

EFFECT OF TRADE OPENNESS ON ECONOMIC GROWTH IN KENYA

¹Samuel Omboke Nyabute, ²Peris Njeri Kiarie, ³Lucy Wamugo Mwangi

School of Business, Economics and Tourism

Kenyatta University

DOI: <https://doi.org/10.5281/zenodo.21807011>

Published Date: 05-August-2026

Abstract: Kenya has enacted a number of comprehensive trade policies with the goal of improving the nation's overall economic performance. Despite these efforts and other underlying initiatives focused on increasing trade levels of Kenya via Structural Adjustments Programs (SAPs) and Vision 2030, the levels of trade openness have been characterized by a fluctuating trend. The paper seeks to establish the effect on trade openness on economic growth in Kenya. The theoretical framework on the study will be based on Theory of comparative advantage and export-led-growth theory. Ex-post facto research approach was utilized in the paper. Time series methodology will be applied, co-integration tests and diagnostic tests such as stationarity, normality, heteroskedasticity, and autocorrelation tests will be conducted. Various control variables including inflation, interest rate, and exchange rate will be included to guarantee that a sound statistical model is established. Hypothesis testing will be guided by the threshold of 0.05 significance level. The Autoregressive distributed lag (ARDL) models regression results revealed that in the long run the effect of trade openness on economic growth was positive but insignificant, while in the short run it was positive and significant. In conclusion, while economic growth is enhanced by trade liberalisation in the short run, its long-run effect is yet to be fully realised. The study recommended that the relevant government authorities should enhance export diversification and value addition policies, manufacturing policies and trade infrastructure.

Keywords: Economic Growth, Exports, Imports and Trade Openness.

1. INTRODUCTION AND PROBLEM STATEMENT

Sustaining and maintaining steady economic growth is the best tactic a country can use to reduce poverty and improve living conditions (Ezenwanne & Egbuna, 2026). According to Fidele, Placide, and Flora (2025), a country's fiscal health can only advance more quickly if its economy grows quickly and steadily. Trade openness has historically been linked to improved economic performance, which fosters prosperity, better working conditions, and more stability and security for everybody. The adaptability of a host nation and the ease with which foreign investors can engage in international trade are known as trade openness. Opening up trade with other nations allows domestic producers to boost their production because the market grows, competition spurs innovation, and gives access to ideas and technology that would not otherwise be feasible (El-Amri & El-Jouali, 2026).

Over the past few decades, it has been evident that both developed and developing nations have benefited greatly from increased international trade (Ergen, 2026). International agencies like the World Trade Organization, the International Monetary Fund, and the World Bank frequently advise developing nations, in particular, to accelerate trade openness in order to achieve rapid economic growth. Therefore, in both established and emerging countries, trade openness is seen as the most important and equally difficult aspect influencing globalization (Cenaj & Kilaj, 2025). By having competitive advantages, a focus on exports enables industrial specialization in economies. On the other hand, exposure to worldwide markets promotes innovation and increased international competition when it comes to imports (Nam & Ryu, 2024).

Trade is one of the six important sectors that account for 57% of Kenya's GDP and have the potential to increase GDP growth to almost 10% annually, according to Kenyan experts, policymakers, stakeholders, and investors (Nguyen & Lee,

2025). Since the 1980s, Kenya has implemented a number of significant trade policy changes with the goal of accelerating the nation's economic growth and achieving the 2030 vision. The key trade-related policy initiatives that the Kenyan government has undertaken to capitalize on the economic benefits of opening up to trade include the implementation of Structural Adjustments Programs (SAPs) in the 1980s, the floating of exchange rates in the late 1993s, and Kenya's commitment to bilateral and multilateral trade integration (Gacheru, 2024).

Statistics show that Kenya's GDP growth was erratic between 2013 and 2023, notwithstanding the significant trade policy reforms that were proposed and put into place (Magiri, 2025). For example, the economy grew by 3.80% in 2013 and then by 5.02% in 2014. It fell to 4.97% in 2015, then to 4.21% in 2016, and finally to 3.84% in 2017. It increased to 5.65% in 2018, dropped to 5.22% in 2019, and then fell precipitously to -0.27% in 2020. It rose to 7.59% in 2021 before falling to 4.85% in 2022 and then rising to 5.4% in 2023 (Macrotrends, 2026). This shows that Kenya's average yearly economic growth rate of 4% is below the Vision 2030 objective of 10%. Kenya's economy, which is characterized by erratic growth rates, makes a strong argument for investigating how trade openness affects economic expansion.

