

## Regional Factors Influencing Bilateral Trade Between Kenya and South Africa

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### ABSTRACT

*Trade in the modern world has evolved due to the liberalization and integration of the world into one unit. This has led to the practice of trade in multilateral, regional, and bilateral frameworks where states advance their diplomatic interests through negotiations, networking, regulations, and participation. Foreign trade is influenced by key regional factors like comparative advantage, level of investment, and domestic absorption rate. The study investigated the regional factors influencing bilateral trade between Kenya and South Africa, which are among the top economies in Africa and control a significant GDP within their regional trading blocs. The two nations enjoy trade under various global and regional arrangements like the African Growth and Opportunity Act (AGOA), the African Union (AU), and the African Continental Free Trade Area (AfCFTA). Trade between Kenya and South Africa has been uneven for the last three decades, with South Africa reaping more from exports compared to Kenya. The objective of the study was to examine the regional factors influencing bilateral trade between Kenya and South Africa. The significance of the study was to add to the knowledge pool and guide policy formulation between the two states. The study focused on the nexus between regional factors and economic diplomacy between the two states from 1994 to 2023. The standard theory and Keynesian theory were used to inform the conceptual foundation for the study. The study adopted purposive sampling and simple random sampling techniques to draw a sample size of 333 participants from the study area (Republic of Kenya and South Africa High Commission in Kenya). Primary data from interviews and questionnaires and secondary data from internet materials, journal articles, and books were adopted. Data was analyzed using the Statistical Package for Social Sciences (SPSS) software, and results were presented thematically and through verbatim quotations. The findings were presented via frequency distribution tables and percentages. The study established that comparative advantage, level of investment, and domestic absorption rate were the key regional factors affecting bilateral trade between Kenya and South Africa. The study found that South Africa has a higher competitive advantage in international trade over Kenya, characterized by a low influence of comparative advantage, a low level of investment, and a high domestic consumption rate. The study recommended that Kenya place emphasis on addressing the key regional factors by leveraging endowment factors, establishing laws to attract more FDI, and increasing technical training to improve production and ensure surpluses for export.*

**Keywords:** Bilateral Trade Relations, Comparative Advantage, Domestic Absorption Rate, Level of Investment, Regional Factors

### I. INTRODUCTION

Regional integration is a key aspect of enhancing economies of scale for every nation within the global market economy. The way in which states advance their interests in the market arena is influenced by their economic and diplomatic means. Consequently, economic diplomacy through trade promotion is used to ensure equilibrium in trade between nations by promoting a balance between imports and exports (Kennedy, 2013). As such, the balance of trade is a crucial tool in determining the economic stability of a country by analyzing the trade deficits or surpluses within its international trade.

Kenya has, on one hand, succeeded in enhancing its foreign trade in the EAC region, with the country controlling a large percentage of the area GDP (gross domestic product). This has been greatly impacted by the regional trade agreements and policies under the trading bloc, which serve as a crucial advantage over its trading partners within the bloc (Tuluy, 2016). As evidenced in the World Integrated Trade Solution (WITS) data for 2019, Kenya enjoys a cumulative surplus of over 749,000 USD. Being a free trade area, the parameters of trade are largely influenced by Kenya due to its economic stature and competitiveness in the region. Additionally, Tuluy (2016) posits that this is the case with the COMESA region, where the trade metrics are in favor of Kenya. Essentially, Kenya is among the top exporters to the trading bloc, coming in second after Egypt and commanding the agricultural and animal product sectors. On the other hand, South Africa has enjoyed continued control of the SADC trade bloc, with

the country making massive exports to the member states. The country has really influenced the regional integration framework of the SADC trading umbrella by attracting FDI (foreign direct investment) through service exports (Louw-Vaudran, 2019).

Even though both nations enjoy economic dominance within their regions, concerns arise in the way they perform their economic diplomacy, and this forms the basis of this study. With Kenya's foreign policy championing international trade through regional trading blocs, Kenya, which is among the major economic giants on the continent, does not enjoy a surplus with its contemporary continental trading partners. This can be explained by the comparison of the volume of exports Kenya makes to South Africa versus the imports. Evidently, Fundira (2017) shows that South Africa commands around 30% of intra-African exports to Kenya, which, on the contrary, only controls less than 2% of the exports to South Africa. This is irrespective of the duo lacking any absolute bilateral trade agreement and consequently performing trade under the AU and WTO umbrellas as well as bilateral Memoranda of Understanding (MOU) in trade. Among the items traded between the two countries, South Africa has over the years enjoyed a competitive advantage over Kenya in the sense that regardless of Kenya being a major exporter of agricultural products to South Africa, the trading partner commands over ten times more similar product exports to Kenya (Sebei, 2006). Further, Kenya has experienced a decline in the number of exports to South Africa by around 25% in the year 2019 compared to 2018, despite there being over five bilateral trade MOUs in place (Chidede, 2020). On the other hand, Chidede (2020) claims that South Africa experienced an 8% rise in the number of exports to Kenya in the same period.

Despite the dilemma in these assertions, there have been few studies done to examine the extent to which economic diplomacy between Kenya and South Africa affects the balance of trade. In this study, the focus will be on the influence of the three key regional factors that shape the level of bilateral trade relations and have a ripple effect on the number of exports and imports to a particular country within a particular region. These, according to Nuraini (2019), include the level of investment, comparative advantage, and domestic consumption rate. Therefore, the objective of the study was to examine the regional factors influencing bilateral trade between Kenya and South Africa.

