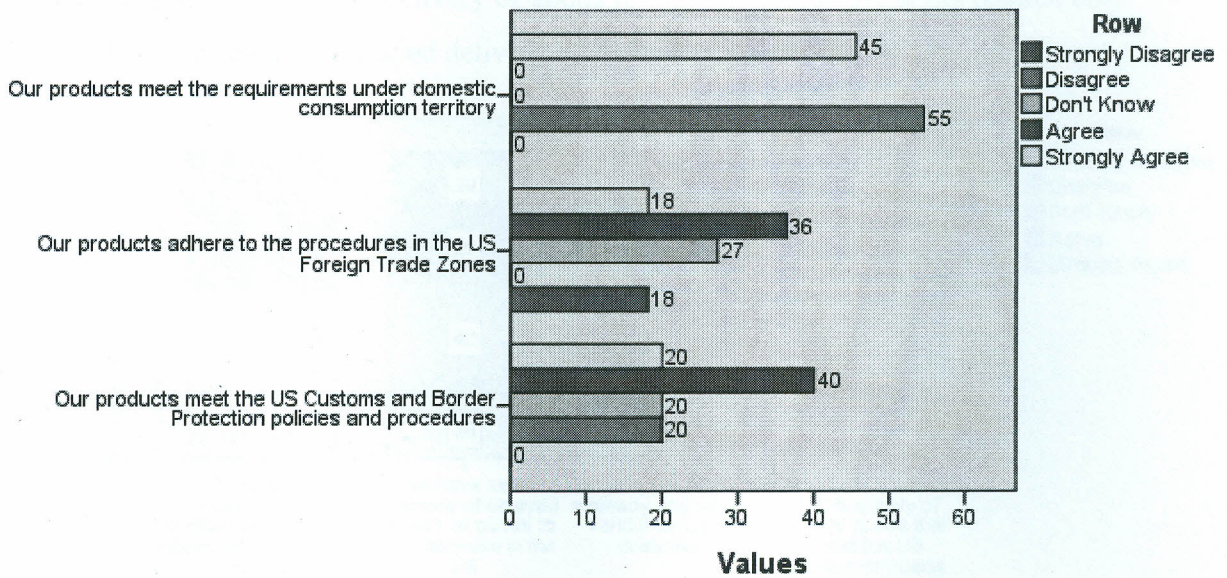


Figure 4.7: Kenyan exports meeting US market requirements.

The respondents were also asked concerning their products meeting the US customs and border protection policies and procedure and a good number of them; 60% indicated that their products met the customs and border protection policies and procedures. According to ITDS (2012), export products should have the desired quality upon entering the consumption territory.

4.5 Consistency of Supply by Kenyan Exporters to the US Market

The study sought to establish the consistency of the supply by the Kenyan exporters to the US market. The results were presented in figure 4.8 below.

The first parameter was to ascertain the flow of goods into the export market. In this case, 55% reported that that they had uninterrupted production of goods destined for the US market; 45% indicated that they had interrupted production of goods. This shows that those who export to the US were working hard to ensure continuous production of goods to supply the quantity required by the customers in the US market. The results also that there have been delays in the delivery of goods to US customers. Given the results, only 20% had zero instances of delayed delivery of goods to their customers in the US.

