

---

## The effect of Trade Liberalization on the Textile Industry in Kenya

---

*Article history:* Revised format: 14<sup>th</sup> April 2022, Available online: 29<sup>th</sup> April 2022

---

Dennis Kariuki<sup>1</sup>

**Abstract:**

**Purpose:** The study sought to ascertain the effect of trade liberalization on the textile industry in Kenya. The specific focus was on the impact of trade openness, foreign direct investment and tariff measures on the textile industry in Kenya.

**Material/methods:** The study targeted 23 textile export firms in Kenya. The study relied on the ex-post factor research design.

**Findings:** The findings from the textile export firms indicated that trade openness and foreign direct investment positively influenced textile industry performance in Kenya. However, tariff measures did not influence the textile industry.

**Conclusion:** The conclusion was that textile firms are taking advantage of an open trade regime to enhance their access to international markets. Also, through FDI inflows, the textile exports firms have access to new technology that boosts their productivity levels. However, there is no clarity on the tariff measures on textile exports from Kenya to international markets.

**Recommendations:** The study recommended that the government implement open trade policies and ensure that textile export firms have a supportive business environment. Also, there is a need to reduce tariffs on production inputs to boost the production levels of the textile industry in Kenya. Finally, the government should have the legal and regulatory framework in the country to facilitate inflows of foreign investment in the textile industry.

**Keywords:** Trade liberalization; FDI; trade openness; tariffs; textile industry performance

**Paper Type:** Research Article

**Recommended citation:** Kariuki, D. (2022). The effect of Trade Liberalization on the Textile Industry in Kenya. *Journal of Economics, Management Sciences and Procurement*, 2(1), 49–62.

### 1. Introduction

The goal of trade liberalization is to enhance productivity and promote exports through the exploitation of comparative advantage that is an outcome of enhanced technical development and exposure to foreign competition. Emphasis on the removal or reduction of barriers to trade between different countries is key. In a bid to diversify their economies, countries embark on trade liberalization with the aim of boosting their overall economy. Manufacturing has largely been impacted by liberalized trade.

---

<sup>1</sup> MA Student, Department of Political Science and Public Administration, University of Nairobi; email: [kariukidkk@gmail.com](mailto:kariukidkk@gmail.com)

Notably, the elimination of quotas by USA on textile and clothing imports resulted in increased textile supplies from both China and India (Seyoum, 2017). In this regard, liberalized trade afforded both India and China the opportunity to increase their textile exports to the USA.

In Asia, Pakistan to be specific, the manufacturing sector exhibited dismal performance after its independence. This was largely attributed to trade policies that were geared towards protecting cottage industries. However, between the 1970s and 1990s, the country shifted its focus to an outer oriented trade regime that made it possible to realize an improvement in manufacturing value addition and consequently growth in the economy (Haq, Perveen, & Amin, 2017). Not only has Pakistan benefited immensely in the post-liberalization period but also Sub-Saharan countries. Specifically, the reduction in import tariffs led to increased exports of textile and textile articles from Sub-Saharan Africa (Van Biesebroeck, & Zaurino, 2019). Nevertheless, countries such as China that have capitalized on technological transfer have made it difficult for Sub-Saharan countries to capitalize from liberalized trade.

Despite the importance of manufacturing, the economies of developing countries still remain largely agricultural. As such, the textile industry is often neglected (Njiiri, 2018). In spite of this, the industry is of key significance to both the developed and developing economies. The reason for this is that its end products, fabrics are used in vehicles interiors, furniture, coverings and health gadgets such as face masks and gloves. As well, the textile industry has a capacity to generate huge employment. Particularly, Rivatex East Africa limited has been key in the manufacture of personal protective equipment that have aided in combating the coronavirus pandemic and creating employment opportunities in the country.

In the periods after liberalized trade, the manufacturing sector in developing countries have declined in production and competitiveness (Kawaz, 2012). In Kenya, the decision to implement more trade openness has coincided with poor production in the sector. In this period, the textile industry which is a subsector of manufacturing faced stiff competition from the importation of second-hand textiles.

Efforts were made towards regionalization so that Kenya could benefit from preferential access to regional markets and those of the developed worlds. There was also massive privatization in the textile sector though the country was incapable of attaining the production levels realized in the import substitution period. Despite this evidence, there is still scanty literature on the nexus between trade liberalization and the performance of textile sector. This research therefore intends on addressing this gap.

## **2. Empirical Review**

### ***Trade openness on textile industry performance***

Empirically, trade openness refers to the intensity of trade regulation and restrictions by a given country to other international trade partners (Fujii, 2019). Open trade in an economy is likely to stimulate textile industry performance. Several channels through which trade openness could improve the textile industry's performance exist in the literature. These channels included access to cheaper and better technology, attaining economies of scale by firms in the textile industry and accessing broader markets.

