EFFECTS OF FOREIGN DIRECT INVESTMENTS ON KENYA'S MANUFACTURING EXPORTS TO REGIONAL TRADE BLOCS IN AFRICA

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Abstract

Low GDP in Kenya has been contributed by overdependence in low value agricultural exports. This scenario will be improved if it is supplemented by manufacturing exports to regional trade blocs; Common Markets for East and Southern Africa (COMESA) and East African Community (EAC), which is key in achieving vision 2030. This study estimated the effects of Foreign Direct Investment (FDI), on Kenya's manufactured exports to these regional trading blocs. The gravity model was used and correlational study design was adopted. Panel data was sourced from secondary sources for twenty Kenya's trading partners (EAC and COMESA) for the period 2005–2015 to capture the operationalization and membership of these trading blocs. Panel data unit root tests were estimated using Im-Pesaran and Shin, and Levin-Li-Chu tests. Haussmann Taylor method was used to choose between fixed and random effect models. The findings showed some outlows with the highest being -1.7743 to Swaziland during the period of study. The FDI was significant with p-value 0.0000 and a coefficient of 0.2515. This implies that FDI has a significant positive effect on manufacturing exports and therefore the government should formulate policies that encourage FDI inflow that promotes the production of manufactured goods in Kenya for exports.

INTRODUCTION

Manufacturing exports is the shipping of value added goods and services out of the jurisdiction of a country (KAM, 1988). In advanced economies, manufactured goods stand as the tangible expression of innovation and competitiveness (Banga, 2006). A decade into the 21st century, the role of manufacturing in the global economy continues to evolve (UNCTAD, 2015). Developing economies are likely to drive global growth in demand for manufactured goods becoming just as important as markets as they have been as contributors to the supply chain (UNCTAD, 2015). The manufacturing sector in Kenya is the third largest by sect oral contribution to GDP (10.3 per cent) after transport and communication (11.3 per cent) and agriculture and forestry (23.4 per cent) (KNBS, 2008).

FDI flows are investments that acquire a lasting management interest (10 percent or more of voting stock) in a local enterprise by an investor operating in another country (Rahmaddi, 2012). Such investment is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments and both short-term and long-term international loans.

African countries believe that their coming together under a regional body would be an effective means of asserting their economic independence (Huff, 2000). There is also consensus that developing countries have a great deal to gain from free trade. Regional integration in Africa has been seen as a vehicle for promoting trade and securing economies of scale and market access, and pave way for sustainable growth and development (Ogunkola, 1998).

Common Market for East and Southern Africa (COMESA) began in December 1994 and is currently composed of 19 member states with a population of over 389 million and annual import bill of around US$32 billion with and an export bill of US$82 billion. It covers a geographical area of 12 million (sq km) within the African continent. Its achievements to date have been significant more so in the area of bilateral trade (Alemayehu *et al.,* 2002). It forms a major market place for both internal and external trading member states capable of overcoming some of the challenges that are faced by individual states.

The East African Community (EAC) is a regional intergovernmental organization of 6 Partner States which includes Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda, Its headquarters is in Arusha-Tanzania (Ligami, 2012). It is a home to 158 million citizens, of which 22% is urban population. EAC covers a geographical area of 2.42 million square kilometers and a combined Gross Domestic Product of US$ 169.5 billion (EAC Statistics for 2015), its realization bears great strategic and geopolitical significance and prospects for the renewed and rejuvenated EAC (Makame, 2012).

Manufacturing and Foreign Direct Investment

The manufacturing sector in Kenya grew at 3.5% in 2015 and 3.2% in 2014, contributing 10.3% to Gross Domestic Product (GDP) (KNBS, 2016). On average, however, manufacturing has been growing at a slower rate than the economy, which expanded by 5.6% in 2015. This implies that the share of manufacturing in GDP has been reducing over time. The sector's contribution to GDP has remained fairly stable at around 10% since 2005. The performance of the manufacturing sector has however improved compared to the 1990s and early 2000s, when the industry's performance was at its lowest ebb due to the macroeconomic instability that gripped the country. Between 2010 and 2015, manufactured exports were worth US$ 1.85 billion, or around 37.4% of total exports Otuki, (2016). The regional EAC and COMESA markets continue to absorb a large share (69%) of Kenya's manufactured exports, with Uganda (24%) and the United Republic of Tanzania (17%) being the biggest importers. (World Bank, 2016a)