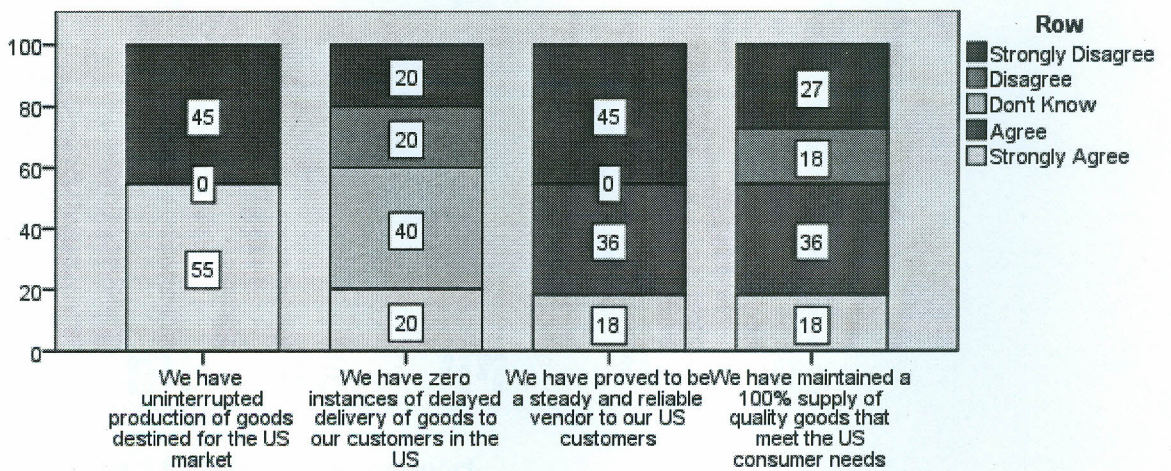


Figure 4.8: Consistency of supply to the US market

The research sought to know how reliable Kenyan exporters are to the US customers. From the results, 55% of the respondents felt that they have proved to be steady and reliable vendors to their US customers. Almost half of the respondents (45%) felt that they had not been reliable and steady to their customers in the US market. In addition to that, a good number of the respondents (55%) were of the opinion that they had maintained a 100% supply of quality goods that meet the US customer needs while 45% were of contrary view.

4.6 Level of Government Support Extended to Kenyan Exporter

In assessing the level of government support to Kenyan exporters, the respondents' opinions were presented as shown in figure 4.9.

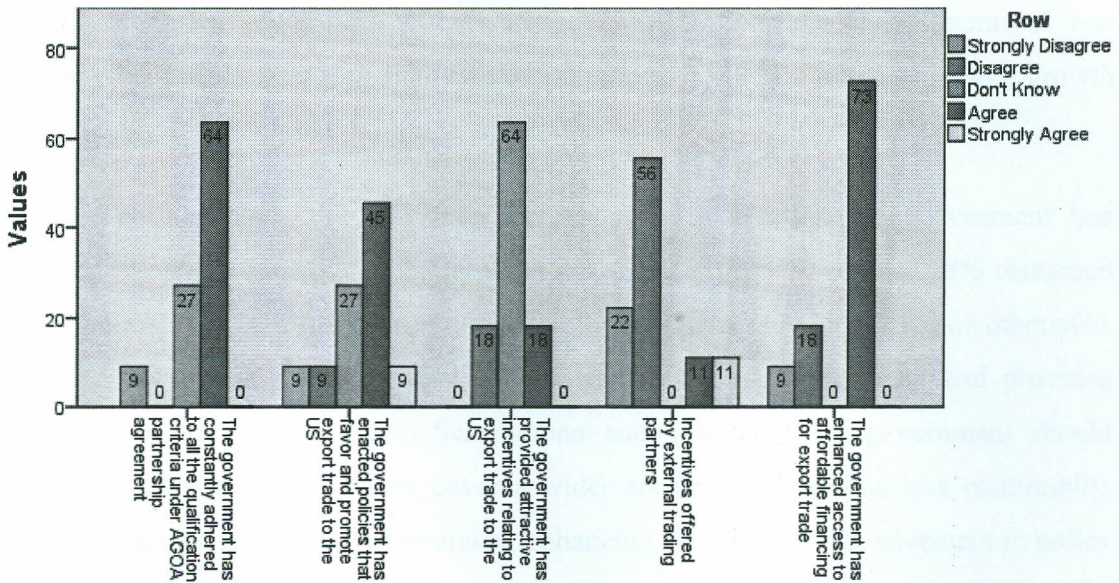


Figure 4.9: Government support

First, the respondents were asked if the government had adhered to all the qualifications criteria under AGOA. A good number of the respondent (64%) agreed that the government had adhered to the qualification criteria under AGOA partnership agreement, only 9% disagreed while the 27% indicated that they did not know. It is essential for government to set up an environment that allows trade to thrive and a number of governments are promoting industrial-scale production to support export trade (Calderón, *et al*, 2005). It is clear that the government of Kenya has tried to adhere to AGOA requirements by having a liberalized market-based economy and free enterprise, practicing democratic ideals, observing the rule of law, effective systems to combat corruption and protection of workers' rights (Schneidman and Lewis, 2012).