Among the studies that have attempted to find a nexus between open trade and the textile industry's performance is Ullah et al., (2020) who investigated the influence of trade openness on the profitability of the textile industry in Pakistan. The research relied on secondary data from 1997 to 2019. The study sourced the data from the World Bank Development indicators and Pakistan Securities Exchange. The data on the profitability levels of the firms in the textile industry were collected from their annual reports. The findings indicated that trade openness had no effect on the profitability of the firms in the textile industry. The current study adopts a different approach by looking at the overall textile industry performance as opposed to the individual performance of the textile firms.

He (2020) explored the effects of Chinese imports on African textile exports. The study targeted 53 African states and fourteen textile subsectors within these countries. The period of interest was from 1990 to 2017. The findings indicated that from the period between 1990 to 2008, the Chinese imports had positive influence on African textile exports. However, as from 2009 to 2017, the imports negatively influence the textile exports from Africa. He (2020) argued that during the first period, the imports from China intensified competition in the textile sector which boosted the overall productivity and exportation of African textile exports.

However, in the second period, there was an increase in the crowding-out effects which contributed to the decline in African exports with the rising Chinese imports. Besides, the textile industries in Africa were facing stiff competition from countries such as India and Pakistan that had comparative advantage in the textile industry. Thus, some of the textile firms within Africa found it cheaper to import raw materials as opposed to sourcing it from the cotton producers within their countries. Eventually, the textile industries experienced a considerable decline in the production with Chinese textile imports offering a cheaper alternative.

In the African context, Umoh & Effiong (2013) conducted a study on the influence of open trade on Kenya's manufacturing sector performance. The ARDL model was utilized in the analysis. The period was from 1970 to 2008. The findings indicated that openness to trade positively impacted production in manufacturing. It was concluded that the focus needs to be on more open trade regimes to facilitate the sector's performance. The reduction of trade restrictions was also recommended as the appropriate policy path to pursue in improving manufacturing performance.

Okeowo & Aregbeshola (2018) studied the influence of trade openness on textile industry performance in Nigeria. The time-series data utilized was between 1986 and 2015. The period focused on was after the country embraced liberalized trade. The method used was the Autoregressive Distributed Lagged model. The findings revealed that an increase in trade openness would result in declined textile industry performance. The implication is that open trade brings about a decline in the productivity of the textile industry. Evidently, the textile industry performed poorly in the trade liberalization period.

Finally, Keregero (2016) analyzed textile industry performance in Tanzania. The research gave a historical perspective of the textile industry performance in the periods before and after implementing open trade policies. The findings indicated that the textile industry had performed dismally in the post-liberalization period, mainly due to the county's influx of cheap second-hand clothes. Therefore, trade openness was detrimental to textile industry performance in Tanzania. The study will build on this

research by adding insights into how trade openness has affected the textile industry in Kenya. The present study employs quantitative analysis instead of the qualitative approach by Keregero (2016).

### ***Tariff measures on textile industry performance***

Tariffs are customs levied on imports that offer an advantage to local producers and, at the same time, are a source of revenue for the government (WTO, 2015). Trade restrictiveness is most often measured with tariffs since it is the most direct of all measures and tends to have available data. Setyorini & Budiono (2020) delved into the influence of tariffs on the importation of raw materials and the exportation of textile and clothing. The focus of the study was on the United States Market. The study collected data from textile exporters to the USA. The analysis was done with the aid of the gravity model. The findings indicated that with an increase in tariffs, there is a reduction in textile exports to the USA market. The results revealed that the tariffs were a burden for the countries exporting textile to the USA, particularly those not subject to a special tariff rate. In that regard, tariffs restricted the export of textile to the USA. Nevertheless, the current study focuses on textile industry performance as opposed to textile exports.

In the United States, Seyoum (2010) investigated the contributions of the textile and clothing sector to the USA economy and developing economies of the world. Emphasis was on effects of elimination of tariffs on exports from the developing countries to the USA. Focus was also on the impact of tariff elimination on textile exports from China which is largest exporter of textiles globally. The findings revealed that the elimination of tariffs would largely benefit the dominant players in the textile industry which are China and India. The study suggested that the majority of developing countries lacked the capacity to expand their production processes to serve more markets in the liberalized world. Therefore, efforts at elimination tariffs are beneficial to India and China who happen to have comparative advantage in the sector. The present study adopts a different approach by assessing the tariff measures on textile exports from Kenya and how it impacts on the textile industry performance in the country.

