

**EFFECT OF CUSTOM UNION ON KENYAN EXPORTS TO UGANDA**

**BY**

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HDB335-C016-1800/2016**

**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF POSTGRADUATE DIPLOMA IN CUSTOMS ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.**

**2019**

**DECLARATION**

This research project is my original work and has not been presented for a Post Graduate Diploma in any other college.

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This research project has been submitted for examination with my approval as college supervisor

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Date .....

**MOHAMED OMARI BWANA.**

## **DEDICATION**

This project is dedicated to my family, friends and colleagues.

## **ACKNOWLEDGEMENT**

Appreciation is expressed to my research facilitators at KESRA for their sage advice, insightful criticism and patient encouragement, which aided the writing of this project. I would also like to thank all those whose steadfast support and contributions have made this research project a success. Above all I thank the Almighty God for the ability and opportunity to complete this project.

## ABSTRACT

There are benefits that can be derived from regional integration schemes in Africa which include high economic growth, human capital development, macro- economic stability and promotion of regional common development projects especially infrastructure and increased bargaining power in international forum. Despite the integration efforts, Africa's performance in light of existing integration agenda record has not been remarkable. Given the fact that Kenya's exports to the region were rising prior to the implementation of the customs union and trade performance started to experience variations and decreased significantly after it became fully fledged in 2010, it is important to examine how the economic integration has influenced export trade performance with special focus on Kenya exports to Uganda. The purpose of this study was to establish the effect of custom union on Kenya exports to Uganda. This study used a descriptive research design to ascertain and be able to describe the characteristics of variables of interest. The target population of interest in this case was 74 Kenyan Exporters to Uganda. Due to the small target population, the researcher used census whereby all the targeted population was used. Primary data was in this study where questionnaires were used to collect data. Descriptive statistics such as frequencies, percentages, mean scores and standard deviation were used to analyze the quantitative data. A multivariate regression model was applied to determine the relative importance of each of the four variables with respect to Kenyan export to Uganda. The data was presented using tables and charts. The study found that elimination of internal tariffs affect the Kenyan export to Uganda in a great extent, that common external tariffs affect the Kenya exports to Uganda in a great extent, that the sensitive products affect the Kenya exports to Uganda in a great extent and that the customs management regulations greatly affect the Kenya exports to Uganda. The study concludes that elimination of internal tariffs had the greatest effect on Kenya exports to Uganda, followed by common external tariffs then customs management regulations while sensitive products had the least effect to Kenya exports to Uganda. The study recommends that that EAC needs to improve on the management regulations in order to create a smooth way of exporting from Kenya to Uganda, that EAC needs to improve and make transiting procedures easy and reliable for smooth exportation and that EAC should harmonize the charges on the goods being exported in order to make exportation cheap.

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## ACRONYMS

<b>CET</b>	-	Common External Tariff
<b>COMESA</b>	-	Common Market for Eastern and Southern Africa
<b>CU</b>	-	Customs Union
<b>EAC</b>	-	East African Community
<b>EACU</b>	-	East African Customs Union
<b>FDI</b>	-	Foreign Direct Investment
<b>FTA</b>	-	Free Trade Area
<b>GDP</b>	-	Gross Domestic Product
<b>KIPPRA</b>	-	Kenya Institute for Public Policy Research and Analysis
<b>KNBS</b>	-	Kenya National Bureau of Statistics

# CHAPTER ONE

## INTRODUCTION

### **1.0 Overview**

This chapter would revolve around various aspects as guided by the following sub sections. The sub sections are not limited to study background, statement of the problem, scope of the study, the study objectives, the significance of the study, assumptions of the study, limitation of the study as well as the conceptual framework.

### **1.1 Background of the Study**

Most regional economies have developed into a fundamental aspect to social life and policy making (Schiff, 2010). The newly founded regionalism tends to centralize its attention on various regional conditions such as resources, technology, and market. The Customs Union exhibits the anchor to form the foundation for increasing trade in any region. In today's economic terms a Customs Union is manifests itself through a branch of macro-economic integration between two or more countries based on the elimination of internal customs borders and the establishment of common import and export tariffs. According to Nixon (2003) taking into account the hierarchy of macro-economic integration, the Customs Union is strategically present between a Preferential Customs Area, where member states trade at preferential tariffs or on a duty-free basis, and a Political Union, where the common market place is accompanied by a unified economic policy (Newlyn, 2003).

The establishment of the Customs Union (CU) of the Russian Federation, Belarus, and Kazakhstan is undoubtedly the most significant trade policy change within Central Asia ever witnessed in the past few years. Initial attempts for regional integration have frequently anchored on eradicating the hurdles to free trade in the region, promptly registering an increment in the movement of goods, labor, individuals and capital freely across the member state borders decreasing the probability of armed conflict in the region, and embracing unified regional positions on issues related to policies, such as the migration, environment and climate change. That characteristic entity can be structured on either super national or geopolitical decision-making established order, or a both (DeRosa, Obwona & Roningan, 2002).

Recently, customs duties are embraced in various countries with a varied range of objectives in mind. The objectives are not limited to employment, exports, increasing FDI and expediting the transfer of skills and technology. The custom duties are also anticipated to

align to the economy of the entire nation through promotion of the raw materials and relatively finished goods found locally and concurrently stimulate the development of subsidiary industries (Seyoum & Manyak, 2004). Customs Duty in virtually all the developed countries is utilized as a substitute policy tool to appeal to foreign investment for manufacturing companies dealing in exports and to ensure there is a sustainable utilization of the said nation's comparative advantage

Therefore, by embracing the establishment of single formidable economic block by embracing the Customs Union, East African Community established an integrated market which targets approximately 200 million and a cumulative GDP of US\$100 billion encouraging the implementation of that given customs union (Hope, Bhowon & Ruhindi, 2003). Presently, regional trade in East Africa is conducted under different customs regulations, external tariff, documentation and procedures that influences the operation of initiatives in diverse sectors in the EAC region while the cross-border transactions to take advantage of the comparative and competitive benefits as a result of business locations, deprived of the alterations in tariff protection rates, plus other extra business transaction costs emanating from fees paid in relation to custom clearances (Rahedi, 2003).

Since independence, most African states have been extremely involved in regional integration in compared to other developing nations, which saw many countries belonging and associating with numerous different trade deals and agreements. The main objectives are to create economics of scale so as encourage economic growth, and to encourage democracy and uphold human rights. Nevertheless, based on the results of the major economic analyses (Venables, 2012), the economic advantages of developing countries' trade agreements are probable to be non-proportionate in relation to the wealthier members and will consequently widen the existing inequalities (EAC Secretariat, 2014b). Similarly, the likelihood of trade diversion, is sensitive, hindering factor for the regional integration pacts as highlighted in various studies by the (World Bank, 2009). The studies highlight that trade between developing countries are at risk of trade diversion instead of trade creation. Irrespective of the hurdles, the interest for an expanded integration is intense in Africa with an objective of creating a giant African Economic Union when 2028 reaches (EAC, 2009).

A CU is reminiscent to an economic bloc which includes a FTA characterized with a mutual external tariff. Often, the partners states involved create a binding external trade policy, but in with varied import quotas in most instances (DeRosa, Obwona & Roningen, 2002). Similarly,

a shared competition policy vital in curbing competition deficiency. Based on the economic integration theory, a CU is expected to form the third stage of integration after a FTA and PTA respectively. Conversely, the treaty that establishes EAC has a provision that stipulates that a CU shall be at the first stage in any quest of economic integration (East African Business Council, 2005). Consequently, for real economic integration to be achieved, it must commence with the customs union as stipulated. The Customs Code of the Customs Union lays out a number of amendments to the existing tariff regimes to create a mutual code which includes one external customs tariff and relatively easy processes for licensing both intellectual protection of property and goods across the three countries, along with dropping duties on mutual trade (Mizulin, 2009).

The expansive goals of the Customs Union are not limited to reorganization of trade guidelines among member states and third party countries, eradication of internal tariffs and non-tariff hurdles so as to expedite the establishment of an expansive investment area and single market, and finally, establishing of a uniform customs region to enable partner states to benefit from the economies of scale with an ultimate objective of supporting economic development in the EAC (East African Community, 2000). The Conventions demand a cooperation between the partner states in embracing a single tariff sorting of goods, create common terms and conditions detailing transitory importation procedures and embrace common procedures for the creation and operation of export promotion initiatives as well as free ports (East African Community, 2004).

### **1.1.1 Custom Union**

The Customs Union is projected to play a critical role in ensuring there is equity and balance for the region's manufacturers. This would be achieved through imposing a single competition strategy and customs processes, law and external tariffs on goods that are from non-member countries, which should support the region to expand its poverty reduction and economic development agenda (EAC, 2005). The EAC is a regional organization authorized by the Governments of Tanzania, Kenya, Uganda, Burundi and Rwanda to lead the East African social political and economic integration agenda. The Treaty for the formation of the regional bloc was signed in November 1999 and fully enforced in July 2000. It highlights a bold vision for the ultimate unification of the EAC member States. Additionally, it sets a Customs Union (CU) as the first step of integration (EAC, 2000).