The researcher also wanted to establish if the government has enacted policies that favour and promote export trade to the US; 54% agreed while 27% did not know whether the

government has enacted relevant policies to support trade with US. Countries that want to penetrate foreign markets often generate export promotion policies like market knowledge provision, trade fairs assistance, distributors search, export insurances and training, with the aim of collaborating in the process of companies' international expansion. Export promotion policies are government financed. Governments of less developed countries (LDCs) usually adopt policies that will stimulate economic growth in their countries such as export trade and providing attractive incentives.

Concerning incentives, only 18% of the respondents felt that the government had provided attractive incentives relating to export trade to the US, another 18% disagreed while the majority (64%) indicated they were not aware of any incentives or otherwise. Meaning that the respondents were not aware whether the government had provided incentives or not. According to Schneidman and Lewis (2012), government should provide a range of incentives to cover a wider spectrum of the business community, strengthening the regulatory environment, enhancing private sector involvement in policy formulation and implementation; and enhanced investments in infrastructure. Further, the respondents (78%) indicated they were not aware of any possibility that incentives were offered by external development and trading partners.

On the government enhancing access to affordable finances, 73% of the respondents agreed that the government has enhanced access to affordable financing for export trade. Governments can support export credits in two ways: through direct loan and subsidy programs and through insurance and guarantee programs. Under direct loan programs, government institutions extend export credits directly, often in association with private financing. Concerning subsidy programs, governments operate indirectly on export credits by extending preferential refinancing. For example in the US, Canada, and Japan, official export institutions lend directly to both domestic exporters and foreign importers at fixed subsidized rates. In Germany, France, the United Kingdom, and Italy, official

institutions combine direct lending, refinancing of private export credits at preferential rates, and interest rate subsidies to achieve similar results (Fleisig and Hill, 1984).

4.7 Qualitative Data

Qualitative data was collected through face-to-face in-depth interviews. The officers who participated in the interviews were drawn from Export Promotion Council, Ministry of Foreign Affairs and International Trade.

Some of the issues that were mentioned during the interview concerning low penetration of Kenyan goods to the US market despite the AGOA initiative, included inability to meet the US quality standards and poor understanding of the US market. Those who were interviewed pointed out that the US market is for those who comply with the standards. They reasoned that since the US market is so huge, Kenyan exporters have not been able to consistently supply the required quantities within specified periods. Most Kenyan firms have a huge challenge in terms of their capacity to meet the demands of export market, rendering them unreliable sources of goods to the vendors in US market. There is the subject of competition from other countries that are even performing better despite paying duty and quotas. Firms in Kenya have not managed to produce quality products and if they do, consistency in quality production is not assured.

Another noticeable concern is the logistical challenges in transporting goods to the US due to distance in addition to lack of awareness by Kenyan exporters in regards to the AGOA and the US market. AGOA has time horizons and so investors may be afraid of making investments for long-term gain. One of the respondents suggested that "There needs to be a more predictable arrangement."

One of the interviewees observed that an African country that has benefited from AGOA is South Africa because they have highly developed industries. Compared to Kenya, Kenyan firms are affected by inadequate financing thus unable to make required investments to build capacity. Export is a function of investments, without proper financing to facilitate investments, capacity is hampered. Export trade is fairly easy in

capital intensive economies. Some Kenyan firms are modern enough just to produce for the African market but not big economies like the US. The Kenyan government has tried to support export traders but under very stringent budgetary constraints.

Another suggestion that they made was that extending AGOA period would be relevant since there could be other entrants who could exploit the offers under AGOA for economic good.