Bukachi, Gitonga, and Kosgei (2020) looked into the impact of custom duties on the financial performance of Kenyan textile and apparel enterprises. The study adopted an explanatory research design and relied on primary data. The data was sought from the senior management of the firms. Bukachi, Gitonga, and Kosgei (2020) indicated that custom tariffs contributed to 64% of the variation of the financial performance of the textile firms. Besides, a unit increase in custom tariffs led to the improvement in the performance of the textile firms. Thus, custom tariffs were instrumental in boosting the performance of firms in the textile and apparel industry.

The authors argued that the import tariffs of fabric and apparel fostered the growth of the textile and apparel firms in Kenya. Notably, with the imposition of custom tariffs, there was an increase in the domestic market for textile and clothing since it was costly to import (Bukachi, Gitonga, & Kosgei, 2020). As such, with the increase in demand, the textile firms were in a position to expand their production levels to serve these markets and in turn it boosted their financial performance. However, Bukachi, Gitonga, and Kosgei (2020) did not indicate how the imposition of custom tariffs impacted on the export of textile and clothing. The presents study fills this gap by assessing how tariff measures on textiles impacts on the performance of the textile industry.

### ***Foreign Direct investments on Textile Industry Performance***

The long-term investments made by foreigners in a firm that is resident in a country that the investor is not based on is the foreign direct investment. Inflows of investment, whether by domestic investors or foreign, are instrumental in a country's development. In the least developing economies, FDI fills a gap by affording these countries skilled labour, technology and access to international markets. Nevertheless, the downsides of foreign direct investment are often felt by the infant industries of the host state. Kenya should, therefore, emphasize the advantages of FDI by eliminating its negative implications.

The study examined the literature on the link between FDI and textile industry performance. Notably, Sun & Anwar (2017) analyzed the impact of FDI on Chinese textile firms' performance. The research made use of the Meltz firm heterogeneity model. The specific focus was on how FDI affects how textile firms generate income in local and international markets. In the presence of FDI, the textile sector in China elicited improved performance. Consequently, with the increase in FDI, the textile firms had an increase in the revenue generated. The present study conceptualizes FDI as a measure of trade liberalization. It argues that, with an outward-oriented trade regime, foreign direct investment's inflows are a positive externality of opening up trade. The study, therefore, interrogates FDI as a proxy of trade liberalization, which is not the case with Sun & Anwar (2017).

Konara and Wei (2017) examined the influence of FDI on the development of domestic firms in Sri Lanka. The study relied on industry data and survey data from the World Bank. The findings indicated that FDI had both positive and negative spillover effects on the local firms in Sri Lanka. Concerning the positive effects, FDI is key to improving the competitiveness of domestic firms. The competition from the FDI ventures forces the local firms to improve on their production processes to maintain and increase their market share. However, the FDI ventures tend to be more productive because of their technology capabilities and their focus towards research and development. As well, since they are more export-oriented they tended to capture a larger market share compared to domestic firms therefore making more revenue. Thus, Konara and Wei (2017) argues that domestic firms can benchmark in FDI ventures to learn on how to improve on their performance and increase their market share.

Further, Adarov and Stehrer (2019) assessed the influence of FDI on the textile and clothing industry in selected countries in Europe. The study relied on secondary for the period between 2000 and 2014. The findings indicated that FDI inflows contribute to the growth of the textile and clothing industries in Europe (Adarov & Stehrer, 2019). FDI is key in enhancing the competitiveness of the textile firms in the global markets. FDI also contributes to capital accumulation among firms in this sector. The divergence with the present study is that focus is only on the textile industry in Kenya.

Mirugi (2017) looked into the contribution of foreign direct investment to the textile industry in Kenya. The study was a survey of 17 textile and apparel firms in Kenya. The research utilized a questionnaire in gathering data from the employees in these firms. The results indicated that tax incentives were a key factor in attracting FDI in the textile and apparel industry. Besides, Mirugi (2017) found out that the presence of conducive regulatory and legal framework contributed to attracting FDI inflows in the textile industry. However, there were barriers such as exchange rate fluctuations,

surging inflation levels which significantly increased the cost of doing business in the textile industry.

### **3. Material and methods**

The study utilized an ex-post factor research design. The study aimed to establish the effect of trade liberalization on the textile industry. This design was instrumental in identifying the possible effect of the explanatory variables on the dependent variable. The research design does not expose the study variables to direct manipulation hence appropriate for the study. Besides, the design attempts at determining the effect of a variable on another variable and test a claim using hypotheses.