Empirically, there have been investigations on trade openness and economic growth relationships. These studies include Gacheru (2024), Nam and Ryu (2024), Cenaj and Kilaj (2025), Fidele, Placide and Flora (2025), Nguyen and Lee (2025), Moustafa and El-Shal (2025) and Ezenwanne and Egbuna (2026), Ergen (2026). These studies were however characterized by mixed results with some reporting significant nexus and other insignificant. Equally, some documented positive effects while others negative effects. Understanding trade openness and economic growth nexus for Kenya remains vital for policymaking activity.

Study's Objective

To explore the effect of trade openness on the economic growth of Kenya.

Research Hypothesis

H₀: Trade openness has no significant effect on the economic growth of Kenya

2. THEORETICAL REVIEW

Theory of comparative advantage

Ricardo (1817) formulated the classical theory of comparative advantage. The theory holds that differences in comparative advantage, rather than differences in absolute advantage, are what drives global trade. The ability of one country to produce a good at a lower opportunity cost than another is seen as comparative advantage. International trade is therefore a result of the need to lower manufacturing costs. Comparative advantage is what competitive edge means. The quantity of labor that might have been employed to manufacture another product is essentially the opportunity cost of creating one. When labor is divided to generate a variety of goods, each country will profit if they produce the goods with the lowest opportunity cost and exchange the excess with one another (Grieco & Ikenberry, 2003). Therefore, in a situation involving two nations and two goods, even if one nation produced both goods more successfully than the other, trade would still occur. Therefore, if a country discovered that purchasing services and products from outside was more affordable than buying those produced domestically, it would engage in international commerce (Dorobat, 2014). A country should concentrate on producing more productive goods in order to optimize the advantages of universal commerce and further its economic development. In summary, a country can profit from manufacturing items in which it has a comparative advantage while exchanging excess for goods and services in which it is not as proficient (Krugman & Obstfeld, 2008).

Export-Led-Growth theory

According to the export-led-growth theory, one of the primary factors influencing growth is export expansion. Solomon and Tukur (2019) state that the theory is based on the fundamental notion that an economy's capacity to develop is mostly facilitated by an increase in exports. It gives the economy the foreign exchange required to buy goods and services that cannot be produced locally and encourages economic progress by creating jobs for people (Yasiru, Ganiyu & Muzliu, 2016). According to the theory, the expansion of exports plays a noteworthy part in determining the general rise in inequalities, in addition to the availability of labor and capital. This idea is predicated, among other things, on Feder's (1983) claim that boosting exports may help non-export industries by enhancing their production and resource management strategies and increasing their efficiency. The theory is further supported by Krugman's (2008) assertion that

more exports will boost output levels and make it simpler to access global markets and currency. In order to understand specifics pertaining to the connection between trade openness and economic growth, economists have examined a number of trade theories. Nonetheless, the theory serves as the underpinning for this research. This is due to the theory's explanation and demonstration of the robust connection between economic development and trade openness.

Empirical Review

Gacheru (2024) examined how trade openness affects Kenya's economic expansion. The analysis makes use of national data from 1981-2020 that was taken from the WB Database. The link amongst the variables was estimated using the ordinary least squares (OLS) estimation approach. According to the study, trade openness has little effect on Kenya's economic development. The study also discovered that Kenya's economy grows as export quality improves. The study came to the conclusion that to promote economic expansion, Kenya needs diversify and increase the quality of its exports.

How the economic expansion of Sub-Saharan Africa (SSA) was influence by trade openness was examined by Egbetunde and Alley (2024). In order to estimate the data, the inquiry utilized the dynamic panel General Method of Moment (GMM). The investigation's findings demonstrated that trade openness boosted SSA's economic expansion. The outcome also showed that FDI contributed favourably to the impact of trade openness on the nations' economic expansion. The study came to the conclusion that FDI improves trade openness as a way to advance sub-Saharan Africa's economic development.

Nam and Ryu (2024) investigated how trade openness affected the Association of Southeast Asian Nations' economic expansion between 2000 and 2022. The study used a sample of ten ASEAN member nations. The method of panel multiple regression was applied. The findings showed that GDP is positively impacted by increasing trade tariffs and levies on international commerce. According to the study's findings, lowering trade barriers may have the opposite effect of boosting trade openness, which may not necessarily encourage economic growth in developing nations.