4.8 Summary of the Findings

4.8.1 Kenyan Exporters' Awareness of US Market Requirements

The study sought to find out if the respondents were aware of the US market regulations. The study found that almost half of the respondents agreed to be informed on AGOA and the US market in general. However, more than half of the respondents were not aware of the expectations of the US Customs and Border protection. Concerning the activities that go on in the foreign trading zones, less than half of the respondents (45%) agreed that they knew that the activities in the foreign trade zones are subject to public interest review. Finally, the study established that most respondents (46%) did not understand merchandise entry procedure and only 45% agreed that they understood that for foreign merchandise, entry procedures and duties are required at domestic consumption territory.

4.8.2 The Level to which Kenyan Exports Meet the US Market Requirements

In regard to whether Kenyan export products complying with the US market requirements, only 45% of the respondents agreed that their products met the requirements under domestic consumption. This implies that most of Kenyan products do not meet domestic consumption requirements of the US market. When asked about their products adherence to the procedures in the US foreign trade zone. The results show that 54% agreed that their products adhere to the procedures in the US foreign trade zones. The respondents were also asked concerning their products meeting the US customs and border protection policies and procedure and a good number of them; 60% indicated that their products met the customs and border protection policies and procedures.

4.8.3 Consistency of Supply by Kenyan Exporters to the US Market

The study sought to establish the consistency of the supply by the Kenyan exporters to the US market. The first parameter which was to ascertain the flow of goods into the export market established that 55% had uninterrupted production of goods destined for the US market with the rest indicating that they had interrupted production of goods. The results also showed 55% of the respondents felt that they have proved to be steady and reliable vendors to their US customers. Almost half of the respondents (45%) felt that they had not been reliable and steady to their customers in the US market. In addition to that, a good number of the respondents (55%) were of the opinion that they had maintained a 100% supply of quality goods that meet the US customer needs while 45% were of contrary view.

4.8.4 Level of Government Support Extended to Kenyan Exporter

In assessing the level of government support to Kenyan exporters, the respondents, a good number of the respondent (64%) agreed that the government had adhered to the qualification criteria under AGOA partnership agreement. The study also established that majority of the respondents (54%) that the government has enacted relevant policies to support trade with US. Concerning incentives, most of the respondents (64%) indicated they were not aware of any incentives or otherwise. Meaning that the respondents were not aware whether the government had provided incentives or not. Further, the respondents (78%) indicated they were not aware of any possibility that incentives were offered by external development and trading partners. Finally the study also found that majority of the respondents 73% of the respondents agreed that the government has enhanced access to affordable financing for export trade. Governments can support export credits in two ways: through direct loan and subsidy programs and through insurance and guarantee programs.

The main reasons for engaging in such business included availability of international and local market as well as a given level of government incentives. There were those who also mentioned availability of export market for finished products. The major exports products and services by the firms that returned the questionnaires included call centre services followed by pharmaceutical products and ready to use therapeutic foods and goods. The major export destinations were found to be the European Union and COMESA. There were exports to the US but the destination was not considered as of high priority.

CHAPTER FIVE: DISCUSSIONS OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the discussions, conclusions and the recommendations of the study. The study sought to establish the possible determinants leading to low penetration of Kenyan goods into the American market. The study investigated the extent to which the Kenyan exports meet the US market requirements; the level of awareness about the US market requirements by Kenyan exporters; the consistency of supply by the Kenyan exporters to the US market and the level of government support extended to Kenyan exporters. A descriptive research design was adopted with a focus on the firms under Kenya's Export Processing Zones Authority. The study targeted all the companies under EPZA and sampled 33% of the 57 companies within Nairobi and Athi River to obtain 19 companies. The respondents were picked purposefully as the Chief Executive Officers and Heads of Sales and Marketing, making a total of 57 population sample. Questionnaires were used to collect primary data, while qualitative data was collected through in-depth interviews. The collected data was then analyzed using descriptive statistics with the help of the Statistical Package for Social Scientists (SPSS). The results were presented using pie charts, bar graphs, percentages and frequency tables.