#### ***Target Population***

The study's focus is on the textile industry since it is a vital component of the manufacturing sector that is a key pillar to the economic development of Kenya. The study population comprised 23 textile export firms in Kenya. The justification for the choice of the targeted textile firms is that they have varied production levels, with some dominant in textile and apparel export. In contrast, others are new entrants in the export market. In each of the targeted textile export firms, the study targeted managers, assistant managers, general secretaries, and supervisors, making up a population of 92 respondents.

#### ***Study Sample***

The sampling frame was representative since it included the managers, assistant managers, general secretaries and supervisors from the targeted textile export firms. Since the population is small and manageable, the study was a census involving the entire population of 92 respondents from the textile firms. The justification for the sample size is that the study satisfied internal and external validity and did not miss a relevant subgroup of the population.

#### ***Data Collection Methods***

The study relied on structured questionnaires to collect data on the effect of trade liberalization on the textile industry in Kenya. The questionnaire is best suited for the study since it is accurate in capturing information from the respondents and can easily be analyzed. Section one of the questionnaire looks into the influence of trade openness on the performance of the textile industry in Kenya, section two on the influence of tariff measures on the textile industry, section three on the effect of FDI on the textile industry and finally section four on textile industry performance.

#### ***Reliability***

The pilot study was conducted in Thika Cloth mills limited in Thika town. A total of 10 respondents from the senior management in the firm were targeted for the pilot study. These respondents were not part of the main study. The reliability findings indicated that tariffs had the highest reliability ( $\alpha= 0.843$ ) followed by FDI ( $\alpha= 0.780$ ), then textile industry performance ( $\alpha= 0.751$ ) and finally, trade openness ( $\alpha= 0.736$ ). The implication was that the research instruments were reliable and required no amendments.

#### ***Data Analysis***

The researcher reviewed the collected data to check for any possible errors. The researcher contacted the respondents to rectify on mistakes and fill missing information. Data was then prepared in readiness for analysis with the statistical package for social sciences (SPSS) version 24.

### ***Ethical Consideration***

The study adhered to ethical guidelines in conducting the research. To start with, the researcher obtained a permit from NACOSTI before undertaking the study. Secondly, the researcher explained to the respondents why the study is being conducted and their role in facilitating the study. Thirdly, the respondents signed an informed consent before participating in the study. The researcher informed the respondents that their participation in the study was voluntary and they could withdraw their consent if they so wish. Also, the data obtained from them would be used only for academic purposes. Finally, the study ensured that the respondents remain anonymous.

### **Results and discussion**

#### ***Trade liberalization in the textile industry***

Trade liberalization was looked at in terms of trade openness, FDI and tariffs in the textile industry in Kenya. Table 4.1 illustrates the results. The findings on trade openness indicated that the opening up of trade had facilitated access to cheaper and better technology (mean = 3.42, SD = 1.43). However, the firms did not enjoy price competitiveness in the global market (mean = 2.36, SD = 1.11). There is a possibility that the textile industry is facing stiff competition from other countries that can produce textiles at a relatively cheaper cost. Besides, the textile export firms are not receiving adequate support from the government (mean = 2.03, SD = 1.38). However, open trade afforded the textile export firms a market for their produce (mean = 4.15, SD = 0.82). The findings align with Kemboi and Oleche, (2020) assertion that open trade creates a situation whereby domestic producers expand their produce to serve both local and international markets.

Regarding tariffs, the employees in the textile firms were of the opinion that reduction of tariffs on textile and textile articles would boost the local textile industry (mean = 4.17, SD = 1.32). However, the textile export firms from the majority of the textile firms did not enjoy tax exemptions (mean = 2.29, SD = 1.21). Finally, the employees were uncertain if there is a special tariff rate for textile exports from Kenya (mean = 2.51, SD = 0.89).

The findings on FDI indicated that the legal and regulatory framework in the country is not supportive of FDI inflows (mean = 2.4, SD = 1.29). Further, most firms had not attracted foreign investment in the past five years (mean = 2.71, SD = 1.09). However, the textile export firms have the structures and capacity to adopt new technology that comes with an open trade regime (mean = 4.03, SD = 0.46). In fact, technology from foreign investors had improved the quality of locally produced textiles (mean = 3.69, SD = 1.17). Additionally, the financial bailout by foreign investors had positively affected the firm's production and demand for textiles (mean = 3.83, SD = 1.42). Nevertheless, it was unclear if the textile export firms share technology with foreigners (mean = 3.32).

