A study of indo kenya trade relations 2000 2010

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Submitted by

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February 2015

Department of Economics

Certificate

This is to certify that the thesis entitled "**A STUDY ON INDO-KENYA TRADE RELATIONS 2000-2010",** which is being submitted herewith for the degree of Doctor of Philosophy (PhD) in Economics under the faculty of Mental, Moral and Social Sciences of Tilak Maharashtra Vidyapeeth, Pune, is the result of original work compiled by Mr. Nyaga Nathan Gitonga under my supervision and guidance. To the best of my knowledge and belief, the work incorporated in the thesis has not formed the basis for the award of any degree or similar title in this or any other university or examination body.

Dr. Roy Malati Biswanath
Research Guide

Pune

February 26, 2015

Declaration

I do hereby declare the thesis entitled "**A STUDY ON INDO-KENYA TRADE RELATIONS 2000-2010"** is the record of bonafide research work done by me under the supervision and guidance of Dr. Malati Roy, a certified research guide of Tilak Maharashtra Vidyapeeth, Pune. I further declare that the material of the thesis has not in any way found the basis for the award of any Degree, diploma, scholarship or other similar titles of recognition

Nyaga Nathan Gitonga

Pune
February 26, 2015

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LIST OF ABBREVIATIONS

ACCIA	Associated Chambers of Commerce and Industry of India
AGOA	African Growth and Opportunity Act
AOA	Agreement on Agriculture
AoC	Agreement of Cooperation
ATAC	Appropriate Technology Advisory Committee
ATC	Agreement on Textiles and Clothing
BSL	Bokaro Steel Plant
BSP	Bhilai Steel Plant
CBK	Central Bank of Kenya
CCPIT	China Council for the Promotion of International Trade
CCS	Cash Compensatory Support
CET	Common External Tariff
CI&S	Commercial Intelligence and Statistics
CII	Confederation of Indian Industries
CIP	Census of Industrial Production
CMA	Capital Market Authority
CMEA	Council for Mutual Economic Assistance
COMESA	Common Market for Eastern and Southern Africa
DFIs	Development Financial Institutions
DRC	Democratic Republic of Congo
DTAA	India-Kenya Double Taxation Avoidance Agreement
EA	East African
EAA	East African Airways
EAC	East African Community
EACCMA	East African Community Customs Management Act
EAHC	East African Harbor Corporation
EARC	East African Railway Corporation
EIC	East India Company
EPC	Exports Promotion Council
EPZA	Export Promotion Zones Authority
EPZs	Export Processing Zones
EU	European Union
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chambers of Commerce and Industry
WWI	First World War
FTP	Foreign Trade Policy 2004-09 commonly known as
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GNP	Gross National Product
GTM	Gravity Model of Trade
HO	Heckscher-Ohlin theorem
HS Code	Harmonized System of Coding
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
INC	Indian National Congress

IPLC	International Product Life Cycle Theory
IPP	Independent Power Producers
ISP	Import Substitution Policy
ITPO	India Trade Promotion Organization
JETC	Joint Economic and Trade Commission
JICCC	Joint Industrial and Commercial Consultative Committee
KADU	Kenya African Democratic Union
KANU	Kenya African National Union
KEBS	Kenya Bureau of Standards
KENGEN	Kenya Electricity Generating Company Ltd
KEPHIS	Kenya Plant Health Inspectorate Services
KIA	Kenya Investment Authority
KIE	Kenyan Industrial Estate Limited
KNBS	Kenya National Bureau of Statistics
KNCCI	Kenya National Chamber of Commerce and Industry
KPC	Kenya Pipeline Company
KPLC	Kenya Power and Lighting Company
KPOSB	Kenya Post Office Savings Bank
KPU	Kenya Peoples Party
KRA	Kenya Revenue Authority
KRB	Kenya Roads Board
LDC	Least Developed Countries
MFIs	Microfinance Institutions
MFN	Most Favored Nation
MoIT	Ministry of Trade and Industry
MoU	Memorandum of Understanding
MUB	Manufacturing Under Bond
NAFTA	North American Free Trade Agreement
NAM	Non Allied Movement
NARC	National Rainbow Coalition-Kenya
NEP	New Economic Policy
NES	National Export Strategy
NHC	National Housing Corporation
NPC	National Planning Committee
NRC	National Rainbow Coalition government
NRSAP	National Road Safety Action Plan
NSIC	National Small Industries Corporation
NTB	Non-Tariff Barriers
OGL	Open General License
OPEC	Organization of the Petroleum Exporting Countries
PIO	People of Indian Origin
PRC	People's Republic of China
PTA	Preferential Trade Area
REP	Replenishment Import License
RMLF	Roads Maintenance Levy Fund
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Savings And Credit Cooperative Societies
SAPs	Structural Adjustment Policies
SAPs	Structural Adjustment Programs
SCEE	Socialist Countries of Eastern Europe

SEC	Special Economic Clusters
SEZs	Special Economic Zones
SINOTASIP	Chinese-Tanzania Joint Shipping Company
SME	Small Medium size Enterprises
SMEs	Small and Micro Enterprises
SPS	Sanitary and Phytosanitary
SPSS	Statistical Package for the Social Sciences
TAZARA	Tanzania-Zambia Railway
TBT	Technical Barriers of Trade
TCP	Trade Corporation of Pakistan
TIC	Tanzania Investment Centre
TREO	Tax Remission for Exports Office
TRIPS	Trade-Related Intellectual Property Rights
UAE	United Arab Emirates
UK	United Kingdom
URAFIKI	Friendship Textile Co.
URT	United Republic of Tanzania
USA	United States of America
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WMA	Weights and Measures Act
WTA	World Trade Atlas
WTO	World Trade Organization

1 CHAPTER ONE: RESEARCH DESIGN

1.1 Research Problem

Kenya and India have had a long relationship that can be traced to the ancient times. However the account that is well documented and directly links Indians and Kenyans is that related to the construction of Kenya-Uganda railway in the late 19th century and the early 20th century. The British who were in charge of the railway line asked an Indian agent from Punjab to recruit Indian laborers to work on the railway line. The agent, though a Punjabi did not only get workers from Punjab but recruited workers from other parts of Northern India who went and started work in Mombasa. Many of the laborers, rather than voyage back to the Indian subcontinent, simply settled in Kenya, and slowly brought with them a host of hopefuls willing to start afresh a new life. [1]

With that settlement, the India factor would forever be part of Kenyan history, Today there are over 100,000 people of Indian origin (PIO) (who include people of Pakistani origin as well) in Kenya. This, among other factors, has prompted the Indian government to have a strong interest in Kenyan affairs and have a formidable foreign policy towards Kenya. It will be noted that during the India-African conflict in East Africa, Jawaharlal Nehru advised the Indians in Kenya to realize they were now citizens there and to take part in the national struggle for independence.[2]

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[1] Adam, Michael. "A Microcosmic Minority: The Indo-Kenyans of Nairobi." Nairobi Today: The Paradox of a Fragmented City. Ed. Helene Charton-Bigot, Deyssi Rodriguez-Torres. Dar es Salam: Mkuki na Nyota Publishers ltd. 2010. P 216-217

[2] Edmondson, Locksley. "Africa and the Developing Regions." General History of Africa VIII: Africa since 1935. California: UNESCO International Scientific Committee for the Drafting of a General History of Africa, 1993. P. 845

India has been a worthy ally for Kenya and their relationship has been strong both in economic terms and diplomatic terms. Though India is not the country from which Kenya imports the maximum, it is still one of the top ranked trade partners for Kenya. India's proximity to Kenya and its quick access by waterways and by air is a factor that encourages many interactions between these countries[3]. It is due to the importance of this trade relationship that this researcher decided to study the trade relationship between these two countries.

Trade links between Kenya and India strengthened after 1963 by which time both India and Kenya had attained independence. Thereafter, the trade between the two countries has grown steadily but is yet to reach its full potential. A significant increase in the volume of trade was experienced in 1980s following the signing of Indo-Kenya

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[3] Since 2005, the world has been dazed at the increase of piracy along Gulf of Aden by Somali pirates. While this has surely been a big issue to the world economy, there has not been significant study to show that the piracy has had adverse effect on trade between Kenya and India. The menace cannot be denied in this contest though; Kenya benefits greatly from the Mombasa seaport in many ways. First, Kenya depends a great deal on imports from countries like India, Emirates, China, EU etc and exports their products through this port. In addition, this port is one of the major import-exports hubs in the region the other one being at Dar-es-Salaam in Tanzania. The Mombasa port services countries like Uganda, South Sudan, Sudan, Burundi, Rwanda and Congo. A research paper by Luca Puddu entitled *Kenya in the Face of Piracy* and Published in Horn of Africa Bulleting of February 2010 quoted a report from BMI shipping which showed that the port of Mombasa handled 38,000 less TEUs in 2009 as compared to the previous year. However, according to a report by COMESA,(Annual Bulletin of Infrastructure Statistics 2011) in terms of international sea-borne cargo traffic, Mombasa was a great performer in COMESA sub region handling the highest growth rate in the sub-region; rising by about 16% in 2009 compared to a rise of 2.8% realized in 2008. This could mean that whereas big container transporters like Maersk slowed down on their operations to East Coast of Africa due to piracy, there were other players who were actively doing business there. Statistics suggest that piracy is now decreasing in this region due to changes in international law that allows crew to carry firearms in their vessels and also increased security support from various Navies including Canadian Navy and Indian Navy. This, according to a working paper by One Earth Future and Oceans Beyond Piracy organization entitled *The Economic cost of Somali Piracy 2012*, has increased the cost of production of goods in many countries since producers are forced to pay for the increased cost of cargo insurance, extra fuel used in speeding up of vessels, security etc. In conclusion, we can say that the India-Kenya sea route is still a viable alternative for transport of goods and the security situation there is quickly improving.

Trade Agreement in March 1981. Through the Agreement, India and Kenya accord to each other the most favored nation status.[4]

Following the introduction of economic liberalization in both countries in early 1990s, the trade volume experienced a further growth. Strong trade ties have provided the basis for technology transfers between India and Kenya. For example, the National Small Industries Corporation (NSIC) has been helping Kenyan Industrial Estate Limited and Appropriate Technology Advisory Committee to develop and promote small and medium industries in Kenya. Today many Indian joint venture companies are successfully operating in Kenya and India has extended to Kenya technical assistance through consultancy services. These projects have helped Kenya to diversify its industrial production and set-up a base for development of local technology capabilities.[5]

On its part, India has earned considerable goodwill and indeed financial benefits from these joint ventures. In fact, lately, almost all major tractor producers from India like Bajaj, HMT and Punjab Tractors have been making visits to Kenya for exploring markets in agricultural implements.[6]

India-Kenya partnership in technology transfer for small and medium industries has been very strong in the areas of technical assistance involving the exchange of experts and know-how. The Indian National Small Industries Corporation (NSIC) helped Kenyan Industrial Estate Limited and Appropriate technology Advisory Committee to develop and promote small and medium industries in Kenya. Indian

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[4] McGowan, Patrick J., Cornelissen, Scarlett, and Nel, Philip: Power, Wealth and Global Equity: An International Relations Textbook for Africa. Lansdowne: UTC Press, 2006. P. 152

[5] Op. Cit. p. 155

[6] Maxon, Robert and Ndege, Peter. 'The Economics of Structural Adjustments.' Decolonization and independence in Kenya. Ed. Ogot, Bethwell A., and Ochien'g, William Robert. Nairobi: East African Education Publishers, 1995. p. 99-102

government provided assistance by way of supply of machinery and equipment to start industries under the Kenya Industrial Estate Limited programme.

All these vital undertakings and developments are strengthened by the fact that these two countries have common problems and understanding and so it is easier to understand the needs of each other. It is on the backdrop of South-South Cooperation that the study is based, in order to derive the benefits developing countries can get by being involved in joint economic activities.[7]

This study will cover the period 2000 – 2010. This is the period of the last years of President Daniel Toroitich Arap Moi's era (2000-2002) and President Mwai Kibaki's tenure from 2003 onwards. These years are significant for the purpose of this study due to the reasons cited below:

Kenya is an agricultural exporting and capital goods importing nation, and routinely runs a balance of trade deficit that renders it highly dependent on loans and aid to finance needed imports. The balance of trade deficit varies widely, depending upon, among other things, the market success of agricultural export commodities in a given year. Kenya's principal exports include tea, coffee, horticultural products, and petroleum products. Kenya's major imports include machinery and transportation equipment (capital goods), petroleum products, and iron and steel (intermediate and final goods).

There is no in-depth research work on Kenya's trade relations with India worth of mention during these important years. There are a few issue based works done by various scholars and journalists which are certainly useful, but are largely peripheral and limited to narrow topical issues.

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[7] "India - Boosting Trade With Africa." www.africa-business.com. n. d. web. September 22, 2011

Foreign trade is a dynamic issue that changes within a very short span of time. Over the years various studies have been made on trade relation between Kenya and India or between Kenya and certain African countries, however no research has been done on trade relations between Kenya and India between 2000 and 2010.

These years are very significant in the history of Kenya and many issues were affected during that that time. This time is divided into three periods. The first period is from 2000 to 2002, the second period is between of 2003 to 2007 and the third period is from 2008 onwards. The first phase is the last years of President Moi's term who is the second Kenyan president. The second phase is the first term of the third president Mr. Mwai Kibaki and the last phase is the second term of Mr. Kibaki's tenure, which is supposed to run up to 2012.

These phases are significance because Moi was accused mostly by the international community of impunity, embezzlement and corruption that led to a bad phase of Kenyan political and economic history. Kibaki on the other hand was seen by academics as a savior of the ailing economy, he himself being an economist.[8]

Though Kenya is known to accrue much of its GDP from the service sector, foreign trade plays a vital role in strengthening its economy. And since there has been a strong relationship between India and Kenya and the proximity to the two countries is conducive of further interactions, the study will seek to find how trade trends and composition shaped during the years under study.

The study will therefore shed light on the economies of the two countries and then study in depth the composition, trends and direction of trade in Kenya and India. The main focus however will be on how these two nations have been trading with each other with special emphasis on the years under study.

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[8] Mbugua, Ng'ang'a: Mwai Kibaki: Economist for Kenya. Nairobi: Sema Sasa Publications, 2003. P. 5-9

1.2 Objectives of the study

The researcher has the following objectives as the main purpose of the study:-

i. To outline and analyze Kenya and India's foreign trade policies with respect to how they traded with each other during the period under study (2000-2010)

ii. To determine and analyze balance of trade between India and Kenya and make valid recommendations based on findings.

iii. To study and analyze the composition of trade between Kenya and India with special emphasis on selected commodities.

iv. To study and analyze the direction of trade in both Kenya and India, dealing closely with their main trading partners during the period under study.

v. To find out benefits accruing from trade between Kenya and India if any, and come up with recommendation aimed at enhancing this bilateral trade.