Cenaj and Kilaj (2025) investigated how trade openness affects Southeast European nations' economic growth over the years 2012–2022 in a larger EU setting. Using secondary yearly data from the WB and linear multiple regression analysis, a quantitative method is used. The findings show that while tax revenues, trade deficits, and trade openness have a favorable impact on the region's economic performance, increased government expenditure tends to impede economic growth, especially when coupled with high unemployment.

The relationship amongst trade openness, FDI, government spending, and economic development in nine chosen ASEAN nations from 1994-2023 was studied by Nguyen and Lee (2025). The World Development Indicators were used to compile a panel dataset from the nine chosen ASEAN nations. The research data was estimated using the panel regression model. The results showed that FDI only stimulates economic growth in Thailand, indicating significant disparities in structural traits and policy transmission mechanisms. Trade openness may help growth in eight countries. The study came to the conclusion that increased government spending may impede the development of ASEAN nations.

How Rwandan economic development was affected by trade openness from 1996 to 2022 was studied by Fidele, Placide, and Flora (2025). The findings of the long-run relationship estimate using the ARDL estimation approach show a robust and favourable association amongst trade openness and GDP, which is connected with FDI, inflation, currency rates, and interest rates. Invariably, all these variable have negligible correlations, according to the short-run relationship estimate results. The research highlighted the significance of trade openness for Rwanda's economic progress and the necessity of enacting laws that promote international trade in order to achieve the country's economic objectives.

El-Amri and El-Jouali (2026) explored the link amongst trade liberalization and economic expansion in Africa from 2014-2024. A methodical bibliometric analysis was used in the study. To outline the direction of the field, our analysis makes use of science mapping and performance analysis. The results showed that trade openness significantly and favorably affects economic growth. The study's conclusion offered a thorough mapping of the intellectual terrain of Africa's trade-growth nexus between 2014 to 2024.

Ergen (2026) used the wavelet approach to evaluate the link amongst economic development and trade openness for 21 emerging nations. The findings show a correlation amongst economic progress and trade openness. Additionally, in over half of emerging nations, trade openness promotes economic growth. The findings highlight how trade openness promotes economic progress in developing nations.

Ezenwanne and Egbuna (2026) used Ordinary Least Squares (OLS) regression analysis to explore the link amongst trade openness and Nigeria's economic progress from 2013 to 2025. Trade openness has a noteworthy and favourable impact on economic progress, according to the multiple regression finding, which was based on yearly data from the WD, the CBN, and the IMF.

