

**COMPETITIVENESS OF KENYAN INDUSTRIES IN WORLD TRADE**

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**ABSTRACT**

The authors have investigated competitiveness of Kenyan industries in the world trade. Kenya demonstrates significant competitiveness in the world trade in three industries namely: textiles; chemicals and allied industries; and plastic/rubber. The following Kenyan industries are least competitive in the world trade: raw hides, skins, leather and furs; foot wear/head gear; and transportation. The products I which Kenya is famous of namely flowers and coffee, do not feature in the top 3 category of their respective industries. It is recommended that Kenya should device policies which attract transnational corporations which can bring in the required foreign direct investment which can transfer technology and improve Kenyan competitiveness in the world trade. Kenya may also consider channeling its resources into the industries in which it has significant competitiveness.

**Key Words:** *Competitiveness, international trade, exports, Kenya*

**Introduction**

A number of studies done on Kenya like Chingarande et al (2013) have investigated comparative advantage based on product lines. While these studies have shown in which products Kenya has comparative advantage, they have however left a gap in investigating competitiveness of Kenyan industries. Their paper further discussed Kenya in the Eastern Africa regional context. The objective of this study is to investigate the competitiveness of Kenyan industries in world trade.

In order to deal with the issues at stake in this paper, there is a need to define what is meant by competitiveness and discuss its scope. The word competitiveness has its own meaning in international trade. One of the most frequent used definitions in international trade is the definition given by the President's Commission on industrial competitiveness. The President's Commission on Industrial Competitiveness (1985) defines competitiveness as the degree a nation is able to create goods and services within a free and fair environment in conformity with the international markets at the same time increasing wealth of its citizens. The definition seems to be broader and comprehensive but does not reveal how competitiveness is achieved. Competitiveness is a term different author's have used without attaching specific meaning and each one of them trying to project a certain image (Brumbaugh, 2006). This paper relies on some of these different meanings of competitiveness. The term competitiveness brings in many aspects that have a bearing on a nation's macroeconomic situation. These involve innovations and productivity. These factors rely so much on investment in manpower and capital for example factories. There is also reliance on institutional mechanism available in a particular country (Durand, Simon & Webb, 1992). Ezeala-Harrison (1999) defines competitiveness as the ability of the nation's producers to produce a product or render a service and promote them. The products must be able to meet the higher standards set in the international markets but are sold at cheaper prices. There is introduction of price here. That is the producers should be able to offer cheaper prices at the same time maintaining higher standards of its products and services. If competitiveness is focused only on trade performance such a meaning can be misleading because of the possibility of producing an outcome that contradicts with the one focused on productivity (Ezeala-Harrison, 1995).

Competitiveness is a product of a nation's human resource, physical capital such as factories and natural endowments. In addition it is also determined by demand conditions as well as the performance of the firms and their strategies and how well prepared and not prepared by other competing firms challenge them in the market. Competitiveness or competitive advantage has similar meaning with absolute advantage. They both have impact on distribution of resources, trade pattern and on the volume of trade (Porter 1990, 2009).

Competitiveness can be measured by revealed comparative advantage. The theory suggest that each nation involved in trade with another nation gains from being involved in that trade. The nations concerned are not in competition that the other loses and the other then wins. Instead, the benefits are mutual and they lead to specialization among nations so they are able to produce those commodities which they are more suited for (Brumbaugh, 2006).

WEF and IMD (1990) have come up with factors that determine competitiveness. These are: domestic economy- the existence of competition in the local market prepares firms to be productive and efficient; internationalization- when a nation is more open to international activities its performance enhances minimization of state interventions in the economic activities; availability of finance and support infrastructure; availability of sound management;

promotion of science and innovation; and availability of skilled manpower and positive attitude to productivity.