## II. LITERATURE REVIEW

### 2.1 Theoretical review

Keynesian theory and standard theory were crucial in evaluating the conceptual framework of the study. The two theories portray the level of relationship between the independent and dependent variables as well as the intervening variables under which this research is founded. The Keynesian theory provides a correlation between foreign trade and the level of investment, domestic absorption, government expenditure, and the volumes of imports compared to exports. Under this theory, trade shocks within trading partners can be explained. The standard theory complements the Keynesian theory with a focus on the advantageous position of one trading partner over another. The standard theory justifies the influence of endowment factors on bilateral trade between trading partners. Essentially, this narrows down to the comparative advantage of a state compared to others influenced by the cost of production, availability of raw materials, skilled manpower, and wage bill.

### 2.2 Empirical review

#### 2.2.1 Domestic absorption rate

The domestic absorption rate, also known as the domestic consumption rate, is defined as the local demand for goods and commodities by analyzing the sum of total investment, household absorption, and government absorption through spending. Domestic consumption rates and trade are intertwined. Neither can do without the other. However, changes in the terms of trade do not affect the domestic absorption rate of a country since this is influenced by the population. A country's ability to produce self-sustaining goods and services notably impacts its ability to manage its foreign demand for goods and services (Gupta, 2015). Additionally, Gupta (2015) posits that there are factors that shape the consumption absorption of a country. For instance, the population demographics of a certain nation shape its demand for commodities. India, a country with a population of over 1 billion people, has a high domestic absorption rate due to the high number of households in need of commodities.

Growth in population also significantly shapes the absorption rates of a country, with the household consumption rate growing steadily to meet the demand for additional people (Gelb & Black, 2004). The level of technological advancement also influences the domestic consumption rate of a population. Generally, the modern world has significantly grown into an industrious market with the goal of innovation for the realization of its people's needs. Science and research have taken effect to oversee the production phase within society, realize multiple results, and ensure a surplus for the foreign market. Essentially, Grater (2014) postulates that the ability of a government to

produce enough commodities for its citizens is entirely shaped by the endowment factors of production. As such, the cost of production, availability of raw materials, availability of cheap labor, and market for products are key to understanding how nations trade bilaterally.

Kenya, with a population of slightly over 45 million people, has had a remarkable export structure within its agricultural sector for the past three decades. This, however, according to Mwito et al. (2015), is aggregate data, which provides for data comparison among a group of trading partners. Under the aggregate data, a tool of trade balance measurement by the Marshall-Lerner condition, Kenya has shown a significant trade imbalance since her independence, and for the last three decades, the country has been struggling to restore trade equilibrium. Between the years 1990 and 2005, the Kenyan government made amendments to its foreign exchange rate systems by abolishing the licensed import guidelines, resulting in a trade surplus of over 4% in 1993 (Mwito et al., 2015). However, in the preceding years, Kenya's trade balance shifted to an imbalance under the aggregate data.

Further, the aggregate data, as important as it is for the economic analysis of a country's trade, does not offer a bilateral point of view in establishing the stability of a nation's trade compared to that of another trading partner. On that note, to avoid the bias arising from variance in currency fluctuations among other trade elasticities in this type of data acquisition, the Marshall-Lerner condition suggests bilateral data between two trading partners to acquire sure and accurate results for the countries. Further, Mwito et al. (2015) postulate that due to the Kenyan ability to meet its domestic absorption levels, the country has been consistent in its export structure, with agricultural and horticultural products accounting for around 50% of total exports. However, imports of steel, plastics, resins, motor vehicles, machinery, pharmaceuticals, and other metal products have marked Kenya's domestic absorption rate.

On the other hand, South Africa has recorded an improved domestic surplus, with the country making significant exports in the manufacturing sector since 1990. In addition, the country has played a key role in the region's trade by commanding a good GDP of African trade. In fact, the country has attracted foreign direct investment from countries in Europe like Britain, among others. This is because of its integral role in African trade, comparative advantage, and geographical location (Nyang'oro, 1998). This has made the country the main access point for investors into the southern African region of the continent, thus having a massive influence on its trade flows. Further, the end of the apartheid era in the country was also critical to the country's foreign trade. Basically, the country now enjoys global trade partnerships with the lifting of economic sanctions against it. Indeed, as Nyang'oro (1998) explains, international capital is attractive to an area of maximization due to the prevailing peaceful coexistence of the people. However, the country continues to enjoy some civil unrest due to cultural differences as well as discrimination against people of other races. Nevertheless, this has had a minimal impact on the level of exports from the country due to the specialization in innovative production and the availability of cheap labor.

### 2.2.2 Level of Investment

The level of investment within a particular country portrays the metrics of economic development as a result of growth in capital flows. According to Nyamwange (2007), capital per person within a state is shaped by the amount of foreign direct investment that the country enjoys from foreign investors. Essentially, the ripple effect of foreign direct investment (FDI) is felt in the economic growth of the country. On the other hand, Daniel (2014) provides a justification for the need for FDI by exploring the advantageous effect of bringing investors to the country.