1.3 Significance of the study

The researcher will amalgamate data and evidence from various sources to come up with worthwhile conclusions and recommendations. The following are the expected contributions of the study.

1. There have been studies done on Kenya's relationship with India in various fields, trade being one of them, but no detailed study has been made of trade relations during the period between 2000 and 2010. The study will therefore make assessment of trade relation between India and Kenya during the period 2000 to 2010.

2. Since Kenya and India have had a long and lasting trade relationship that can be traced over many years, the researcher will try to trace the development and growth of trade relations between these two countries. However, the emphasis will be on the years under study.
3. After evaluating trade relationship between India and Kenya during the study period, the study shall proceed to make recommendations and conclusion based on the findings. The study will therefore be significant as it shall bring to light various weaknesses of the Indo-Kenya trade relations that inhibit proper growth and draw suggestions that will help boost trade relations.
4. Though Kenya and India have been trading partners for a long time, their contribution to each other's total trade may not be the same due to various reasons. The study is significant as it will attempt to analyze composition and direction of trade between the two countries and find out why there is imbalance in trade and how it can be made more balanced.

1.4 Hypotheses

The following hypotheses have been formulated for the purpose of this study:

1.5.1 Differences in foreign trade policies have contributed to trade imbalance between Kenya and India.

1.5.2 In terms of Indo-Kenya trade, Kenya suffers negative balance of trade since it mostly exports agriculture based products and mostly imports industrial based products.

1.5.3 As far as trade between Kenya and India is concerned, India is the bigger contributor in terms of the value exports to Kenya as compared to what Kenya exports to India.

1.5 Research Methodology

This study, being qualitative and analytical in nature, shall employ various descriptive, theoretical and where feasible, simple statistical analytical tools to explain the facts as borne out by available data. The study will seek to test the hypotheses mentioned and compute various aspects in order to get the desired conclusions.

1.5.1 Selection of countries

The researcher employed Purposeful Sampling method to select countries for this study. According to Patton, qualitative inquiry typically focuses in depth on relatively small samples even single cases (N=1).[9] According to Purposeful Sampling method, there are certain points that guide the selection of a sample. First, the selection should not be haphazard. Secondly, the criteria for inclusion must be identified *before* drawing the sample. Thirdly, the researcher must be knowledgeable about the population, the sites, & the conditions of the research and lastly, there must be enough variation to substantiate arguments.

These four criteria were satisfied in choosing both Kenya and India as subjects of the study. The main purpose was to study Kenya's foreign trade with the aim of improving or enhancing it. For the study to be more meaningful, a second country was required in order to run some comparisons of data and policies. The research therefore used the same purposeful method of sampling to name Indian as the second country.

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[9] Patton, Michael Quinn. Qualitative Research and Evaluation Methods. California: Sage Publications, 2002. Pg. 230

Apart from India fulfilling all the conditions to support purposeful method of sampling, India is an important trading partner with Kenya for the following reasons. First, India is strategically located and therefore offers a direct connection route by both airways and waterways. This factor may be a big consideration by traders who feel that getting goods from India would reduce the cost of transportation as well as hasten delivery. Another reason why India makes a good trading partner is that both countries have many similarities in terms of economic strength of their people and other socio-economic indicators. One would expect to get better prices for goods from such a trading partner as their economic disparity is not too wide. The third reason is that Kenya and India have had a good relationship from historic times and therefore there is a good trading environment between the two countries.

1.5.2 Selection of Period

This being a case study, the researcher employed time based purposeful sampling method. The subcategory selected for period selection was the one based on political term in office. The assumption was that each political period in a country shapes the outlook of social and economic affairs in the country. In this case, Kenya being the primary point of focus in this study had intense political tenures worth studying.

The period that the study covers spans from 2000 to 2010. These years are very significant in the history of Kenya and many issues were affected during that that time. This time-period is divided into three sub-periods. The first period is from 2000 to 2002, the second period is between of 2003 to 2007 and the third period is from 2008 to 2010. The first phase is the last years of President Moi’s term who is the second Kenyan president. The second phase is the first term of the third president Mr. Mwai Kibaki and

the last phase is the second term of Mr. Kibaki's tenure that is supposed to run up to 2012.

2000 was selected as the starting year of this study since being part of the last period of Moi's era, it will be important to study the overall effect the regime had on international trade. This year was 'a normal' year, meaning it was free from adverse influences such as government change, civil wars or serious economic fallout, therefore it would bring out data that can be used to compare years before and after it. The same consideration was in place for the year 2010 as the year to culminate the study. After disputed presidential election of 2007 that brought shocking post elections violence (PEV) especially in the first part of 2008, Kibaki somehow settled into presidency though this time leading a coalition government. 2010 was a normal year with no major adverse influences and being part of Kibaki's last tenure; it was taken as a good year to culminate this study.

The period is chosen so as to study if there have been any changes in the pattern, structure and composition of Kenya's trade with India during the period of two important political regimes in Kenya. And in the light of the changed international politico-economic scenario, the study will aim to capture the context of the revealing paradigm vis-à-vis India's trade relations with Kenya. The period is important also as it will shed light on India's foreign policy and how it changed or affected the relationship between these two countries during the eras that shaped the Kenya's history in one way or the other.

1.5.3 Data Collection

The research shall rely on secondary data; therefore the researcher will collect data from the following secondary sources.

- Government records: The researcher shall rely more on data tabulated by the government ministries of both countries. The Ministry of Trade and Commerce of India has data dealing with trade of the two countries and the so does the Ministry of Commerce and Industry of Kenya. From these sources also, the researcher will gather data on joint ventures of the two countries.
- Semi-government records: The research will also gather data from semi-government sources like Institutions which are dedicated to keeping records related to the variables to be studied.
- Mass Media: The researcher shall also gather information from published scholarly journals, dealing with related topic.
- Books
- Ph.D. theses
- Reports of government, semi-government and research papers.
- Reports of International Organizations such as those of the World Bank and IMF will be used.

1.5.4 Data analysis and tabulation

The researcher has employed various mathematical and statistical formulae to compute the data in order to draw conclusions from the study. The researcher will also analyze the data critically and draw conclusions based on trends, composition and direction of trade.

The researcher has employed various tools to tabulate, analyze and present data collected. These tools include Statistical Package for the Social Sciences (SPSS) and the MS excel sheets. Among the various methods the researcher has used to test hypothesis

and make conclusion, use of index numbers of exports and imports to calculate net terms of trade and correlation matrix are the main methods used.

INDEX NUMBERS

The researcher has used Index Number method to calculate net terms of trade between Kenya and India. The index numbers shows changes in overall trade between the two countries over a period of time. The researcher has calculated the trade trends of two countries considering 20 products. The Index number calculations can suggest if it is favorable for a country to continue trading or not.

CORRELATION MATRIX

The researcher has also used correlation matrix to show the correlation between various products of two selected countries. Each matrix (table) will test either exports or imports for one country. Considering that for country A (India) the products exported to Country B (Kenya) have given values of [X_1, X_2, X_3, X_4.... X_n], the matrix show values on Y or vertical axis as well as on slanting diagonally at the main diagonal side horizontal axis on top of the matrix. Every row shows the correlation of one product, say, (X_1) with another product, say, (X_7). This relationship between two products gives exact correlation between two variables or products.

When values of two variables are positive, this shows that, the trade balance between the two products is favorable. In other words, when the export of one of those products increases, the import of the other product also increases and vice versa. On the other hand, when the values of two variables are negative, it shows that trading in those products together is not favorable. Thus the researcher has used correlation matrix to calculate the correlation between various products of selected countries to find out if a country is gaining much by trading with certain products and how the two countries can improve their trade composition. The higher the positive value, the more favorable the

trade would be and vice-versa. The researcher has used correlation matrix to some hypothesis.

1.6 Chapter scheme

The study is divided into seven chapters.

Chapter 1, that is the present chapter, gives the introduction of the study, research design and the methodology. In it, the statement of the problem, nature, objectives and significance of the study is highlighted. Sources of data used are listed in this chapter.

Chapter 2 consists of the review of related literature, which will critically examine the various books, journals, articles and theses related to the study.

Chapter 3 lays down the theoretical framework for the purpose of this study and gives definitions of terms used in the thesis.

Chapter 4 gives an introduction to the Kenyan economy, with special emphasis on the situation of the economy during the period under study. Other details about Kenya like geopolitics, population etc will also be highlighted.

Chapter 5 deals with trade policies of Kenya and India and how these policies affect trade relations between these two countries.

Chapter 6 deals with trade relation between India and Kenya in the period considered, which includes, trends of imports and exports, pattern of imports and exports, balance of trade, The chapter will also show how various trade policies and foreign policies have shaped the course of Kenya's trade with other countries. The data will be analyzed to confirm or reject the hypotheses.

Chapter 7 of the thesis presents the summary of the research and put forward the conclusions drawn from the study based on data analysis. Suggestions and recommendations for policy action will also be presented in this chapter.

The appendices will give all additional required information and the bibliography.

2 CHAPTER TWO: LITERATURE REVIEW

2.1 Review of Literature

Several studies have been conducted on India's bilateral economic relationship with other countries. These studies have been critical and vital especially considering the fact that India is a strong economy in the world and any bilateral or multilateral economic relationship with her tends to send ripples in the economic world. In this section, we shall attempt to review some of these studies in order to find some aspects relevant to this researcher's study. It should be noted however that only those studies that are most significant to this study have been reviewed..

2.1.1. S. Vasudeva Shetty conducted a study in 1976 on India's trade relations with East European countries during the period 1948-49 to 1972-73[10]. The study examines the role of international trade in promoting economic relations and its limitations in the modern world. It uses classical theories of international trade for this purpose, namely, 1. Mercantilism (William Petty, Thomas Mun and Antoine de Montchrétien model) 2. The Absolute Advantage (Adam Smith model) and 3. The Comparative Advantage (David Ricardo model). The study dwelt on the prevailing economic situation in socialist countries of Eastern Europe. It highlighted the trading system of these countries and how the systems affect bilateral trade with other countries.

The researcher built a strong case of bilateral trade with an assumption that contrary to the general belief that free trade was the best policy, such a policy would be hard to apply in the prevailing economic world of that time. The author also noted that India had not entered into bilateral trade relations with countries in East Europe prior to

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[10] S. Vasudeva Shetty, (Unpublished PhD [Economics] dissertation): India's Trade Relations with East European Countries—A study in Bilateralism, University of Bombay, 1976.

1948 but was trading with them multilaterally. But after the signing of the first trade quota agreement with Yugoslavia in December 1948, bilateral trading with the socialist countries of East Europe began. Between December 1948 to March 1951, India had concluded bilateral trade agreements with Hungry, Czechoslovakia and Poland.

These trade agreements were aimed at promoting export of Indian goods, and in return India would get essential goods. This trade was well reviewed in the study, including some problems that it resulted in. These problems, as author noted, included additional criterion, switching, price stabilization, unit value realization and terms of trade. The study also focused on economic aid from European countries to India. The author conducted a comparative analysis on this aid, detailing the pattern, utilization and terms of assistance.

The economic assistance received from socialist East Europe countries constituted an insignificant portion of India's economic aid received from foreign nations. However, the study noted that this aid was received at a time when India needed it the most. And with the emergence of East Europe as a donor, India had a better chance to bargain effectively with the West who had been primary donors for years.

The study rightly concluded that India had gained more that she had lost in the bilateral trade with East European countries. This was after thoroughly analyzing the imports and exports fronts. On the export front, the author selected eleven commodities that were exported from India to East European countries with an aim of examining the switch trading. The commodities were: coffee, tea, pepper, unmanufactured tobacco, oilcakes and meal, iron ore, jute manufactures, castor oil, raw wool, cashew kernel and goat skin. These commodities were selected on the basis of their importance to India's exports and their production relationship with other trading partners.

The study found that some commodities like coffee, iron ore, cashew kernel and castor oil were delivered to non-rupee areas. The author also went on to examine whether India's trade with socialist countries of East Europe contributed positively in increasing India's earnings in volume and unit from exports globally. Traditional commodities which were thought to be tradable were computed using Coppock's index of instability. The findings revealed that although it was strongly assumed that trading with countries in East Europe would stabilize India's earnings from exports, this was not the case under the bilateral trade and payment agreements. Instability indices in volume and unit value of India exports to East Europe were higher in the cases of six and three commodities respectively as compared to the rest of the world. In the case of unit value realization, the East European countries paid slightly higher prices to India as compared to the West in some years. However as far as imports into India were concerned, the study showed that higher prices were not charged. This was concluded after 100 unit values of imports of chemicals, fertilizer, newsprint, iron ore and steel products from East European countries were studied.

2.1.2. Similar studies were undertaken and compiled in a book *Indo- CMEA Economic Relations* , edited by Suresh Kumar (1987)[11]. The book contains six articles dealing with trade in and with Socialist Countries of Eastern Europe (SCEE) which came together to form the Council for Mutual Economic Assistance (CMEA). The studies are spread over a period of four decades starting from 1950s to 80s. Of greater significance to this researcher's study is the article by Suresh Kumar himself, entitled *Special Trade and Payment Arrangement: Genesis, Development, Problems and Prospects*[12].

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[11] Kumar, S, ed. Indo-CMEA Economic Relations. New Delhi: Ashish Publishing House, 1987.

[12] Kumar, S,. "*Special Trade and Payment Arrangement: Genesis, Development, Problems and Prospects*." In Kumar op.cit pp 85-105

Kumar's study highlights why trade between India and CMEA was important. It shows that India was keen to improve her international economic relations by trading with various countries and trading blocs after independence. These states did not belong to any multilateral trading and financial institutions of GATT, IMF and World Bank and so economic relationship with them could be drawn only through Special Arrangements based on the countries' foreign and trade policies. The study showed that India and CMEA both benefited from this trade though with phases of downward trend.

The study goes on to define bilateralism in a broader form in relation to Indo-CMEA trade. Bilateralism is defined as the balancing of a country's exports and imports vis-à-vis individual trading partners whereas multilateralism is the balancing of a country's exports and imports globally. The study notes that SCEEs have a form of bilateralism that is based on the principle of equality, most favored nation and mutual benefit regardless of their socio-economic systems and on the basis of country specific planning and negotiation. This is the system which India traded into, and, of which, analysis has been done in the study. India adopted the Rupee Payment System which rendered the Rupee convertible following the first Agreement of 1953. Application of this Agreement came into effect in 1958. This system ensured that all credits were repaid within this system, which meant that, the debtor had the opportunity of discharging his debts directly and in a planned way. The study also examines the role of Technical Credit and Special Payments Arrangements. On the former point, the study concludes that there is a need for improvement of technical credit management since this is the most important management tool in the system. All details and the position of technical credit accounts were to be published at the end of each year for the sake of transparency and for warning of possible fluctuations on the side of payments.