Due to the four years of the protracted negotiations, the East African Customs Union Protocol was signed on March 2, 2004 and it came into life on January 1st, 2005. The Customs Union at first comprised Kenya, Tanzania and Uganda. Currently, it has been expanded to accommodate Rwanda and Burundi, who formally joined the EAC 2009. It was projected that the Customs Union would come into full force and implementation in January 2010, after the stipulated 5-year transition period which was set. (EAC Business Council, 2005).

Custom Union is not recent phenomenon. It has been in existence among the East African countries either formally or informally for a period not limited to one century. The communities that live across the borders of these countries have formulated a common language which enable them to transact trade even before the aspect of demarcation was introduced by the colonialists. However, the formal cooperation started way back when the British ruled the region which was followed by formation of the EAC which was aimed at integrating the region and using it as a tool to addresses inequalities among the member states which did not bear fruits (East African Community Trade Report, 2005).

When EAC was revived, it was centrally supposed to be people centered and all the decisions which were to be made were pegged on the people who themselves were majorly involved in the decision making process. The integration procedure was to be accessible and transparent to the citizens so as to be part in the promotion of regional cooperation and integration efforts which starkly differs from the past when member states made decisions on behalf of their people regardless of the devastating effects it caused them. (EAC Partnership Fund, 2013).

One of the aims of the EAC broaden and deepen custom union among the member states in, taking into account the economic, political and social fields a mutual advantage of the member states. This initiative of regional integration as highlighted in the Treaty which established it was endorsed in November 1999 and fully implemented in 2000, was a three-way initiative to revive regional integration and cooperation between Kenya, Tanzania and Uganda that had collapsed in 1977 (EAC, 2009).

Currently, EAC is restructuring in a bid to make a second integration attempt with a motive to make the bloc stronger and larger while using the lessons learnt from the earlier disintegration of the regional bloc as reference point. When the EAC Treaty was implemented in July 2000, it came up with the following objectives. First, to establish the Customs Union, to start a common market, monetary union and achieve a political federation of the member countries. The objectives were formulated so as to offer a yardstick to regulate

and strengthen the commercial, industrial, cultural, infra-structural, political, and social relations among the member states. The objectives were to ensure that there is enhanced, harmonious and equal development with constant expansion of economic activities that their proceeds is equitable shared among the five member states.

However, between 2013 and 2014, the volume of trade decreased by 3.0 percent from \$ 5,805 million to \$ 5,632. The decline was attributed to the decrease in the value of exports which went down by over 21.7 percent, (EAC 2014). With respect to the individual countries, Kenya, Tanzania and Uganda witnessed an increment in shares of total intra-trade among the three countries while that of Rwanda and Burundi declined, (EAC, 2014). Over the same period, 2010 to 2014. Kenya dominated the bloc's trade which accounted for 32.8 percent in relation to the total intra-EAC trade while Uganda and Tanzania reported an increment of 23.6 percent and 26.4 percent respectively. Even though Kenya has been the dominant player in the region, the value of exports has been declining for the last two years since 2013. The value declined from \$1,593million in 2012 to \$1,439 million in 2014. Over the same period imports on the other hand increased from \$ 350 million to \$ 416 million (EAC, 2014).

### **1.1.2 Kenya's Export to Uganda**

Uganda is one of the countries neighboring Kenya. She forms the membership of the East African Community, and she actively trades with its partners including Kenya. According to Kenya's Vision 2030 Economic Pillar, trade is identified as a key driver of Kenya's economic growth. The development blueprint emphasizes on Kenya's commitment to be the lead manufacturing point for the regional market and through initiating an improved effectiveness and competitiveness at a relatively firm level. However the long term sustainability of Kenya's competitiveness in the region in terms of being a regional leader in exports is currently in question after Kenya registered a significant decline in exports to the EAC countries and particularly to Uganda for the past three years (Vision, 2030).

Kenya's earnings from exports to Uganda, its major exports destination, have declined for three consecutive years which reflects the general reduction in the country's out-bound trade. According to the data from the Economic Survey 2015, Kenya only exported goods worth Ksh 65.36 billion to Uganda during the year 2013, which translated to 3.1 percent decrease compared to the previous year. However, exports to Uganda hit the highest ceiling in 2011 when they totaled at Kshs75.95 billion, a 13.9 percent increase compared to 2010. Further, in 2014 export earnings to Uganda declined by 7 percent. Uganda remained to be the biggest

export destination in the region among member states. Products such as lime, cement and fabricated construction materials formed the major imports from Kenya (KNBS, 2014).

Kenya's exports experienced a growth stage, maturity and then a decline stage. A number of research institutions and international development organizations have published reports that indicate Kenya's exports to the EAC countries have declined for the past three years. According to the (KNBS, 2015) exports to the EAC partner states decreased by 7.4% for the period (2012-2013). According to the KIPPRA economic survey, 2013 Kenya's exports to the EAC member countries declined from Kshs.137.2 billion to Kshs.134.9 billion in the year (2011-2012). The report further stated that following the enactment of the EAC Customs Union during the year 2005, there was anticipation that Kenya would take over regional trade through diversification of its exports to the regional bloc market especially to Uganda which is the largest destination but this was however not the case (KIPPRA, 2013).

## **1.2 Statement of the Problem**

Efforts for regional integration in Africa dates back to the colonial period and an equally long history of flailing due to lack of political commitment and disagreements over compensation and distribution of benefits. Despite the glaring evidence of setbacks, nearly all African states are once again calling for enhanced regional integration and cooperation in relevant areas of economic activity such as tourism, trade, cross- border investments, immigration, and improved infrastructure. For instance, the EAC member states has made it a priority to integrate their economies through the regional bloc-EAC. There are benefits that can be derived from Custom Union schemes in Africa which include high economic growth, human capital development, macro- economic stability and promotion of regional common development projects especially infrastructure and increased bargaining power in international forum. African regional integration is critical since it enhances the continent's economic growth and development (Negasi, 2009).

Despite the Custom Union efforts, Africa's performance in relation to the prevailing integration agenda record has been unimpressive. This is regardless of a big number of trading arrangements and deals which has done little to spur growth hence leading to a debate about their appropriateness and viability (Hartzenberg, 2011). Further, (Qobo, 2009) asserts that the African integration initiatives have failed to produce any tangible result and those which have posted any result have realized a bag of mixed fortunes in relation to the

integration objectives. Leaders of different nations in Africa have made little success in their integration efforts and attempt to make the schemes successful have borne no fruits.

The exports of Kenyan products to Uganda in 2014 doubled, highlighting the latter's role as the country's major destination of goods and services. According to the data from Kenya National Bureau of Statistics (KNBS), Kenya exported goods amounting to over \$90 million to Uganda by July 2014, a sharp increase from \$44 million in June, 2014. The record marked the first time in history that Kenya exported so many goods to Uganda in relation to region's trade. Annually, Kenya's average export is approximated at 43 million dollars a month in every month of the year 2014 and \$33 million in the previous years. The increment in exports, hence, is an indication of how important Uganda is to Kenya as far as a formidable trading partner is concerned. In 2015, Kenya's export to Uganda reached 578 million dollars, a slight drop from \$662 million recorded in 2013.

The current Custom Union agenda which began in 1993 has occasionally been plagued with multiple hurdles and hindrances which has elicited a debate whether it has any tangible benefits to the member countries within the EAC bloc (Rok, 2016). This is occurs in the backdrop of ambitious initiatives aimed at expediting the enactment of various provisions of the treaty which is not limited to monetary union, customs union, and the Common market. However, some partners are seen not committed to the integration objectives due to different political and economic ideologies. This more the case when the first cooperation efforts between EAC nations was dissolved in 1977 (EAC Secretariat, 2014b).

There have been studies focusing on the impact of the Custom Union as well as other trading arrangements which Kenya subscribes. These studies include; Ndungu (2013) who established the relationship between the customs union of EAC and the performance of the oil industries in Kenya. Shiluli (2011) did a study on the role of the Customs Union in relation to the operations of the brewer, EABL. Further, Kahenu (2014) determined the effect on non-tariff barriers within the trade bloc on the manufactured goods in Kenya. However, these studies have proved to be insufficient, incomprehensive and shallow in relation to highlighting the past failures the EAC experienced. Therefore, this study aim to bridge this gap by highlighting the influence of Custom Union on Kenyan export to Uganda.

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

#### **1.3.1 General Objective**

The study was intended to examine the effect of Custom Union on Kenyan exports to Uganda.

#### **1.3.2 Specific Objectives**

This study was aimed at accomplishing four specific objectives as highlighted below:

- i. To establish the effect of elimination of internal tariffs on Kenyan export to Uganda.
- ii. To assess the effect of common external tariff on Kenyan export to Uganda.
- iii. To determine the effect of sensitive products on Kenyan exports to Uganda.
- iv. To determine the effect of customs management regulations on Kenyan export to Uganda.