5.2 Discussion of the Findings

The first objective sought to find out if the respondents were aware of the US market regulations. The results found out that almost half of the respondents had some knowledge on AGOA and the US market in general. From the results, it was clear that exporters were not aware of the expectations of the US Customs and Border protection. Quite a few of the respondents were aware of the expectations of the US Customs and Border protection policies. It was also noted that the respondents did not understand the US customs and Border Protection policies and procedures as well as the activities that go on in the foreign trading zones. The respondents were also asked if they understood

merchandise entry procedures of which less than half of them indicated that they understood that for foreign merchandise, entry procedures and duties were required at domestic consumption territory. This supports the argument made by Dihel *et al.* (2011) that most exporters doesn't understand US Customs and Border protection policies, foreign trading zones and other regulatory restrictions which restrict their penetration to the market.

In regard to the export products complying with the US market requirements, only 45% of the respondents indicated that their products met the requirements under domestic consumption. This implies that a considerable size of Kenyan products do not meet domestic consumption requirements of the US market. The study also sought to understand whether Kenyan products adhere to the procedures in the US foreign trade zone. The results show that to a given extent, some products adhere to the procedures in the US foreign trade zones while there was a significant proportion of the respondents that did not know about the procedures. The study also tried to ascertain whether the Kenyan exporters' products comply with the US customs and border protection policies and procedure. The results reveal that some of the firms' products comply with the customs and border protection policies and procedure. This supports argument done by International Trade Centre (2012) that most exporters in the emerging markets fail to do analysis of consumption requirement in US market, making them not attain such consumption requirements of the US market.

In addition, the study wanted to establish the consistency in supply by the Kenyan exporters to the US market. The first parameter was to ascertain the steady flow of goods into the export market. The findings show that just some of the exporters to the US market had uninterrupted production of goods destined for the US market. The study also sought to know if there are any delays in the delivery of goods by Kenyan exporters. It was established that a small proportion of the firms had zero instances of delayed delivery of goods to their customers in the US. The researcher wanted to know about the reliability of the exporters and the results revealed that the reliability of Kenyan vendors

to their US customers was not sufficient. At the same time, there were a small number of firms which had maintained a 100% supply of quality goods that meet the US customer needs. These results concur with Dihel *et al.* (2011) that Kenyan exporters lack consistency in their exports due to seasonal agricultural sector and other export constraints. In addition, regulations delayed delivery of goods to the market.

In assessing the level of government support to Kenyan exporters, a reasonable proportion of the respondents were of the view that the government has done its best to live up to its obligations in regard AGOA partnership agreement. It was also established that the government has enacted policies that favor and promote export trade in the US. On the flipside however, there were a significant number of respondents who did not know whether the government had enacted any policies within the auspices of AGOA. The study revealed that the government's effort to enhance access to affordable finances has not been sufficient and that financing was still a major challenge for Kenyan exporters. This supports CBI (2013) that government is a major supporter of export of goods as well as discourager of exports. Most government can facilitate export through export subsidy, direct payments, and tax relief to exporters or price support.

5.3 Conclusions of the Study

To Kenyan exporters, the most preferred destinations are the European Union and COMESA. The ties with the European Union can be linked to historical trades that are majorly connected to the colonial ties. Because of this, there is more export to European nations compared to the US market.

The exporters have a basic knowledge of AGOA and the US market in general. Most of Kenyan export traders' products are destined for the European Union and COMESA markets. Overall, the exporters do not understand the US customs and Border Protection policies and procedures as well as the activities that go on in the foreign trading zones. The exporters need to have a good understanding of their markets in order to thrive. It is also clear that the exporters do not grasp the essence for foreign merchandize, entry

procedures, and duties required at domestic consumption territory. There needs to be awareness campaigns for Kenyan exporters.

It is clear that most of the export products do not meet the US customs and Border protection policies and procedure. For Kenyan exporters to capitalize on AGOA initiative they must improve on quality of their produce. In addition, Kenyan exporters will have to improve on their production capacity for them to be able to supply US customers consistently. This is because the results have revealed a prevalence of instances of delays in the delivery of goods to the US customers.

To promote AGOA initiative, the government has ensured that the country has enacted policies that favor and promote export trade to the US. Noteworthy is the fact that a sizable respondents seemed not to be aware of the opportunities under AGOA initiative. The government needs to do more to ensure that more traders get to know the details of the AGOA initiative besides ensuring there is sufficient and affordable financing for SMEs engaging in or intending to get into export trade in general.