In addition to the promotion of economic growth, Daniel (2014) claims that investors tend to enhance innovation from the host companies in terms of technological advancements in order to withstand competition from foreign companies. Due to this, the production levels of a country get enhanced, creating a surplus for the foreign market. Most importantly, the human resources within a country enhance FDI. This is because a literate population provides highly skilled manpower for industries, and a locally available labor force is key to FDI. However, the response to the ripple effects of investment within a country could be negatively shaped by various factors. For instance, the political instability of a nation, corruption, crime, and other social and cultural vices within the country could have negative impacts on investment (Daniel, 2014). Some of these vices discourage investment, and thus capital flows are directed to other nations over a specific one. Therefore, policymakers, with consideration of the impediments to FDI, should focus on the formulation of policies that encourage capital flows into the country for a long-term ripple effect on the economic growth and development of the country (Nyamwange, 2007).

In the EAC region, Kenya is both an economic and political giant, controlling a good portion of the region's economy. This is influenced by the level of investment in her industries as well as the support from the government in terms of policies and regulations. Additionally, Wekesa et al. (2016) postulate that Kenya is the key entry point to the EAC region with key infrastructures like a well-harvested seaport, railway links, airports controlling a notable number of airlines, and road connections, among other scheduled but yet-to-be completed projects like the LAPSSSET (Lamu Port, South Sudan, Ethiopia Transport Corridor). Kenya also enjoys a market for her commodities from both the EAC

and COMESA, with a cumulative population of around 470 million people depending on the two trading blocs. Consequently, this has made Kenya an economic hub for the region, with investors attracted to the country due to its level of political and economic stature in the region.

Contrary to her wins in the investment sector, Kenya has faced some shortcomings that have directly discouraged the level of investment in the country. For instance, the levels of corruption within the state have been alarming, and little done by the government has discouraged the number of investors settling in the country. Also, Wekesa et al. (2016) argue that the uncertainties surrounding Kenya's political elections held every five years have impeded capital flows into the country. A good example of political instability was the post-election violence experienced in the country after the 2007 elections. Since then, there have been a reasonable number of investors packing up their tools and leaving for other nations (Daniel, 2014). Lastly, Mwangi (2012) implies that unfavorable policies and regulations have discouraged investment in Kenya. Recently, the country has lost a number of multinational companies like Coca-Cola Company, which were headquartered in Nairobi, Kenya, due to an uncondusive environment for conducting business.

On the other hand, South Africa, which has in the last three decades grown to become an economic hub in the southern region of the continent, has experienced an upsurge in FDI. A country whose local population offers a significant market for its products continues to attract investment in the country. According to Gelb & Black (2004), South Africa enjoyed around 2% of the total investment accounted for by the developing nations between the years 1994 and 2002. Basically, this can be explained by the lifting of economic sanctions against the nation due to the racial discrimination during the apartheid era, which created a favorable atmosphere for FDI to flourish. Also, the country enjoys some robust multinationals whose operations are beyond its borders in countries like the United Kingdom and the United States of America (Gelb & Black, 2004).

Further, international mining firms or corporations from South Africa have enhanced the capital flows generated as profits from foreign states to the country. The country also enjoys vast tracts of mineral ores, which are a source of FDI. However, Arvanitis (2005) argues that the mining sector has not been the most critical area of FDI but shows that countries like the United Kingdom, United States of America, China, and the European Union are investing in the country for non-mining activities. Additionally, the state, through the restructuring of its assets like Telkom in 1997 and the sale of government airlines in 1999, attracted more FDI to the country (Arvanitis, 2005). According to Asiedu (2006), high literacy levels, reduced rates of corruption, favorable policies, political stability, good infrastructure, and an effective legal system are clear manifestations that a lack of high levels of minerals is not a determinant of FDI. Nevertheless, the effectiveness of these factors can champion FDI for states due to the enhanced institutional features as well as government policies manifested in the South African FDI sector.

### 2.2.3 Comparative Advantage

According to Gupta (2015), there are four main factors that affect the idea of a state's comparative advantage in foreign trade. First is the level of technological advancement of a country. The technological superiority of a state against a trading partner is a key determinant of foreign trade. Basically, Gupta (2015) explores the Ricardian Model of comparative advantage to show that a country that enjoys superiority in technology in the global market arena will have a higher bargaining power regardless of other countries enjoying lower productivity costs. Secondly, the availability of raw materials or the resource endowment factor is a crucial element in measuring the comparative advantage of one state compared to another. Generally, a country should specialize in promoting international trade within its competitive areas and enhance productivity through value additions (Grater, 2014). In this case, the availability of raw materials for a particular country offers it just a market opportunity for the products at a lower cost compared to another that offers the finished materials or value-added products at a higher price.

In addition, the availability of human skills is also crucial under the resource endowment factor. Some sectors, like mining and automotive, among others, within the production stages of products require highly skilled manpower. This is an essential tool for production that is shaped by the literacy levels of the population. A country could have a high number of unemployed people who lack the necessary skills to spearhead the production cycle within the market. Therefore, with the right skilled labor force, a country's comparative advantage in international trade with other states is enhanced.