**Table 4.1: Trade liberalization in the textile industry**

<b>Trade openness in the textile industry</b>		<b>Mean</b>	<b>SD</b>
TO1.	The opening up of trade has facilitated access to cheaper and better technology	3.42	1.43
TO2.	The firm enjoys price competitiveness in the global markets.	2.36	1.11
TO3.	The firm has taken advantage of an open trade regime to enhance access to international markets	4.15	0.82
TO4.	Support given to local textile firms gives the firm an advantage over foreign firms	2.03	1.38

<b>Tariff measures in the textile industry</b>		<b>Mean</b>	<b>SD</b>
TAR1.	Tariffs on inputs of productions affects the firm's production level	4.45	0.64
TAR2.	Our textile exports enjoy tax exemptions to Kenya's major trading partners.	2.29	1.21
TAR3.	Reduction of tariffs on textile and textile articles will boost the local textile industry	4.17	1.32
TAR4.	There is a special tariff rate for textile exports from Kenya	2.51	0.89
<b>FDI in the textile industry</b>		<b>Mean</b>	<b>SD</b>
FD1.	The legal and regulatory framework in the country facilitates inflows of foreign investment	2.4	1.29
FD2.	In the past five years, there has been significant foreign investment in the firm	2.71	1.09
FD3.	The firm has the skills and capacity to handle new technology	4.03	0.46
FD4.	Technology from foreign investors has improved the quality of locally produced textiles	3.69	1.17
FD5.	Financial bailout by foreign investors has positively affected the firm's production and demand for textiles	3.83	1.42
FD6.	The firm shares technology with foreigners	3.32	1.45

### ***Textile Industry Performance***

The study enquired from the respondents on the textile industry performance. The findings are as presented in table 4.2. Notably, meaning that not all firms had benefited from the opening up of trade between the country and its major trading partners (mean = 3.03, SD = 1.53). However, the firms meet the demands of the domestic market (mean = 4.1, 0.73). Additionally, the importation of foreign textiles into the Kenyan market had contributed to declined growth in the textile industry (mean = 4.74, SD = 0.63). Similarly, the entrance of foreign firms to the Kenyan market has resulted in a decline in the profit margins (mean = 4.78, SD = 0.57). As a result, heightened competition from foreign firms in the Kenyan market threatens the survival of local textile firms (mean = 4.92, SD = 0.48).

**Table 4.2: Textile Industry Performance**

		<b>Mean</b>	<b>SD</b>
TIP1	The textile industry has benefited from the opening up of trade between Kenya and its major trading partners	3.03	1.53
TIP2	The firm can meet the local demand for textiles as well as export to global markets	3.63	0.97
TIP3	The firm meets the demands of the local market	4.1	0.73
TIP4	Importation of foreign textiles into the Kenyan market has contributed to declined growth in the textile industry	4.74	0.63
TIP5	Stiff competition occasioned by entrance of foreign firms to the Kenyan market has resulted in a decline in the profit margins	4.78	0.57
TIP6	Heightened competition from foreign firms in the Kenyan market threatens the survival of local textile firms	4.92	0.48

### **Hypotheses Testing**

The regression findings are as presented in table 4.3. The independent variables that the study focused on were trade openness, tariff measures and FDI. The dependent variable of the study was the textile industry performance. Table 4.3 highlights the results.



**Table 4.3: Coefficients of Estimate**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.374	0.357		6.646	0
Trade Openness	0.231	0.067	0.374	3.447	0.001
Tariff Measures	0.152	0.1	0.173	1.519	0.133
FDI	0.187	0.087	0.219	2.152	0.035

a Dependent Variable: Textile Industry Performance

### ***Hypotheses Testing***

#### ***H<sub>01</sub>: Trade Openness has no significant effect on Textile Industry Performance in Kenya***

The regression results showed that trade openness had significant coefficients of estimate based on  $\beta_1 = 0.374$  (p-value = 0.001, which is less than 0.05). As a result, the study rejected the hypothesis that trade openness has no significant effect on textile industry performance in Kenya. The implication is that there is a 0.374-unit increase in textile industry performance in Kenya for each unit increase in trade openness. Consistently, He (2020) agreed that the opening up of trade increases the volume of African textile exports to the global market. However, suppose the domestic textile firms fail to improve their production processes on technology and skilled workforce. In that case, they are unable to cope with the stiff competition in the global market. Thus, during the earlier phases of an open trade regime, African countries have access to broader markets implying a higher demand for their textile and textile articles.

Nevertheless, as competition intensifies, countries such as India and China that have a comparative advantage in the manufacture of textiles enjoy price competitiveness in global markets (He, 2020). Therefore, African textile exports exhibit a decline in their demand, leading to declined growth in the textile industry. Since the present research did not conduct a long-run relationship between trade openness and textile industry performance, future scholars could ascertain if He (2020) assertion that trade openness is likely to be detrimental for the textile industry, in the long run, holds true in the Kenyan context.