Further, the study examines issues like switch trading, terms of trade in indo-CMEA trade and trade surplus in Indo-USSR trade. The study found that switch trading is on the negative. There is a thorough study on Indo-USSR trade, of which the conclusions are, that there has been trade surplus here continuously since 1971, though this did not mean there was payments surplus. Trade data gathered showed that trade with other CMEA countries did not live up to its expectation except for that with USSR that showed steady increase in both exports and imports. Between 1979 and 1981 for example, Soviet Union accounted for 79% of the incremental earnings of India with oil being the greatest contributor. The study revealed that by the mid 70s there was stagnation with all SCEEs but for USSR. This was after USSR introduced crude oil as part of its exports to India.

2.1.3. An article by Hari Bhushan[13] in the same book focused on role of aid and technology transfer. On aid, the study noted that aid from CMEA was not of great magnitude as compared to that from the rest of the world, but what is worth noting is that this aid went to the most vital sectors of the economy like steel, oil, power, heavy engineering, defense among others. Effectiveness of aid and technology transfer from India to those countries and vice versa is dealt with in detail. In conclusion, it is asserted that CMEA technology should not be taken lightly or with bias. The author also concludes that there is still a wide scope of widening cooperation in the areas of technology between India and CMEA and that CMEA countries need to make more efforts in India especially in the public sector. The study observed that CMEA is not present in areas like rail and road equipment, fertilizers, cement, machine tools, electronics and communications in India and calls for entry of CMEA countries to these areas.

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[13] Bhushan, H., "*Economic Assistance from CMEA and Other Countries.*" In Kumar op.cit pp 186-210

2.1.4. A study by P.C. Rawat (1974)[14] on Indo-Nepal Economic Relations focused on historic aspect of Indo-Nepal economic relationship. The study noted that relationship between these two countries can be backdated to 750 A.D., though it was in 1815 that their relationship was formalized. The author noted that Nepal is strategically placed geographically owing to its proximity with China, a country that has not had very cordial relationship with India over the years. The study noted, for example, that Nepal was an important ally during the Indo-China border clashes.

The post- Indian independence and post- war period brought new challenges to the development of these two countries. Nepal, whose main, and almost only trade partner was India, could not obtain all she needed for sustainable trade and thereby opened up trade with other countries. India, on her part, needed to be careful with how she traded in order to utilize her resources to earn foreign exchange and still deal with deficits caused by war. But it was the organization of People's Republic of China as a nation in 1949 and letting off of the Ranas in Nepalese administration that prompted India and Nepal to come together in a more proactive way. This led to the signing of bilateral Treaty of Trade and Commerce in July 1950.

This treaty was a pace setter for a trade that would flourish over the years. But this bilateral trade was not without its share of challenges. For starters, the treaty of 1950 was limited and could not live up to its expectations. India's foreign policy was also so stringent that it almost crippled that of Nepal. A second treaty, replacing the 1950 treaty, was signed in 1957. This ended 1960. In 1960, a third treaty was signed and this year is regarded as the new dawn of Indo- Nepalese trade. The main focus of this treaty was the freedom it accorded Nepal to run her own commercial activities and on her part, India was to provide transport facilities through her territories.

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[14] Rawat, P.C. Indo Nepal Economic Relations. Delhi, National Publishing House, 1974

The outcome after this treaty was signed was impressive. It resulted in India's balance of trade between 1961 and 1971 being positive. This study, based on data from Indian Trade Journal, showed that India's balance of trade was at Rs. 55.7 million in 1961 and grew to Rs.140.2 in 1971.India was gaining from this trade, while Nepal, though benefiting, had a negative balance of trade throughout this period. The study also focused on India's aid to Nepal. This grew from Rs. 38.3 million 1961 to Rs. 139 million by the end of 1968-69 financial year. This figure was estimated to rise to Rs. 161.9 million during 1969-70 periods. This was a crucial period when the region was susceptible to cold war between USA, USSR and China. The study also focused on other areas like currency, industrial development, Indo-Nepal border smuggling and other impediments to sound economic development between these two countries.

2.1.5. A study by A.G. Leonard, S.J (1993)[15] sought to analyze economic relations between India and Japan between 1966 and 1985. This detailed study examined the trends, instability, diversification, competitiveness, elasticity, policies and strategies of trade between these two countries. The study was both qualitative and quantitative, and a large amount of quantitative data was analyzed for the sake of the study. This data was on major commodities selected on the basis of the amount of money traded on them. A floor of one crore rupee was fixed in selecting which items were to be analyzed. This means only those items that had a rupee value of one crore rupees and above were selected. Unless such a criteria was employed it would have been impossible to analyze such data, considering that India exported 1080 commodities to Japan and imported 1980 commodities from Japan.

Further, the selected commodities were subdivided into subgroups- 14 for exports and 13 for imports. The authors then sought to know the trend and in doing so employed

[15] A.G, Leonard SJ. **India's Trade Relations with Japan: An Economic Analysis**. Indus Publishing Company, New Delhi, 1974

time series analysis to estimate the annual compound growth rates. Data was gathered for comparison and analysis from trade with not only between India and Japan but from other countries as well. This data would be useful in estimating instability of exports. The study employed Coppock's Instability Index to estimate indices of instability of the collected export data.

2.1.6. Suzzane Paine[16] in her paper *`China's Economic Relations with less developed Countries: 1950-1976`*, shows various aspects of China's economic relations with Third World countries. In her paper, the author starts by giving a sketch on a railway project in Tanzania, an 1162 mile-long railway project that connected Tanzania and Zambia. The line was used to transport copper and zinc from Zambia; grains, chemical fertilizers, steel products and machinery to Zambia. The foreign cost of this project was financed by an interest-free loan of $401 million given by the Chinese, in addition to which the Chinese gave the Tanzanians a grant of 106 million Yuan in July 1976.

Apart from the direct economic benefits of this project, it is estimated that the project created more than 40,000 jobs to the Tanzanians alone during its construction and after that, more than 10,000 jobs for running it. This was, and still is one of the best examples of how developing nations can actively assist LDCs economically. The project was initially rejected by Western donors but after China stepped in, the Tanzanian ambassador to the USA had this to say:

That China's assistance

> …was the sole offer we had. We had no other alternative. Ironically, it turned out to be the softest we had ever hoped to get. And it wasn't from a Super-Power. It successfully challenged the invincibility of western technological superiority and dominance. It was a demonstration of our potential and capabilities- if only the Third World [had] stopped to exploit it.

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[16] Paine, Suzanne. "*China's Economic Relations with Less Developed Countries: 1950-1976*", In **Economic Relations Between Socialist Countries and the Third World**. Edited by Nayyar, Deepak, ed., London, The Macmillan Press Ltd, 1977

The Chinese also made a point to this effect and said:

> That railway is also a triumph for the third world countries and people who rely on their own efforts and support each other in developing their national economies. It is of far reaching political and economic significance. It helps Tanzania exploit the coal and iron deposits in its southern region and Zambia to break the Rhodesian and South African racists' blockade. It helps consolidate the independence of Tanzania and Zambia and develop their national economies and strengthen relations between both countries and between the East, Central and Southern Africa countries. The successful completion of the railway is a telling blow to imperialism and a great encouragement to the people of the Third World. The two super-powers, the United States and the Soviet Union, and other imperialist countries had all refused to help build the railway.

The paper also goes on to elucidate various aspects of China's trade with LDCs and first gave seven general features of China's foreign trade between 1950 to 1976.

1.All trade is managed through eight state-owned foreign grade corporations which act as agents, carrying out a trade plan under the guidance of Ministry of Foreign Trade, with some aid from the China Council for the Promotion of International Trade (CCPIT).

2. Chinese trade has always given more preference to balanced trade.

3. Implementation of the 'self-reliance' approach, together with the fact that China is a large economy, has meant that throughout the whole post-liberalization period trade has constituted a fairly low proportion of national product, imports having remained below 4 percent in the 'high trade' years of the mid 1950s and mid 1960s.

4. Chinese trade has been characterized by the comparatively high degree of fluctuation in its total, which is attributed not just to variations in Chinese and/or world economic conditions, but also to the differences, referred to in 3 above, in the interpretation of the extent to which trade is consistent with self-reliance.

5. Chinese trade direction has taken a major shift from the Soviet Union and Eastern Europe towards advanced capitalist countries.

6. Though not well known, Chinese trade is actually multilateral in nature.

7. On commodity composition, China's exports have consisted mainly of natural or processed primary commodity commodities, and imports have consisted of mainly producer goods and certain essential raw material and primary commodities.

At the level of individual countries the Chinese pattern of imports has, for instance, involved purchases of rubber from Indonesia, Malaysia, and Sri Lanka, cotton from Sudan, Egypt, Tanzania, Kenya, and Uganda, petroleum from Iraq, grain from Argentina etc

2.1.7. R.K. Sharma (1980)[17] conducted a study on Indo-Soviet economic relations after independence. The study is more of an economic analysis showing how economic relationship between these countries has impacted various sectors of Indian economy. India's economy after independence was in shambles and a lot had to be done to sustain the nation and make it in tune with rest of the world. That being the case, India embarked on trade with other nations but at the same time tried to avoid dependence on a single Western power. This made India turn to other areas and one of them was the Soviet Union.

The first step to promote Indo-Soviet trade was taken in 1950 when the two countries signed a regular sea deal, under which the USSR agreed to send three shiploads of wheat to relieve the serious food shortage that was facing India, in exchange for tea and jute. This was the beginning of a long economic relationship between these two nations. It was a relationship many doubted since it was with a socialist country. It was a new experiment in India's foreign trade relations. However it is a relationship that worked well and the author noted that trade between India and the socialist countries has been the most dynamic sector of Indian economy since 1960, accounting for a major proportion of the total increase that has actually taken place in India's exports since that year.

The study notes that relationship between these two countries was particularly beneficial to India during the critical economic times of the fifties and the sixties. India

[17] Sharma, R.K: **Indo-Soviet Relations: Economic Analysis**. Allied Publishers, New Delhi, 1980

had to repay huge loans that flowed in to the country in the past two decades of her economic development. To help India in the repayment, the Soviet Union assured India that it would buy large quantities of India goods towards the repayment of the loan account. This was a huge boost to India's exports to the Soviet Union. India's principal exports to the Soviet Union included jute manufactures, coffee, tea, tobacco, spices, cashew kernels, cotton textiles, leather, castor oil, storage batteries, power cables, drugs and pharmaceuticals, engineering goods, hosiery and readymade garments, garage equipment and hand tools, machine made carpets, footwear, etc.

The author also notes that India's experience of more than two decades of trading with the Soviet Union proved beyond doubts that the Soviet Union was a reliable trade partner and placed friendship with India above business considerations. This relationship, he notes, helped business communities in India a great deal. One example given to support this is a case where in the period of 1966-67 recession, the USSR placed an order for 100,000 tonnes of rolled metal and 600,000 tonnes of steel.

2.1.8. Prior to this study, Sharma (1979)[18] had concluded a similar study where he has taken inputs from eminent and noted Indian economists. The study was an attempt to show that contrary to many critics of Indo-Soviet trade, India indeed benefited from the trade and payment agreement entered into by the two countries in 1953. The critics alleged that India was selling cheaply and buying dearly from USSR, which was an indication that the terms of trade favored the Soviet Union rather than India. Other charges the study attempted to counter were that the increase in India's export to the Soviet Union amounted to trade diversion from the convertible currency areas and that the composition of trade had been static over the years and that the Soviet Union indulged in switch trade to the detriment of India.

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[18] Sharma, R.K: **The economics of Indo-Soviet Trade**. Allied Publishers, New Delhi, 1979

The study began by laying the background for the growth of Indo-Soviet trade. It pointed out that during the pre-independence days, particularly from 1937, India had very little trade with the Soviet Union. Till the conclusion of the bilateral trade and payment agreement, the volume of trade between the two countries was a negligible amount of less than Rs 2 crores. The overwhelming need for India to diversify her market to counter the persistent disequilibrium in her balance of payments position necessitated exploration of the Soviet market which was of course impossible due to the British imperialist control of the direction and contour of India's trade. The high point of the agreement was the element of maturity and equality. It provided that India was not obliged to pay for the import in gold and hard currencies.

Under the terms of agreement, the USSR agreed to provide various types of machinery and equipment required to launch Indian's industrialization on a large scale. This agreement, the authors noted, marked the beginning of greater economic co-operation between the two countries. The second agreement, concluded in 1958, added a new dimension of the Indo-Soviet trade, known as the Rupee Trade Agreement. It enabled India to import from the Soviet Union essential items like machinery, capital equipment and other materials on a large scale on rupee payment basis. It also enabled the Soviet Union to purchase various agricultural and industrial raw materials and consumer goods from India through payments in India rupees generated from India's imports from the Soviet Union.

Under these agreements, Indo-Soviet trade grew rapidly from a total turnover of just 1.56 crores during 1950-51 to 708.60 crores during 1975-76. However, the initial growth began during 1954-55. Besides showing the quantitative growth, the study also highlighted the qualitative character registered in the trade between the two countries. With the Soviet co-operation, India was able to build a solid industrial base. A number of

enterprises like the Bhilai Steel Plant (1955), Bokaro Steel Plant (1964), heavy machine building plant at Ranchi, Allied Machinery Plant, Durgapur; and Precision Equipment Plant at Kota were established with the assistance and co-operation of the Soviet Union. Apart from disproving the claim that Indo-Soviet trade relations amounted to trade diversion, it further revealed that India received higher unit prices for her export to the USSR vis-à-vis other major importers and paid lower prices for her imports from the Soviet Union. In conclusion, the study suggested that for further growth in Indo- Soviet trade and economic co-operation, heavy investment strategy taken as the optimum, India must export those goods which are produced by means of heavy equipment conserving techniques even if it entails granting subsidy. On the other hand, India must import heavy machinery and other goods which are to be used in heavy investment sector.

2.1.9. Another study on India's trade with East Europe was conducted by Sumitra Chishti[19] in 1973. This study came following India's trade and payment agreement reached between the two regions in the 1950's. In a bid to expand India's trade with the centrally planned economies of East Europe, and to achieve the twin objective of diversification of exports and exploring of new markets, the trade and payment agreement was deemed to be the appropriate channel. However, a number of questions have been raised regarding the usefulness of trade under the agreement.