Conceptual Framework

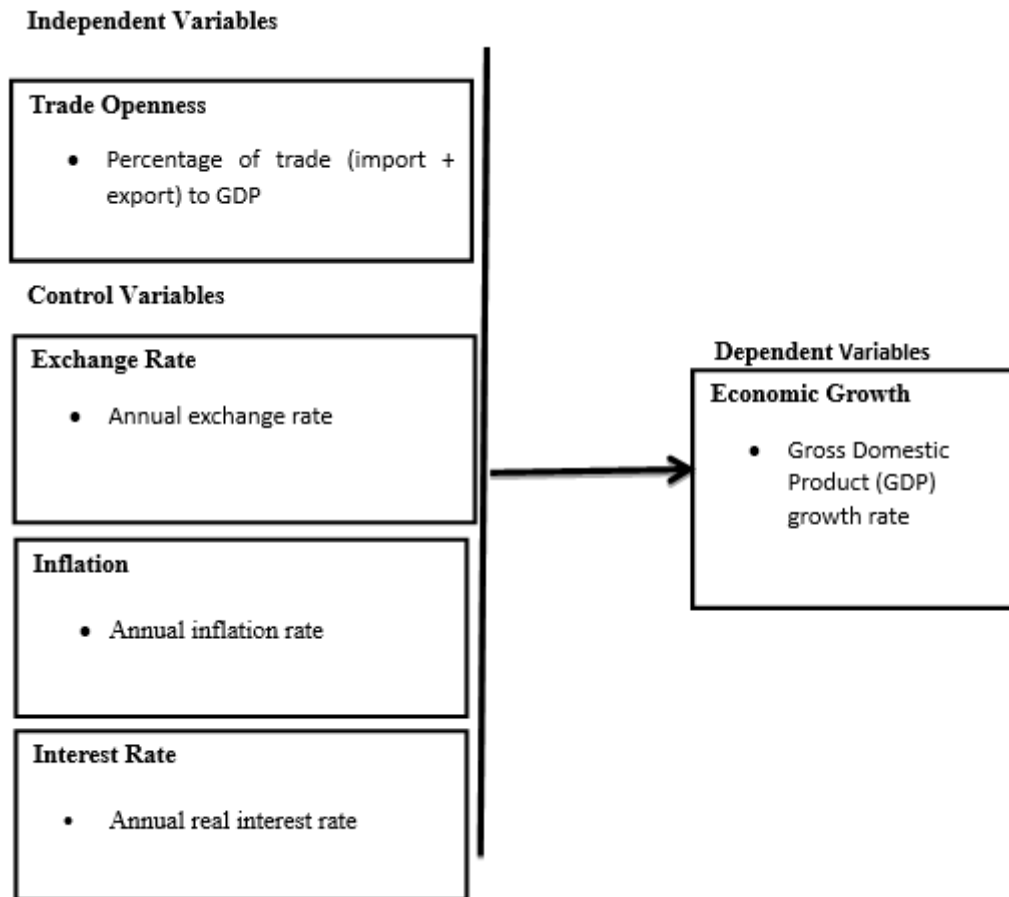


Figure 2.1: Conceptual Framework of the link amongst the study variables

Source: Researcher (2026)

3. METHODOLOGY

Research Design

The primary goal of the investigation was to explore how trade openness affected Kenya's economic development between 1990 and 2025. The inquiry utilized an ex-post facto research strategy, which is appropriate for examining factors that cannot be changed because of their past occurrences, in order to achieve this purpose (Emanaku, 2012). Given that the paper made use of secondary data and the fact that the data are publically available, the research design was deemed suitable.

Types and Sources of Data

The success of any econometric study is ultimately determined by the availability of pertinent data. Therefore, this study examined secondary yearly data from 1990 to 2025. The study takes into account this time frame because it is sufficiently lengthy for a time series analysis and since Kenya implemented a number of trade openness initiatives during this time to boost trade performance and, therefore, economic growth. The WB provided data for the majority of the variables considered in this investigation.

Empirical Model

The purpose of this study was to assess how trade openness affected Kenya's economic growth. This section develops models in relation to the mentioned objectives in order to accomplish the stated goals. A model of economic growth and commerce is established using econometric techniques. The following is the functional version of the model that shows how trade openness supports Kenya's economic expansion:

$$GRR = f(TRO) \dots \dots \dots (1)$$

Where:

GRR = economic growth.

TRO = Trade openness

For the purpose of empirical computation, equation (1) converges to:

$$GRR = \beta_0 + \beta_1 TRO + \mu \dots \dots \dots (2)$$

Where:

β_0 = constant term

$\beta_1 - \beta_3$ = parameters of the estimates

μ = error terms

According to the reviewed Theories, macroeconomic factors (Inflation, Interest Rate, and Exchange Rate) dictates variation in the economic growth. Hence, equation 2 can be expanded as follows:

$$GRR = \beta_0 + \beta_1 TRO + \beta_2 INF + \beta_3 INT + \beta_4 EXC + \mu \dots \dots \dots (3)$$

where

INF = Inflation

INT = Interest Rate

EXC = Exchange Rate.

The variable in equation 4 are defined and measured as presented in Table 1.

Table 1.

Category	Variable	Operationalization	Measurement	Hypothesized direction
Trade openness	Independent	Trade openness refers to a host nation's adaptability and the ease with which foreign investors can engage in international commerce.	Percentage of trade (import + export) to GDP	Positive/negative
Economic growth	Dependent	The steady rise in an economy's output of goods and services over a specific time frame, ideally a year, is known as economic growth.	Gross Domestic Product (GDP) growth rate	Positive/negative
Exchange Rate	Control	The relative cost of one currency represented in terms of another currency (or collection of currencies) is known as the exchange rate.	Annual exchange rate	Positive/negative
Inflation	Control	The pace at which prices rise consistently over a specific time period is known as inflation.	Annual inflation rate	Positive/negative
Interest Rate	Control	The cost of borrowing money, represented as a percentage of the principle, is known as interest rates.	Annual real interest rate	Positive/negative

Source: Researcher (2026)

4. RESULTS AND DISCUSSION

Table 1: Descriptive Statistics of the Variables

	GRR	TRO	INF	INT	EXC
Mean	3.766667	49.94444	10.82500	8.050000	80.99111
Median	4.200000	52.50000	7.850000	7.800000	78.65500
Maximum	8.100000	73.00000	46.00000	21.10000	139.8500
Minimum	-0.800000	30.00000	1.600000	-10.10000	22.91000
Std. Dev.	2.257306	11.14308	8.994582	7.048870	27.51651
Observations	36	36	36	36	36