As opposed to the study results, Okeowo and Aregbeshola (2018) established that open trade was associated with a decline in the textile industry performance in Nigeria. The difference with the present study was the focus on an extended period from 1986 to 2015. Though Nigeria and Kenya liberalized their trade in the 1980s, bought countries elicit different production patterns in the textile industry. Also, in the Kenya context, the open trade policies were not fully implemented since trade restrictions existed in the post-liberalization period. The difference in the direction of the relationship between trade openness and textile industry performance could be attributed to the fact that Okeowo and Aregbeshola (2018) conducted a long-run relationship while the present study relied on current statistics in the textile industry.

Additionally, Keregero (2016) argued that trade openness contributed to the dismal performance in the Tanzanian textile industry. The author noted that the influx of cheap

second-hand clothes particularly from China, contributed largely to the decline textile industry performance. Kenya experienced the same influx of cheap textile and clothing from trading partners such as China, which also led to the shutdown of many textile firms within Kenya (Kemboi, 2020). Therefore, similar to Kenya, Tanzanian textile firms experienced high competition from countries such as China, which are global powerhouses in manufacturing textile. The eventual outcome was the decline in the textile industry performance in both countries. The current study did not capture this aspect because the focus was not on a long-run relationship between trade openness and textile industry performance in Kenya.

In the descriptive analysis, the study had pointed out that trade openness had facilitated access to cheaper and better technology. Thus, access to advanced technology could have contributed to the positive influence of open trade on textile industry performance in Kenya. Fujii (2019) confirms that access to cheaper and better technology is one of the channels that trade openness improves the textile industry performance. There is a probability that through the technology spillovers, the textile firms in Kenya improved on their production processes resulting in an improvement in their individual performance and the overall textile industry.

***H<sub>02</sub>: Tariff Measures have no significant effect on Textile Industry Performance in Kenya***

Tariff measures had no significant effect on textile industry performance ( $\beta_2 = 0.173$ , p-value = 0.133 which is more than  $\alpha = 0.05$ ). As such, the study accepts the hypothesis that tariff measures have no significant effect on textile industry performance. The implication is that textile industry performance would exhibit no change with the imposition of tariff measures. The findings are attributed to the inconsistent imposition of tax exemptions on textile exports from Kenya to its major trading partners. Also, there is uncertainty among the textile export firms as to whether there is a special tariff rate for Kenyan textile exports. On the flip side, employees and owners of textile export firms in Kenya affirmed that the reduction of tariffs on textile and textile articles would boost the local textile industry.

Consistent with the results, Seyoum (2010) argued that the removal of tariffs did not have any effect on the textile and clothing industries of developing economies. The study argued that the textile industries in these countries did not have the capacity to expand their production processes to serve more markets in the United States with the reduction in trade barriers. Instead, countries such as China and India that were dominant players in the textile industry were the biggest beneficiaries from the reduction of tariffs for textile and clothing to the USA market. Consequently, there is a possibility that the textile firms in the developing economies did not adjust to the competition effect as alluded to in the technology spillover theory. It is because the firms were expected to enhance their production levels with the reduction in tariffs for textiles to the USA market.

However, the findings contradict that of Setyorini and Budiono (2020), which established a reduction in the textile exports to the USA market with the imposition of tariffs. Notably, tariffs were a burden to countries exporting their textile to the USA market. However, for countries that were subjected to a special tariff rate, their textile exports did not elicit a decline in their volume. Setyorini and Budiono (2020) results could be contrary to that of the present study since the employees and owners of textile

export firms in Kenya were unaware of any special tariff rate for Kenyan textile exports to its major trading partners.

Also, the findings conflict with that of Jamil and Arif (2019), which established that the reduction in tariffs for production inputs contributes to an increase in the textile exports from Pakistan to international markets. The current study had indicated that the reduction in tariffs on the production inputs affected the production levels of the textile export firms in Kenya. However, the overall effect of tariff measures on textile industry performance produced no significant relationship. Therefore, there is a possibility that the textile export firms in Kenya are still facing constraints in the importation of production inputs.

Additionally, the research findings differ from that of Bukachi, Gitonga, and Kosgei (2020), which established that those custom duties on fabric and apparel to Kenya improved textile industry performance. The study by Bukachi, Gitonga, and Kosgei (2020) is similar in approach to that of the current research. However, the difference is that the present research looks at the tariffs textile exports from Kenya are exposed to in the international markets. On the other hand, Bukachi, Gitonga, and Kosgei (2020) examined the custom duties on fabric and apparel from the rest of the world to the Kenyan market. As such, they find that, with the imposition of custom tariffs, there was an increase in the domestic market for textile and clothing since it was costly to import fabric and apparel.