An impression that had gained currency was that trade under bilateral agreements had been propped up through administrative devices. Questions arose as to whether India was trading at a loss in terms of prices, whether India was diverting her trade away from the convertible currency areas and thus losing valuable foreign exchange and, whether India was getting comparable quality products. To analyze the economic and trade implication of the agreement, the author started out by considering necessary guide-post to

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[19] Chishti, Sumitra. **India's Trade with East Europe**. India Institute of Foreign trade, New Delhi, 1973.

adjudge the benefits from trade under bilateral payment agreements—whether India would have established significant trade relations with the centrally planned economies of East Europe. With these trade and payment agreements, the composition and high level of trade established was advantageous to India. The export prices secured from the East European countries were lower than those secured from other countries. The import prices from these countries were higher than the prices of imports from the convertible currency countries. The term of trade had moved against India.

The study started briefly surveying the origin of bilateral trade and payment agreements in international trade policy. It then examined the main features of the trade and payment agreement with East European countries. Additionally, the study undertook a quantitative examination of the pattern and composition of India's trade with the East European countries in general, and individual countries that make up the block in particular. It also analysed the presence of each country in India's trade by computing their percentage share in India's export and imports. It assessed India's gains from trade with East European countries by studying the unit value realization in a number of commodities and examined in detail the terms of trade between India and the Soviet Union. The study revealed however that on the basis of trends in trade on certain commodities, it was apprehended that a portion of exports may have been subject to switch operations. The commodities involved included coir products, oil cakes, mica and coffee.

The study arrived at the inescapable conclusion that expansion of trade with the East Europe region had been a net addition rather than a diversion. The shifts required, noted the author, are in favor of expansion of non-traditional items of exports to match India's growing industrial potential.

2.1.10. A study conducted by Gyanu Raja Shrestha[20] of Nepal's Ministry of Finance in 2003 briefly reviewed trade relations between India and Nepal starting from recorded times in history up to the culminating year of the study. The study presented evidence dating back to 400 BC when Kautilya, a great economist of those days mentioned Nepal as a major exporter of woollen goods to India. The trade continued to flourish during the golden age of Guptas from 320 AD. Bilateral trade between these two countries was formalized with the signing of the first Trade Treaty in 1923. This treaty is seen as the first precedent to what has been the nature of Indo-Nepal trade up to date. For example, the treaty asserted: "No customs duty shall be levied at British Indian Ports as goods imported on behalf of the Nepal government for immediate transport to that country." The study also noted that the nature of economic relations between India and Nepal is based on the movement of goods and people across the 1,600 Indo-Nepal border. This movement of goods is described as free and spontaneous.

The study has also attempted to give an overview of trade treaties held between Nepal and India over the years. The author noted that the signing of the Treaty of Peace and Friendship, and Treaty of Trade and Commerce between Nepal and an independent India in July 1950 was the major boost to the relationship between these two countries. The treaty of 1950 officially formalized trade ties between India and Nepal. This Treaty was modified and renewed in 1961 and 1971, and incorporated provisions regarding transit facilities extended by India for Nepal's trade with a third country, as well as on cooperation to control unauthorized trade. Three more agreements were signed in 1978 which were significantly modified in 1991. The treaty signed on 6th December 1991 was one of the major treaties signed between these two countries. This treaty was meant to

[20] India. Research and information system for the Non-aligned and other developing countries (RIS). Nepal-India Bilateral Trade Relations: *Problems and Prospects.* New: Delhi, 2003

promote mutual trade between the two countries for the benefits of mutual sharing of scientific and technical knowledge and experience.

Among the provisions made in the 1991 treaty was one to allow all goods of Indian or Nepalese origin to move unhampered to Nepal or India without being subjected to any quantitative restrictions, licensing or permit system with the exception of restricted or prohibited goods and articles. At the same time, the Treaty of Transit was also signed. This treaty provided for unhampered movement of vessels from these two countries without discrimination. Further, exemption was given from customs duties and from all transit duties or other charges except for reasonable charges for transportation and such other charges as needed to cover the cost of services.

The study further noted that the Indo-Nepal Treaty of 1996 was one of the most significance of all treaties signed and went on to analyze the impact of this treaty especially in improving trade relation between the two countries. This treaty gave a new direction in the trade related areas as well as a scope for the trade improvement especially to Nepal. There were modifications for the earlier treaties and inclusion of new policies to this new treaty. A new area that was highlighted here was the signing of an Agreement of Cooperation (AoC) between His Majesty's Government of Nepal and the Government of India to control unauthorized trade. The Treaty of Transit was also modified in 1996. Major policy changes were made in this treaty. Among such changes, the negative list of product imported to India were shortened from seven to three items which are alcoholic liquors/beverages and their contents except industrial spirits, perfumes and cosmetics, cigarettes and tobacco. Government of India also provided access to the Indian market free of customs duties and quantitative restrictions for all products manufactured in Nepal on the basis of the certificate of origin. Another major change was the Nepal's decision to open the Nepali Stock Exchange to overseas investors.

The study further examines other treaties and agreement signed between India and Nepal up to 2002. The author then elucidated the impact of Trade and Transit Treaties on bilateral trade between India and Nepal. In a nutshell, the author noted that these Treaties provide guidelines and also scope for furthering bilateral trade between India and Nepal. The study also focused on trade points in Nepal and India, their functions and operations. The author points to the importance of these trade points in both countries as a tool to further bilateral trade between the two countries as they provide information on trade related issues and connect other trade points across the globe electronically.

The study also analysed the trends in economic and trade relations between India and Nepal. As far as economic relations are concerned, the study showed that India has been a very important and the main donor to Nepal for many decades after India's independence. For example, Indian assistance to Nepal has increased from IRs. 150 million in the mid-1980s, to IRs. 750 million in 1999/2000. According to the study, in the initial stages of their relationship, areas of economic relation were mainly confined to the basic infrastructure which cover; airports, irrigation, agriculture, supply of drinking water, roads, bridges, power projects, heath, industrial estates, communication, surveys, education, forestry, building construction, etc.

As far as trends in trade are concerned, the study revealed that during the period of 1956/57 to 1970/71, Nepal's exports to India comprised of 98.7 per cent of the total exports. However, Nepal's exports to India as well as imports from India started declining steadily after 1970/71 due to trade diversification policy that Nepal adopted. This policy was geared towards removing Nepal's over dependence on India and opening up of Nepal's trade with other foreign countries. Due to this the export share of Nepal's exports to India came down to 75.4 per cent in 1975/76, 40 per cent in 1985/86, and 21 per cent in 1990/91. It further came down to a mere 9.6 per cent in 1992/93. Likewise, share of

imports from India out of the total imports came down to 61.9 per cent in 1975/76. It declined to 42.5 per cent in 1985/86 and it further declined in 1995/96. The study noted however that though trade volumes between India and Nepal have been declining, there is an indication that the total foreign trade of Nepal is continuously increasing except for the year 2001/02. It also noted that the share of India in the total foreign trade of Nepal has shown improvement after 1996/97 to 43.3 per cent in 2000/01 and 48.1 per cent in 2001/02.

Summing up, the study attempted to identify the scope and areas of improvement in Indo-Nepal trade relations. To do this, the author outlined problem areas in this bilateral trade and then discuses the prospects of the relationship. Some of the problems cited included trade imbalance, lack of adequate market for Nepalese manufactured goods, frequent revisions in duties and rules, administrative and procedural complications and delays, lack of proper EXIM facility to maintain favourable trade balance, failure to conduct trade in the spirit of understanding and good faith, and unauthorized trade. On the brighter side, the study noted that although India and Nepal show some disparities in terms of economic strength, physical structure of the countries and resource endowment, they share common traits in various social and economic aspects. The study also elucidated various areas where India and Nepal can further their cooperation. Some of the areas pointed out include tapping and utilization of hydroelectric power, advancement of tourism industry, trade related education and training, mineral exploration and exploitation, and development in the areas of information and communication technology (ICT). The study also revealed that Nepal is open to Foreign Direct Investment (FDI) in projects such as hydropower, mineral exploitation, chemicals, hotel and resort, transport and communication, housing and apartments, construction, agriculture and forestry, food and beverage, textile and garments and, specialized service sector industries. India is

among the top investors in Nepal and this is an area that shows great scope of improvement. The study observed that favourable investment environment in India has greatly boosted trade between Nepal and India with each country coming up with investment incentives to promote bilateral trade.

2.1.11. Another study on Indo-Nepal economic relations was carried by N.P Bansokta[21] in 1981. The study carried a historic review of Indo-Nepal trade and economic relations since ancient times, describing the structural changes that have taken place over the years. A review of the various Indo-Nepal treaties during 1923, 1950, 1960 and 1970 were also undertaken, highlighting the areas that were not completely satisfactory to the growing economic needs of Nepal, thereby necessitating re-negotiations of the terms of agreements. The study found that over a period of eighteen years, there was no noticeable change in the composition and direction of Indo-Nepalese trade. Agriculture produce such as rice, gram and pulses dominated Nepal's exports to India, while imports from India featured prominently iron and steel, kerosene, salt, sugar, cotton twist and yarn and cotton piece goods. It further observed that 'geography was the main deterrent to Nepal's trade with India which accounted for between 95 and 99 percent of Nepal's total export and 91 and 99 percent of her total imports during 1956-57 to 1969-70. A quantitative analysis of Indo-Nepal trade was also carried out first by estimating the index of instability for thirteen agriculture commodities which account for 70-80% of Nepal's export during 1956-57 to 1964-65. It established that instability in both value and volumes were responsible for the low degree of diversification in Nepal's trade with India. This position was further reaffirmed by the estimation of Morton Paglin's index of specialisation. Unit price realisation for the major traded commodities between India and Nepal were

[21] Bansokata, N.P. Indo-Nepal Trade and Economic Relations. National Publishing House, New Delhi, 1981

computed. On an average, the unit prices paid by Nepal to India were more that unit price that she charged India.

Nepal's net and gross barter terms of trade were computed for twelve major commodities accounting for 60-70 percent of the total trade during 1956-57 to 1964-65. Both terms of trade were found to be favourable to Nepal. The gains were attributed to the rising prices of food grains in India.

To tackle the factors inhibiting Indo-Nepal trade, the author suggested further cooperation in such areas as transit rights, diversification of trade, and reduction of adverse trade balance, removal of bottlenecks and establishment of institutions for industrial development finance.

2.1.12 A study by Naser Izzat D. Nabolsi[22] in 1989 of Indo-Jordan economic relations during the period 1966-86, started by reviewing the Indo-Jordan trade relations under three distinct historical stages viz, the Pre World War period, the two World War periods and the period since Independence of India. The study pointed out that since the dawn of history, ties between India and the Arab countries had been quite close, that India's commercial relations with the Arab world may be traced back to the third millennium B.C., that there is evidence pointing to the presence of Indian merchants from Mukram and Baluchistan in the great cities of Elam and Sumer in the early dynastic times. Since ancient time up to 1921, Jordan was successively occupied by the Assyrians, Chaldeans, Persians, Nabataean Arabs and Ottoman Turks. The probable reason for Jordan having no permanent name in the past history was that the area was never a separate and independent entity. Therefore, there are no statistical data pertaining to India's 'trade with Jordan as a separate entity prior to 1921.

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[22] Nabolsi, Naser Izzat D. Indo-Jordan Economic Relations: A Critical Analysis, (Unpublished Ph.D Research work in Bombay University, 1989)

The study went on to examine Indo-Jordan balance of trade in great detail and revealed that throughout the period under study (1966-1986), India suffered adverse balance of trade with Jordan except during the years 1970-72, 1975-76 and 1976-77 in which India enjoyed favorable balance of trade. To find out the real benefits of Indo-Jordan trade relations, net barter terms of trade, income terms of trade and unit price comparisons were computed. It was evident from the empirical findings that during 1966-67 through 1971-72, India experienced unfavorable terms of trade with Jordan. However, during 1972-73, for the first time the net barter terms of trade became favorable to India, a development which was attributable to a simultaneous increase in the export price index and a decrease in import price index.

On unit value of exports from India to Jordon and to other major countries, it emerged that Jordan paid relatively more to India for her purchase per unit of iron and steel, paper and paper products, cashew kernel and relatively less per unit of animals, tea, spices, fruits and vegetables, in comparison with other major countries importing the same from India. But it concluded that on the whole, Jordan paid less for her imports from India since the group comprising tea, fruits and vegetables, spices and animal constituted India's major exports to Jordan. Similarly, comparisons of import prices paid by India to some major exporters were computed for the two major commodities that India imported from Jordan: rock phosphate and non ferrous metal waste, and it was found that overall, imports obtained by India from Jordan had been cheaper than those imported from other major sources. The study also examined the text of the various trade agreements between India and Jordan, beginning from the 1960 bilateral trade and economic agreement to see whether these had been instrumental in furthering trade growth between the two countries.

A survey of the trend of Indo-Jordan trade relations under the various agreements brought out the fact that although Jordanian exports to India were increasing very rapidly,

India's exports to Jordan were not showing any steady progress and therefore, the author suggested quota system to be followed while framing the bilateral trade agreements between India and Jordan. The study also examined India's trade policies under the various plan periods. Quantitative interpretation of the pattern of trade between the two countries was attempted, using different techniques. Firstly, instability indices for the seven commodities accounting for 90.1% of India's total exports to Jordan during the years 1966-67 to 1975-76 and1976-77 to 1984-85 were calculated and, it was found that the world earnings index was slightly lower than that of the rest of the world, meaning thereby that trading with Jordan acted as a stabilizer of India's export receipts. Using the Lorenz curve, commodity concentration index was computed. The findings showed that the concentration of exports in the case of India declined consistently, reflecting a real shift in the composition of India's exports. With the help of Gini's co-efficient index, the geographic concentration of exports and imports were computed and it revealed a consistent decline in the geographic concentration of exports and imports for India, an indication of a favorable change in the geographic distribution of India's trade. Using regression equations, attempt was made to establish the relationship between instability in export earnings and commodity concentration, geographic concentration and concentration on primary products, but the relationship was found to be insignificant. Further, the study examined the volume and composition of Indo-Jordan trade with particular attention paid to the major as well as minor commodities, as well as their percentage share in the total trade. An examination of project exports by India to Jordan and the complementarities of the two economies were also discussed.

In conclusion, the study maintained that there are vast possibilities for bilateral economic and technical co-operation between the two countries which need to be exploited in a planned manner for their mutual benefit. Great scope for such cooperation

existed because of Jordan's advantage with respect to some natural resources as also India's ability to provide technical expertise.