### Research Methodology

The methodology used to measure competitiveness in this paper is Balassa (1965) revealed comparative advantage (RCA). Wu and Chen (2004) have justified this methodology because in the dynamic competitive market economy, the competitive advantage as revealed in export composition is very much consistent with competitive advantage based on the nation's economy factor endowment and evolves along with the facets of economic development. According to Kowalski (2011) RCA is a good measure of competitive advantage. Mzumara (2011) also used the method in a study which investigated whether Zimbabwe was competitive in international trade between 2000 and 2009. Balassa (1965) revealed comparative advantage (RCA) index takes the form:

$$RCA = \left( \frac{X_{i,j}}{X_{w,j}} \right) / \left( \frac{X_{i,tot}}{X_{w,tot}} \right)$$

With:

$X_{i,j}$  representing country  $i$ 's exports of product  $j$ ;

$X_{i,tot}$  representing country  $i$ 's total exports;

$X_{w,j}$  representing the world's (all countries) export of product  $j$ ; and

$X_{w,tot}$  representing total exports in the world.

An  $RCA \geq 1$  shows that the nation has revealed comparative advantage and that it is relatively specialised in producing and exporting the product line under investigation. An  $RCA < 1$  shows that the nation has no revealed comparative advantage and is therefore not specialised in the product line (Balassa, 1965; Krugell & Matthee, 2009).

The authors have used export data for Kenya and world export data obtained from International Trade Centre (ITC)'s Trademap based in Geneva, Switzerland to compute RCA indices for Kenya. The data referred above relate to the years 2008, 2009 and 2010. Harmonized 6-digit export data the most disaggregate has been used to compute each country's RCA for 2008, 2009 AND 2010.

### Results and Discussion

Table 1 shows the results of each industry in Kenya. In the table's column 1 is the rank for each industry in Kenya in terms of competitiveness in international trade. Column 2 is the industry code. Column 3 is the description of the industry. Column 4 is the number of products with  $RCA \geq 1$  in each industry. The RCA is the basis of ranking of each industry in Kenya.

**Table 1: Industries with competitive advantage**

| Rank | Industry code | Industry description               | Number of products with $RCA \geq 1$ |
|------|---------------|------------------------------------|--------------------------------------|
| 1    | 50-63         | Textiles                           | 130                                  |
| 2    | 28-38         | Chemicals and allied industries    | 109                                  |
| 3    | 39-40         | Plastics/rubber                    | 106                                  |
| 4    | 72-83         | Metals                             | 88                                   |
| 5    | 06-15         | Vegetable products                 | 84                                   |
| 6    | 44-49         | Wood and woods products            | 45                                   |
| 7    | 16-24         | Foodstuffs                         | 44                                   |
| 8    | 84-85         | Machinery/electric                 | 41                                   |
| 9    | 01-05         | Animal products                    | 29                                   |
| 10   | 90-97         | Miscellaneous                      | 28                                   |
| 11   | 25-27         | Mineral products                   | 27                                   |
| 12   | 68-71         | Stone/glass                        | 18                                   |
| 13   | 41-43         | Raw hides, skins, leather and furs | 12                                   |
| 13   | 64-67         | Foot wear/head gear                | 12                                   |
| 13   | 86-89         | Transportation                     | 12                                   |

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The most competitive industry in Kenya is textiles. It has the largest number of product codes with  $RCA \geq 1$ . There are 130 product codes in this industry in which Kenya demonstrates competitive advantage in the world trade. It is followed by chemicals and allied industries with 109 product codes in which Kenya has competitive advantage. In the third place is plastic/rubber with 106 product codes. In the fourth place is metals and it has 88 product codes in it in which it has competitive advantage. In the fifth place are vegetable products with 84 product codes. There are three less efficient or less competitive industries in Kenya. These are: raw hides, skins, leather and furs; foot wear/head gear; and transportation. They have each only 12 product codes in which they demonstrate efficiency and competitiveness. However the number product codes in them is very small. Making inter-industry comparison they are at the bottom signifying insignificant competitiveness. They are followed by stone/glass with only 28 product codes. Table 2 shows top 3 products codes in the textile industry in which Kenya has competitive advantage.