Thus, the government generates revenue, and the domestic firms have an advantage over foreign firms in the Kenyan market. The danger, however, is if other trading partners retaliate by imposing tariffs on textile and textile articles from Kenya to their markets. Therefore, there is a need to explore further how import tariffs on Kenyan textile exports impact the textile industry. Future studies could utilize both primary and secondary data to ascertain how tariff impositions on textile impact the performance of the industry both in the short and long run.

***H<sub>03</sub>: Foreign Direct Investments have no significant influence on Textile Industry Performance in Kenya***

FDI had significant coefficients of estimate based on  $\beta_3 = 0.219$  ( $p$ -value = 0.035, which is less than 0.05). Thus, FDI had a positive and significant impact on the performance of the textile industry. Therefore, the study rejects the hypothesis that FDI did not influence the textile industry performance in Kenya. As a result, it was estimated that for every unit increase in FDI inflows, the textile industry in Kenya grows by 0.219 units. In line with the results, Sun and Anwar (2017) established that textile firms in China elicited improved performance in the presence of FDI. The authors argued that with the increase in FDI inflows, the textile firms had an increase in their revenue. The findings suggest that FDI is also beneficial for countries with a comparative advantage in the textile sector.

Further, Konara and Wei (2017) espoused that FDI had both a positive and negative effect on the domestic firms in Sri Lanka. The positive impact of FDI on local firms in Sri Lanka conform with the study findings. Konara and Wei (2017) elucidated that FDI is instrumental in enhancing the competitiveness of domestic firms. The competition effect alluded to by the technology spillover theory was at play in Sri Lanka. Notably, the competition from the FDI ventures forced the domestic firms to improve their production processes to maintain and expand their market share (Konara & Wei, 2017).

However, the challenge was that the domestic firms in Sri Lanka were not in a position to match the technological expertise of the FDI ventures. Consequently, the FDI ventures captured a significant portion of the market, thereby negatively impacting the revenue of local firms. Therefore, there is a need for future studies to ascertain both the short and long run effect of FDI on the textile industry performance to establish if there are both positive and negative implications of FDI.

Besides, the research findings are consistent with that of Adarov and Stehrer (2019), which established that FDI inflow contributes to the growth of the textile and clothing industries in Europe. Adarov and Stehrer (2019) also found out that FDI enhances the competitiveness of textile firms in the global markets. The divergence with the present study was the use of secondary data in determining the relationship between FDI and the performance of the textile industry. Also, Adarov and Stehrer (2019) focused on the countries in Europe. Despite these differences, it appears that FDI positively impacts textile industry performance both in the Kenyan and European contexts.

Additionally, the study findings confirm Mirugi (2017) assertion that the presence of a conducive regulatory and legal framework contributed to attracting FDI inflows in the textile industry in Kenya. However, a significant number of employees and owners in textile exports noted that the legal and regulatory framework was not conducive to attracting FDI. It could be that the country has experienced a deterioration in the legal and regulatory framework in the past four years. Despite this, FDI contributed to an improvement in the textile industry performance. Therefore, there is a need for robust legal and regulatory frameworks to attract more FDI into the textile industry in Kenya.

### ***Conclusion and Recommendations***

The study indicated that trade openness positively influenced textile industry performance in Kenya. The implication is that the textile firms are taking advantage of an open trade regime to enhance their access to international markets. There is also more access to cheaper and better technology. The challenge, however, is the high price competitiveness in the global markets. Therefore, the government should implement open trade policies and ensure textile export firms have a supportive business environment. Specific emphasis should be on ensuring that the textile export firms have access to cheaper and better technology. Also, the government needs to reduce the taxation on the importation of machinery and equipment for the textile industry.

However, tariff measures had no significant influence on textile industry performance in Kenya. The reason for this is that the players in the textile industry are not aware of the tax exemptions for textile exports to Kenya's major trading partners. There is also uncertainty as to whether there is a special tariff rate for textile exports from Kenya. Therefore, there is no clarity on the tariff measures on textile exports from Kenya. Despite the insignificant effect of tariff measures on the textile industry performance in Kenya, it is necessary to sensitize the industry players on the tariff measures on textile exports. Other than that, there is a need to reduce tariffs on production inputs to boost the production levels of the textile industry in Kenya.