2.1.13 A study by H.P.B. Moshi and J.M. Mtui[23] in 2008 sought to analyze China's relationship with Africa, and in particular Tanzania. The study started by showing how Tanzania's rigid socio-economic system coupled with the war with Uganda and external shocks, during the late 1970s had resulted in major macroeconomic imbalances, economic stagnation and a decline in per capita income that lasted over fifteen years. This situation hastened Tanzania's liberalization process in the 1990s where it focused on large scale privatization, liberalization of the economy and macro-economic stabilization. During this time when Tanzania was opening its economy further to the world, one of the key players in funding key projects, giving of aid and even Foreign Direct Investment (FDI) was China.

China's relationship with Tanzania, the authors noted, started early, with China officially establishing diplomatic ties with Tanganyika and Zanzibar on December 9, 1961 and December 11, 1963 respectively. On April 26, 1964, when Tanganyika and Zanzibar were united and became Tanzania, China established its diplomatic relations with the United Republic of Tanzania on the same day. China's relationship with Tanzania has been strong since then. Tanzania's First President Julius Nyerere was a great friend of China. He was one of the first world leaders to get strong support and lead the non-aligned movement and he led his country into embracing socialism rather than capitalism. In his lifetime, Nyerere visited China thirteen times and signed important agreements and treaties geared towards social, economic and political strength between the two countries.

The study listed a number of agreements signed under the umbrella of economic, trade, aid and technical cooperation between China and Tanzania which included: The

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[23] Moshi, H.P.B and Mtui J.M. Scoping Studies on China-Africa Economic Relations: The Case of Tanzania. Nairobi: AERC, 2008.

Agreement on Economic and Technical Cooperation between the People's Republic of China (PRC) and the United Republic of Tanzania (URT) (June 1964); The Trade Agreement between the PRC and the URT (February 1965); The Agreement between the Government of the PRC, the Government of the URT and the Government of Republic of Zambia on the Construction of the Tanzania-Zambia Railway (September 1967); The Barter Trade Protocol between the People's Republic of China and the United Republic of Tanzania (March 1984); The Agreement between the Government of the People's Republic of China and the Government of the United Republic of Tanzania on the Establishment of a Joint Economic and Trade Commission (August 1985); The Framework Agreement between the Government of the People's Republic of China and the Government of the United Republic of Tanzania for the Provision of an Interest-Subsidized Preferential Credit by China to Tanzania was signed in 1996 and 1997.

In terms of trade between these two countries, the study showed that Tanzania's main exports to China include dry seafood, raw leather, log, coarse copper and wooden handcrafts, while Tanzania's imports from China are mainly foodstuffs, vehicles, textiles, light industrial products, chemical products, mechanical equipment, electric appliances and steel. Total trade value between these countries has been growing steadily over the years. Between 1996-2002 China's total trade with Tanzania averaged US$ 70 million and the trade was mainly dominated by imports. However, after 2002, this growth stepped up to an average of 59% annually up to 2006 making China one of Tanzania's major trading partners. Trade balance has been worsening over the years with Tanzania being the victim and the net importer. Tanzania's Total exports to China averaged only US$ 5.8 million during 1996-2002, but increased significantly to annual average of US$ 64.3 million in 2003-2006. Imports also showed an upward trend, averaging US$ 80.8 million during 1996-2002 and increased to US$ 205.2 million in 2003-2006.

The study also mentioned some of the key Chinese investments in Tanzania, which included the Friendship Textile Co. (URAFIKI). This company was transformed in 1996 into Tanzania-China Friendship Textile Corporate Ltd, where the Chinese government invested US$ 5.5 million (51%) with enhanced profits and job creation. Another major joint venture is the Chinese-Tanzania Joint Shipping Company where each country holds 50% stakes each with capital of TZS 17.2 billion (US$ 15.5 million). The study showed that by the end of 2006, there were 140 Chinese companies registered in Tanzania with official figures released by Tanzania Investment Centre (TIC) indicate that on aggregate the Chinese share of FDI to Tanzania stood at 2.4% of total FDI flow to Tanzania between the years 1990-2006. Aid also plays an important role in Sino-Tanzania relations. China has provided assistance to Tanzania in several areas. A major assistance given by China to Tanzania was the Tanzania-Zambia Railway (TAZARA), where the agreement to build 1,860 km long railway line from Dar es Salaam to Kaprimposhi-Zambia, at the cost of US$ 401 million for construction, the provision of locomotives and rolling stock was signed in 1967. It was an interest free loan with a grace period of five years repayable in 30 years, shared equally between the two countries. The project represented China's largest single commitment of foreign aid and technical assistance in the third world and the African Continent, at that time. Recently, in 2004, China assisted in the construction of Tanzania's National stadium. The modern 60,000-seater stadium, which was completed during the fourth quarter of 2007, was constructed at a total cost of US$ 43.5 million, with 53 percent of the cost financed by the Government of Tanzania and 47 percent (US$20.5 million) financed through a soft loan from China.

2.1.14 A study in 1970 by Vadilal Dagli[24] surveyed a number of German and Indian exports to determine various aspects of Indo-German economic relations. The study examined the very nature of Indo-German co-operation from the view point of trade, aid and investment. Also, it examined in historical detail, Indo-German cultural and economic co-operation and revealed that even though the economic co-operation does not have such a long and venerable tradition behind it as cultural relations, noticeable areas of co-operation include technological fields such as research into the peaceful use of nuclear energy. On Indo-German trade, the study examined India's share in the German market as well as the composition of India's exports to Germany. Prominent among India's exports to Germany were: cashew kernel, coffee, tea, spices, rosewood, iron ore concentrate, cotton manufacturers and coir yarn. India suffered unfavorable > balance of trade with Germany for the period 1961- 62 to 1968-69, but overall, India was a net gainer in Indo-German co-operation when the value of German aid through multilateral as well as bilateral institutions was taken into account. Between 1957 and 1969, India secured 35% of all German official bilateral loans and 10% of all technical assistance grants. In the area of investment, the setting up of the German aided Rourkela steel plant marked the beginning of active interest of German industry in India's development. From 1957 onwards, the study noted, the number of West German foreign collaborations approved by the government of India had steadily increased. To further Indo-German co-operation, the author suggested the formulation of plans that could increase German imports from India in 1975 to half a percent in Germany's imports. This would imply a fivefold increase of German imports from India in 1975. The study further suggested joint ventures in third countries wherein India could contribute some engineering equipment required in the joint venture at lower cost.

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[24] Dagli, Vadilal (ed). India and Germany: A Survey of Economic Relations. Vora and Co. Publishers Pvt.Ltd. New Delhi, 1986.

2.1.15 A study by Edgar Sebei[25] in 2006 examined agricultural trade flows between Kenya and South Africa in order to identify existing trade patterns and scan for potential opportunities. The study, though focusing on Kenya, did compare trade flows with other African and world countries, apart from South Africa, in order to come to concrete conclusions and analysis. The study starts by laying down facts about Kenya in order to provide a broad outline of several key features of the country. A brief historical background is then provided followed by an overview of the Kenyan economy and the country's infrastructure. The author notes that Kenya is predominantly an agricultural country though only a very small percentage of the entire land is productive for crop cultivation. Of the total 582,646 square kilometres of land, only 8.08% of that is arable and 0.98 is under permanent crop. The rest 90.94% is either arid, semi-arid or does not support much of agricultural production to be categorized as 'agricultural'. However, in terms of GDP, Kenya earned more in 2003 from services (62.4%of GDP) while agriculture contributed only 19.3%.

Next , the author discussed Kenya's participation in regional and international trade organizations, followed by a discussion on agricultural trade relations between Kenya and South Africa. Kenya is a member of the Common Market for Eastern and Southern Africa (COMESA), which 29 member states created with the aim of promoting regional economic integration through trade and investment. Kenya is also a very active participant in the East African Community (EAC) and the first African country to qualify under AGOA (African Growth and Opportunity Act). On the international front, Kenya is a founding member of World Trade Organization (WTO). The study goes on to analyze South Africa's agricultural trade relations with COMESA. Deriving inputs from World Trade Atlas, the study showed that in 2004 agricultural flows between South Africa and

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[25] Sebei, Edgar. Trade potential between South Africa and Kenya. Pretoria: Gov Press, 2006

COMESA constituted only 1.6% of total South African agricultural imports, while South African agricultural exports to COMESA constituted approximately 16.3% of total COMESA agricultural imports. Zimbabwe emerged as the main trading partner in terms of agricultural trade imports. Kenya was fourth with little but important contribution. In terms of exports from South Africa to COMESA, the major destinations of South Africa's products were Angola, Zimbabwe, Kenya, Mauritius, Zambia and DRC. The major products imported from COMESA by South Africa were mainly cotton, coffee, tea, mate, tobacco and manufactured tobacco, sugar and sugar confectionary and food industry residue used for preparing animal feed. The main products exported from COMESA to South Africa were beverages, spirits and vinegar, cereals, sugar and sugar confectionery, tobacco and manufactured tobacco substitutes, animal or vegetables oils, dairy products, citrus fruits and milling products such as malt and starch.

The study also examined key features of Kenyan agricultural and trade policy. A detailed analysis has been made in regards to Kenya's trade barriers including custom procedures, tariffs, other levies and charges, import prohibition and licensing, trade sanctions, contingency trade remedies, rules of origin, standards and other technical requirements required in international trade. The trade analysis examines the existing agricultural trade structure between Kenya and South Africa. South African leading agricultural exports to and imports from Kenya are identified and discussed. This is done with the aid of trade databases. Products with the greatest trade potential are then identified and discussed. South Africa's current agricultural trade profile with Kenya reveals that Kenya was an important destination for South African exports. Kenya was the fourth largest market for South African agricultural exports in Africa, accounting for revenue of R416 million in 2004. Exports of agricultural products to Kenya represented

almost 2% of total South African agricultural exports, whilst imports from Kenya represented less than 0.2% of total South African agricultural imports.

The study revealed that Kenya employs a range of trade barriers, and, several market access constraints exist for exporters wanting to access the Kenyan market. Import requirements are stringent and often cumbersome. Restrictions facing imports of Kenyan products into South Africa are primarily in the form of non-tariff measures. Technical barriers as well as sanitary and phytosanitary (relating to the health of plants, especially with respect to the requirements of international trade) measures serve as the greatest restriction facing Kenyan exporters. The study identified a few leading competitors in the Kenyan agricultural market including the United Kingdom, United States and Netherlands. Other important competitors and potential competitors include Tanzania, the United Arab Emirates and Pakistan. The author however noted that South Africa enjoys a strategic (geographically) advantage over countries like UK, UAE, USA and Pakistan since it's is located in Africa which makes it easier and quicker to transport goods to and from Kenya.

In conclusion, the study observed that the existing agricultural trade between South Africa and Kenya was biased in favour of South Africa. This was reflected by South African exports to Kenya being almost fifteen times larger than the imports from Kenya in value terms. The reason for this huge disparity could be that South Africa is more diversified in terms of agricultural production as compared to Kenya and is endowed with skilful commercial farmers, who are more competitive in the market. In order to overcome this disparity both countries can trade in those agricultural goods in which they have comparative advantage. South African potential lies in the exports of cereals, sugars, miscellaneous edible preparations and beverages. Whilst Kenyan potential lies in the exports of tobacco, sugar, raw hides and vegetables.

2.1.16 A study by S.S. Mehta[26] in 1983 examined the various areas of economic cooperation between India and Pakistan. In its outset, it pointed out that economic co-operation between India and Pakistan is the surest guarantee not only of economic but also a long term political stability in the sub-region, that the history of estrangement between India and Pakistan is much too brief for the advocates of economic co-operation to allow themselves to be influenced by the prophecies of a perpetually doomed relationship.

The study went on to examine the few steps that have been taken for the normalization of relations between India and Pakistan. It noted that quite a few of the steps envisaged in the Simla Agreement of 1972 have been implemented. The ice was broken when the representatives of the governments of India and Pakistan signed a trade protocol on 30th November, 1974. This was followed by a regular Trade Agreement in January, 1975. Under the agreement, trade between the two countries was to be conducted through government agencies or undertakings. The protocol attempted a broad identification of the commodities with immediate potential for trade. These commodities include cotton, rice, engineering goods, jute manufacture, iron ore and railway equipment. Other complementary steps to promote restoration of trade include establishment of remittance facilities between the State Banks of India and Pakistan and the resumption of direct shipping service between the two countries. During 1976 however, private and non-governmental bodies were permitted to trade directly. This agreement, initially for one year, was extended till its lapse in 1978. A new agreement has not been signed since then as Pakistan has not shown an inclination to sign a Trade Agreement which is less restrictive than the earlier ones.

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[26] Mehta S.S. Economic Co-operation between India and Pakistan, (In Challenges of South-South Co-operation Part II).Ed. H.W. Singer, Neelambar Hatti, Ramesh Tandon. Ashish Publications Pvt. Ltd. Delhi 1983

An encouraging development, the study noted, has been the signing of an Agreement for the establishment of an Indo-Pak Joint Commission which might eventually lead to the conclusion of a fresh Trade Agreement. Yet another step taken by the government of Pakistan which might lead to an increase in Indo-Pak trade is the permission for private traders to import forty items from India. The import of these items however has to be conducted through the Trade Corporation of Pakistan.

The author postulated the possibility of raising the two way trade to Rs.500 crores during the next three years in view of the complementary nature of the two economies. Items like raw wool, inorganic chemicals, artificial resins, transport equipment, low grade coal, naphtha and pig iron could be imported from Pakistan. India on the other hand could supply goods like agricultural equipment, tires and tubes, offset printing machines, typewriters, jute, paper and textile machinery.

The author further noted that there is no sensible alternative to the improvement of mutual relations between the two countries, given a long common history and a rich composite culture inherited by both countries. This inheritance cannot be simply washed out of existence. The constraints of geography bind the two countries together. While examining the complementariness between the two economies, the study pointed out that Pakistan and India are in roughly similar stages of development, and, since the governments of the two countries are major partners in development, coordinated building up of manufacturing capacity, harmonization or at least dovetailing of plans of the two countries and establishment of major industries on the basis of complementarities, was necessary. This requires bold political decisions, which Pakistan — touchy about her sovereignty — will be most reluctant to take. To allay the Pakistani fears, the author suggested limited forms of co-operation which do not involve any surrender of sovereignty

and have no exploitative elements. These initial steps, opined the author, stand a reasonably good chance of success.

In conclusion, the study advocated the resumption of normal trade between India and Pakistan, establishment of common research institutes, bulk purchases from foreign suppliers so as to benefit from the bargaining power of the two countries, promotion of cultural exchanges and joint development of multinational projects.