### **1.4 Research Questions**

This study was premised on the following questions which acted as yardsticks :

- i. To what level elimination of internal tariffs affect the Kenyan export to Uganda?
- ii. How does a common external tariff affect the Kenyan export to Uganda?
- iii. To what extent do sensitive products affect the Kenyan export to Uganda?
- iv. What is the effect of customs management regulations on Kenyan export to Uganda?

### **1.5 Significance of the Study**

The formation of one common market with unrestricted mobility of services and goods, on which includes unrestricted movement of workers and investment operates, was intended to help build the EAC and the African common market. Regional economic integration would help merging the 54 separate economies in Africa into a more coherent large market.

The findings that would emanate from the study would be pivotal to the EAC member states in various ways. For instance, the EAC communities will be given a wider perspective on the problems, impact of the regional integration, and the viable solutions as established by the study. Therefore, the findings of the study would provide a platform for the EAC member states would see it good and promptly implement the recommendations and give support if need be.

The study's findings would be equally vital to the policy makers as it would shed light and give a wider perspective on wide range of issues that are associated with regional integration of the EAC. Therefore, the study would be essential highlighting the loopholes and set up strategies to seal the identified loopholes within the bloc.

To the scholars, the study would act as an input to the current works that are in place as well as act as the stepping stone for other upcoming studies that would revolve around the EAC and all its initiatives.

### Scope of the Study

Conducting the study was premised on the effect of Custom Union on Kenyan export to Uganda. The population of the study will be Kenyan exporters to Uganda. The study considered all the different categories of exporters where primary data was collected from the key staff.

## **1.6 Limitations of the Study**

### **1.7.1 Confidentiality**

The management of exporting companies were not willing to disclose confidential information about their operations and the steps they intend to enhance the integration with regard to Kenya's economy. The researcher would be obliged to into a clear understanding that the study was strictly subject to academic purposes and any information they would provide would be handled and disseminated with the confidentiality required.

### **1.7.2 Lack of Cooperation**

The targeted employees for this study were afraid to provide the required information or data for fear or victimization by various agencies. Therefore, it was incumbent upon the researcher to create a positive rapport with the respondents. The researcher also ensured that the management understood the motive of the study which ensured that the exercise was carried out effectively.

## **1.7 Assumptions of the Study**

The study assumed that the target population provided quality feedback that was reliable, truthful, and not bias. It was also assumed that the management staff approached provided the strategies that helped in improving the influence of the regional integration to Kenya's economy.

### **1.8 Justification of the Study**

According to the records from the KNBS, Kenya's export to Uganda doubled, an aspect which cements the position of Uganda as Kenya's destination for its exports. Uganda, therefore, remains the biggest export partner for Kenya as over 90 million dollars worth of export returns was realized in July 2014. The record marked the first time in history that Kenya exported so many goods to Uganda in relation to region's trade. Annually, Kenya's average export is approximated at 43 million dollars a month in every month of the year 2014 and \$33 million in the previous years. The increment in exports, hence, is an indication of how important Uganda is to Kenya as far as a formidable trading partner is concerned. In 2015, Kenya's export to Uganda reached 578 million dollars, a slight drop from \$662 million recorded in 2013. Therefore, this aspect forms the basis upon which this study chose to focus on Uganda since it's the biggest exports destination for the Kenyan Exports.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Overview**

This chapter examines the literature review of the concepts of custom union; effects of custom union; and literature that various authors and scholars have put forward in relation to custom union and theoretical review.

#### **2.1 Effect of Custom Unions**

As dictated in Article 3 of the CUP, the main objectives of the EACU are; ease up intra-regional cooperation in relation to trade in goods as anchored on equally valuable trade activities between the member nations; facilitate proficiency in manufacture within the EAC; improve domestic, cross-border and overseas investment within the EAC bloc; and foster economic development and broadening of industrialization within EAC. The evolution to a Custom Union from initial free trade area is useful for the member states. Krueger (2009) opines that Custom Union is Pareto-superior to an FTA in relation to *ceteris paribus* and the welfare. Similarly, the political economy of a Custom Union is relatively advantageous to mutual trade freedom than it is in free trade area.

##### **2.1.1 Elimination of Internal Tariffs**

The EAC Treaty acknowledges the existence of irregularity law as a fundamental principle holding together the CU. Promptly, Articles ten and eleven of the protocol stipulates mechanisms for the removal of internal tariffs which acts as hurdles together with other duties. The process of tariff eradication was to take a spontaneous dimension within a period of five years after implementation. The principal takes into consideration the diverse level of growth among member states. (Mugisa, Onyango & Mugoya, 2009).

The EAC CET manifests itself as a concession between Kenya's interest in a considerable average tariff on third country import products in the East African Community to safeguard its industrial sector, which tends to be so much developed compared to its other partners within the bloc, and Uganda's interest, as a landlocked country, to maintain tariffs especially on those tariffs from the third countries. Both the producers and consumers in Uganda relying on third country imports faces a rise in consumer and input prices as a result of the Custom Union of the EAC. It should be taken into account that the EAC tariff liberalization is characterized with easing of the Partner States' customs establishment due to a less stringent and mutual tariff regime for the three pioneer EA states, an abolition of inequitable

suspended duties in Tanzania and of excises which discriminates against imports in Uganda. The EAC Custom Union will bring about a replacement of third country imports by increasing an intra-country imports among the member states which principally involves trade diversion. Consequently, it will hugely heighten the demand for processed goods from the Kenyan manufacturing sector. However, it is a matter of time until the degree of supply constraints hindering Kenya from responding to the increased demand is established.

### **2.1.2 Common External Tariff**

The custom union protocol describes the common external tariff as agreed on selected duties levied on imported goods within member states from third states. In 2003, Uganda, Kenya, and Tanzania reached a mutual consensus regarding the custom external tariff (Mugisa, Onyango & Mugoya, 2009). The agreed CET contains three tariff bands, capital goods, and zero percent levy on raw materials but 10% levy on intermediate goods as well as 25% on finished products (EAC, 2004). During the talks, it was established that member states were at different levels of economic development and growth and it was further projected that the situation worsened the custom union. Based on this agreement, the short-term mechanisms were proposed to allow Tanzania and Uganda sufficient period to restructure their processes to match a strong competition in relation to Kenya's exports (Bhagwati, 2008). Therefore, the tariffs in relation to CEF were to be abolished on a continuous basis to narrow down within a stipulated five year window period. This implied that the EAC CET was to be implemented in a two phased approach with the first phase being a stage where all countries were to adopt a three tariff band structure while Tanzania and Uganda was expected to uphold internal tariff on designated imports from Kenya. The second phase being the stage where, after the provisional period of 5 years, which meant that internal tariffs were to be abolished and imports from Kenya were to access Tanzania and Uganda at zero tariffs (Odhiambo, 2011).

Alterations in any country's or region's tariff regime inevitably lead to problems for virtually all or new prospects for others. Once various regimes attempt to protect private sector investors from requisite adjustments, responding to individual pressures the adversely affected by the tariff changes, they alter the new CU tariff exemption to pre-CU existing economic structures, instead of ensuring aligning of the Partner States' economies to the new Custom Union implementation. Promptly, they risk the benefits of the regional trade's liberalization initiative which can be realized only through intra-regional equitable resource reallocations which is undoubtedly a leads to a painful process that impact negatively on the profit of the private companies. Customs Revenues affect the abolition of tariffs and as result

of regional trade liberalization, it is a matter of concern to the regional bloc states customs revenue losses to private sectors. For the EAC Customs Union, the customs revenue loss attributed to region's Custom Union will amount to 2.9% for Uganda, 4.2 percent for Tanzania, and 16 percent for Kenya and cumulative 11 percent for the regional bloc as a whole. Due to the fact that customs revenues amount to approximately 10 percent of total tax revenues among the partner states, the revenue loss attributed Customs Union is projected to amount to reach over 1 percent of partner states' tax revenues.

### **2.1.3 Sensitive Products**

An issue of contention during the negotiation for custom external tariffs was reaching a consensus on the clear definition of 20% of tariff lines, an aspect which was regarded sensitive commodities. The said items are not limited to garments, dry cells, cement milk, Sugar, plastic materials, palm oil, rice and wheat. The items are subject to 361 tariff lines and were made up to 20% of cumulative imports (Mburu, 2016). Consequently, definitive consensus reached stipulated that these goods will be levied at a rate of not exceeding 25%. Based on its structure, it was predicted that the CET will have varied impacts on administration of trade According to Meredith (2005), the enactment of the approved tariff structure was intended to rise the tariffs in both Uganda and Tanzania while reducing tariffs in Kenya. Promptly, over 3066 tariffs were to spiral in Uganda compared to Tanzania which the tariffs were to increase by 1224 and Kenya by 1144. In sharp contrast, CET was projected to decrease more tariffs in Tanzania by 2364, in Uganda by 1353 and in Kenya by 3216.

Under the current CU, the EAC member states would be subject to substantial inevitable tariff revenues on the imports between ranging between twenty to forty million dollars due to the abolition of tariffs on imports processed inside the regional bloc. Declines in actual tariff revenues are still currently higher, particularly in Tanzania and Kenya under 10 percent with a CET case of \$315 and \$139 million correspondingly. There was decline in Uganda's actual tariff revenues under the low CET scenario is only \$14 million due the CET under this situation closely aligns to the contemporary tariff regime in Uganda.