The expansion of international production is determined by economic and technological forces along with ongoing trade liberalization, FDI and trade policies. In this context, globalization suggests a unique opportunity for developing countries to attain quicker economic growth by trade and investment. Muhammad, (2007), found that the significance of FDI has risen by transferring technologies, acquiring channels and establishing marketing for efficient production and global trade. From the year 2000, the Kenyan government has implemented a number of initiatives to improve both economic performance and stimulate foreign direct investments

FDI flows to Kenya averaged below US$ 39 per capita between 2003 and 2006 compared to US$ 418 and US$ 310 for Tanzania and Uganda respectively. By 2009, Kenya's net FDI flows stood at US$ 116 million while Tanzania's and Uganda's US$ 415 and US$ 789 respectively (World Bank, 2012). This is despite the Kenyan governments implementing a series of measures to attract foreign investors that included among others Manufacturing Under Bond (MUB) in 1987, Export Processing Zones (1990) and accession to the African Growth and Opportunity Act (AGOA) in 2001 (World Bank, 2013). The last measure however led to significant FDI inflows from Asia whose investors used Kenya as a platform for quota-hopping to access the otherwise restricted US market, particularly for clothing manufactures (UNCTAD, 2005).

LITERATURE REVIEW

Theoretical literature

The Gravity model has often been used to explain Origin-Destination (i j) flows such as international or regional trade, transportation flows, population migration, commodity flows and information flows along a network. Reasons for the prosperity of this model are the simplicity of its mathematical form and the intuitive nature of its underlying assumptions, as Sen and Smith (1995) noted in their monograph.

In relation to international trade, there exists a large literature on theoretical foundations for these models (Anderson, 1979; Anderson and Wincoop 2004). In the regional science literature, the gravity model has been labeled a spatial interaction model (Sen and Smith, ibid), because the regional interaction is directly proportional to regional size measures. The Gravity model relies on a function of the distance between origin and destination as well as explanatory variables pertaining to characteristics of both, origin and destination countries. The principal explanatory variables used to explain trade flows include size of importing economy, per capita income differential of the two countries involved, their degree of openness, the existence of general trade agreements, the existence of a common official language and/or currency, a shared colonial past or the existence of a favorable exchange rate and transport cost.

Gravity model is borrowed from Newton's gravitational theory and utilizes the concept of gravitational force to explain the volume of trade, capital flows, and migration among countries of the world. Newton's theory postulates that the force of attraction between two separate entities i and j is positively related to entities' respective masses and inversely related to the square of distance between the objects as shown in equation 1.

$$F_{ij} = \frac{GM_i M_j}{D_{ij}^2} \quad \text{.. (1)}$$

Where F_{ij}=gravitational force between i and j; M_i M_j=masses; D_{ij}=Distance between i and j; G=gravitational constant.

In the gravity model of international trade, gravitational force in Newton's law is replaced by trade flows or exports from country i to j, while GDP is used as a proxy for a country's mass, while distance is often measured using 'great circle' calculations in accordance with equation 1. Gravity model of international trade between countries is represented by equation 2.

$$X_{ij} = \frac{KY_i^{\alpha} Y_j^{\beta}}{T_{ij}^{\theta}} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where X_{ij}=exports (in value) between country i and j; K=gravitational constant; Y_{ij}=economic size (GDP or Population) for country i and j; T_{ij}=trade costs between country i and j. If $\alpha=\beta=1$ and $\theta=2$, we get the Newton's law.

The above equation can be converted into a Log-log form

$$LnX_{ij} = LnK + \alpha LnY_i + \beta LnY_j - \theta LnT_{ij} + \delta Z \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.(3)$$

Where δZ denotes other factors that positively or negatively affects export flows.