**Table 2: Top 3 product codes in the textile industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                                 | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|-----------------------------------------------------|----------|----------|----------|-------------|
| 1    | 530390       | Jute and other bast fibres, not spun, tow, waste    | 1113.599 | 927.5524 | 528.911  | 856.6876    |
| 2    | 530310       | Jute and other textile bast fibres raw or retted    | 265.5441 | 169.261  | 189.0848 | 207.9633    |
| 3    | 510119       | Greasy wool (other than shone) not carded or combed | 101.2695 | 158.2357 | 123.4373 | 127.6475    |

In table 2, jute and other bast fibres, not spurn, tow, waste in the textile industry is highly competitive in this industry with RCA index of 856.7. It is followed by jute and other textile bast fibres raw or retted with an RCA index of 208. In the third place is greasy wool (other than shone) not carded or combed with an RCA index of 127.6.

Table 3 shows top 3 products codes in the chemicals and allied industries in which Kenya has competitive advantage.

**Table 3: Top 3 product codes in the chemicals and allied industries in which Kenya has competitive advantage**

| Rank | Product code | Product description                          | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|----------------------------------------------|----------|----------|----------|-------------|
| 1    | 283699       | Carbonates of metals                         | 712.6155 | 554.7476 | 393.345  | 553.5693    |
| 2    | 340510       | Polishes, creams etc for footwear or leather | 88.48288 | 97.02524 | 89.97715 | 91.82842    |
| 2    | 283919       | Silicates of sodium other than metasilicates | 60.96614 | 59.61262 | 65.19308 | 61.92395    |

In table 3, carbonates of metals in the chemicals and allied industries have the highest competitive advantage in this industry with an RCA index of 553.6. It is followed by polishes, creams etc for footwear or leather with an RCA index of 91.8. In the third place is silicates of sodium other than metasilicates with an RCA index of 62.

Table 4 shows top 3 products codes in the plastic/rubber in which Kenya has competitive advantage.

**Table 4: Top 3 product codes in the plastic/rubber in which Kenya has competitive advantage**

| Rank | Product code | Product description                                              | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|------------------------------------------------------------------|----------|----------|----------|-------------|
| 1    | 390750       | Alkyd resins, in primary forms                                   | 9.242208 | 9.162809 | 9.081327 | 9.128781    |
| 2    | 392329       | Plastic sacks, bags, cone except of ethylene polymers            | 7.569443 | 8.212498 | 8.035453 | 7.933038    |
| 3    | 401219       | Retread pneumatic tyres of rubber (excluding of 4012.11-4012.13) | 4.550212 | 5.733804 | 2.587726 | 3.95747     |

In table 4, alkyd resins, in primary forms in the plastic/rubber industry is the most competitive in this industry with an RCA index of 9. It is followed by plastic sacks, bags, cone except of ethylene polymers with an RCA index of 8. In the third rank are retread pneumatic tyres of rubber (excluding of 4012.11-4012.13) with an RCA index of 4.

Table 5 shows top 3 products codes in the metals in which Kenya has competitive advantage.

**Table 5: Top 3 product codes in the metals industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                                               | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|-------------------------------------------------------------------|----------|----------|----------|-------------|
| 1    | 721041       | Flat rolled iron or non-alloy steel, coat/zinc corrugated, w>600m | 159.0816 | 184.5052 | 173.3699 | 172.3189    |
| 2    | 830910       | Corks, crown, of base metal                                       | 76.89445 | 88.92208 | 91.05406 | 85.62353    |
| 3    | 740321       | Copper-zinc base alloys, unwrought                                | 36.95181 | 60.15053 | 69.80541 | 55.63592    |

In table 5, flat rolled iron or non-alloy steel, coat/zinc corrugated, w>600m in the metals industry is the most competitive in this industry with an index of 172. In the second rank are corks, crown, of base metal with an RCA of 86. In the third rank are copper-zinc base alloys, unwrought with an index of 56.