Finally, FDI positively influences textile industry performance in Kenya. Through FDI inflows, the textile exports firms have access to new technology that boosts their productivity levels. Thus, the Kenyan government should have the legal and regulatory framework in the country to facilitate inflows of foreign investment in the textile industry. The textile exports firms should ensure they have the skills and capacity to handle new technology. Also, the government should create a conducive business

environment that fosters technology sharing between foreigners and domestic textile export firms. Moreover, the trade policies should make it easier for foreign investors to bail out underperforming textile export firms and improve their production.

## References

- Adarov, A., & Stehrer, R. (2019). Implications of foreign direct investment, capital formation and its structure for global value chains. *The World Economy*.
- Anwar, S., Shaukat, F., & Hussain, Z. (2010). Impact of trade liberalization on export of cotton from Pakistan: a time series analysis. *Sarhad Journal of agriculture*, 26(2), 297-304.
- Bukachi, F., Gitonga, D., & Kosgei, D. (2020). Effect of Customs Tariffs on the Financial Performance of Textile and Apparel Firms in Kenya. *African Tax and Customs Review*, 3(1), p9-16.
- Bukachi, F., Gitonga, D., & Kosgei, D. (2020). Effect of Customs Tariffs on the Financial Performance of Textile and Apparel Firms in Kenya. *African Tax and Customs Review*, 3(1), p9-16.
- Fujii, E. (2019). What does trade openness measure?. *Oxford Bulletin of Economics and Statistics*, 81(4), 868-888.
- Haq, M., Perveen, K., & Amin, B. (2017). Trade Liberalization, Manufacturing Value Addition, and Economic Growth: Empirical Evidence in Case of Pakistan. *Forman Journal of Economic Studies*, 13.
- He, Y. (2020). The Impact of Imports from China on African Textile Exports. *Journal of African Trade*, 7(1-2), 60-68.
- Jamil, N., & Arif, R. (2019). Increasing Exports through Tariff Reductions on Intermediate Goods. *The Lahore Journal of Economics*, 24(1), 29-53.
- Jamil, N., & Arif, R. (2019). Increasing Exports through Tariff Reductions on Intermediate Goods. *The Lahore Journal of Economics*, 24(1), 29-53.
- Kawaz, A. (2012). *Industrial Policies and Globalization* (1st ed.). Kuwait, Arab Planning Institute.
- Kemboi, M. K. (2020). Agricultural Trade Liberalization in Kenya and Implications for Kenya China Trade Relations. *Developing Country Studies*, 10(1), 86-93. doi:10.7176/DCS/10-1-07
- Keregero, M. C. (2016). A study on the performance of textile sector in Tanzania-challenges and ways forward.
- Konara, P., & Wei, Y. (2017). Foreign direct investment as a catalyst for domestic firm development: The case of Sri Lanka.
- Mirugi, F. (2017). *Role and Impact of EPZ in Attracting FDI in EPZ Apparel and Textile Industry in Kenya* (Doctoral dissertation, United States International University-Africa).
- Njiiri, G. K. (2018). *Effects of imported second hand clothes on the performance of textile industry in Kenya: A survey of selected markets in Nairobi County* (Unpublished doctoral dissertation). University of Nairobi.
- Okeowo, F. O., & Aregbeshola, R. A. (2018). Trade Liberalization and Performance of the Nigerian Textile Industry. *Journal of Economics and Behavioral Studies*, 10(2), 33-47.
- Setyorini, D., & Budiono, B. (2020). *The Impact of Tariff and Imported Raw Materials on Textile and Clothing Export: Evidence from the United States Market* (No. 202004). Department of Economics, Padjadjaran University.

- Seyoum, B. (2010). Trade liberalization in textiles and clothing and developing countries: an analysis with special emphasis on the US import Market. *The International Trade Journal*, 24(2), 149-181.
- Seyoum, B. (2017). US foreign trade zones and import intensity examining determinants of import intensity in US foreign trade zones. *European Business Review*.
- Sun, S., & Anwar, S. (2017). Foreign direct investment and the performance of indigenous firms in China's textile industry. *The Quarterly Review of Economics and Finance*, 65, 107-113.
- Ullah, I., Noreen, H., Rehman, Z. U., & Shinwari, N. (2020). Impact of Macro Economic Variables on Return on Assets of Textile Industry of Pakistan. *European Journal of Business and Management Research*, 5(6).
- Umoh, O. J., & Effiong, E. L. (2013). Trade openness and manufacturing sector performance in Nigeria. *Margin: The Journal of Applied Economic Research*, 7(2), 147-169.
- Van Biesebroeck, J., & Zaurino, E. (2019). *Effects of Trade Liberalization on Textile and Apparel Exports from Sub-Saharan Africa*. The World Bank.
- World Trade Organization (WTO) (2015), Report on G-20 Trade Measures, 30 October.