According to the generalized gravity model of trade, the volume of exports between pairs of countries, X_{ij} is a function of their incomes (GDPs), their population, their geographical distance and a set of dummies. The general gravity model is specified as follows:

$$X_{ij} = \beta_0 Y_i^{\beta_1} Y_j^{\beta_2} N_i^{\beta_3} N_i^{\beta_4} D_{ij}^{\beta_5} A_{ij}^{\beta_6} DU_{ij}^{\beta_7} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (4)$$

Where Y_i (Y_j) represents the GDP of the exporter (importer), N_i (N_j) are the populations of the exporter (importer), D_{ij} measures the distance between the two countries' capitals and A_{ij} represents other factors that could aid or impede trade between countries, DU_{ij} is a vector of dummies.

In Log-log form

$$LnX_{ij} = \beta_0 + \beta_1 lnY_i + \beta_2 lnY_j + \beta_3 lnN_i + \beta_4 lnN_j - \beta_5 lnD_{ij} + \beta_6 lnA_{ij} + \beta_7 lnDU_{ij}\ldots\ldots..(5)$$

Introducing the new variables (FDI, HDI and ID)

$$LnX_{ij} = \beta_0 + \beta_1 lnY_i + \beta_2 lnY_j + \beta_3 lnN_i + \beta_4 lnN_j - \beta_5 lnD_{ij} + \beta_6 lnA_{ij} + \beta_7 lnDU_{ij} + \beta_8 FDI_{ij} + \beta_9 HDI_{ij} + \beta_{10} ID_{ij}$$

$$\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(6)$$

Trade between two countries is positively affected by the economic mass of trading partners and inversely related to distance between them. Additional variables, such as physical area, population, indicators of cultural affinity, and sharing contiguous boarders are usually added to

empirical gravity models to elaborate on the 'economic mass' and distance variables (Clarete *et al.,* 2012). Tinbergen (1962) was the first to publish an econometric study using the gravity equation for international trade flows. In his first study involving data on 18 countries in 1958, the volume of trade between two countries was specified to be proportional to the product of an index of their economic size, and the factor of proportionality depended on measures of trade resistance between them. Among the measures of trade resistance, he included the geographic distance between them, a dummy for adjacency (common borders), and dummies for British Commonwealth and Benelux memberships. Tinbergen found that both incomes and distance had their signs and were statistically significant. He also found that adjacency and membership in the British Commonwealth (Benelux FTA) were significantly associated with 2 percent and 5 percent higher trade flows respectively (Bonuedi, 2013).

Empirical literature

Soliman (2003) used gravity equation specification to test the sensitivity of exports to FDI inflows while examining the effect of FDI activity on manufacturing exports in four MENA countries (Egypt, Morocco, Tunisia and Turkey). The paper examined the effect of two measures of FDI activity, FDI stock and inflows on manufacturing exports in four MENA countries. The main findings of the investigation suggested that FDI activity may have a positive effect on manufacturing exports. This magnitude of the effect, however, is too small to generate any significant increase in the share of manufacturing exports in total merchandise exports.

Sekkat (2012) investigated the evolution and determinants of manufactured exports and foreign direct investment (FDI) in 11 southern Mediterranean countries over the period 1985–2009. The econometric analysis using gravity model confirmed the role of exchange rate depreciation, the openness of the economy and the quality of institutions and infrastructure in fostering manufactured exports and FDI inflows in the region. The econometric analysis confirmed the role of exchange rate depreciation, the openness of the economy and the quality of institutions or infrastructure in fostering manufactured exports. Similarly, the estimations showed that greater openness of the economy, the availability of infrastructure and better quality institutions increase the attractiveness of countries with respect to FDI. The finding implies that vigilance with respect to the progress in reforms was crucial.

Vuksic (2005) studied the impact of foreign direct investment on Croatian manufacturing exports using the Gravity Model and panel data for 21 manufacturing industry sectors over the period between 1996 and 2002, he concluded that FDI positively and significantly affected exports, but the extent of this impact was relatively low. Sun (2001) looks at the different impact of foreign investment on exports in three regions of China in a period from 1984 to 1997, and thus implicitly takes the specific initial conditions of the individual regions into account. He uses a panel data econometric model and finds that the effects of FDI on export performance vary across the three regions. The impact is positive and the strongest in the coastal region. In the central part of China it is weaker, but still positive and significant, while in the western region it is insignificant. Zhang and Song (2001) address the same research question in China at the provincial level in the period from 1986 to 1997 with a somewhat different empirical

specification. Using the panel data model, they also find that higher levels of FDI are consistent with higher provincial exports.