5.4 Recommendations of the Study

There should be a creative approach in enhancing more Kenyan export traders to consider the US market from the opportunities that AGOA offers.

The exporters need to invest in their production capacities in order to be reliable customers for the US customers. In addition, the government needs to reign on the financiers to develop or provide affordable financing to Kenyan exporters.

Having established the determinants of low penetration of Kenya goods in to the American market, the study recommends a further study on the feasibility of export trade with the US under no special opportunities like the ones offered under AGOA.

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APPENDICES

Appendix I: Questionnaire Cover Letter

Kenyatta University,

P. O. Box 43844-00100,

NAIROBI.

Dear Sir / Madam,

RE: RESEARCH ON THE DETERMINANTS OF LOW PENETRATION OF KENYAN GOODS INTO THE AMERICAN MARKET UNDER AGOA

I am a master's student at Kenyatta University pursuing an Executive Masters Degree in Business administration. As part of my partial fulfillment of my degree, I am carrying out a research on the factors that determine the low penetration of Kenyan goods into the American market despite the AGOA initiative opening the American market to eligible African countries like Kenya. This proposed research will be beneficial to your institution because it will enable you to gain an insight in to issues related to AGOA initiative and the Kenya's export trade to the US.

For this reason, you are kindly invited to spare a few minutes to complete the attached questionnaire to the best of your knowledge. Please be assured that all information you provide will be kept strictly confidential. Your participation represents a valuable contribution to this research, and we thank you again for your cooperation.

Yours Sincerely

Ruth Mwaniki

Telephone No: 0722571337

Appendix II: Research Questionnaire

PART 1: General Information

1. Is your firm? (please tick) where appropriate

Type	Locally Owned	Foreign Owned	Partly Local Partly Foreign
Response			

2. What is the nature of your business?

Garment Manufacturing

Food Manufacturing

Chemical and Allied

Service Centre (Please specify type of service).....

Other (Please specify).....

3. Do you have any particular reason why you chose to invest in this sector?

Yes No

Which one among these?

Availability of raw materials

Availability of export market for finished products

Attractive government incentives to export trade

Available international and local market

Other (Please specify).....

4. How long have you been in this particular business?

Length	5 years and Below	6 – 10 years	10 – 15 years	Above 15 years
Response				

i) What are your main export products?

.....

ii) What is your production capacity? (Specify units)

.....

iii) How much of it is exported? (Specify units)

.....

iv) In your view, do you think that the products are of high quality and competitive enough? Yes No

Explain your response above

.....

5. Which of the following is your major market destinations in order of priority where 1-highest priority and 5-lowest priority.

Market Destination	1	2	3	4	5
COMESA					
European Union					
Asian Countries					
USA					
South America					

Locally					
Other (Specify).....					

6. Do you experience any challenges in exporting to the US market?

Yes No

If yes, please list the challenges

.....

.....

.....

.....

Part 2: Sector Specific Information

7. Kenyan exporter’s awareness of US market requirements

This section seeks to assess the level of awareness by Kenyan exporters concerning US market requirements. Listed below are statements concerning US market requirements. In relation to your firm, please give your opinion using the scale 1-5 provided in 5 above.

Where 5 - Strongly Agree, 4 – Agree, 3 – Don’t Know, 2 – Disagree and 1 – Strongly Disagree

Statement	5	4	3	2	1
I am well informed on AGOA and the US market in general					

I am aware of the expectations of the US Customs and Border Protection					
I understand US Customs and Border Protection policies and procedures					
I know that all activities in the Foreign Trade Zones are subject to public interest review					
I understand that for foreign merchandize, the usual customs entry procedures and payment of duties are required only at domestic consumption territory					

8. Kenyan exports meeting the US market requirements

This section seeks to identify whether Kenyan exports meet the US market requirements. Listed below are statements in regard to US market. In relation to your firm, please give your opinion using the scale 1-5 provided in 8 above.