2.1.17 A study by Aparajita Biswas[27] sought to analyze political and economic relationship between India and Kenya in the post-independent period. The study covers a period of 30 years from 1947 to 1977 and is divided into two main periods. The first period is 1947-1977 i.e the Nehru years and the second period is 1966-1977, which is the first term of Indira Gandhi. The study begins by showing how important the Non Allied Movement (NAM) was in strengthening ties between India and African nations and Kenya in particular. India under Jawaharlal Nehru played a key role in promoting NAM at the time when the cold war was going on. The third world nations came together to form a movement that would voice their needs in many areas of life. The movement's objective was to forge new ways and methods of bringing about cooperation between developing nations without isolating them from the rich nations of the North. The author notes that cooperation between Kenya and India was based on the objectives of NAM both as a principle of foreign policy and the collective movement for South-South cooperation.

The study further sought to trace the history of India and Kenya relations. Attempt has been made to trace the first contact between the Indians and the East Africans. The study revealed that there is written and archaeological evidence to show that Indians were trading with the East Africans as early as 8th century AD along with Persians and Arabs. According to Al Masudi accounts ((10th Century) and those of Al Idrisi (12th Century),

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[27] Biswas, Aparajita. Indo-Kenya Political and Economic Relations. Delhi: Kanishka Publishing House, 1992

there has been a lot of evidence which shows there was a lot of interaction between East Africa and India. By 15th Century, the East African coast is said to be very much influenced by the Persian Gulf and India. The study shows that at this time, Indian traders to East Africa were mainly from Cambay, Sind and Malabar regions. Further, settlement of Indians in East Africa followed from trade, with the most significant of such migration being at the end of the 18th century and the beginning of the 19th century during the construction of the Kenya-Ugandan railway. The increase of people of Indian origin in Kenya brought about the concept of 'Indian Question[28]' between 1913 and 1923. After Indian independence, Jawaharlal Nehru initiated a strong Indian-African policy which was aimed at promoting decolonization and independence of African states and enhancement of economic growth. The policy was seen also as a form of protecting the PIOs in East and South Africa who were gradually facing opposition from the native Africans.

After Kenya gained independence in 1963, the policies would change, and with the passing of Nehru in 1964, the effect would be seen. Shastri took over from Nehru but his tenure was too short to have any impact on Indo-Kenya relations therefore the study next looked at the Indira Gandhi period which also coincided with the first Kenyan president Mzee Jomo Kenyatta years. At this time Kenya was working hard to unite the nation that was on the verge of breaking apart as North Eastern and Coast regions sought to secede as separate states. Kenya knew that a strong foreign policy and good relationship with its neighbours would help her strengthen her progress. NAM was one vehicle through which Kenya would strengthen her foreign policy and India being a key proponent of the movement was one of the first choices of partners from NAM. The issue of the contemporary role of Asians in Kenya was addressed during this time with Mrs. Gandhi

[28] The term 'Indian Question' refers to the dilemma to colonial government found itself in not knowing exactly how to deal with the increasing population of people of Indian origin in Kenya. The government was not sure if it was to term them as Kenyan citizens or what role they would play in the government or what diplomacy measures to take to deal with them.

advising the Asians to join the mainstream of Kenyan social life and regard the 'native' Kenyan African interests as paramount.

On India- Kenya economic relations, the study found that there was a decline in trade between India and Kenya in the 60's but trade picked up in the early 70's. After 1971-72 trade started to pick up and by 1976-77, the value of India's export to Kenya touched Rs. 71.1 million, a rise of more than 100% since 1970-71 and around 350% since 1965-66 although imports from Kenya had by and large stagnated around Rs. 70 million since 1967-68. According to the study, rise in India's exports during the 1970s was due to two main reasons. First, the 'Asian issue' or 'Indian Question' was not a troubling issue anymore and Asians had actually become actively involved in economic and commercial life of Kenya. Secondly, India's exports were highly diversified and the exports did not depend only upon traditional items such as textiles and the related group, which accounted for almost three fourths of the total value of India's exports to Kenya in 1960-61. India had now started exporting non-traditional items, such as engineering goods and machinery which by this time accounted for 40% while chemicals (including basic chemicals, pharmaceuticals and allied products) accounted for 35% of India's exports.

In conclusion the study asserts that in the years under reference, Indian and African leaders were in unity of thought as far as liberation aspirations of Africa from colonial and imperialist forces was concerned. After India's independence in 1947, her foreign and economic policies became broader, moving from narrow national consideration to broad humanitarian principles, which were reflected in her African policy with respect to African liberation, racial equality and persons of Indian descent in Kenya and other East African countries. Both India and Kenya sought to expand their economic and technical cooperation with Southern countries especially the countries where they would gain from cooperation. Kenya became a more worthy ally of India since Kenya aligned with India

during the Sino-India border conflict of 1962 and was able to quell the Asian issue better than Uganda. Economic relationship between India and Kenya would therefore grow over the years with trade composition changing from traditional goods to medium and heavy industrial goods.

2.1.18 A study by M.S.N. Menon and V.P. Morozov[29] in 1986 began by tracing the origin of Indo-Soviet contact five hundred years back. It showed the warm feelings the people of Russia had for India and her people even in those early days, and how these translated into mutually benefiting economic co-operation in the later years. Tracing the path of Indo-Soviet economic cooperation, the authors emphasized the influence of Jawaharlal Nehru's visit to the Soviet Union, in 1927, on the development policy choice of India. Nehru was so fascinated by the planned industrialization system adopted in the Soviet Union that at the Karachi session of the Indian National Congress, he introduced the resolution called "Fundamental Rights and Economic Policy". In 1938, Nehru helped set up a planning body — the National Planning Committee, which appointed him Chairman, to prepare a blueprint for India's planned development. He recognized, however, that under the conditions prevailing in India, it would be impossible to go over to full-fledged Socialism and a completely planned economy and saw it as a gradual process. India chose "mixed economy" for historical reasons, but it assigned the leading role to the public sector. It was the hope of Jawaharlal Nehru and others that the public sector, in being able to move the economy in a desired direction, would be able to influence the growth of the private sector. After studying the experiences of economic development in a number of countries, Nehru arrived at the conclusion that building 'modern national industry' was India's top priority task if it wanted to consolidate its hard won national

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[29] Menon M.S.N and Morovoz V.P. Indo-Soviet Trade and Economic Ties. Allied Publishers Pvt. Ltd. New Delhi, 1986

independence and lay the foundations for steady economic and social progress. When he spoke of 'national industry', Nehru meant heavy industry.

The authors after elucidating on the historical path of Indo-Soviet relations, delved into the detailed analysis of the assistance given by the USSR to India in the crucial sectors of the economy. In the heavy industries segment, the writers highlighted the boost which the Bhilai, Bokaro, Vishakapatnam and Arkonam steel plants have given to the rapid industrialization of Indian industries and other related sectors. "Soviet assistance helped India to develop those sectors that have formed the nucleus of the national economy". These were evident from the increase in industrial output, agricultural production and the change in the composition of India's exports from traditional commodities to manufactures and semi-manufactures; a contribution made possible by the fact that Indo-Soviet co-operation was founded on the principle of complete equity, respect for sovereignty and territorial integrity, non-interference in each other's internal affairs and mutual benefit, aimed at helping to build an independent and comprehensively developed national economy. On Indo-Soviet trade, the authors indicated that for the period 1951-1973, India had a favorable annual balance of trade fourteen times and the USSR only eight times. The unit value of commodities exported and imported by India revealed that in her trade with the USSR, India realized a better unit value than with other countries. For the years 1961-1976, India realized higher unit values from her export of tea to the USSR than from other major Indian tea importers. Similarly, India paid lower unit prices for her import of fertilizer, pig iron and steel to the USSR than she did to other major supplier nations.

In sum, India gained enormously from her co-operation with the USSR particularly in the areas of power generation, erection of steel and engineering plants, medical factories

and iron ore prospecting. Also, in training of cadres, shipping and trading on rupee basis without tariffs and custom barriers.

2.1.19 A study by R.G. Gidadhubli[30] in 1983 focused particularly on the nature of Soviet import market during 1965 to 1980. The study which depended solely on trade data from Soviet Union sources addressed itself to the twelve most important commodities that the Soviet Union imported from India which included — tea, coffee, tobacco, (raw), black pepper, cashew, shellac, raw leather, raw wool, jute, jute bags, jute packing materials and cotton textile fabrics. The author undertook a detailed study of the trend of total import of these commodities, India's share in the total imports of these commodities by the Soviets, other major sources of import that directly compete with India in the Soviet market, and the proportion of domestic production of the imported commodities. The study examined the structure and composition of the Soviet imports from India and revealed that agricultural raw materials and agricultural consumer goods accounted for about eighty percent of Soviet imports from India during the 1960s. Subsequently, their percentage share showed a declining trend and manufactured industrial consumer goods featured noticeably.

Additionally, the unit value realization comparisons were made for the selected commodities, but the picture was mixed as India emerged a gainer in some cases and a loser in others. The balance of trade for the entire period under survey revealed that India enjoyed favorable balance for eleven out of the sixteen years, but it further indicated that the average annual growth rate of Indo-Soviet trade was declining.

The author undertook a brief historical account of Soviet trade theory and policy, Soviet trade performance and an in-depth analysis of Indo-Soviet trade. Using Lorenz concentration curves, the study indicated that between 1965 and 1980, there had been a

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[30] Gidadhubli R. G. Indo Soviet Trade: A Study of select items of Exports From India to the Soviet Market. Somaiya Publications Pvt. Ltd. Delhi 1983.

significant diversification in the import structure since the curve for 1980 was closer to the line of zero concentration than the 1965 curve.

On the basis of time series data for the sixteen years studied, an attempt was made to forecast the quantum and value of Soviet total import of selected commodities as well as the likely quantum of Soviet imports from India during 1985.

2.1.20 After going through various literature related to trade between India and Kenya, the researcher did not find any study made on trade between the two countries from 2000 to 2010. Considering that the world is changing fast with global issues like globalization becoming ever more important, it is vital for a study to be made to find out how a country like Kenya can assert herself in the global map. India is a country that is moving from a developing to a developed country or at least to an economic power. It makes academic sense therefore to study how trading with a country that has mixed strengths would be for a country like Kenya. The researcher is confident that this study can and should be used as a reference material in economics to study trade relations between Kenya and India in recent times.

3 CHAPTER THREE: THEORETICAL FRAMEWORK

The purpose of this section is to attempt a fairly comprehensive and rigorous presentation and examination of theories of international trade relevant to the current study.

To begin with, observations must be made in regards to the themes of international trade. These are inherently qualitative and quantitative in nature. It is important to point out that qualitative themes of international trade relate to the patterns of trade. The theory of comparative cost advantage suggests that different countries will export different goods. Which goods are exported will further be determined by natural and man-made differences that the countries are endowed with such as differences in factor supplies. This qualitative element of international trade impacts on trade because it determines each country's comparative advantage. Conversely, the quantitative element of international trade is the terms of trade and gains from trade. Terms of trade involve indicators such as the relative prices of exports and imports while gains from trade refers to the net benefits to an agent, e.g a participating country, from entering into voluntary trade. These quantitative elements also depend on indicators such as factor supplies, technology, as well as trade policies, such as tariffs.[31]

3.1 The Theory of Comparative Costs

The classical theory of Comparative Cost by David Ricardo propounded in 1817 states that,

> "**international trade takes place because different countries have different advantages (efficiency) in the production (specialization) of different commodities. A country will specialize in the production of**

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[31]Dixit, A.K., & Norman V. **Theory of International Trade**. London: Cambridge University Press, 1980. pp 1.

> **that commodity in which it has a greater comparative advantage or its comparative disadvantage is the least. It follows thus that the country would export the commodity in which it has comparative advantage, and import the commodity in which its advantage is less or in which it has a comparative disadvantage**." [32]

This is to say that international trade plays a role in redistribution of the resource of a country, namely labour, to production of goods and services in which a country possesses a comparative advantage, from production of goods and services in which it possesses a comparative disadvantage. Therefore, according to David Ricardo, the differences in Comparative Advantage in labor productivity predict trade patterns. It also determines resource utilization, even if not explicitly stated by Ricardo.

At this juncture, it is of importance to consider the assumptions that the Ricardian theory is founded on, in order to throw light on the principles of the theory. The assumptions are as follows:

i. There are only two countries trading two commodities
ii. Labour is deemed to be 'the' factor of production i.e. there are no other factors of production, or if there are, they can be expressed in the form of labour. This is because Ricardo like Adam Smith subscribes to the 'Labour Theory of Value'.
iii. The Ricardian theory considers cost of production in real terms, following the Labour Theory of Value, i.e. the theory is founded on the labour cost principle alone
iv. There is perfect mobility of the factors of production within the country but imperfect mobility between two countries.
v. Production is subject to constant returns to scale

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[32] D.M. Mithani, *International Economics 6th Revised Ed.* Mumbai: Himalaya Publishing House Pvt. Ltd, 2010. pp 9.

vi. There exists full employment of all the factors of production in the two countries considered

vii. It is assumed in the theory that there exists free trade i.e. no barriers in the form of tariffs or controls between the two countries

viii. In the theory, it is implied that transport costs are ignored[33]

However, it is important to appreciate that the Comparative Advantage of a nation is a dynamic concept i.e. it is not restricted to labor productivity only as initially offered in the classical theory of Ricardo. In the current scenario these variables in respect to the Comparative Advantage can take the form of better governance, inclusive economic reforms, and better business practices, among others. Evidently, the Ricardian theory implies that, in regard to the current study, Kenya and India are differently endowed with natural resources and will trade in their areas of specialization in relation to natural resources, and technology advancement, but it may also depend on things like governance, economic reforms and better business practices of the two countries.

A critical analysis of the Ricardian theory will suggest that the theory is incapable to measure up to the conditions of international trade in the light of present day conditions, especially in developing economies. Also, the researcher would like to clearly point out that the degree of development of India and Kenya differs in many respects so that 'developing India' is at the fore front whereas 'developing Kenya' is trailing behind in the 'development race'.

Having considered the above, the application of the theory of Comparative Cost Advantage is relevant to the current study only in one aspect:

1. The Ricardian theory of Comparative Costs supports free trade for efficient production which is viable in countries of the same level of development and

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[33]Anderton, Alain. Economics 3rd Edition. Revised Ed. New Delhi: Longman, 2006. Pp 88-89

therefore will suggest that the trade between India and Kenya should not be subject to any artificial limitations in the interest of corresponding gains accruing from their trade. Consequently, as India and Kenya are in a general manner clubbed together as 'developing countries', there will be benefits resulting from trading due to the specialization along the lines of comparative advantage provided they have free trade.