Table 6 shows top 3 products codes in the vegetable products industry in which Kenya has competitive advantage.

**Table 6: Top 3 product codes in the vegetable products industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                            | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|------------------------------------------------|----------|----------|----------|-------------|
| 1    | 090240       | Tea, black (fermented partly) in packages >3kg | 994.5901 | 839.8416 | 995.9075 | 943.4464    |
| 2    | 060210       | Cuttings and slips, not rooted                 | 273.7908 | 367.4907 | 362.7792 | 334.6869    |
| 3    | 070820       | Beans, shelled or unshelled, fresh or chilled  | 229.3106 | 172.2552 | 229.4898 | 210.3519    |

In table 6, tea, black (fermented partly) in packages >3kg in the vegetable products industry is the most competitive in this industry with an index of 943. It is followed by cuttings and slips, not rooted with an index of 334.7. In the third place are beans, shelled or unshelled, fresh or chilled with an index of 210.4.

Table 7 shows top 3 products codes in the wood and wood products industry in which Kenya has competitive advantage.

**Table 7: Top 3 product codes in the wood and wood products industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                               | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|---------------------------------------------------|----------|----------|----------|-------------|
| 1    | 482020       | School, etc, exercise books                       | 41.42685 | 32.11051 | 55.74387 | 44.76032    |
| 2    | 490900       | Postcards, printed or illustrated, greeting cards | 15.00036 | 28.57945 | 23.9392  | 22.50636    |
| 3    | 482190       | Paper labels of all kinds, not printed            | 10.53013 | 7.197927 | 7.602122 | 8.443393    |

In table 7, school, etc, exercise books in the wood and wood products industry are the most competitive in this industry with RCA index of 44.8. In the second rank are postcards, printed or illustrated, greeting cards with an index of 23. In the third place are paper labels of all kinds, not printed with an index of 8.

Table 8 shows top 3 products codes in the foodstuffs industry in which Kenya has competitive advantage.

**Table 8: Top 3 product codes in the foodstuffs industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                              | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|--------------------------------------------------|----------|----------|----------|-------------|
| 1    | 200559       | Beans, prepared or preserved, not frozen/vinegar | 285.7054 | 146.9858 | 247.4926 | 226.7279    |
| 2    | 200820       | Pineapples, otherwise prepared or preserved      | 205.6098 | 121.8733 | 162.189  | 163.2241    |
| 3    | 210230       | Baking powders, prepared                         | 87.68047 | 140.7796 | 141.6026 | 123.3542    |

In table 8, beans, prepared or preserved, not frozen/vinegar in the foodstuffs industry are the most competitive in this industry with an RCA index of 228. In the second place are pineapples, otherwise prepared or preserved with an RCA index of 163. In the third rank are baking powders, prepared with an index of 123.4.

Table 9 shows top 3 products codes in the machinery/electric industry in which Kenya has competitive advantage.

**Table 9: Top 3 product codes in the machinery/electric industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                  | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|--------------------------------------|----------|----------|----------|-------------|
| 1    | 854419       | Insulated winding wire               | 31.23443 | 22.59886 | 20.04777 | 24.62702    |
| 2    | 841320       | Hand pumps not designed measure flow | 9.799608 | 12.12    | 4.67018  | 8.863264    |
| 3    | 842919       | Bulldozers and angle dozers, wheeled | 3.36846  | 6.838156 | 12.4886  | 7.565157    |

In table 9, insulated winding wire in the machinery/electric industry is the most competitive in this industry with an RCA index of 27. It is followed by hand pumps not designed measure flow with an RCA index of 8.9. In the third rank are bulldozers and angle dozers, wheeled with an RCA index of 7.6.