Statement	5	4	3	2	1
Our products meet the US Customs and Border Protection policies and procedures					
Our products adhere to the procedures in the US Foreign Trade Zones					
Our products meet the requirements under domestic consumption territory					

9. Consistency of supply by Kenyan exporters to the US market

This section seeks to understand if Kenyan exporters are consistent in supplying goods to the US market. Listed below are statements in regard to consistency. In relation to your firm, please give your opinion using the scale 1-5 provided in 8 above.

Statement	5	4	3	2	1
We have uninterrupted production of goods destined for the US Market.					

We have zero instances of delayed delivery of goods to our customers in the US.					
We have proved to be a steady and reliable vendor to our US customers.					
We have maintained a 100% supply of quality goods that meet the US consumer needs.					

10. Level of government support extended to Kenyan exporters

This section seeks to establish the extent of government support to Kenyan exporters. Listed below are some ways the government can give support to exporters. In your own opinion, please give your view using the scale 1-5 provided in 8 above.

Statement	5	4	3	2	1
The government has constantly adhered to all the qualifications criteria under AGOA partnership agreement.					
The government has enacted policies that favor and promote export trade to the US.					
The government has provided attractive incentives relating to export trade to the US					

Incentives offered by external trading partners					
The government has enhanced access to affordable financing for export trade.					

Please state any other impact(s) you think AGOA initiative has had on Kenyan exports to the US market.

.....

.....

.....

Thank you for taking your time to fill the questionnaire

Appendix III: Interview Guide

1. Talk about your understanding on the AGOA initiative and how your firm relates with it

.....
.....
.....

2. Which ones are your major market destinations?

.....
.....
.....

3. Do you experience any challenges in exporting your products?

.....
.....
.....

4. In which markets do you experience more challenges in exporting?

.....
.....
.....

5. Do you think Kenyan exporters are aware of US market requirements?

.....
.....
.....

6. In your opinion, do you think Kenyan exports are meeting the US market requirements?

.....
.....
.....

7. Comment on whether Kenyan exporters are consistent in supplying the US market

.....
.....
.....

8. How would you describe the level of government support to Kenyan exporters?

.....
.....
.....

Appendix IV: List of EPZ Firms in Kenya

	Company Name & Contacts
1	AAA Growers EPZ Ltd
2	Africa Apparel EPZ Ltd.
3	Africa Finest Produce Epz Ltd
4	Algerasi Group EPZ K. Ltd
5	All Fruit EPZ Ltd
6	Alpha Logistics EPZ Ltd
7	Alltex EPZ Ltd
8	Asante Gifts & Souvenirs EPZ Ltd
9	Ashton Apparel EPZ Ltd,
10	Avenue Fresh Produce EPZ Ltd,
11	Balaji EPZ Ltd
12	Base Bite Agencies EPZ Ltd.,
13	Biocorn Products EPZ Ltd.,
14	Blue Sky Films EPZ Ltd.,
15	Botanical Extracts EPZ Ltd.,
16	Capital Industrial Park EPZ Ltd.,
17	Celebrity Fashions K. EPZ Ltd.
18	De La Rue Currency and Security Print EPZ Ltd.
19	Earth Oil Kenya Proprietary EPZ Ltd.,
20	Plant Manager: David Njeru
21	Erdemann (EPZ) Ltd.
22	ET Elasto Tech (EPZ) Ltd.,
23	Forest Gate EPZ (K) Ltd
24	Future Garments EPZ Ltd.
25	Garsen Holding EPZ Ltd.
26	Ginger Ink Films EPZ Ltd.