Source: Author's computation from EViews 10 (2026)

As displayed in Table 1, the average economic growth rate (GRR) for Kenya over the study period was 3.77%, which shows a range of economic expansion and contraction periods, from -0.8% to 8.1%. The average values of trade openness (TRO) and inflation (INF) in the study were 49.94% and 10.83% of GDP, respectively, corresponding to fairly open and relatively price-unstable economies. Interest rates (INT) were 8.05% on average, but as wide as -10.1% to 21.1%, which signified that monetary policy conditions significantly changed over the period. The exchange rate (EXC) also showed high volatility, with an average value of 80.99 and a standard deviation (S.D) of 27.52, indicating notable fluctuations in exchange rates. In essence, the relatively high standard deviations of the INF, INT and EXC variables imply high macroeconomic volatility that may have an impact on the link amongst Kenya's economic expansion and trade openness. Table 2 shows the outcome of the Unit Root test.

Table 2: Results of Augmented Dickey Fuller unit root test

Variable	Level	ADF critical value	1 st difference critical value	ADF	Order	Remark
GRR	-4.531001	-2.948404	-7.276691	-2.954021	I(0)	Stationary
TRO	-1.506488	-2.948404	-4.287408	-2.957110	I(1)	Stationary
INF	-3.035779	-2.948404	-6.805413	-2.954021	I(0)	Stationary
INT	-2.851384	-2.963972	-4.319450	-2.957110	I(1)	Stationary
EXC	-1.264572	-2.948404	-5.387783	-2.951125	I(1)	Stationary

Note: 5% critical value was used for ADF test

Source: Author's Computation from EViews 10 (2026)

The results show in Table 2 demonstrates that GRR and INF are stationary at levels, indicating that they are I(0), or integrated of order zero. On the other hand, TRO, INT, and EXC became stationary after first differencing, suggesting that they are integrated of order one, I(1). Since none of the variables are integrated of order two, the requirement for using the ARDL bounds testing method is satisfied by a combination of I(0) and I(1). This further validates that the chosen estimation method can be used to explore the effect of trade openness on economic growth in Kenya. Table 3 shows the criteria for choosing Lag Order.

Table 3: Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-587.7829	NA	3.54e+08	33.87331	34.09550	33.95001
1	-499.0723	147.0062*	9439499.*	30.23270*	31.56586*	30.69291*

Source: Author's Computation from EViews 10 (2026)

Based on the results of the lag selection obtained in Table 3, lag length of one (1) was chosen for the analysis, as it is selected by every information criterion, including the Likelihood Ratio (LR) test, the Final Prediction Error (FPE), the Hannan-Quinn Criterion (HQ), the Schwarz Criterion (SC), and the Akaike Information Criterion (AIC). Selecting a

single lag indicates that the present rate of economic development is adequately explained by the previous periods and that the number of variables is not unnecessarily high, given the relatively limited number of observations. Thus, the ARDL model estimated with one lag gives efficient and reliable estimates of the trade openness and economic growth relationship in Kenya. The ARDL Bounds Co-integration Test is presented in Table 4.

Table 4: Co-integration Bound Test Result

Test Statistic	Value	K
F-statistics	7.222013	4
	Critical Bounds Value	
Significance level	Lower bound I(0)	Upper bound I(1)
10%	2.2	3.09
5%	2.56	3.49
2.5%	2.88	3.87
1%	3.29	4.37

Note: K = Number of Variables

Source: Author's Computation from EViews 10 (2026)

The result of the ARDL bounds test in Table 4 shows an F-statistic of 7.222, which is greater than all the upper critical bound value of 3.09, 3.49, 3.87 and 4.37 at the significance levels. This is enough proof to draw the conclusion that the variables have a long-term connection. Thus, the findings confirm that economic growth, trade openness, inflation, interest rates, and currency rates in Kenya have a stable long-term equilibrium connection. This implies that even though fluctuations may occur in the short term, these macro-economic variables move together in the long run and thus, both the short and long run ARDL coefficients were estimated. The results of the diagnostic tests are displayed in Table 5.