Wang *et al.,* (2007) carried out an econometric analysis using Gravity Model and data for the period 1983-2002, while examining the relationship between inward foreign direct investment (FDI) and export performance in China. The results indicated that FDI promotes exports by foreign as well as domestically-owned firms, and that this effect is strongest for labor-intensive industries Studies made in China indicate that increased levels of FDI positively affect Chinese manufacturing export performance (Sun 2001; Zhang and Song 2001; Zhang 2005). However, this success is attributed to the fact that FDI in China has largely been export oriented. Similar findings have been observed by Barry and Bradley (1997) in Ireland.

Athukorala and Menon (1995) studied the role of export oriented FDI in Malaysia's manufactured exports. The relationship between inward FDI and manufactured exports for a cross section of 52 countries was investigated by the UNCTAD (1999) and found a significant positive relationship. The relationship is stronger for developing countries than for developed countries and in high than in low-tech industries.

Literature Overview from the literature review above, no study has been done on the extent or the magnitude of the effect of FDI on manufacturing exports. In most of the available literature it's the effect of FDI on general exports and not necessarily on manufacturing exports the little that has been done, shows different results, some indicates positive relationship while others negative. Some however do find it being positive but not significant. These variations therefore warrant a need for further study in the area. Furthermore, there was no study that dwells on FDI within some regional trade agreements in Africa.

Research Methodology

Model specification

The study utilized a correlational research design which provides empirical evidence suggesting two or more variables are or are not related. A positive relationship was expected between GDP and trade flows due to productivity and absorptive capacity on exports. A negative relationship was expected between trade flows and distance. Beyond some distance, transaction costs may be such that trade volumes do not increase.

Population in the gravity model was used as a measure of country size. Countries that have large population were more inwardly oriented than smaller countries because they were better able to exploit economies of scale in their large domestic market (Frankel, 2012). Thus, an inverse relationship was expected between population and trade flows. Distance (in kilometres between Kenya's capital city and that of trading partner) between two countries is an important factor in determining geographic pattern of trade and is used as a proxy for transaction costs. Trade will be meaningful to a country if gains from trade are higher than the costs incurred in realizing those gains. The larger the distance, the higher the transaction costs.

Empirical model used closely followed the one used by (Gilbert et al., 2001). The model among other things was to find out whether RTA membership will likely produce trade creation (this was carried out using dummy variables to capture participation in RTAs). A sample of 20 countries who are Kenya's trading partners (Kenya included) were included in the study. The study period was 2003-2014;

Empirical model that was used in this study is specified as follows:

$$LnX_{ijt} = \alpha_{ijt} + \beta_1 Ln(GDP_{ijt}GDP_{ijt}) + \beta_2 LnPoP_{ijt} + \beta_3 LnD_{ijt} + \beta_4\ LnFDI_{ijt} + \beta_5\ LnHDI_{ijt} + \beta_6 LnID_{ijt} +$$
$$\beta_7 COMESA_{ijt} + \beta_8 EAC_{ijt} + \beta_9 T_{ijt} + \varepsilon_{ijt} + \nu_{ijt} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots(7)$$

Where: Ln denotes variables in natural logs. α_{ij} is a constant. GDP_{ij} is Gross Domestic Product for country i and j. PoP_j is the population for country j and D_{ij} is the distance from i to j.

Three dummy variables were introduced; COMESA, EAC and New variables introduced are FDI_{ij}, HDI_{ij} and ID_{ij}. Time dummy (T) captured the effects of time. An F-test was carried out to find out whether time was jointly significant in determining export flows. The null hypothesis was that time dummies were not jointly significant, if the null hypothesis was rejected; this meant that time was important and therefore should be included in the regression. The error term was decomposed into ε_{ij} which denoted the unobservable individual specific effect and ν_{ijt} being the stochastic error term which changed across time and cross-section.

The expected signs of coefficient of D_{ij} are negative while that of PoP_{ij}, HDI_{ij}, FDI_{ij}, ID_{ij} GDP_i GDP_j are all positive. The coefficients of variables in logarithmic form are interpreted as elasticities, that is, proportionate change in X_{ijt} due to a 1% change in these variables.