### **2.1.4 Customs Management Regulations**

Partner states of EAC agreed that the Custom Union would be overseen according to the customs protocols applicable at the community level. Additionally, they settled on need to introduce organizational structure which is devolved to ensure there is an effective administration of CU. Consequently, duties and roles in connection to revenue collection by

relevant revenue authorities were to be executed continuously while maintaining its initial operations before everything came into force. Additionally, the board in charge of customs and trade was to continue to handle issues related to policies. However, the Act has been subject to multiple amendments and review to improve its application in relation to the customs union.

## **2.2 Theoretical Orientation**

### **2.2.1 Customs Union Theory**

The addresses the welfare dimension of regional integration is closely similar way to functionalism. It theory suggests that a customs union can lead to trade diversion or creation. Viner (2011) defines a custom union as a procedure for leveling tariffs on imported goods from non-partner states and removal of intra-tariff barriers. In an ideal economic integration, free trade and preferential trade area comes first and second respectively while the customs union occupies the third phase (Schiff & Winters, 2011).

International trade system is mainly influenced by advanced technology, industrialization, globalization, and transport, outsourcing and multinational corporations. Therefore, increasing custom union is essential to the continuation of globalization. In a scenario where there could have been no international trade, nations would have been grappling with limited goods and services produced within their jurisdictions. It should be noted that global trade does not vary significantly from domestic trade since the motivation as well as the parties involved hardly change. This is attributed to the fact that in the border various taxes which increases costs such as tariffs, border delays and those costs attributed to the difference in the country's language, legal framework and culture (Yarbrough, 2014).

Similarly, factors of production in domestic trade is relatively mobile when compared to any given case in relation to global trade. Consequently, international trade is frequently limited to trade in goods and services, to a smaller extent a trade of labor, capital as well as factors of production. To eliminate costs, countries rely on the trade of services and goods which substitutes the factors of production. The East African Community integration process diverges from the norm in that a CU was to be implemented at the first phase instead of the traditional third phase in the economic integration procedure. A custom union aims at the formation of a single customs territory. With regard to the economic activity of integration partners, trade becomes a fundamental focus with the main aim being the realization of economies of scale in a bid to realize economic development. The customs union seeks to

attain harmony between the EAC partner states through the realization of a CET (Kimani, 2016).

### **2.2.2 Functionalism Theory**

Functionalism theory was postulated for explaining or advocating the need for creation of regional integrations, cooperation or organizations. The proponent Mitrany asserted that the relationship between the authority and a definite jurisdiction can cease to work effectively. It seeks the attainment of a regional integration that would not be determined by the limits imposed by the territory of the states that forms it. Functionalism assumes that humanitarian, technical and social problems can be given more weight and promptly solved. This is because in the contemporary world of economic interdependence shared economic interests' leads to the creation of rules and international institutions. However, Functionalism has been faulted since it hypothesizes that states can cooperate even in areas where their main interests are at jeopardy of being ceded to a supranational body. This would result in a single supranational institution that is susceptible to domination by the more developed states within regional organization (Lloyd, 2010).

Based on the functionalist approach, regional integration can best be seen from a weakening of the state apparatus through the transfer of loyalties to a supranational organization. This is hard to attain and can only be arrived at through realization of results from cooperation in one area. Once achieved, the integrating units can then move onto a different aspect. This is to be repeated in all the elements of the integration up to a point where it is realized that these are best handled not by the state but by the supranational entity. This can be seen to commence from economic, then social and ultimately technical cooperation. This ultimately can result to the realization of political accord prompting timely resolution of conflicts and prompt avoidance of cases of war in extreme cases. Therefore, collaboration among countries in pursuit of varied political-economic entities and at diverse levels of economic growth always seem impracticable taking into an account the contemporary the international political terrain (Niekerk, 2012).

### **2.2.3 Institutionalism Theory**

The proponents of this theory hypothesized that organizations has a vital duty of determining political debates and influencing outcomes. Additionally, organizations arbitrate between the policy results expected and the proponents.

Therefore, congruent institutionalism must be based on clearly formulated governing and formal rules and regulations. However, this may be jeopardized in instances where the rules are interpreted to suit one's interest or where some members create informal rules to suit their interests which consequently hijack the rational approach. It is believed that any options agreed on must be subjected to an extensive process of weighing the benefits and costs of every option and then the using the established ranking, all alternatives are exposed to a detailed introspection before the best option in existence is reached.

### **2.3 Empirical Literature**

Various studies have been done in relation to custom union such as; Mburu (2016) who established the impact of the EACU on Kenya's exports volume. It has been argued that trading arrangements in Africa induce potentially adverse effects on trade patterns among member states. Such regional integration schemes include the East African Community. Therefore, this study sought to assess the impact of the EACU on Kenya's exports volume for the period 1999 to 2014. Econometric modeling used the augmented gravity model and the fixed effects model was used for estimation purposes. Utilizing panel data for analysis, specific conclusions and recommendations were made. The study results suggests that the customs union was a key determinant of trade causing an increase in export trade implying that the continued use of the tariff liberalization scheme is likely to be beneficial for exporters. Appreciation of exchange rates and favourable growth in Gross Domestic Product were found to positively affect exports while Population had a negative effect.

Ogaga (2007) determined the factors influencing implementation of CU in EAC member states. To achieve this objective, data was collected from the East African countries through a semi-structured questionnaire sent to government officials in government offices and embassies and to traders in the five countries. Secondary data was also collected from the government offices. From this study, most of the organizations are involved in the integration process with Kenya having the highest number of organizations involved in the integration 87%. In Tanzania, firms are the most pessimistic ones with 17% of the respondents citing that they were not involved in the integration process. One of the major factors that influence implementation of EA customs union is the language where it was found that English is most preferred for integration. The major challenge that faced the East African integration is the fact that the local citizens have the least awareness on issues revolving around integration. Not many of them are involved, hence the lack of interest. It can also be said that the long

time the integration is taking has made some of the citizens lose track of issues and therefore the interest too.

Ndungu (2013) assessed the influence of EACU on the performance of the Kenya's oil industry. The research carried out a survey in all the fourteen oil companies based Kenya (ROK, 2011). The study population comprised the general manager, financial manager and human resource from every company making a total of 42 respondents. As a primary data collection instrument, a questionnaire was used with the inclusion of both closed and open ended questions which sought opinions, attitudes and views from the targeted respondents which might not have been included in the close-ended questions. Consequently, the data was summarized, analysed and tabularized. Data was presented through bar charts, charts as well as the graphs. Further, percentile plus the frequency tables were used for simplified understanding and analyses. From the findings, the research established that enactment of the Customs Management Act which came into force in 2005 was a success. Further, study found out that implementation of the Customs Management Act impact trade performance in Kenya significantly. In conclusion, the effectiveness and the efficacy of the procedures related to the CU significantly impacted the performance of trade in Kenya.

Shiluli (2011) did a study on the impact of the EACU on the operations of EABL. Based on the existing literature, it has been established that regional integration generates benefits through reallocation of resources, specialization, trade creation and growth, improved investment and growth and economies of scale. However, regional integration systems also lead to revenue loss through trade diversion, elimination of trade taxes, and mushrooming of industries in easily accessible locations, which has translated to an increment in transport costs when targeting the markets which are distant further. Using qualitative data analysis, results indicate that the establishment of the EAC Customs Union has benefits which include expansion of business, increase in business turnover in terms of profits and sales and investments. The findings indicate that the establishment of the EAC Customs Union has opportunities and challenges that have an impact on the operations of EABL. Benefits include free movement of goods, expansion of business, increase in business turnover and investment opportunities.

Mulei (2015) did a study on the influence of exchange rate instability on export earnings using Kenya's export to Uganda as a case. The study used secondary data in order to achieve the stated research objective. The data was obtained from Kenya Revenue Authority, Central

Bank of Kenya and the Kenya National Bureau of Statistics. Export earnings were analyzed with the exchange rate volatility for the period of five years (2010-2014). Other variables of the study were interest rates and inflation rates. This was to understand how these factors affect export earnings to Uganda. To ascertain and verify the relationship between export earnings and exchange rate volatility, inflation rates and interest rates, multiple regression was used. The research found exchange rate volatility affects Kenya's export earnings to Uganda. Enhanced monetary targeting and cooperative monetary guidelines should be formulated and applied as the desires arise. There is also agent need for the government to safeguard price stability, as this help to decrease the pressure on overall price level. High rate of inflation in an economy hinders economic development and growth. Other studies in this area should be done to ascertain the result of other factors not accounted for in this study on earnings in Kenya.