Thirdly, the demand for commodities in the local market, controlled by economies of scale, terms of trade, and the product cycle, is a crucial factor (Moyi and Kimuyu, 1999). This factor tends to open and expand the market for the local industries to the foreign market since the domestic market offers a foundation for production, quality testing, and specializing. Essentially, without having a commodity meet international standards first within the local market, it becomes more or less relevant to the global market. Therefore, the local demand for a commodity gives local industries the experience to perfect a product to meet the needs of a similar demand in the foreign market. Lastly,

policies both at the local and international level shape the comparative advantage of a state. These policies, which are directed towards education provision, infrastructure establishment, export promotion through subsidies, and import regulation, are meant to complement local production and consequently enhance the country's bargaining power in the foreign market.

Global competitiveness in trade is guided by the ability of a particular nation to leverage its comparative resource endowment features. According to Moyi and Kimuyu (1999), this is mainly influenced by the rates of wages paid to the workforce, the level of productivity of the workforce, and the currency exchange rate within the international market at the time. Arguably, for Kenya, the problems of lack of well-equipped manpower, corruption, poor infrastructure, less investment in science and research, and also a poor business environment have deviated the focus on production from extensive manufacturing of commodities to the adoption of primary product production (Githaiga, 2021). This, however, is an area that the government, through policies and funding, is looking into by promoting technical skills, which are key for the manufacturing sector. Essentially, the government is enhancing this by revamping the Technical and Vocational Education Training (TVET) institutions. Also, being a key sector in the attainment of Kenya Vision 2030, the government has to put into place strategies that enhance FDI into the sector, improve essential trading infrastructures like transportation, and put into place policies that are favorable for the industries to thrive both locally and internationally.

Nevertheless, the Kenyan GDP, as postulated by Githaiga (2021), is highly influenced by the massive control the country has over the agricultural and services sectors within the region. In fact, the country's foreign trade is a product of the high exports of horticultural products like fruits and flowers, agricultural products like coffee and tea, and the service industry like tourism. The agricultural and horticulture sectors are, however, not fully exploited due to a lack of well-equipped personnel with both knowledgeable skills and innovative technology. Apparently, a minimal population of farmers is familiar with effective value additions to promote markets for their products. Nevertheless, Obasaju et al. (2021) argue that the government, through its regional economic diplomacy in the EAC, has been putting measures in place to promote regional value chains to enhance the production of quality commodities that meet the global market.

Equally, South Africa enjoys a vast regional market for its goods and services. Apparently, this is influenced by the level of technological advancement in the country, political stability, the availability of skilled manpower, lower corruption levels, and quality infrastructure. According to Akanbi and Jordaan (2008), the post-apartheid era has seen the country advance its trade through the agricultural, manufacturing, and service industries. However, the country has seen a boost in the service industry, particularly tourism and travel services, regardless of the robust mineral base in the country. This, as postulated by Grater (2014), has been highly influenced by the adoption of global value chains, which enhance value addition for products and services. Additionally, this has also been a point to note in other key sectors like agriculture, where the country enjoys a large market for its products both within the continent and beyond (Fourie, 2011). Further, Akanbi and Jordaan (2008) postulate that the cost of production is relatively low in South Africa compared to other trading partners, thus enhancing her competitiveness in manufacturing and agricultural products. This has further been championed by the government policies in place that tend to promote foreign trade within its areas of opportunity as well as attract FDI for the exploitation of natural resources (Akanbi & Jordaan, 2008). Therefore, the South African resource base, complemented by existing government policies, political stability, good infrastructure, innovative or advanced technology, and lower corruption rates, has given South Africa significant bargaining power within the global and regional markets.

### III. METHODOLOGY

The study area was the Republic of Kenya and South Africa High Commission in Kenya, with a sample size of 333 participants. A descriptive exploratory approach was adopted to examine the cause-and-effect relationships. Purposive sampling and simple random sampling techniques were adopted. Primary data was obtained through interviews and questionnaires, whereas secondary data was from internet material, journal articles, and books. Data analysis was carried out using the Statistical Package for Social Sciences (SPSS) software, and results were presented thematically and through verbatim quotations. The findings were presented via frequency distribution tables and percentages.

### IV. RESULTS & DISCUSSIONS

This entails the background discussions of the respondents and the discussions relating to the objective of the study, which entails: the key regional factors and the extent to which they influence Kenya's competitive advantage in

international trade; the level to which the determinants of the regional factors affect bilateral trade; assessing whether Kenya's economic dominance in the EAC and COMESA regions depends on the key regional factors; and finally, determining whether Kenya is addressing the key regional factors influencing bilateral trade.

#### 4.1 Key regional factors influencing bilateral trade between Kenya and South Africa

The researcher sought to know the key regional factors influencing bilateral trade between Kenya and South Africa. The respondent's information was as follows;

**Table 1**

*Response on key regional factors influencing bilateral Trade between Kenya and South Africa*

Response	Comparative Advantage	Level of investment	Domestic consumption rate
Frequency	188	62	50
Percentage Response	62.5%	20.8%	16.7%

From Table 1, 62.5% (188) of the respondents affirmed that comparative advantage (high skills in the labor force, technological adoption capacity, more infrastructural investment, availability of cheap labor, geographical location, and reduced tariffs) is the key regional factor influencing bilateral trade between Kenya and South Africa, while 20.8% (62) and 16.7% (50) affirmed that level of investment (resource investment and efficiency investment) and domestic consumption rate (production capacity, demand capacity, and market supply capacity), respectively, were the key regional factors influencing bilateral trade between Kenya and South Africa.