27	Global Apparels (K) EPZ Ltd
28	Gokal Beverages (EPZ) Ltd.
29	Gold Crown Foods EPZ Ltd.
30	Golden Light EPZ Ltd.
31	Hantex Garments EPZ Ltd
32	Halai Brothers (EPZ) Ltd
33	Hardy Technology Park EPZ Ltd
34	Hui Commercial EPZ K. Ltd
35	Ideal Solution EPZ Ltd
36	Imperial Teas (EPZ) Ltd
37	Indu Fresh EPZ Ltd.
38	Insta Products EPZ Ltd.
39	Ivee Aqua EPZ Ltd.
40	Ivee Infusions Epz Ltd
41	Jungle Cashshews EPZ Ltd
42	Jungle MAC EPZ Ltd
43	Kapric Apparels EPZ Ltd.
44	Kencall EPZ Ltd.
45	Kensis EPZ Ltd
46	Kenya Fluorspar EPZ Ltd.
47	Kenya Knit Garments EPZ Ltd.
48	Kenya Marine Contractors EPZ Ltd.
49	Kenya Metal Refineries EPZ Ltd.
50	Kipevu Inland Container EPZ Ltd.
51	Kenya Trading EPZ Ltd.
52	Leatherlife EPZ Ltd.
53	Lifesciences Consultants EPZ Ltd.
54	Lycan (EPZ) Enterprises Ltd

55	Matrix Global Trade EPZ K. Ltd.
56	Metal Refinery EPZ Ltd
57	Middle East Texco EPZ Ltd.
58	Mitsumi Distribution (EPZ) Ltd
59	Mombasa Apparels EPZ Ltd
60	Mugama Containers EPZ Ltd
61	Mukafa EPZ Ltd
62	Newland EPZ Ltd.,
63	New Wide Garments (K) EPZ Ltd
64	Nodor Kenya EPZ Ltd.
65	NRS International EPZ Ltd
66	Nutro Manufacturing EPZ Ltd.
67	Ojijo International EPZ (K) Ltd
68	Olivado Kenya EPZ Ltd.
69	Olivado EPZ Ltd.
70	Oilfields Logistics Services Africa EPZ Ltd (OLSA)
71	Orion EPz Ltd.
72	Pure Fry EPZ Ltd
73	PJ Dave EPZ Ltd.
74	Pontact Productions EPZ Ltd.
75	Premium Machinery Distributor EPZ Ltd.
76	Protex Kenya EPZ Ltd.
77	Real Beverages EPZ Ltd.
78	Red Dot Distribution EPZ Ltd
79	Redington EPZ Ltd
80	Reltex Tarpaulins Africa EPZ Ltd.
81	Revital Healthcare EPZ Ltd.
82	Ricardo EPZ International Co. Ltd.

83	Royal Garments EPZ Ltd
84	Rupa Cotton Mills EPZ Ltd.
85	Sameer Africa Epz Ltd
86	Sameer Industrial Park EPZ Ltd
87	Sajan Printers EPZ Ltd.
88	Sajan Trading EPZ Ltd.
89	Sandton Park EPZ Ltd.
90	Savannah Cement (EPZ) Ltd.,
91	Saw Africa EPZ Ltd.
92	Senior Best Garments K. EPZ Ltd.
93	Shin Ace Garments K. EPZ Ltd.
94	Sino Link EPZ Ltd.
95	Solitaire Gems EPZ Ltd.
96	Spartan Relief EPZ Ltd.
97	Sweet R US EPZ Ltd.
98	SV Polymars EPZ (K) Ltd
99	Tailormade Jeanswear (EPZ) Ltd
100	Taurus EPZ Ltd.
101	Techno Relief Services EPZ Ltd.
102	Tex Trade EPZ Ltd.
103	Trace Jack Industries EPZ Ltd.,
104	Transfleet EPZ Ltd.
105	United Aryan EPZ Ltd.
106	Unity Beverages (EPZ) Ltd
107	Vermont Flowers EPZ Ltd
108	View Finders EPZ Ltd.
109	Wild Life Works EPZ Ltd.
110	YKK Kenya EPZ Ltd.

Appendix IV: Budget

Activity	Amount (Kshs.)
Proposal development	53,000
Data collection	50,000
Typesetting, printing and binding	8,000
Data analysis	15,000
Developing final Report	40,000
Miscellaneous	5,000
Total	170,000

Appendix V: Time Plan

Activity	Time taken	Duration
Proposal development and presentation	November 2012	4 weeks
Correction of amendment	December 2012 (week 1)	2 days
Data collection	December 2012 and January 2013	4 weeks
Analysis and report writing	January 2013	2 weeks
Binding and submitting the report	January 2013	