Table 10 shows top 3 products codes in the animal products industry in which Kenya has competitive advantage.

**Table 10: Top 3 product codes in the animal products industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                                          | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|--------------------------------------------------------------|----------|----------|----------|-------------|
| 1    | 030751       | Octopus, live, fresh or chilled                              | 36.16656 | 23.96593 | 24.08774 | 28.07341    |
| 2    | 020830       | Meat and edible meat offal of primates, fresh/chilled/frozen | 0        | 0        | 29.1492  | 9.716399    |
| 3    | 021011       | Hams and shoulders, swine, salted dried or smoked            | 9.668655 | 9.493914 | 5.467696 | 8.209888    |

In table 10, octopus, live, fresh or chilled I the animal products industry is the most competitive in this industry with an RCA index of 28. In the second place is Meat and edible meat offal of primates, fresh/chilled/frozen with an index of 10. In the third position are hams and shoulders, swine, salted dried or smoked with an index of 8.

Table 11 shows top 3 products codes in the miscellaneous industry in which Kenya has competitive advantage.

**Table 11: Top 3 product codes in the miscellaneous industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                  | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|--------------------------------------|----------|----------|----------|-------------|
| 1    | 950659       | Badminton and similar rackets        | 56.3848  | 53.89941 | 48.81715 | 53.03379    |
| 2    | 960810       | Ball point pens                      | 8.619018 | 10.15914 | 9.584592 | 9.454249    |
| 3    | 961700       | Vacuum flasks etc parts except inner | 12.40617 | 9.956275 | 3.145238 | 8.50256     |

In table 11, badminton and similar rackets in the miscellaneous industry are the most competitive in this industry with an index of 53. In the second position are ball point pens with an index of 9.5. In the third rank are vacuum flasks etc parts except inner with an index of 9.

Table 12 shows top 3 products codes in the mineral products industry in which Kenya has competitive advantage.

**Table 12: Top 3 product codes in the stone/glass industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                   | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|---------------------------------------|----------|----------|----------|-------------|
| 1    | 252230       | Hydraulic lime                        | 115.2967 | 158.2773 | 214.7072 | 162.7604    |
| 2    | 252922       | Fluors par>97% calcium fluoride       | 295.7586 | 26.81803 | 87.55658 | 136.711     |
| 3    | 271410       | Bituminous or oil shale and tar sands | 81.78933 | 36.77217 | 41.21721 | 53.25957    |

In table 12, hydraulic lime in the mineral products industry is the most competitive in this industry with an RCA index of 162.8. It is followed by fluors par>97% calcium fluoride with an RCA index of 162.8. In the third place is bituminous or oil shale and tar sands with an RCA index of 53.3.

Table 13 shows top 3 products codes in the mineral products industry in which Kenya has competitive advantage.

**Table 13: Top 3 product codes in the stone/glass industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                              | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|--------------------------------------------------|----------|----------|----------|-------------|
| 1    | 710811       | Gold powder non-monetary                         | 0        | 0        | 206.8704 | 68.95681    |
| 2    | 690100       | Brick, blocks and ceramic goods of siliceous     | 33.93552 | 79.21284 | 82.1002  | 65.08285    |
| 3    | 701090       | Glass containers for packing or conveyance goods | 9.816309 | 10.7759  | 8.76628  | 9.786155    |

In table 13, gold powder non-monetary in the stone/glass industry is the most competitive in this industry with an RCA index of 69. It is followed by brick, blocks and ceramic goods of siliceous with an RCA index of 65. In the third place are glass containers for packing or conveyance goods with an RCA index of 9.8.

Table 14 shows top 3 products codes in the raw hides skins leather and furs industry in which Kenya has competitive advantage.