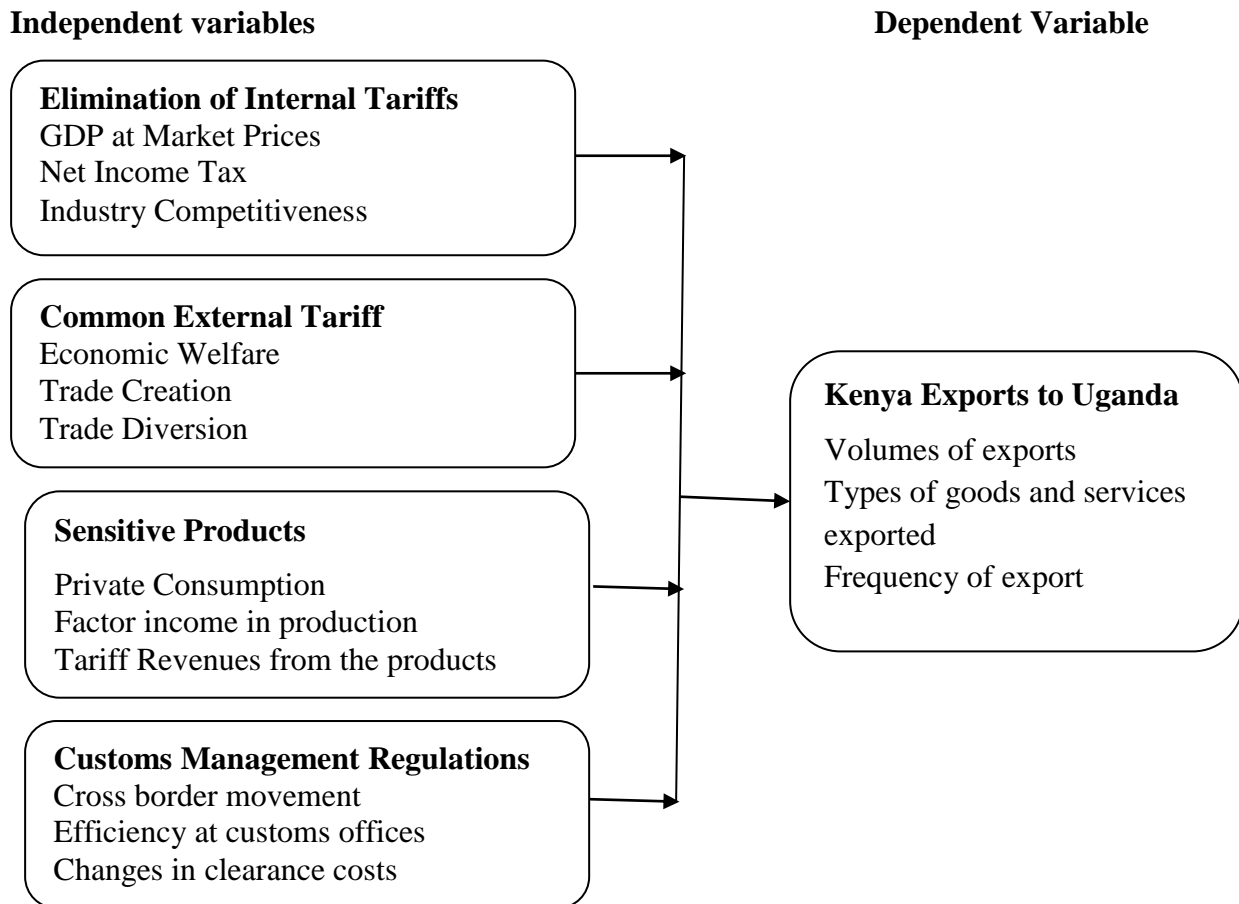
#### **2.4 Research Gap**

Alterations in any country's or region's tariff regime inevitably lead to problems for virtually all or new prospects for others. Once various regimes attempt to protect private sector investors from requisite adjustments, responding to individual pressures the adversely affected by the tariff changes, they alter the new CU tariff exemption to pre-CU existing economic structures, instead of ensuring aligning of the Partner States' economies to the new Custom Union implementation. Promptly, they risk the benefits of the regional trade's liberalization initiative which can be realized only through intra-regional equitable resource reallocations which is undoubtedly a leads to a painful process that impact negatively on the profit of the private companies.

Some of the studies done on the effect of custom union include; Mburu (2016) who researched on the impact of the EACO on the Kenya's exports volume. Ogaga (2007) ascertained the factors that influenced the enactment of CU among East Africa member states. Ndungu (2013) assessed the influence of EACU on the performance of the Kenya's oil industries. The study premised on a survey carried out on fourteen oil companies in Kenya (ROK, 2011). Shiluli (2011) did a study on the influence of EACU on the operations of EABL. Mulei (2015) conducted a study on the impact of exchange rate instability on export earnings using Kenya's export to Uganda as a case for study. However, the studies reviewed did not focus on effect of Custom Union on Kenyan export to Uganda creating a gap that this study seeks to bridge.

## 2.5 Conceptual Framework

**Figure 2.1: Conceptual Framework illustrating effect of Custom Union on Kenyan Export to Uganda**



**Source: Author (2017)**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Overview**

This section examines the research design; study area; target population; data collection methods and instruments; methods and data analysis procedures which was applied in line with the objectives of the study and its validity and reliability.

#### **3.1 Research Design**

Research design is considered as the plan that has been set for the purposes of the collection and the utilization of data so as to obtain the desired information in a precise manner (Trochim, 2011). For this study, a descriptive research design was undertaken to ascertain and be able to describe the characteristics of variables of interest. Descriptive research design is the process of collecting data in order to answer questions concerning the current status of the subject of the study (Gorard, 2013).

#### **3.2 Study Area**

The study area was Kenya Revenue Customs Department; Rules of Origin Section. The export data was obtained from Customs Department statistics section. The data was collected related to a period 2001 to 2008 so as to understand export trends before and after the EAC Economic Integration.

#### **3.3 Target Population**

Mugenda and Mugenda (2003) defined a population as a set of individual cases or objects with common observable characteristics. The target population of interest in this case was 74 Kenyan Exporters to Uganda.

#### **3.4 Sample Size determination**

A sample is a collection of a couple of items from a larger group to act as the source of drawing estimates and calculating indefinite occurrence, anonymous information, situation or result from a population. Sampling is the process of selecting a sufficient number of elements from the population, so that the study of the sample and an understanding of its properties or characteristics would make it possible to generalize such properties or characteristics to the population elements. Due to the small target population, the researcher used census whereby all the targeted population was used.

### **3.5 Data Collection Instrument**

Several instruments are available that can be chosen by the researcher to be employed in the data collection process including surveys, interviews, questionnaires, observations etc. data collection instruments are those which enable and allow the researcher to collect relevant information in regards to subject under study. Depending on the types of data that the study decides to use; wise decision on which research instrument to use is important. In this study, the researcher used both primary and secondary sources of data. Questionnaires was used as the only primary data collection instrument. Questionnaires that were used in the study were semi-structured; these included closed and open ended questions. Closed ended questions are those questions which restrict the participant to select from a given range of multiple choices. On the other hand, open ended questions are those questions which do not limit the respondent a specific range of multiple choices but are free to express their opinions in regards to the question requirement (Mugenda & Mugenda, 2003). The choice of having open ended questions was to get in-depth information from the study participants which is limiting when only closed ended questions are used. Secondary data was collected from the KRA on the volumes of exports to Uganda three years before and after EAC formation in 2004.

### **3.6 Data Analysis and Presentation**

Data analysis is the process of interpreting and drawing the meaning from the collected data. Data that was obtained from the respondents was organized, entered, cleaned in readiness for use in analysis (Kombo & Tromp, 2006). Data was analyzed with the help of statistical software for social sciences (SPSS). In case of the presence of missing values in the dataset in the data cleaning process, the cases with the missing values will be deleted. The Quantitative data were presented in form of tables, graphs, mean scores and standard deviation while Qualitative data will be analyzed using content analysis method and presented in prose form together with the quantitative data as per the study objectives.

A Regression analysis was done to test the relationship between the independent variables and the dependent variable. According to Pearson (1908), the purpose of multiple regressions is to learn more about the relationship between several independent variables and a dependent variable

The regression model was as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where:

Y = Kenyan export to Uganda

$\beta_0$  = Constant Term

$\beta_1$ ,  $\beta_2$  and  $\beta_3$ , = Beta Coefficients (where **Beta coefficients are estimates resulting from a regression analysis that have been standardized**).

X<sub>1</sub>= Elimination of internal tariffs

X<sub>2</sub>= Common external tariff

X<sub>3</sub>= Sensitive products

X<sub>4</sub>= Customs management regulations

$\varepsilon$  = Error Term

### **3.7 Ethical Considerations**

In the context of research, ethics refers to the appropriateness of behavior in relation to the rights of those who become the subject of the work, or are affected by it. The researcher obtained a research permit from the National Commission for Science, Technology and Innovation to perform the study. The researcher also explained the expected benefits from the study to the management of the export companies and discussed confidentiality requirements. A quality research was undertaken without bias or favor to both Customs and Border Control Department employees and Exporters.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

#### 4.1 Introduction

This chapter presents the findings of the results of the study. The findings are presented, analyzed, and interpreted. It discusses the characteristics of the respondents, their opinions on the effect of custom union on Kenyan export to Uganda. In order to simplify the discussions, the researcher provided tables that summarize the collective reactions of the respondents.