The results from the responses support the theoretical foundation for the study, with the standard theory of international trade and keynesian theory forming the theoretical basis for the key regional factors influencing bilateral trade. According to the standard theory of international trade, emphasis should be laid on leveraging a country's comparative advantage so as to increase its competitive advantage in international trade (Shepherd & Asia-Pacific Research and Training Network on Trade (ARTNeT), 2013). Keynesian theory, on the other hand, provides that a country's competitive advantage in international trade is influenced by levels of investment and its domestic consumption rate (Abbas et al., 2014).

Nyamwange (2007) said that the availability of foreign direct investment in a country from foreign investors determines the level of economic growth and development of a given country. According to Daniel (2014), investors tend to enhance innovation from the host companies in terms of technological advancements in order to withstand competition from foreign companies, thus increasing production capacities, which bring about surplus produce to promote trade between Kenya and South Africa. The available literature review also affirms that domestic consumption rate and trade go hand in hand, as a high domestic consumption rate creates a deficit in goods and services to be traded while a low domestic consumption rate creates surplus goods and services for bilateral trade between Kenya and South Africa (Mwito et al., 2015). Therefore, the results based on the questionnaire concur with the available review that comparative advantage, level of investment, and domestic consumption rate are key regional factors influencing bilateral trade between Kenya and South Africa, with comparative advantage being the leading key regional factor. According to the standard theory of international trade, the emphasis on leveraging a country's comparative advantage so as to increase its competitive advantage in international trade should be a country's crucial tool for trade. This is further postulated in the interview schedules, for instance.

*Level of skills of the labour force, availability of cheap labour and the rate of adoption of technology determines the level of productivity of a given country implying that if their levels are high then the production capacity increases. Secondly, the levels of investment on infrastructure, technology acquisition and how efficiently they are utilized determines production levels. Therefore, we can literally say that comparative advantage and levels of investment cater for the increased consumption rate of the high population of Kenya and makes it also possible to have surplus for exportation. (Interview with a representative from Parliament (Committee on Trade, Industrialization and Tourism) on 14<sup>th</sup> March 2023 at 2pm in Nairobi, CBD.)*

The researcher agrees with the sentiments of the respondent from parliament. This is because a country can only meet its domestic absorption rate by attracting investment in infrastructure, embracing technological adoption, leveraging the available cheap labor, and ensuring a skilled labor workforce to enhance production levels. Further, the results based on the questionnaire and interview schedule both identify comparative advantage, level of investment, and domestic consumption rate as the key regional factors, which agree with the available literature review. Therefore,

the researcher concluded that comparative advantage, level of investment, and domestic consumption rate are the key regional factors influencing bilateral trade between Kenya and South Africa.

#### 4.2 Rate of influence of the key regional factors on Kenya's competitive advantage on international trade

The researcher analyzed the influence of the key regional factors; domestic consumption rate, comparative advantage and level of investment on Kenya's competitive advantage on international trade.

**Table 2**

*Influence of the Key Regional Factors on Kenya's Competitive Advantage on International Trade*

Response	High	Average	Low
Comparative Advantage	37.5% (112)	40.6% (122)	21.9% (66)
Level of investment	47.9% (144)	46.9% (141)	5.2% (15)
Domestic Consumption Rate	58.3% (175)	34.4% (103)	7.3% (22)

According to the responses in Table 2, 37.5% (112) of the respondents affirmed that comparative advantage had a high influence on Kenya's competitive advantage in international trade, while 40.6% (122) and 21.9% (66) of the respondents showed that comparative advantage had an average and low influence on Kenya's competitive advantage in international trade, respectively. The level of investment as a key regional factor was said to have a high influence of 47.9% (144) on Kenya's competitive advantage in international trade. 46.9% (141) and 5.2% (15) of the respondents asserted that the level of investment had an average and a low influence, respectively, on Kenya's competitive advantage in international trade. Based on the responses, 58.3% (175) of the respondents showed that the domestic consumption rate had a high influence on Kenya's competitive advantage in international trade. 34.4% (103) and 7.3% (22) of the respondents agreed that the domestic consumption rate had an average and low influence, respectively, on Kenya's competitive advantage in international trade.

Nuraini (2019) postulates that for one to have a glimpse of the bilateral trade relations between two trading partners under a regional or international framework, it is good to analyze the consumption rate, comparative advantage, and level of investment for each country, which are the determinants of foreign trade.

From an Interview with a Representative from Parliament (Committee on Trade, Industrialization, and Tourism):

*Kenya is a less developed country whose labour force is not highly skilled and also it has low levels of technological advancement which leads to low production output. The government incurs fund deficits which makes it resort to borrowing from China and other international financial institutions such as International Monetary Fund to offset the deficit which makes it difficult to further invest on infrastructural development whose aim is to increase accessibility to raw materials and to the industries for the purpose of increasing production capacity. Since Kenya is a less developed country the absorption of new technology takes time thus this reduces the rate of growth in terms of production capacity which could be imported. Lastly, due to low production capacity as a result of low skills in labour force, low technological advancement, poor infrastructure and low levels of FDI. The large Kenyan population also consumes most of the produce leaving less output for export." (Interview with a representative from Parliament (Committee on Trade, Industrialization and Tourism) on 14<sup>th</sup> March 2023 at 2pm in Nairobi, CBD.)*