Table 5: Diagnostic Test Results

Diagnostic Tests	F-statistics	Probability
Jarque-Bera	4.955714	0.0839
Breusch-Godfrey Serial Correlation LM Test	3.811140	0.0627
Heteroskedasticity Test: Breusch-Pagan-Godfrey	0.335064	0.9545
Ramsey RESET Test	0.805116	0.3785

Source: Author's Computation from EViews 10 (2026)

The diagnostic tests are used to verify the statistical reliability of the estimated ARDL model, and the major classical regression assumptions are met. The Jarque-Bera probability of 0.0839 shows that the residuals are normally distributed. Breusch-Godfrey LM test probability is 0.0627, which implies that there is no evidence of serial correlation and the Breusch-Pagan-Godfrey probability is 0.9545 which confirms that there is no evidence of heteroskedasticity (constant error variance). The Ramsey RESET test probability of 0.3785 shows that there is no functional form misspecification or omitted variable bias and that the model is appropriately stated. These findings imply that the estimated model is reliable and suitable for drawing accurate conclusions on how trade openness affects Kenya's economic expansion. Table 6 displays the long-run ARDL estimate findings.

Table 6: Long-Run ARDL Estimated Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TRO	0.076515	0.045643	1.676385	0.1061
INF	-0.165641	0.057355	-2.888009	0.0079
INT	-0.202519	0.058895	-3.438668	0.0021
EXC	0.033887	0.018205	1.861444	0.0745
C	0.686712	3.518883	0.195151	0.8469

Source: Author's Computation from EViews 10 (2026)

With a coefficient of 0.0765 and a p-value of 0.1061, the ARDL estimations indicate that TRO has a favourable but statistically negligible impact on economic growth in Kenya. This indicates that long-term economic growth increases by around 0.08% for every 1% rise in trade openness. Theoretically, higher integration with the international markets should lead to better resource allocation efficiency, more technology transfer, expanded export volumes and increased productivity. This could be due to structural factors like low export diversification, primary commodity export dependence, low industrial capacity or external trade shocks that have limited the positive impact of trade liberalisation on sustained economic growth in Kenya.

The coefficient of inflation (INF) is negative (0.1656) and statistically significant with a p-value of 0.0079, which means that inflation has a negative effect on economic growth. The result suggests that for every 1% increase in the inflation rate, economic growth falls by 0.17% in the long run. The finding indicates that the continuing high level of inflation leads to macroeconomic instability, reduces the purchasing power of the consumers, raises production costs, acts as a deterrent for domestic and foreign investments and limits the economic performance. The significance confirms the importance of price stability as a prerequisite for sustainable economic growth in Kenya.

Interest rate (INT) has a negative and significant impact on economic growth with a coefficient of -0.2025 ($p = 0.0021$). This means that a 1% rise in the rate of interest results in an average decline of 0.20% in long-run economic growth. The outcome reinforces conventional macroeconomic theory, which states that high interest rates make borrowing more expensive, lowers the level of investment and spending by the private sector, disincentivise businesses from growing and thus slow down the economy. This implies that a strong role for Kenya's long-run growth path should be expected for monetary policy.

Findings also demonstrate a positive effect of exchange rate (EXC) on economic growth with a coefficient of 0.0339, which is statistically insignificant (0.0745). This suggests that an increase of 1% in exchange rates is accompanied by 0.033% in economic growth. The outcome could suggest that the exchange rate movements, specifically currency depreciation, have a positive effect on enhancing the international competitiveness of Kenyan exports, boosting export revenues, promoting domestic production, and boosting overall economic growth. As the significance is relatively weak, however, the growth impacts from exchange rates do not appear to be particularly strong and may be influenced by other factors, including export capacity, import dependency and the macroeconomic context. Table 7 shows the results of the short-run ARDL estimates.

Table 7: ARDL Short-run Estimated Result: GR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(TRO)	0.159995	0.056389	2.837356	0.0089
D(INF)	-0.191673	0.040803	-4.697527	0.0001
D(INT)	-0.119651	0.040539	-2.951517	0.0068
D(EXC)	-0.004942	0.041435	-0.119274	0.9060
CointEq(-1)*	-1.114876	0.154608	-7.210998	0.0000

Source: Author's Computation from EViews 10 (2026)

The short-run ARDL estimates show that trade openness (TRO) positively and significantly affects economic growth in Kenya with a coefficient of 0.1600 and $p = 0.0089$. This suggests that, an increase in trade liberalisation of 1% would lead to an increase in economic growth of around 0.16% in the short run. The result implies that the benefits of integration into international trade are immediate, such as the availability of export opportunities, better market access, more intense competition and more efficient allocation of resources. This means that Kenya has an immediate positive trade liberalisation effect but may not last if it is not consolidated by domestic structural changes, export diversification and strengthening of domestic productive capacities.