##### 4.1.1 Response Rate

Out of 74 questionnaires administered, a total of 53 filled questionnaires were returned giving a response rate of 71.62% which is within what Mugenda and Mugenda (2003) prescribed as a significant response rate for statistical analysis and established at a minimal value of 50%.

**Table 4. 1: Response rate**

	Frequency	Percent
Targeted	74	100.0
Respondents	53	71.6
Non-respondents	21	28.4

##### 4.1.2 Reliability analysis

Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain items within a scale measure the same construct. Frankfort-Nachmias and Nachmias (2012) established the Alpha value (which is function of the number of test items and the average inter-correlation among the items) threshold at 0.7, thus forming the study's benchmark.

**Table 4. 2: Reliability Analysis**

	Cronbach's Alpha
Elimination of Internal Tariffs	.728
Common External Tariff	.815
Sensitive Products	.701
Customs Management Regulations	.808

Cronbach Alpha was established for every objective which formed a scale. This illustrates that all the four scales were reliable as their reliability values exceeded the prescribed

threshold of 0.7. This, therefore, depicts that the research instrument was reliable and therefore required no amendments.

## 4.2 Characteristics of Respondents

The study sought to enquire on the respondents' general information including age bracket, gender, level of educational and the number years of service do you have in Kenya Export department. This general information is presented below.

### 4.2.1 Age of the Respondents

The respondents were also asked to indicate their age bracket. The results are as shown in the table 4.3.

**Table 4. 3: Age of the Respondents**

	Frequency	Percent
18-25 years	3	5.7
26- 35 years	14	26.4
36-45 years	23	43.4
46- 60years	13	24.5
<b>Total</b>	<b>53</b>	<b>100.0</b>

From the above results the respondents indicated that their ages were 36-45 years, 26- 35 years, 46- 60years and 18-25 years as shown by 43.4% (23), 26.4% (14), 24.5% (13) and 5.7% (3) respectively. This shows that Kenyan exporters is composed of a relatively young population who were able to give reliable and accurate information.

### 4.2.2 Gender of the Respondents

The respondents were also asked to indicate their gender. The results are as shown in the table 4.4.

**Table 4. 4: Gender of the Respondents**

	Frequency	Percent
Male	24	45.3
Female	29	54.7
<b>Total</b>	<b>53</b>	<b>100</b>

As per the results above, 54.7% (29) of the respondents were female while 45.3% (24) were male. This shows that most of the workers in the export companies were female and were able to give reliable information concerning the subject under study.

#### 4.2.3 Education Level

The respondents were also requested to indicate their education level. The results are as shown in table 4.5.

**Table 4. 5: Respondent Education Level**

	<b>Frequency</b>	<b>Percent</b>
Certificate	7	13.9
Diploma	12	23
Undergraduate	24	44.4
Masters	10	18.7
<b>Total</b>	<b>53</b>	<b>100</b>

As per results above, 44.4% of the respondents indicated that their highest level of education was undergraduate level, 23% indicated diploma, masters were 18.7% while 13.9% indicated certificate. Therefore most of the respondents were able to understand the subject under study and give reliable and relevant information concerning the subject matter.

#### 4.2.4 Service in Kenya Export department

The respondents were asked to indicate the number of years in service in Kenya Export department. The results are as shown in the table 4.6.

**Table 4. 6: Working Experience**

	<b>Frequency</b>	<b>Percent</b>
Below 1 year	8	15.1
1 to 10 years	32	60.4
Above 10 years	13	24.5
<b>Total</b>	<b>53</b>	<b>100.0</b>

From the above results, 60.4% (32) of the respondents indicated that the number of years in service in Kenya Export department was between 1 and 10 years, 24.5% (13) indicated above 10 years and 15.1% (8) indicated below 1 year. Therefore, majority of the respondents had

worked in Kenya Export department for long enough to understand and give relevant and reliable information related to the subject matter under study.

### 4.3 Elimination of Internal Tariffs

The study sought to establish the effect of elimination of internal tariffs on Kenyan export to Uganda.

#### 4.3.1 Extent of Elimination of Internal Tariffs Effect

The respondents were requested to indicate the extent to which elimination of internal tariffs affect the Kenyan export to Uganda. Their responses were as shown in table 4.7.

**Table 4. 7: Extent of Elimination of Internal Tariffs Effect**

	Frequency	Percent
Low extent	7	12.3
Moderate extent	16	29.9
Great extent	18	34.2
Very great extent	12	23.5
<b>Total</b>	<b>53</b>	<b>100</b>

From the above results majority of the respondents indicated that elimination of internal tariffs affect the Kenyan export to Uganda in a great extent as shown by 34.2%, in a moderate extent as 29.9%, in a very great extent as shown by 23.5% (12) and in a low extent as shown by 12.3%. This revealed that elimination of internal tariffs affect the Kenyan export to Uganda in a great extent. This is in line Krueger (2009) who argue that a CU is Pareto-superior to an FTA in terms of welfare, ceteris paribus. A CU has all the welfare benefits of an FTA, and an FTA has welfare costs that a CU does not. Also, the political economy of a CU is more beneficial to multilateral trade liberalization than an FTA.

#### 4.3.2 Extent of Effect of Aspects of Elimination of Internal Tariffs

The respondents were requested to rate using the likert scale 1- 5, the extent to which various aspects of elimination of internal tariffs affect the Kenyan export to Uganda. Their responses were as shown in table 4.8.

**Table 4. 8: Extent of Effect of Aspects of Elimination of Internal Tariffs**

	<b>Mean</b>	<b>Std. Dev.</b>
GDP at Market Prices	2.460	0.499
Net Income Tax	4.048	0.658
Industry Competitiveness	3.952	0.215

From the findings, with a mean of 4.048, the respondents indicated that net income tax affects the Kenya exports to Uganda in a great extent. Further the respondents indicated that industry competitiveness affects the Kenya exports to Uganda in a great extent as shown by the mean of 3.9519. This is in line EAC (2004) which argue that the CET contains three tariff bands, capital goods, and zero percent levy on raw materials but 10% levy on intermediate goods as well as 25% on finished products.

However the respondents indicated that GDP at Market Prices has a low effect on Kenya exports to Uganda as shown by a mean score of 2.60. This concurs with Mugisa, Onyango & Mugoya, (2009) who claim that EAC treaty acknowledges the existence of asymmetry principal as a core principle holding together the customs union and the protocol provides mechanisms for the removal of internal tariffs which acts as hurdles together with other duties and further takes into consideration the different level of development across member countries.

#### **4.4 Common External Tariff**

The study sought to assess the effect of common external tariff on Kenyan export to Uganda.

##### **4.4.1 Extent of Common External Tariff Effect**

The respondents were requested to rate using the likert scale 1- 5, and tell the extent to which the common external tariff affects the Kenyan export to Uganda. Their responses were as shown in table 4.9.

**Table 4. 9: Extent of Common External Tariff Effect**

	<b>Frequency</b>	<b>Percent</b>
Low extent	7	12.3
Moderate extent	13	24.6
great extent	21	39.6
Very great extent	12	23.5

<b>Total</b>	<b>53</b>	<b>100</b>
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From the above results majority of the respondents indicated that the common external tariff affects the Kenya exports to Uganda in a great extent as shown by 39.6%, in a moderate extend as shown by 24.6%, in a very great extent as shown by 23.5% and in a low extent as shown by 12.3%. Therefore from the above findings it's true that the common external affect the Kenya exports to Uganda in a great extent. This is in line with Osere (2009) who argue that different rates of Kenyan NTBs include holding Uganda milk for a prolonged period at the border a, a-34 percent protein level prerequisite for full cream powder milk yet the protein levels for dairy animals milk are in the scope of 25-26 %, badgering of Ugandan transporters, blocking Ugandan chicks and exorbitant customs and administrative passage, advocacy for policy changes aimed at removing non-tariff hindrance to trade such as road blocks between Uganda entry point and Mombasa..

#### **4.4.2 Extent of Effect of Aspects of Common External Tariff**

The respondents were requested to rate using the likert scale 1- 5, the extent to which various aspects of common external tariff affects the Kenyan export to Uganda. Their responses were as shown in table 4.10.

**Table 4. 10: Extent of Effect of Aspects of Common External Tariff**

	<b>Mean</b>	<b>Std. Dev.</b>
Economic Welfare	3.845	1.271
Trade Creation	4.021	0.703
Trade Diversion	2.670	0.605

According to above results majority of the respondents indicated that trade creation affect the Kenya exports to Uganda in a great extent as shown by the mean of 4.0214. This corresponds to Osere (2009) who argue that different rates of Kenyan NTBs include holding Uganda milk for a prolonged period at the border a, a-34 percent protein level prerequisite for full cream powder milk yet the protein levels for dairy animals milk are in the scope of 25-26 %, badgering of Ugandan transporters, blocking Ugandan chicks and exorbitant customs and administrative passage, advocacy for policy changes aimed at removing non-tariff hindrance to trade such as road blocks between Uganda entry point and Mombasa.