3.2 Heckscher-Ohlin Theorem: Modern Theory of International Trade

As generally accepted, the Heckscher-Ohlin (HO) theorem is one that is concerned with general equilibrium of international trade. It considers comparative advantage taking into account two factors of production, say labour and capital, whereas Ricardo's theory takes only one factor of production, labour.

According to this theory:

> "The immediate cause of international trade is the difference in the relative prices of commodities between the countries and these differences in the commodity prices arise on the account of the differences in the factor supplies in the two countries[34]."

Let us consider the assumptions of the HO Theorem before further discussions and applications of the theory to the current study.

The assumptions in HO theory are:

i. The theory uses a double model approach in its process of argument i.e. two countries, two commodities and two factors of production – labour and capital.

ii. The relative endowments of the factors (labour and capital) are disproportionate in the two countries i.e. factors are quantitatively fixed and qualitatively homogeneous in each country but the countries are not

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[34] Mannur, H.G,. International Economics (Second Revised Edition). Noida: Vikas Publishing House Pvt. Ltd, 1995. Pp 117

endowed with the factors in the same proportion. One country is **labour abundant** and one country is **capital abundant.** Factor abundance can be defined in two categories: price criterion and physical criterion. According to price criterion, a country is regarded as capital abundant if capital is relatively cheap and labor relatively more costlier, regardless of the physical quantities of capital and labor available in that country as compared to the other country. In physical criterion, a country is regarded as relatively capital abundant if, and only if, it is endowed with higher proportions of capital to labor than the other country[35].

iii. Perfect mobility of factors of production **within** the countries but **not between** the two countries.

iv. There is perfect competition in both factor and commodity markets and full employment of resources in the two countries.

v. The production functions are different for different goods in each country but the same for each good in the two countries.

vi. The production functions for different goods determine their classification i.e. in terms of factor intensity e.g. labour intensive and capital intensive.

vii. Each production function is subjected to constant returns to scale. That is to suggest that a given proportion of factor inputs results in the same proportionate output.

viii. Trade between two countries is free and costless i.e. no existing systems of tariffs or barriers and no transport or similar costs.

ix. There exist identical consumer preferences in the two countries.[36]

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[35] Op cit 118

[36] Gandolfo, Giancarlor: International Economics I: The Pure Theory of International (Second, revised edition). Berlin: Spinger-Verlag, 1987. Pp 76-77

Having considered the assumptions on which the HO theory is based, our emphasis will be on the relationship between price and the terms of trade. This will set the stage for the General Theory of Value where the argument is that the prices of commodities in international trade will be pivotal to determine the terms of trade as well as the patterns of trade.

Moving on, the prices of commodities are inherently determined by the supply and demand features which, in essence, point to the cost of production, which in turn depend on the prices paid for factors of production. Therefore, this will result in a relationship between prices of commodities, the prices for factors of production, the demand created, and as well as the demand for and supply of factors. However, in respect to the current study, India and Kenya may differ in factor endowments (i.e. their comparative advantage) and this may also be reflected in the commodities that are produced and traded between the two economies. Therefore, there has to be an inter-relationship between India and Kenya in respect to prices of commodities for trade which are determined by the prices for the factors of production employed.[37]

The researcher therefore opines that the HO theorem is of relevance to the current study considering that:

1. India and Kenya differ in factor endowments which creates the foundation for the source of comparative advantage in their trade. This results in a disparity in the prices of products on the account comparative advantage or factor endowment as well as a variance in factor proportions in question for the manufacture of the different products.
2. On the one hand, India has a large work force which is likely to make it relatively labour abundant, and at the same time capital is also largely used specially in

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[37] Mithani, D.M. *International Economics 6th Revised Ed.* Mumbai: Himalaya Publishing House Pvt. Ltd, 2010. pp 49.

large industry. This has been made possible because of the policy of keeping interest rates lower than would otherwise be the case in banks and financial institutions. On the other hand Kenya is relatively labor abundant and land abundant but not capital abundant. Kenya, in as much as it is labor abundant, has not adopted the policy to make the cost of capital artificially cheaper, as it is considered a capital scarce nation.

3. Consequently, India should export products that are intensive in the factor which is abundant. India should import products that use relatively scarce factors of production. Similarly, Kenya should export more products that are labor intensive and import products that are capital intensive which is reflective of its comparative advantage.

3.3 Porter's Theory of Competitive Advantage of Nations

Michael Porter's theory of Competitive Advantage of nations is based on the argument that a nation has a higher competitive advantage due to the assumed reasons given herewith:

i. Competitive advantage stems from the differences in industries;
ii. That the value chain of worldwide network contributes significantly to increase its competitiveness;
iii. That innovation has a significant role in gaining and retaining competitive advantage; and
iv. Competition increases with pioneering as well as aggressiveness in exploiting new markets and technology.[38]

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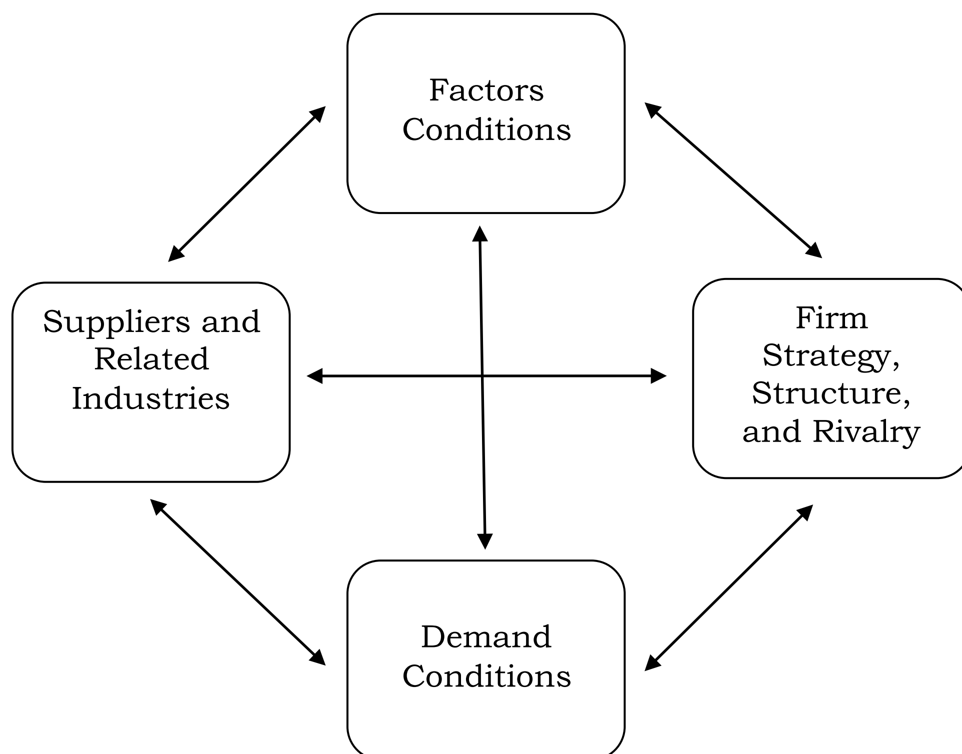
[38] Porter, M.E. The Competitive Advantage of Nations. New York: Free Press, 1990.

The current study on several accounts can be related to Porter's theory if we consider the above reasons that contribute to a nation's competitive advantage. Between the two nations, India and Kenya, it is seen that India has the competitive advantage over Kenya in terms of their trade. This is discussed futher in chapter six of this thesis. However, it is important to consider the attributes that govern the competitive advantage between the two countries as discussed in Porter's theory which are explained by him using the Porter's Diamond.

According to Porter's Diamond, there are four major attributes that will either support or hamper the competitive advantage of any given trading nation. These are: Factor Conditions, Firm Strategy, Structure and Rivalry, Demand Conditions and Suppliers and Related Industries.

Figure 1: Porter's Diamond: Determinants of a National Competitive Advantage[39]



[39] Porter, M.E. (1996) "The Competitive Advantage of Nations." *Harvard Business Review,* Mar/Apr 1990: 78

Factor Conditions: The factor endowments in respect to India and Kenya will definitely be an important aspect in determining the competitive advantage. Factor endowments between India and Kenya will comprise human resources, physical resources, knowledge resources, capital resources, location, and infrastructure. When comparing India and Kenya in light of the above named factor endowments, India generally supersedes Kenya by far on all accounts e.g. India has a bigger population in working age as compared to Kenya. According to India's census report of 2011, India has 62.5% of her population between the age of 15-59 involved in employment[40]. Kenya on the other hand has a working population of 47.5%[41]. Also, in India has a larger land area compared to Kenya, with India having around 3.3 Million sq. km[42] while Kenya has only 581,309 sq. km[43.]. It is also noted that India has a better resources in terms of quality and quantity in respect to knowledge, capital and infrastructure resources. It is of importance to note that advanced factors such as skilled labour, communication infrastructure, technology are more abundant in India as compared to Kenya and therefore, India will enjoy a higher competitive advantage than Kenya[44].

Demand Conditions: Porter points out that the demand conditions in the domestic market will encourage the domestic firms to innovate and improve their products[45] so as to make a maximum market penetration. When considering India and Kenya, India possesses a higher demand base, which is its population, (India 1.25

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[40] India. Office of Registrar General and Census Commissioner. Census of India 2011. New Delhi: GPO, 2012. Pp 18

[41] Kenya. Kenya Investment Authority. http://www.investmentkenya.com/doing-business/working-and-employing. Accessed on February 11, 2015

[42] India. National Portal of India. http://india.gov.in/india-glance/profile. Accessed on Feb 11, 2015

[43] UN. http://data.worldbank.org/indicator/AG.SRF.TOTL.K2. accessed on Feb 11, 2015

[44] United States. United States International Trade Commission. Export Opportunities and Barriers in African Growth and Opportunity Act-Eligible Countries. Washington DC: GPO, 2005. Pp 7-21

[45] Reinert, Kenneth A. An Introduction to International Economics: New Perspectives on the World Economy. New York: Cambridge University Press, 2012. Pp 180

billion, Kenya 44.35 million). Such a base encourages competition between firms and hence innovation and improvement in the quality of products.

Suppliers and Related Industries: Vigorous domestic supply of cost effective and quality inputs and the related supporting industries improves a nation's competitive advantage.[46] India as compared to Kenya, possess a very strong, vigorous domestic supply of cost effective and quality inputs in petro-chemicals and pharmaceutical sectors. On account of this and a very strong supportive base of related industries, India possess a higher competitive advantage than Kenya in regards to trade activities involving capital resources and finished products in petro-chemical and pharmaceutical sectors.

Firm Strategy, Structure and Rivalry: Porter points out that a nation's competitive advantage in international trade depends on the behavior of individual units or business firms that are involved in the nation's exporting trade. Therefore, the firm strategy, structure and rivalry will have a direct impact in the nation's competitive advantage in the international trade scenario.

The firm's strategy and structure will therefore design their operations in accordance with the government policy in operation. This will consequently depend on whether the government is implementing effective and positive industrial and trade policies in the open economy. In our case, India and Kenya follow a liberalized economy structure. Porter argues that a government that employs effective and positive industrial and trade policies will encourage the local firms to compete in international trade.[47] In light to the current study, it is evident [as discussed in chapter 5 of this thesis] that the Indian and Kenyan governments have fine tuned their respective Industrial and Trade

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[46] D.M. Mithani, *International Economics 6th Revised Ed,* (Mumbai: Himalaya Publishing House Pvt. Ltd, 2010), 111.
[47] Ibid, 111.

policies to encourage individual firms to engage in international trade between the two countries. A paper on India-African Partnership Initiative points out that, "India has been a willing partner to share its experience and expertise for developing entrepreneurship and small industries and thus has been making efforts to promote economic and technical cooperation with the developing countries i.e. in this case Ethiopia, Kenya and Tanzania, in the context of South-South Cooperation."[48]

In the eyes of Porter, the role of government will therefore be that one of a catalyst and a challenger. Government as a catalytic and challenger agent will encourage the firms in the nation to rise to high levels of competitiveness through transmitting and amplifying the forces of the diamond i.e. to design policies that necessitate an environment that put companies at an advantage in gaining competitiveness. Porter continues to suggest that the role of government will be to encourage change, promote domestic rivalry, and stimulate innovation as well as:

i. Focus on specialized factor creation
ii. Avoid intervening in factor and currency markets
iii. Enforce strict product, safety, and environmental standards
iv. Sharply limit direct cooperation among industry rivals
v. Promote goals that lead to sustained environment
vi. Deregulate competition
vii. Enforcement of strong domestic antitrust policies
viii. Reject managed trade[49]

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[48] J.S. Juneja, *India-Africa Partnership Initiative: Awareness Programme on Enterprise Development for African Students* (New Delhi: Global Projects & Services, 2014), 26.
[49] Michael E. Porter, The Competitive Advantage of Nations, Havard Business Review, March-April (1990), 87-89; available from http://kkozak.wz.cz/Porter.pdf; internet; accessed on May 14, 2014.

To this extent, the researcher concludes that Porter's theory of Competitive Advantage is relevant to the current study in respect to India and Kenya in that on several accounts and as supported by data from their trade activities pointed out in this current study, India has a higher competitive advantage over Kenya in regards to their trade interactions and as a trading partner.

3.4 The Vent-For-Surplus Approach

The theory of 'Vent-For-Surplus Approach' was originally developed by Adam Smith in his classical work in the Wealth of Nations. However, economists such as Myint and Williams revised Adam Smith's theory to offer a more effective approach. In his theory, Myint argues that when a country produces more product than it can utilize, it creates a surplus. This over production sets off an inward movement of production, inside the production possibility frontier, that results in idle resources. The idle resources can be employed through trade with another country to *vent* (provide an outlet for) this surplus and thereby the country avoids any possibilities of contraction in the non-export sector and also facilitates movement to the production possibility frontier.[50]

Features:

- The theory seeks to provide an explanation of how colonial underdeveloped countries such as in Africa, South-East Asia and Latin America had entered into foreign trade and eventually experienced contraction of trade. Therefore, it possesses a limited scope in application.
- The theory contends that underdeveloped countries typically hold a surplus of primary goods that by and large lie idle and therefore are exportable.

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[50] Nicholas Perdikis and William A. Kerr, *Trade Theories and Empirical Evidence* (UK: Manchester Press University, 1998), 68.