The researcher agrees with the parliament respondent that Kenya is a developing country, and thus the adoption of new technology to meet production capacity takes more time compared to developed countries and fast-developing countries like South Africa. In research by Gupta (2015), it was evidenced that a country that enjoys superiority in technology in the global market arena will have a higher bargaining power regardless of other countries enjoying lower productivity costs. This, on the other hand, differs from the questionnaire results and interview results, which showed that technology levels had an average and low influence on Kenya's competitive advantage in international trade. This implies that the effect of comparative advantage on Kenya's competitive advantage is still low since the state is less developed and its labor force has low levels of skills, the technological adoption rate is low, and infrastructural investments are low due to financial deficits leading to low production output, which results in low output for exportation, hence reducing trading activities between trading partners.

The domestic consumption rate is always high in developing countries due to the increasing population, so there is always a smaller amount of goods and services to trade in. From the results based on the questionnaire, consumption rate had a high influence of 58.3% on competitive advantage in international trade, implying that when

the domestic consumption rate is high, the trade is in deficit, and when the domestic consumption rate is low, the trade is in surplus. On the other hand, the interview schedule showed that due to the high population growth rate, most of the output of production is consumed locally, leaving less output for exportation, thus having a low influence on Kenya's competitive advantage in international trade. The interview results differ from the available review on the fact that domestic consumption rate had a high influence on Kenya's competitive advantage, but the research showed that domestic consumption rate had a low influence on competitive advantage, while the questionnaire results concur with the literature review on the fact that domestic consumption rate had a high influence on Kenya's competitive advantage.

The level of investment had a high influence of 47.9% on Kenya's competitive advantage, which disagrees with the interview schedule results, which showed that the levels of investment had a low influence on Kenya's competitive advantage due to the low levels of investment in technological advancement and infrastructure by the Kenyan government as it experiences financial constraints. Daniel (2014) also asserts that high levels of investment through improved technology increase the production capacity of a country, thus increasing its competitive advantage in international trade. Therefore, in conclusion, the questionnaire results agree with the available literature review on the fact that the level of investment has an influence on Kenya's competitive advantage in international trade, while the results from interview schedules differ and provide evidence that the level of investment has a low influence on Kenya's competitive advantage in international trade. Based on the results, the researcher can affirm that although Kenya has shown improvement in international trade, it has to put in more efforts so as to improve on the key regional factors with the aim of maximizing the output of the advantages that result when the key regional factors are utilized to the maximum.

#### 4.3 Determinants of Regional Factors and Their Influence on Bilateral Trade in Kenya

The key regional factors each have their own determinants: comparative advantage (skills in the labor force, technological adoption capacity, infrastructural investment, availability of cheap labor, geographic allocation-reduced tariffs), level of investment (resource investment and efficiency investment), and consumption rate (production capacity, demand capacity, and market supply capacity). The researcher, therefore, sought to determine the level to which these determinants influence bilateral trade, and the responses are as depicted in Table 3.

**Table 3**  
**Level Of Influence of the Determinants of Key Regional Factors on Bilateral Trade**

Response	High	Average	Low
Skills in labour force	36.5% (110)	51.0% (153)	12.5% (37)
Technological adoption capacity	10.4% (31)	51.0% (153)	38.6% (116)
Infrastructural investment capacity	19.8% (59)	61.5% (185)	18.7% (56)
Availability of cheap labour	46.9% (141)	39.6% (119)	13.5% (40)
Production capacity	46.9% (141)	42.7% (128)	10.4% (31)
Demand capacity	43.8% (131)	45.8% (137)	10.4% (32)
Demand supply capacity	31.3% (94)	53.1% (159)	15.6% (47)
Trade Tariffs	60.4% (181)	39.6% (119)	0% (0)
Trade regulations	62.5% (188)	37.5% (112)	0% (0)
Peace and Stability	57.3% (172)	42.7% (128)	0% (0)

Based on the answers in Table 3, the skills of the work force had a 36.5% (110) high, a 51.0% (153) average, and a 12.5% (37) low effect on bilateral trade in Kenya. Adoption of technology had a 10.4% (31) high, a 51.0% (153) average, and a 38.6% (116) low effect on bilateral trade. The ability to invest in infrastructure had a 19.8% (59) high, a 61.5% (185) average, and an 18.7% (56) low effect on bilateral trade in Kenya.

A representative from the Kenya Export Promotion and Branding Agency said:

*The labour force in Kenya is not highly skilled especially in technical skills which are needed in manufacturing so as to add value to the final products for exportation which are more preferred to exportation of primary products. The available skills in the labour force as per now majorly have an average influence on bilateral trade as the value of the final product is not so high". The respondent further said "the government encourages foreign direct investment which brings along innovations that leads to increased production capacity thus creating surplus goods and services for bilateral trade.*