The first dummy variable takes the value of one when the two countries are both members of COMESA and zero otherwise, the second dummy variable takes the value of one if both countries are members of EAC and zero otherwise. A positive coefficient was expected for COMESA, and EAC dummies.

Estimation Procedure

The study estimated a gravity model using panel data econometrics techniques. This panel data specification allows analysis of relative competitiveness of COMESA and EAC member country competitiveness. To estimate the long-run relationship between the variables in the gravity models, we employed Pooled Mean Group (PMG) and panel dynamic OLS (DOLS) co integrating estimators due to Pesaran, Shin and Smith (1999) and Kao and Chiang (2000) respectively.

The PMG estimator which was developed by Per saran *et al.,* (1999) offers a new technique for estimating non stationary dynamic heterogeneous panels, and it relies on a combination of pooling and averaging of coefficients across groups (Blackburne III and Frank, 2007). A superior method to both the FEM and REM that can estimate time invariant variables and

address the problem of endogeneity was proposed by Hausman and Taylor (1981) and is called Hausman Taylor Method (HTM). The source of potential endogeneity bias in gravity model estimations is the unobserved individual heterogeneity (Rault et al., 2008). HTM uses variables that are specified in a regression equation as instruments to solve the problem of endogeneity. This makes it possible to eliminate the correlation between the explanatory variables and the unobserved individual effects that undermined the appropriateness of the REM in the gravity model context (Keith, 2006). Another advantage of HTM is that it is usually difficult to find variables not specified in an equation that can serve as valid instruments for endogenous regressors. Haussmann Taylor method will be used to choose between fixed and random effect models.

RESULTS AND DISCUSSIONS

Regression Analysis and Test of Hypotheses

Regression analysis was done to test the hypotheses. Results are reported in Table 4.7 for Swamy-Arora transformation and table 4.8 for Nerloves transformation. Results indicated that the data fitted the model very well Log-likelihood was $2814.598 > 30$. The model was also well identified (AIC was $5645.197 > 30$, HQ was $5655.26 > 30$ and Schwarz criterion $5669.898 > 30$). The study sought to determine whether foreign direct investments had any effect on Kenya's manufacturing exports. The hypothesis stated that foreign direct investment does not significantly determined Kenya's manufacturing exports. Results indicated that foreign direct investment had positive and significant effect on Kenya's manufacturing exports (p – value $0.0000 < 0.05$). It was therefore concluded that foreign direct investment was significant determinant of Kenya's manufacturing exports. The results indicated that for a unit increase in foreign direct investment, manufactured exports increased by 60.78 percent as reported in the following table.

Regression Results Swamy-Arora Transformation

Model 1: Random-effects (GLS), using 162 observations; Included 18 cross-sectional units
Time-series length = 9; Dependent variable: MEXP

Variable	Coefficient	Std. Error	t-ratio	p-value	Sig
Const	-50.826	0.1692	-300.37	0.0000	
HDI	0.6862	0.1486	4.620	0.0000	***
FDI	0.6078	0.0658	9.240	0.0000	***
IND	0.3926	0.1092	3.590	0.0000	***
DIS	-0.3568	0.0370	-9.640	0.0000	***
POP	0.6085	0.1345	4.520	0.0000	***
DVNC	0.7111	0.1844	3.860	0.0000	***
DVCL	0.1423	0.0027	51.910	0.0000	***
DVCC	0.2514	0.0372	6.7600	0.0000	***

Mean dependent variable	5530869	S.D. dependent variable	12759359
Sum squared residual	1.17e+16	S.E. of regression	8685897
Log-likelihood	−2814.598	Akaike criterion	5645.197
Schwarz criterion	5669.898	Hannan-Quinn	5655.226

'Within' variance = 2.63297e+013; 'Between' variance = 7.8669e+013; theta used for quasi-demeaning = 0.807159; Breusch-Pagan test - Null hypothesis: Variance of the unit-specific err or = 0; Asymptotic test statistic: $\chi^2(1) = 236.17$; with p-value = 2.69008e-053; Hausman test - Null hypothesis: GLS estimates are consistent; Asymptotic test statistic: $\chi^2(3) = 1.86688$ with p-value = 0.600491

Source: Authors research, 2017

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSSIONS AND RECCOMENDATIONS

Summary of findings

The general objective of the study was to estimate the effects of foreign direct investment on Kenya's manufacturing exports to EAC and COMESA region.