The respondents also indicated that economic welfare affects the Kenya exports to Uganda in a great extent as shown by a mean of 3.8449. However the respondents indicated that trade diversion affects the Kenya exports to Uganda in a moderate extent as shown by a mean of 2.6898. This is similar to Osere (2009) who argue that different rates of Kenyan NTBs include holding Uganda milk for a prolonged period at the border a, a-34 percent protein level prerequisite for full cream powder milk yet the protein levels for dairy animals milk are in the scope of 25-26 %, badgering of Ugandan transporters, blocking Ugandan chicks and exorbitant customs and administrative passage, advocacy for policy changes aimed at removing non-tariff hindrance to trade such as road blocks between Uganda entry point and Mombasa..

#### 4.5 Sensitive Products

The study sought to determine the effect of sensitive products on Kenyan export to Uganda.

##### 4.5.1 Extent of Sensitive Products Effect

The respondents were requested to rate using the likert scale 1- 5, and tell the extent to which the sensitive products affect the Kenya exports to Uganda. Their responses were as shown in table 11.

**Table 4. 11: Extent of Sensitive Products Effect**

	<b>Frequency</b>	<b>Percent</b>
Low extent	5	10.2
Moderate extent	15	28.3
great extent	20	38
Very great extent	12	23.5
<b>Total</b>	<b>53</b>	<b>100</b>

From the above results majority of the respondents indicated that the sensitive products affects the Kenya exports to Uganda in a great extent as shown by 38%, in a moderate extent as shown by 28.3% in a very great extent as shown by 23.5% and in a little extent as shown by 10.2%. Therefore from the above shows that the sensitive products affect the Kenya exports to Uganda in a great extent. This is in line with East African Community Competition Act (2006) which has enabled firms and trade associations to have loopholes in their regional operations to engage in exclusive agreements from cartels which has forced

consumers to dig deep into their pockets to purchase highly priced goods and services. However, the Act requires EAC member states to operationalize national laws and institutions to regulate competition. Tanzania and Kenya are the only countries that have put in place functioning national competition laws while countries such as Burundi, Uganda and Rwanda are yet to enact laws and create necessary institutions to address competition.

#### **4.5.2 Extent of Effect of Aspects Sensitive Products Effect**

The respondents were requested to rate using the likert scale 1- 5, the extent to which various aspects of sensitive products affects the Kenya exports to Uganda. Their responses were as shown in table 4.12.

**Table 4. 12: Extent of Effect of Aspects Sensitive Products Effect**

	<b>Mean</b>	<b>Std. Dev.</b>
Private Consumption	4.251	0.723
Factor income in production	3.888	1.039
Tariff Revenues from the products	2.770	0.573

According to above results majority of the respondents indicated that private consumption affect the Kenya exports to Uganda in a great extent as shown by the mean of 4.251. Further the respondents indicated that factor income in production affect the Kenya exports to Uganda in a great extent as shown by the mean of 3.888. However, the respondents indicated that Tariff revenues from the products affect the Kenya exports to Uganda in a low extent as shown by the mean of 2.77. These findings concur with East African Community Competition Act (2006) which has enabled firms and trade associations to have loopholes in their regional operations to engage in exclusive agreements from cartels which has forced consumers to dig deep into their pockets to purchase highly priced goods and services. However, the Act requires EAC member states to operationalize national laws and institutions to regulate competition. Tanzania and Kenya are the only countries that have put in place functioning national competition laws while countries such as Burundi, Uganda and Rwanda are yet to enact laws and create necessary institutions to address competition.

#### **4.6 Customs Management Regulations**

The study sought to determine the effect of customs management regulations on Kenyan export to Uganda.

#### 4.6.1 Extent of Customs Management Regulations Effect

The respondents were asked to rate using the likert scale 1- 5, and tell the extent to which the customs management regulations affect the Kenya exports to Uganda. Their responses were as shown in table 4.13.

**Table 4. 13: Extent of Customs Management Regulations Effect**

	<b>Frequency</b>	<b>Percent</b>
Low extent	4	7.5
Moderate extent	16	30.2
great extent	22	41.5
Very great extent	11	20.8
<b>Total</b>	<b>53</b>	<b>100</b>

From the above results majority of the respondents indicated that the customs management regulations affects the Kenya exports to Uganda in a great extent as shown by 41.5%, in a moderate extent as shown by 30.2%, in a very great extent as shown by 20.8% and in a low extent as shown by 7.5%. Therefore from the above shows that the customs management regulations greatly affect the Kenya exports to Uganda. This is in line with Mugisa, Onyango & Mugoya (2009) who argue that the Act was subsequently adopted in 2004 by the East African Legislative Assembly, its Legislative part, while the customs union management regulations were adopted in 2006.

#### 4.6.2 Extent of Effect of Aspects Customs Management Regulations Effect

The respondents were again requested to rate using the likert scale 1- 5, the extent to which various aspects of customs management regulations affects the Kenya exports to Uganda. Their responses were as shown in table 4.14.

**Table 4. 14: Extent of Effect of Aspects Customs Management Regulations Effect**

	<b>Mean</b>	<b>Std. Dev.</b>
Cross border movement	4.021	0.950
Efficiency at customs offices	2.910	0.619
Changes in clearance costs	3.733	0.607

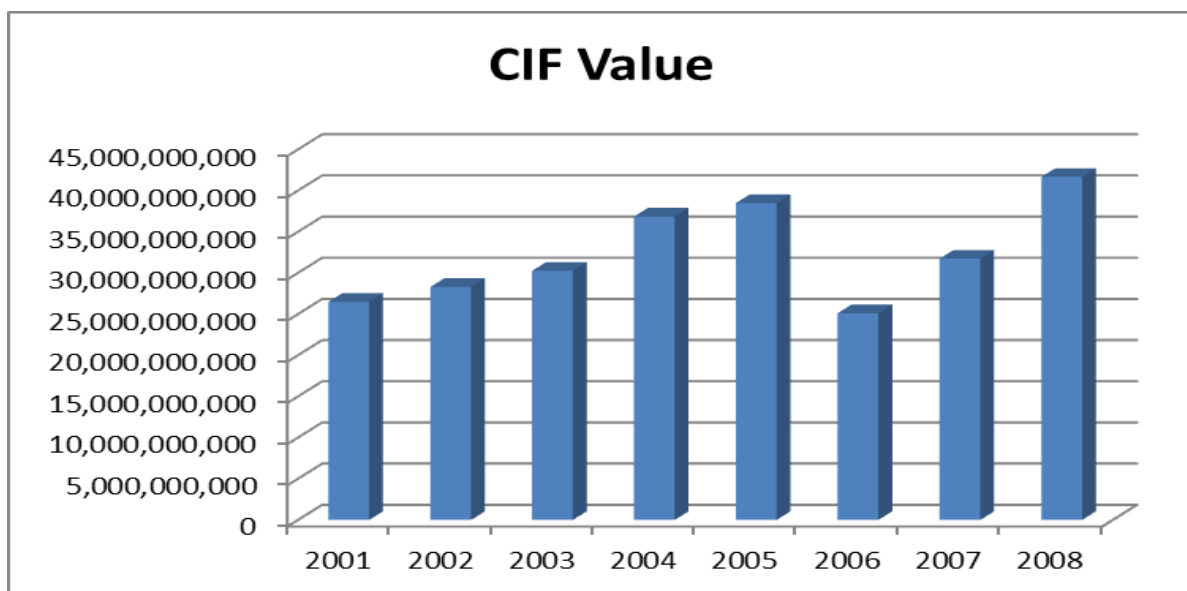
From the findings, the respondents indicated that cross border movement as shown by the mean of 4.021 and changes in clearance costs Changes in clearance costs as shown by the

mean of 3.733 affect the Kenya exports to Uganda in a great extent. However, the respondents indicated that efficiency at customs offices from the products affect the Kenya exports to Uganda in a low extent as shown by the mean of 2.91. These findings concur with East African Community Competition Act (2006) which requires EAC member countries to have in place national competition laws and institutions. Kenya and Tanzania already have fully functioning national competition laws while Burundi has enacted its own Competition Act and is in the process of creating the necessary institutions.

#### 4.7 Kenya Exports to Uganda

The researcher was interested in examining the trend of value of the exports from Kenya to Uganda from 2001 to 2008. The values per respective years were as shown in figure 4.1.

**Figure 4. 1: Value of Kenya exports to Uganda**



From the above results it was found that as from 2001 to 2004 there has been an increase in the volumes of the exports from Kenya to Uganda which in turn increased the value over the years since the EAC came into place in the year 2004. However, the volumes of export from Kenya to Uganda declined in 2006 and 2007 but increased in the following year 2008.

The respondents were requested to rate using the likert scale 1- 5, and tell the trend of various aspects of exports from Kenya to Uganda. Their responses were as shown in table 4.15.