Inflation (INF) has a significant negative effect with economic growth in the short run with a coefficient of -0.1917 ($p = 0.0001$). This means that for each per cent increase in inflation, there is a decline in economic growth of about 0.19% in the short run. The findings indicate that a rise in prices immediately reduces the purchasing power of the consumer, raises production costs, introduces uncertainty for investors, and dampens aggregate demand, and hence economic activity. The significance shows that inflation is among the most important short-run macroeconomic factors that influence the

economic growth of Kenya and thus the importance of effective monetary policies which focus on maintaining price stability.

Interest rate (INT) is negatively and statistically significant on economic growth with a coefficient of -0.1197 ($p = 0.0068$). This means that an increase in the interest rate by 1% reduces economic activity in the short run by an estimated 0.12%. An increase in interest rates increases the cost for households and businesses to borrow, thus lowering levels of productive economic activity, decreasing investment and consumption, and lowering the level of investment. The result highlights the need to keep an appropriate interest rate policy, which needs to ensure inflation control and at the same time, encourage private investment and economic growth.

Exchange rate (EXC) on the other hand, negatively influences economic growth, but statistically it is not significant with the coefficient of -0.0049 ($p = 0.9060$). This indicates that in the short run the fluctuations in the exchange rate had an insignificant effect on the Kenyan economy. The insignificance suggests that changes in the exchange rate do not necessarily result in an instant change in output. This could be that the impact of exchange rate changes requires some time to pass through the trade flows, investment decisions, and production processes. Thus, exchange rate fluctuations are not a major factor in explaining short-run economic growth.

The coefficient of the error correction term, $CointEq(-1)$, is negative and statistically significant ($p = 0.0000$), which proves that there is a stable long-run relationship between the variables. The negative sign agrees with the theoretical prediction from an error correction mechanism which suggests that any short-run deviations from the long-run equilibrium will be rectified over time. In particular, the coefficient indicates the extent to which the previous period's disequilibrium is corrected in the next period, which is approximately 111.5% of the previous period's disequilibrium, suggesting a rapid speed of adjustment to the long-run equilibrium in response to short-run shocks. The size of the magnitude is an overshooting adjustment, which means that the system adjusts more than proportionately and then returns to the long-run equilibrium path.

5. CONCLUSION AND RECOMMENDATIONS

The study investigated the influence of trade openness on economic growth in Kenya. The results indicated that in the long run the effect of trade openness was positive but insignificant, while in the short run it was positive and significant. While short-run economic growth is enhanced by trade liberalisation in the short run, its long-run effect is yet to be fully realised. This may be linked to the continued dependence on primary commodity exports, the export sector not being diversified enough, inadequate industrialisation and low productive capacity within the country. It was found that inflation has a negative and significant effect on economic growth in the short as well as long run, which means that when the prices are unstable, it affects the purchasing power in a negative way, it discourages investment and it affects productive activities in a negative way as well. Interest rates negatively and significantly affected economic growth, suggesting that high interest rates slow down the investment from the private sector and economic growth. The long-run effect of the exchange rate was positive and weakly significant, while the short-run effect was negative and not significant. This implies that exchange rate changes do not have an effect on economic growth unless there are corresponding improvements in the competitiveness of exports and domestic production. The study therefore concludes that though trade openness is a key tool for achieving economic growth in Kenya, it can yield positive outcomes in the country provided the macroeconomic stability is maintained, the productive capacity of the economy is strengthened and policies are put in place to ensure competitiveness in the economy. In view of the paper's conclusion, the following recommendations are made:

- i. The Ministry of Investments, Trade and Industry, the National Treasury and Economic Planning, Kenya Export Promotion and Branding Agency (KEPROBA) and the Kenya Investment Authority (KenInvest) should enhance export diversification and value addition policies, manufacturing policies and trade infrastructure.
- ii. The Central Bank of Kenya (CBK) and the National Treasury and Economic Planning should maintain prudent inflation and monetary policies, including through the use of good inflation-targeting tools, fiscal discipline, and better coordination of macroeconomic policies, to keep inflation low and stable.
- iii. The Central Bank of Kenya (CBK), commercial banks and other financial sector regulators should implement policies that will promote lower and more stable interest rates on lending through increases in financial sector efficiency, competition in the banking sector and access to affordable credit, especially for small and medium enterprises (SMEs).