**Table 14: Top 3 product codes in the raw hides, skins, leather and furs industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                                                        | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|----------------------------------------------------------------------------|----------|----------|----------|-------------|
| 1    | 410621       | Tanned/crust hides and skins of goats/kids without wool/hair on in the wet | 432.0418 | 340.5929 | 657.7968 | 476.8105    |
| 2    | 410510       | Tanned/crust skins of sheep/lambs, without wool on in the wet state        | 73.92705 | 65.35641 | 143.1775 | 94.15366    |
| 3    | 410691       | Tanned/crust hides and skins without wool/hair on, in the wet state        | 23.71825 | 0        | 0        | 7.906082    |

In table 14, tanned/crust hides and skins of goats/kids without wool/hair on in the wet in the raw, hides, skins, leather and furs industry are the most competitive in this industry with an RCA index of 477. This product code is followed by tanned/crust skins of sheep/lambs, without wool on in the wet state with an RCA index of 94.2. In the third rank are tanned/crust hides and skins without wool/hair on, in the wet state with an RCA index of 8. This industry, foot wear/head gear industry and transportation industry they all have each only 12 product codes.

Table 15 shows top 3 products codes in the foot wear/head gear industry in which Kenya has competitive advantage.

**Table 15: Top 3 product codes in the foot wear/head gear industry in which Kenya has competitive advantage**

| Rank | Product code | Product description                                       | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|-----------------------------------------------------------|----------|----------|----------|-------------|
| 1    | 640199       | Water proof foot wear (wellington) no toe cap)            | 32.07885 | 28.92915 | 33.10576 | 31.37125    |
| 2    | 640220       | Foot wear, rubber, plastic, straps fix to sole plug       | 38.53168 | 30.6935  | 19.80536 | 29.67685    |
| 3    | 640192       | Water proof foot wear (wellington) no toe cap, over ankle | 23.03557 | 32.57691 | 31.18771 | 28.9134     |

In table 15, water proof foot wear (wellington) no toe cap) in the foot wear/head gear industry is the most competitive in this industry with an RCA index of 31.4. This product code is followed by foot wear, rubber, plastic, straps fix to sole plug with an RCA index of 29.7. In the third place is water proof foot wear (wellington) no toe cap, over ankle with an RCA index of 29. Table 16

shows top 3 products codes in the transportation industry in which Kenya has competitive advantage.

**Table 16: Top 3 product codes in the transportation industry in which Kenya has competitive advantage**

| Rank | Product code | Product description               | 2008 RCA | 2009 RCA | 2010 RCA | Average RCA |
|------|--------------|-----------------------------------|----------|----------|----------|-------------|
| 1    | 871640       | Trailers, semi-trailers           | 27.56142 | 42.26215 | 38.96164 | 36.26174    |
| 2    | 871631       | Tanker trailers and semi-trailers | 3.39063  | 4.297819 | 16.41127 | 8.033238    |
| 3    | 870520       | Mobile drilling derricks          | 1.223442 | 12.87564 | 3.628888 | 5.909322    |

In table 16, trailers, semi-trailers in the transportation industry is the most competitive in this industry with an RCA index of 36.3. In the second position are tanker trailers and semi-trailers with an RCA index of 8. In the third rank are mobile drilling derricks with RCA index of 6.

Kenya is one of large producers of flowers and coffee. However, the products do not feature in the top 3 categories as discussed above. Kenya is in fact demonstrating significant capabilities in the production of other products other than them.

### Conclusions and Recommendations

Kenya demonstrates significant competitiveness in the world trade in three industries namely: textiles; chemicals and allied industries; and plastic/rubber. The following Kenyan industries are least competitive in the world trade: raw hides, skins, leather and furs; foot wear/head gear; and transportation. The products I which Kenya is famous of namely flowers and coffee, do not feature in the top 3 category of their respective industries.

It is recommended that Kenya should device policies which attract transnational corporations which can bring in the required foreign direct investment which can transfer technology and improve Kenyan competitiveness in the world trade. Kenya may also consider channeling its resources into the industries in which it has significant competitiveness.

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