**Table 4. 15: Trend of various aspects of Kenya exports to Uganda**

	<b>Mean</b>	<b>Std. Dev.</b>
Volumes of exports	4.021	0.933
Types of goods and services exported	3.909	0.937
Frequency of export	2.562	0.880

According to above results majority of the respondents indicated that volumes of exports from Kenya to Uganda and that the types of goods and services exported have improved over the last 5 years as shown by mean scores of 4.0214 and 3.909 respectively. This corresponds to Mitrany who argued that the link between authority and a definite territory can be broken. However the respondents indicated that frequency of export from Kenya to Uganda has been constant over the last 5 years as shown by a mean score of 2.562. This is in line with Niekerk (2011) who argued that cooperation among nations pursuing different political-economic structures and at different levels of economic development would seem unworkable in the current global political system

#### **4.8 Regression Analysis**

Regression analysis shows how dependent variable is influenced with independent variables.

**Table 4. 16: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	0.862	0.743	0.721	0.297

Table 4.16 is a model fit which establish how fit the model equation fits the data. The adjusted  $R^2$  was used to establish the predictive power of the study model and it was found to be 0.721 implying that 72.1% of the variations in Kenya exports to Uganda is explained by elimination of internal tariffs, common external tariff, sensitive products and customs management regulations leaving 27.9% percent unexplained.

**Table 4. 17: ANOVA Results**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
	Regression	12.994	4	3.249	34.620	0.000
1	Residual	4.504	48	0.094		
	<b>Total</b>	<b>17.498</b>	<b>52</b>			

The probability value of 0.000 indicates that the regression relationship was highly significant in predicting how elimination of internal tariffs, common external tariff, sensitive products and customs management regulations affects the Kenya exports to Uganda. The F calculated at 5 percent level of significance was 34.62. Since F calculated is greater than the F critical (value = 2.6060), this shows that the overall model was significant.

**Table 4. 18: Coefficients of Determination**

	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	0.819	0.143		6.098	.000
Elimination of Internal Tariffs	0.852	0.296	0.678	2.878	.004
Common External Tariff	0.763	0.273	0.634	2.795	.005
Sensitive Products	0.576	0.104	0.459	5.538	.000
Customs Management Regulations	0.673	0.248	0.786	2.714	.007

The established model for the study was:

$$Y = 0.819 + 0.852 X_1 + 0.763 X_2 + 0.576 X_3 + 0.673 X_4$$

The regression equation above has established that taking all factors into account (elimination of internal tariffs, common external tariff, sensitive products and customs management regulations) constant at zero, Kenya exports to Uganda was 0.819. The findings presented also show that taking all other independent variables at zero, a unit increase in elimination of internal tariffs would lead to a 0.852 increase in Kenya exports to Uganda. The relationship was also significant with p-value 0.04 < 0.05. This corresponds to Krueger (2009) who argue that a CU is Pareto-superior to an FTA in terms of welfare, ceteris paribus. A CU has all the welfare benefits of an FTA, and an FTA has welfare costs that a CU does not. Also, the political economy of a CU is more beneficial to multilateral trade liberalization than an FTA.

The study also found that a unit increase in common external tariff would lead to a 0.763 increase in Kenya exports to Uganda. The relationship was also significant with p-value 0.005 < 0.05. The study also found that sensitive products would lead to 0.576 increases in

Kenya exports to Uganda if all other factors are held constant. This is in line with Osere (2009) who argue that different rates of Kenyan NTBs include holding Uganda milk for a prolonged period at the border a, a-34 percent protein level prerequisite for full cream powder milk yet the protein levels for dairy animals milk are in the scope of 25-26 %, badgering of Ugandan transporters, blocking Ugandan chicks and exorbitant customs and administrative passage, advocacy for policy changes aimed at removing non-tariff hindrance to trade such as road blocks between Uganda entry point and Mombasa.

Further the study found that a unit increase in the scores of customs management regulations would lead to a 0.673 increase in Kenya exports to Uganda. The relationship was also significant with p-value  $0.007 < 0.05$ . This concurred with East African Community Competition Act (2006) which has created loopholes for trade associations and firms operating across the region to engage in exclusive agreements, and from cartels, forcing consumers to pay relatively higher prices for goods and services. The operationalization of the Act, however, requires EAC member countries to have in place national competition laws and institutions. Kenya and Tanzania already have fully functioning national competition laws while Burundi has enacted its own Competition Act and is in the process of creating the necessary institutions.

Overall, elimination of internal tariffs had the greatest effect on Kenya exports to Uganda, followed by common external tariff then customs management regulations while sensitive products had the least effect to Kenya exports to Uganda. All the variables were significant ( $p < 0.05$ ).

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study

#### 5.2 Summary of Findings

The study sought to establish the effect of elimination of internal tariffs on Kenyan export to Uganda. The study revealed that elimination of internal tariffs affect the Kenyan export to Uganda in a great extent. The study further revealed that net income tax and industry competitiveness affects the Kenya exports to Uganda in a great extent. The study also found that GDP at Market Prices has a low effect on Kenya exports to Uganda.

The study sought to assess the effect of common external tariff on Kenyan export to Uganda. The study found that the common external affect the Kenya exports to Uganda in a great extent. The study found that trade creation and economic welfare affect the Kenya exports to Uganda in a great extent. It was also found that that trade diversion affects the Kenya exports to Uganda in a moderate extent

The study sought to determine the effect of sensitive products on Kenyan export to Uganda. The study found that the sensitive products affect the Kenya exports to Uganda in a great extent. The study further found that private consumption and factor income in production affect the Kenya exports to Uganda in a great extent. The study also found that tariff revenues from the products affect the Kenya exports to Uganda in a low extent.

The study sought to determine the effect of customs management regulations on Kenyan export to Uganda. The study further found that the customs management regulations greatly affect the Kenya exports to Uganda. It was also found that cross border movement and changes in clearance costs Changes in clearance costs affect the Kenya exports to Uganda in a great extent while efficiency at customs offices from the products was found to affect the Kenya exports to Uganda in a low extent.

#### **5.4 Conclusion**

The study concluded that elimination of internal tariffs positively and greatly affects Kenyan export to Uganda. Net income tax and industry competitiveness were revealed to have great effects on affects the Kenya exports to Uganda.

The study concluded that common external tariff have positive and significant effect on Kenyan export to Uganda. Trade creation and economic welfare have great effect on Kenya exports to Uganda although it was also found that that trade diversion have moderate effect on Kenya exports to Uganda.

The study concluded that sensitive products have a positive and great effect on Kenyan export to Uganda. It was found that private consumption and factor income in production greatly affects the Kenya exports to Uganda in a great extent.

The concluded that customs management regulations affect Kenyan export to Uganda positively and significantly. The study deduced that cross border movement and changes in clearance costs Changes in clearance costs affect the Kenya exports to Uganda in a great extent.

#### **5.5 Recommendations**

The study therefore recommends that EAC needs to improve on the management regulations in order to create a smooth way of exporting from Kenya to Uganda. This will also make it easy for the exports to reach Uganda in a more convenient way. The EAC should go ahead and ensure smooth transport and communication efficiency between Kenya and Uganda as well facilitating the efficient linkage between the two countries to ensure efficient transportation of the exports between Kenya and Uganda

The study recommends that EAC needs to improve and make transiting procedures easy and reliable for smooth exportation. EAC should advocate for policy reforms to eliminate non-tariff barriers, excessive number of roadblocks between Mombasa and Ugandan eastern border entry points.

The study also recommends that individual governments and the EAC as an organization should promote policies that enhance specialization so as to increase Kenyan exports and commercialization as well as help countries work together to eliminate non-tariff barriers.

The study also recommends that the EAC should harmonize the charges on the goods being exported in order to make exportation cheap. This will ensure that both countries are motivated to carry out the exportation since it's cheap to export goods. Under this framework, the temporary measures should be intended to permit Kenya and Uganda adequate period to reorganize their procedures to face enlarged competition from imports originating from Kenya.

The study further recommends that Kenyan and Ugandan should invest more in communication and transport infrastructure so as to reduce the transport and other transaction costs. At the same time, they should work with their development partners and other regional groupings to improve infrastructure.

### **5.6 Recommendations for further studies**

From the above findings, conclusion and recommendation the study recommends that an in-depth study should be carried out to determine the challenges related to transport and communication and they affect they the trend of Kenya exports to Uganda.

The study recommends that another study should be done to investigate other factors affecting the Kenya exports to Uganda apart from the ones discussed above. Some of those factors may include diplomacy between Kenya and Uganda as well as political differences between Kenya and Uganda. The researcher should go ahead and determine the effects of political instability and differences between Kenya and Uganda. Researchers should go ahead and establish the reasons exports failure from Kenya to Uganda.

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## APPENDIX 1

### SEMI-STRUCTURED QUESTIONNAIRE ON THE EFFECT OF TAX EVASION ON TAX REVENUES AT KENYA REVENUE AUTHORITY'S CUSTOMS AND BORDER CONTROL DEPARTMENT

Dear Respondent,

I am an undergraduate in .....,  
conducting research study on "*effect of Custom Union on Kenyan export to Uganda.*".  
You have been selected as one of the respondents for this study which would take  
approximately 15 minutes. Kindly complete this questionnaire honestly and precisely as  
possible. The information you give is purely intended for academic purposes and will be  
treated with utmost confidentiality. Your participation is entirely voluntary and the  
questionnaire is completely anonymous.

Thank you,

Anthony Mugo