*Kenya also being part of the regional trading blocs automatically enjoys the benefits such as market creation and automated foreign direct investment thus increasing the production capacity of a member state enabling it to thrive in international trade with South Africa. Availability of cheap labour locally and increased infrastructural investment capacity by the Kenyan government has also led to increase in trade activities between Kenya and South Africa. On the other hand, Kenya is involved majorly in exportation of agricultural goods specifically in the horticultural sector and also the services area, that is, the tourism sector. The increase in demand of horticultural products leads to increased exportation thus increase in bilateral trade between the trading states. In addition, tariff reduction, trade regulation and availability of peace initiatives also have a significant influence on bilateral trade between Kenya and South Africa (Interview with a representative from the Kenya Export Promotion and Branding Agency on 18<sup>th</sup> April 2023 at 1.30pm in Nairobi, CBD.)*

The researcher agrees with the Kenya Export Promotion and Branding Agency respondent that Kenya enjoys cheap labor from its population and the government is increasing investment in infrastructure, thus having a positive effect on bilateral trade with South Africa. Also, the respondent claims that the Kenyan labor force is not highly skilled, thus affecting the final product and value addition for commodities. According to Gupta (2015) and Grater (2014), high technological advancement, the availability of raw materials, and the right skilled manpower enhance the comparative advantage as they increase the production capacity of a country, thus improving international trade. The availability of human skills is also crucial under the resource endowment factor, that is, in sectors like mining and automotive, among others, within the production stages of products that require highly skilled manpower. A skilled labor force enhances a country's comparative advantage in international trade with other states. Moyi and Kimuyu (1999) affirm that demand for commodities opens and expands the market for local industries in the foreign market. In addition, the provision of education, infrastructure establishment, export promotion through subsidies, and import regulation spearhead local production, which in turn enhances the country's bargaining power in the foreign market. Moyi and Kimuyu (1999)

According to Mariadoss (2017), the agreement between two states serves as a pivot in bilateral negotiations, with the members working towards the removal and reduction of trade barriers and tariffs. This implies that a reduction in trade tariffs and trade regulation between two trading states will lead to increased bilateral trade between Kenya and South Africa. Based on the results, the availability of cheap labor, production capacity, trade tariffs, trade regulations, and peace and stability had a high influence on bilateral trade in Kenya. This, according to the review, implies that the availability of cheap labor reduces the production cost, resulting in increased output of products for exportation, whereas peace and stability create a mutual relationship between trading partners, thus increasing the market size for trading. Lastly, reductions in tariffs and trade regulations reduce the cost of exporting, thus leading to more exportation in Kenya. The responses of the study respondents further showed that skills in the labor force, technological adoption capacity, infrastructural investment capacity, demand capacity, and demand supply capacity had an average influence on bilateral trade in Kenya. Given the low level of technical skill in the Kenyan labor force, particularly in the fields required for manufacturing, this is acceptable in light of the reviews that are currently available. Since Kenya is a developing country, technological adoption capacity is low, and the rate of investment in infrastructure by the Kenyan government is low due to the inadequacy of funds. As a result, it tends to have an average influence on production and, thus, an average influence on bilateral trade in the country.

Finally, Kenya as a country has a high population, leading to a high consumption rate. In this case, most of the goods and services produced are consumed locally, leading to a deficit in goods and services for exportation. Therefore, the demand capacity may be high, but the ratio of production and supply capacity of a country (demand supply capacity) may be unequal, leading to an average influence on the bilateral trade of a given country. Therefore, the results and available reviews assert that the determinants of the key regional factors have a significant influence on bilateral trade in Kenya. The researcher also found that the factors that affect the main regional factors have a big effect on trade between Kenya and other countries in the region. This is true even though Kenya still has low levels of technology and skilled labor, and there are financial problems that make it hard to offer incentives, build infrastructure, and help people learn better skills by putting more money into TVETs.

#### **4.4 Dependence of Kenya's Economic Dominance in the EAC and COMESA regions on key regional factors**

Table 4 provides sufficient evidence to show that 55.2% (166) and 18.8% (55) of the respondents agree and strongly agree, respectively, that Kenya's economic dominance in the EAC and COMESA is dependent on key regional factors. 4.2% (13) of the respondents were not sure, while 16.6% (50) and 5.2% (16) of the respondents disagreed and strongly disagreed that Kenya's economic dominance in the EAC and COMESA is dependent on key regional factors.

**Table 4**

*Response on the Dependence of Kenya's Economic Dominance in the EAC and COMESA Regions on Key Regional Factors*

Response	Strongly Disagree	Disagree	Not sure	Agree	Strongly agree
Frequency	16	50	13	166	55
Percentage Response	5.2%	16.6%	4.2%	55.2%	18.8%

A representative from Parliament (Committee on Trade, Industrialization and Tourism) stated;

*For Kenya to flourish in trade with its trading partners in EAC and COMESA it has to leverage on the key regional factors, that is, comparative advantage (higher skills in labour force, technological adoption capacity, more infrastructural development, availability of cheap labour and geographical location-reduced tariffs), level of investment (resource investment and efficiency investment) and domestic consumption rate (production capacity, demand capacity and market supply capacity). The Kenyan government has significantly invested in TVETs so as to improve the technical skills of its labour force which are essential in manufacturing. It also encourages foreign direct investments which bring along innovations that are significant in increasing production thus resulting in higher production capacity sufficient for local consumption and for the country to trade in with its trading partners. Despite having financial constraints, the Kenyan government has heavily invested in infrastructural development with the aim of improving accessibility to raw materials and to the industry for ease of production. The main sector of trade in Kenya is the horticultural sector. Therefore, if the determinants of the key regional factors, that is, comparative advantage and level of investment are favourable then they lead to high production capacity, which meets the high demand capacity which gets to meet the market supply capacity at the international trade between thus boosting Kenya's economic dominance in EAC and COMESA (Interview with a representative from Parliament (Committee on Trade, Industrialization and Tourism) on 14<sup>th</sup> March 2023 at 2pm in Nairobi, CBD.)*