The results indicate that FDI was a significant determinant of Kenya's manufactured exports to COMESA region. The FDI summary statistics reported a mean of 5.203677, a standard deviation of 5.67846 with a maximum value of 23.17014 and a minimum of -1.774341 showing an outflow of FDI during the period of study. This was also true in Swaziland during the year 2005.The FDI had p-value 0.0000 and a coefficient of 0.6078. This rejects the null hypothesis implying that FDI has a significant positive and a significant effect on manufactiuring exports. This is consistent with the results from Piya Wong pit (2012) who examined the impact of FDI on manufacturing exports from source countries to Thailand. The results showed that FDI had a positive impact on manufacturing export from Thailand to other countries. In addition, FDI was complemented by manufacturing export from source countries to Thailand. It thus supported that foreign firms invest in Thailand to produce and export to other countries since many sub-groups under the manufacturing industry have comparative advantage.

Conclusions

Foreign Direct investment affects up to 60.78% of Kenya's manufactured export implying that these manufactured exports rely heavily on foreign direct investment. The inflow of foreign direct investment was found to have robustly and positively impacted on Kenya's manufactured exports.

FDI was found to play a significant role in enhancing Kenya's productive capacity and boosting its export of manufactured goods in the long run. It further means investment by foreign firms

form an integral part of the manufactured exports and therefore provision of conducive environment for the same is a boost for Kenya's Economy.

Recommendations

The key findings of this study, as summarized above, have important implications for the manufactured export policy in Kenya. On the basis of these key findings, the following recommendations are advanced for policy configuration and formulation aimed at expanding the volume of Kenya's manufactured exports to the regional trade blocs so as to maximize its gains from trade and boost the pace of the nation's economic growth.

Government supply-side policies such as government subsidies, tax rebates, are recommended to attract and channel the foreign direct investment (FDI) to more productive and comparative advantaged manufactured exports sectors, so as to augment the productive and exports supply capacity of domestic producers and increase their level of efficiency. In addition, market-friendly regulatory policies (aimed at removing impediments to domestic and foreign private investment, streamlining and simplification of regulations and procedures for doing business by new entrants), strengthening of property rights and contract enforcement and improvement of trade policy regime to facilitate exports and promote outward oriented growth are highly recommended.

Once again, this has the long run benefit of improving consumer and investor confidence in the economy by creating incentives for individuals to engage in trade, and invest in human and physical capital. Even though Kenyan Institutions are becoming more effective, efficient and trade enhancing, trade-inhibiting obstacles however still remain, and particular institutions need development and reform. For instance, high levels of corruption persist due to overall weakness in the rule of law and the overall investment regime lacks efficiency and transparency. It is, therefore, highly recommended that policies and legislative reforms aimed at promoting transparency, accountability and integrity in our institutions be austerely pursued so as to boosts investors' confidence in the country hence leading to increased foreign direct investments.

Limitations of the Study and Suggestions for Further Research

The empirical analysis and results presented in this study are not without limitations. A major limitation of the study is that it examined the determinants of Kenya's manufacturing exports using an aggregated data. However, an effective implementation of the supply side policies recommended in this study requires identification and a detailed understanding of factors that significantly affect the productive capacity of this particular exports sector in Kenya. Thus, analyzing Kenya's manufacturing exports within the gravity model using disaggregated data-specific sectors can also be considered in future studies.

Another limitation of the study is that it failed to examine Kenya's manufacturing export potential with it partners. That is, this present study is unable to indicate with which countries Kenya has unexploited manufacturing export potentials and those with which it has exhausted its potential. A consideration of this in future studies will help the nation to identify the countries in which there exist high prospects for expanding Kenya's manufacturing exports in order to maximize its gains from the same.

The analysis and findings of the study are likely to be affected by the relative small number of countries and short time period of data used in the study. Of course, Kenya's key trading partners within COMESA and EAC are more than 14 countries, and these relationships have spanned beyond 8 years. However, limited availability of data on manufacturing exports and other variables for all the countries for a longer period of time imposed a constraint on the sample size of the study. A study should be done to fill this gap.

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