- iv. The Central Bank of Kenya (CBK), the National Treasury and Economic Planning and the Ministry of Investments, Trade and Industry should stabilise and maintain a competitive exchange rate through proper foreign exchange management policies and at the same time promote export competitiveness and domestic production. As a result, exchange rate policies should be combined with actions to build export potential, reduce excessive reliance on imports and improve the local competitiveness of products.

REFERENCES

- [1] Cenaj, A., & Kilaj, D. (2025). The impact of trade openness on the economic growth of Southeast European countries. *SEEU Review*, 20(2), 3-19.
- [2] Dorobat C. (2014). A brief history of international trade thought: From pre-doctrinal contributions to contemporary neoclassical economics. *CCREI Working Papers Serie*, 1(4), 1-18.
- [3] Egbetunde, T. & Alley, I. (2024). Trade Openness and Economic Growth in Sub-Saharan Africa: A Dynamic Panel Data Analysis. Retrieved 29th July 2026 from <https://fssunilorinedu.org/ijbss/2016%20Volume%2018%20Number%201/Tajudeen%20Egbetunde%20%20&%20Ibrahim%20Alley.pdf>
- [4] El-Amri, W., & El-Jouali, A. (2026). Trade Openness and Economic Growth in Africa: A Bibliometric Analysis. *International Journal of Economics and Management Sciences*, 5(3), 66-92.
- [5] Ergen, E. (2026). Analysis of Trade Openness and Economic Growth in Emerging Markets. *Revista Mexicana de Economía y Finanzas Nueva Época REMEF*, 21(3).
- [6] Ezenwanne, M. O., & Egbuna, N. E. (2026). TRADE OPENNESS AND ECONOMIC GROWTH IN NIGERIA, 2013-2025: AN EMPIRICAL ANALYSIS. *Ifediche Journal of African Studies*, 3(1).
- [7] Feder, G. (1983). On exports and economic growth. *Journal of Development Economics*, 12(1-2), 59-73.
- [8] Fidele, M., Placide, H., & Flora, N. T. (2025). The Impact of Trade Openness on Economic Growth in Rwanda: An Empirical Analysis.
- [9] Gacheru, W. M. (2024). *Trade openness, export quality, and economic growth nexus in Kenya* (Doctoral dissertation, Kenyatta University).
- [10] Grieco, J. & Ikenberry, G. (Eds.). (2003). *State Power and World Markets* (pp. 19-56.). Norton: W.W.& Company, Inc.
- [11] Krugman, P. R., & Obstfeld, M. (2008). *International Economics Theory and Policy*. Boston, USA: Pearson Addison Wesley.
- [12] Macrotrends (2026). Kenya GDP Growth Rate (1961-2025). Retrieved 28th July 2026 from <https://www.macrotrends.net/global-metrics/countries/ken/kenya/gdp-growth-rate>
- [13] Magiri, J. M. (2025). Government Expenditures and the Kenyan Economic Growth. *A Research Project Submitted to the School of Business, Economics and Tourism in Partial Fulfilment of the Requirements of the Award of Degree of Master of Business Administration (Finance Option) of Kenyatta University*.
- [14] Moustafa, E., & El-Shal, A. (2025). Trade Openness and Economic Growth in Africa. *In Trade and Investment in Africa* (pp. 203-226). Routledge.
- [15] Nam, H. J., & Ryu, D. (2024). Does trade openness promote economic growth in developing countries?. *Journal of International Financial Markets, Institutions and Money*, 93, 101985.
- [16] Nguyen, A. T., & Lee, S. H. (2025). The relationship between trade openness, foreign direct investment, government expenditure, and economic growth in ASEAN countries. *Economics-Innovative and Economics Research Journal*, 13(4), 55-72.
- [17] Ricardo, D. (1817). *On the principles of political economy and taxation*. John Murray.
- [18] Solomon, O. I. & Tukur, M. U. (2019). Trade openness and economic growth in the developing countries: Evidence from Nigeria. *International Journal of Academic Research in Economics and Management Science*, 8(3), 30-42.
- [19] Yasiru, A. O., Ganiyu, Y. O., & Muzliu, I. B. (2016). Validity of export-led growth hypothesis for Nigeria: Further evidence. *Yobe Journal of Economics*, 3.