The researcher agrees with the parliament respondent that Kenya's economic dominance in the EAC and COMESA regions is influenced by her ability to leverage key regional factors. This is evident through the higher levels of investment, a higher skilled labor force, the availability of cheap labor, higher technological adoption, and infrastructural investment compared to the member states. According to Madyo (2008), Africa enjoys less than a third of trade across the globe due to poor development, poor infrastructural capacity, and poverty burden, thus the need to enhance intra-African trade. Nuraini (2019) also postulates that for one to understand trade relations between trading states, one should analyze the key regional factors: consumption rate, comparative advantage, and level of investment for each country, which are the determinants of foreign trade and improve a country's competitive advantage in international trade.

As such, Kenya's economic dominance in the EAC and COMESA regions depends on key regional factors, as shown by a response rate of 74% (55.2% where respondents agree and 18.8% where respondents strongly agree). The questionnaire results and interview schedule results agree on the fact that for Kenya to economically dominate the EAC and COMESA, it has to leverage or completely utilize the key regional factors to boost its output for local consumption while still having surplus goods and services for exportation within the trading region. According to the results, the utilization of the key regional factors is what enables the state to create surplus goods to participate in trade with other states since it boosts Kenya's competitive advantage in international markets. Therefore, for Kenya to prevail in the international market with EAC and COMESA member states, it should utilize key regional factors.

#### 4.5 Addressing the Key Regional Factors

From Table 5, it was observed that 72.9% (219) of the respondents affirmed that Kenya is actively engaged in addressing the key regional factors influencing bilateral trade while 27.1% (81) declined that Kenya was not actively engaged in addressing the key regional factors influencing bilateral trade.

**Table 5**

*Addressing the Key Regional Factors Influencing Bilateral Trade*

Respondents	Yes	No
Frequency	219	81
Percentage response	72.9%	27.1%

A representative from Parliament (Committee on Trade, Industrialization and Tourism) claimed that;

*In order to address the key regional factors, that is, comparative advantage (higher skills in labour force, technological adoption capacity, more infrastructural development, availability of cheap labour and geographical location-reduced tariffs), level of investment (resource investment and efficiency investment) and domestic consumption rate (production capacity, demand capacity and market supply capacity) the Kenyan government has taken various measures which include; Due to the low levels of skills of its labour force, the Kenyan government has heavily invested in TVETs so as to improve on Technical skills required in manufacturing. The Kenyan government has also encouraged foreign direct investments which bring along innovations necessary for production of final goods and services. In addition, despite deficits in finances, the Kenyan government has also heavily invested in infrastructural development which improves accessibility to the raw materials and to the industries. These efforts by the government in turn result in high productivity, thus high production capacity enough for consumption by the large local population and still have surplus for bilateral trade with South Africa (Interview with a representative from Parliament (Committee on Trade, Industrialization and Tourism) on 14<sup>th</sup> March 2023 at 2pm in Nairobi, CBD).*

Kenya has a problem of lack of well-equipped manpower, corruption, poor infrastructure, less investment in science and research, and also a poor business environment, which has deviated the focus on production from extensive manufacturing of commodities to the adoption of primary production (Githaiga, 2021). Kenya encourages foreign direct investment to improve innovation with the aim of increasing production capacity to be able to satisfy the consumption needs of its growing population and create a trade surplus. Gupta (2015). This is agreeable with the parliament representative's assertion that the Kenyan government has put in measures to attract more FDI. Also, being a key sector in the attainment of the Kenya Vision 2030, the government has to put into place strategies that enhance FDI into the sector so as to improve on essential trading infrastructures like transportation and put into place policies that are favorable for the industries to thrive both locally and internationally (through reduction in tariffs so as to open up and expand international trade). In order to promote technical skills, the Kenyan government is revamping Technical and Vocational Education Training (TVET) institutions. The results from the questionnaire and interview schedule both shows that the Kenyan government engages in addressing the key regional factors influencing bilateral trade.

Finally, the available literature review concurs with both the questionnaire and interview schedule results, thus concluding that the Kenyan government has engaged in addressing the key regional factors influencing bilateral trade. Although Kenya faces challenges in addressing key regional factors such as financial constraints and slow adoption of innovations, there has been a significant improvement in its performance in international trade as compared to the 20<sup>th</sup> century.

## V. CONCLUSIONS & RECOMMENDATIONS

### 5.1 Conclusions

The study established that comparative advantage, level of investment, and domestic absorption rate were the key regional factors affecting bilateral trade between Kenya and South Africa. The study found that South Africa has a higher competitive advantage in international trade over Kenya, characterized by a low influence of comparative advantage, a low level of investment, and a high domestic consumption rate.

### 5.2 Recommendations

The study recommended that Kenya place emphasis on addressing the key regional factors by leveraging endowment factors, establishing laws to attract more FDI, and increasing technical training to improve production and ensure surpluses for export.

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