- The principle distinction between the classical theory and Vent-For-Surplus theory is that the former presupposes that the trading country operates on its production-possibility frontier both before and after trade with an assumption of full employment condition, whereas the later, more practically, presumes that the country is operating, before trade, below its production-possibility curve.
- A critical conclusion by the Vent-For-Surplus Approach observes that the characteristic less developed country under the colonial rule eventually experiences an unfavorable impact of foreign trade with the mother country when it exports raw materials and imports mechanized goods i.e. the traditional sector seem to fade away under the intense competition from imported mechanized goods, employment of primitive technology, stunted growth when prices of raw materials rises among others.[51]

3.5 The Gravity Model of Trade

According to this theory, bilateral trade between two countries is a result of 'push' and 'pull' factors that determine the total exports and imports of two trading nations. Consequently, as the name of the theory suggest, the theory is based on the gravitation forces that are connected to the geographical and spatial relationship of the two trading nations in question. This further suggested to Tinbergen (1962) the Gravity equation and hence the Gravity Model of Trade which suggested that economic size and geographic-spatial distance were the fundamental aspects that dictated bilateral trade flows in a trading relationship. Tinbergen's equation to express the concept is as follows:

$T_{xy} = k\, [S^{a}{}_{A}\, S^{b}{}_{B} \,/\, D^{c}{}_{AB}]$ [52]

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[51] D.M. Mithani, *International Economics 6th Revised Ed,* (Mumbai: Himalaya Publishing House Pvt. Ltd, 2010), 106-107.
[52] D.M. Mithani, *International Economics 6th Revised Ed,* (Mumbai: Himalaya Publishing House Pvt. Ltd, 2010), 114.

Where,

T_{xy} = Trade flows between countries X and Y

k = Constant

S = Size of the country

D = Distance

The propounded hypothesis for the Gravity Model of Trade holds that:

(i) Size of the nations and the trade flows have a positive relationship, and

(ii) the distance between the two trading nations and the trade flows have a negative relationship.

Apart from the hypothesis, the gravity model suggests that distance between two trading nations adversely affects the trade by creating barriers which eventually lead to higher costs. Therefore, it proposes to address the distance problem by ensuring the measurement of the attributes for gravity distance through:

(i) physical size i.e. geographical area in kilometers and population number,

(ii) economic size i.e. GDP and GDP Per Capita, and

(iii) distance attributes i.e. common attributes such as border, language, regional trading block, currency, Colonial relationship, policy, etc.[53]

Mithani in his discussion of the Gravity Model of Trade (GTM) points out that GTM is effective in explaining the trend and pattern of bilateral trade flows; that GTM is an ex-post analysis i.e. it describes the preceding performance but cannot predict the future; and as a drawback, GTM does not outline any welfare outcome of the trade. On the other hand, however, empirical findings of the GTM state that:

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[53] Ibid, 155.

i. Spatial distance matters i.e. larger distance means lesser/smaller trade volume

ii. Large distance means high transportation costs and longer time. Hence greater risks.

iii. There is positive border effect on trade i.e. provinces on border surroundings of the connected nations have greater trade involvement from the Small and Medium Enterprises than in the case of distant states of the nations.[54]

3.6 The Stolper-Samuelson Theorem

Stolper-Samuelson Theorem assumes a model of two factors of production, two goods and two countries to boldly suggest that protection measures in international trade between the two countries in question will promote the scarce factors of production. Consequently, this implies that, free trade i.e. the practice of trade without protection measures hurts the scarce factors of production.[55] The theory employs a two sector general equilibrium analytical model that shows that when tariffs are enforced in a labour-scarce country, the impact will result in a price rise in the imported good relative to exports and consequently raising significantly the wage of labour.[56]

<u>Suggested Versions of Stolper-Samuelson Theorem</u>

Economists have analyzed the Stolper-Samuelson tenet and have suggested various versions in the spirit of trying to understand and apply the theory with regards to various situations and circumstances. These suggested versions include:

1. General Version

An increase in protection raises the real wage of the scarce factor of production and lowers the real wage of the abundant factor of production

[54] D.M. Mithani, *Internatio* ... House Pvt. Ltd, 2010), 188-119.

[55] Alan V. Deardorff and Robert M. Stern ed., *The Stolper-Samuelson Theorem: A Golden Jubilee* (USA: The University of Michigan Press, 1994), 7.

[56] Ibid, 10.

Features:

- This version expresses a simple and strong relationship between goods prices and factor prices
- Goods prices and factor prices have nothing to do with factor scarcity or abundance.
- This is independent of whether prices change because of protection or any other reason.[57]

2. Restrictive Version

Free trade lowers the real wage of the scarce factor and raises that of the abundant factor compared to autarky

Features:

- Like the General Version, this projects a simple and strong connection relating goods prices and factor prices
- It is not tied to the factor insufficiency or abundance of the factors
- It is independent of prices change due to protection or any other reason.

3. Essential Version

An increase in the relative price of a good increases the real wage of the factor used intensively in producing that good and lowers the real wage of the other factor.

[57] Ibid, 12.

Features:

- Essential Version embodies the essence of Stolper-Samuelson insight
- Requires the fewest assumptions for its validity.
- Does not have a relationship with trade or even more than one country.
- Does not address the effects of protection.
- Compared to the former two versions, the Essential Version is the most generally valid of the three.[58]

4. Strong Version with Even Technology

A rise in the price of any good, all other prices remain constant, causes an increase in the real return to the factor used intensively in producing that good and a fall in the real returns to all other factors.

Features:

- Requires restriction on technology that permits an unambiguous definition of the intensively used factors.
- Takes into account the losses to all other factors.[59]

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58 Alan V. Deardorff and Robert M. Stern ed., *The Stolper-Samuelson Theorem: A Golden Jubilee* (USA: The University of Michigan Press, 1994), 13-14.

5. Friends and Enemy Version

Every good is a friend to some factor and an enemy to some other factor.

Features:

- "Friend" – if rise in the price of the good, with all other goods prices constant leads to an unambiguous rise in the real return to the factor.
- "Enemy" – if the same price changes leads to an ambiguous fall in real return.
- The same result is valid for uneven technologies according to economists Kemp and Wan.
- Version rests critically on the assumption of non-joint production.
- Proven to be the simplest and most intuitive version of the Theorem available for more than two goods and factors.[60]

6. Correlation Version

For any vector of goods price changes, the accompanying vector of factor price changes will be positively correlated with the factor-intensity-weighted averages of the goods prices changes. .

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[59] Ibid, 15-16.

[60] Alan V. Deardorff and Robert M. Stern ed., *The Stolper-Samuelson Theorem: A Golden Jubilee* (USA: The University of Michigan Press, 1994), 16-17.

Features:

- Deduces a three-way relationship between vector changes in factor prices, vector changes in good prices and a particular matrix of factor requirements.
- Complements the Friend and Enemy version since it introduces a third variable
- Does not address the question whether the gains and losses are real.
- It is a weak statement in regards to factor prices since it makes an average statement about all relative factor prices changes.[61]

3.7 Product Life Cycle Theory

The Product Life Cycle Theory like Porter's Competitive Advantage theory is a recently developed theory that mainly focuses on individual firms in a country rather than considering the country as a whole. Propounded by Raymond Vermon in 1960, the Product Life Cycle theory, also called the International Product Life Cycle Theory (IPLC), sets out to address two principal questions:

i) Why does trade takes place?

ii) Why does investment occur?

Further, the theory seeks to elucidate how a company will export its product initially, to later be followed by Foreign Direct Investment through a process of evolution in the Product's Life Cycle.[62]

It is to be noted that Raymond Vermon extensively disagrees with the authors of the classical and Neo-classical theories on trade especially those tenets that promote the Comparative Cost theory. He instead argues that information, uncertainty and economies

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[61] Alan V. Deardorff and Robert M. Stern ed., *The Stolper-Samuelson Theorem: A Golden Jubilee* (USA: The University of Michigan Press, 1994), 18-19.

[62] K. Aswathappa, *International Business, 4th ed.,* (New Delhi: Tata McGraw Hill, 2010), 92.

of scale[63] propel his theory to sustain a product that is exported at first, and then eventually FDI plays a major role in marketing of the same product.

Features:

The theory points out three distinctive stages of in the life of a product. These are:

i. New Product Stage
   - Firm introduces an innovative product to supply a need in the market.
   - Production in limited volume mainly for domestic market.
   - Exports are either nonexistent or in a limited quantity as the product grows into the second stage.

ii. Maturing Product Stage
   - Domestic and foreign demand for product increase due to acceptance and popularity.
   - Firm expands production by setting up a manufacturing facility abroad to meet both domestic and foreign market demand.
   - High levels of competition at this stage, plans are made to produce the product in developing countries.

iii. Standardized Product Stage
   - Last stage in the Product Life Cycle Theory.
   - Market for product stabilizes and the commodity becomes price sensitive.
   - Manufacturers search for low cost producing countries with objective of being cost effective.[64]

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[63] K. Aswathappa, *International Business, 4th ed.,* (New Delhi: Tata McGraw Hill, 2010), 92.
[64] K. Aswathappa, *International Business, 4th ed.,* (New Delhi: Tata McGraw Hill, 2010), 92.

When analyzing the Life Product Cycle Theory, it can be clearly seen that the theory possess an element of versatility due to the wide room for application in various products. It is also important to take note that the theory has the flexibility to explain the core questions that Vermon seeks to address i.e. why trade takes place and why FDI is an investment option. The IPLC theory has a wide acceptance in the modern international trade especially with regard to high-income and mass consumption countries. To be fair, critics to the IPLC theory point out that Vermon's approach offers a weak explanation as to why international trade takes place. The critics emphasize that innovation, large domestic markets, and capital intensity are dynamic variables and therefore the theory stands weak as offered by Vermon. It is further argued that the theory supports products developed and produced in the USA when it was dominant in world trade, but as it is, the USA is not the only country with ability to innovate since R&D activities are cropping up from everywhere. Therefore, the generalizations drawn from the theory no longer hold relevance.[65]

3.8 TERMS USED

Having had a bird's eye view of the theoretical framework, we shall now turn to the terms used in this research exercise. This section seeks to highlight the unique terminologies by way of definition in relation to the context they have been used so as to exhaustively understand the concepts used there in. The terms used include:

Majimbo - a Swahili word for 'regionalism'. An abstract noun from the word "region" (in Swahili, sing.*jimbo,* pl. *majimbo).* Regionalism sought to divide Kenya into regions based on ethnic affinities. One aspect of the move was benign in that it aimed at instituting a federal system of government in Kenya, thereby empowering different

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[65] K. Aswathappa, *International Business, 4th ed.,* (New Delhi: Tata McGraw Hill, 2010), 93.

ethnic groups by giving them certain autonomy to run their own affairs instead of depending on central government planning.[66]

'Mwanainchi' – a Swahili word which means "a child of the earth" or child of the land. Therefore the phrase 'Mwanainchi' will translate to 'citizen' of the land.[67]

Bantus – a group of people speaking the Bantu family languages originally from West Africa that with time have spread over the Sub-Sahara Africa including East Africa and South Africa. Economic activities of the Bantus were farming, iron smelting.[68]

Cash Compensatory Support (CCS) – This is a scheme introduced in 1966 by the Indian government. It is a scheme that is selective in nature and offers assistance in form of compensation to Indian exporters for unrebated indirect taxes paid by exporters on inputs, higher freight rates, and market development costs.[69]

Census of Industrial Production (CIP) – A systematic survey of Industrial productive enterprises carried out by the government. The survey involves the nature of product, quantity and type of inputs, the number and types of employees, and value added.[70]

Common External Tariff – this is a tariff charged on trade with non-members by all countries in a customs union or a common market. However, when used with capitals, Common External Tariff normally refers to the external tariffs of the European Union.[71]

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[66] Raphael J. Njorege, *Education for Renaissance in Africa* (USA: Trafford Publishing, 2004), 81.
[67] John Murungi, *An Introduction to African Legal Philosophy* (USA: Lexington Books, 2013), 90.
[68] Toyin Falola, *Key Events in African History: A Reference Guide* (USA: Greenwood Publishing Group, Inc., 2002), 49.
[69] Alok Goyal, *Business Environment* (New Delhi: V.K. (India) Enterprises, 2007), 397.
[70] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 56.
[71] Ibid, 68.

Common Market for Eastern and Southern Africa (COMESA) – with its headquarters in Lusaka, Zambia, COMESA is the largest regional economic integration scheme in Africa in terms of spatial extent and the number of member countries. It was established by a treaty signed in 1993 in Kampala, Uganda and was ratified in 1994 in Lilongwe, Malawi as a strengthened successor to the erstwhile Preferential Trade Area (PTA) for Eastern and Southern Africa which had existed since 1981. The COMESA members include: Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.[72]

Comparative Advantage – A country is said to have comparative advantage in production of a good if it has lower opportunity costs in producing this good compared to another country or the rest of the world. If countries specialize in production of those goods in which they have a comparative advantage then free trade improves production and consumption efficiency by increasing aggregate output using the same amount of resources and expanding the choice of consumers.[73]

Congress (I) – the party in power in India from 1980 to 1984 with Indira Gandhi as the Prime Minister of India and head of the Congress (I) government.[74]

Cushites – most called ‘Hamites’ in the past, are an indigenous people of North East Africa who are found today as far south as past the Equator in East Africa and are essentially pastoralists.[75]

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[72] Thomas M. Leonard ed., *Encyclopedia of Developing World Vol. 1* (New York: Routledge, 2006), 396.
[73] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 70.
[74] John N. Mayor ed., *India: Issues, Historical Background and Bibliography* (New York: Nova Publishers, 2003, 51.
[75] Kevin Shillington ed., *Encyclopedia of African History Vol 1. A-G* (New York: Taylor & Francis Group, 2005), 566-567.

Development Plan – The use of central planning in 3rd World countries as a route to economic development. Records show earliest plans were carried out before and after the 2nd World War in British, French, Belgian and Portuguese colonies. These plans included a crash investment program especially in the Public Sector and a commitment to rapid industrialization.[76]

Exchange Rate – The price of one currency in terms of another. A par exchange rate is that agreed between governments, or registered with a central authority such as International Monetary Fund. A market exchange rate is the actual price on foreign exchange markets.[77]

Exim Policy – A set of controls used by government to promote Export Import trade.[78]

Exports – Goods and services produced in a country and sold to non-residents. Visible exports are goods sent abroad; invisible exports are services sold to non-residents.[79]

Export Promotion – (1) Government activities to help sell exports by providing export incentives at home, and various forms of practical assistance for exports abroad i.e. advice on local trading laws and practices, provision of export credits or guarantees on favorable terms. (2) A strategy for promoting economic development in less developed countries. This involves running an open economy, relying on foreign markets to allow export-led growth.[80]

Gini Coefficient - A measure of income distribution, devised by the Italian demographer and statistician Corrado Gini (1884–1965). It is the ratio of the area

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[76] Donald Rutherford, *Routledge Dictionary of Economics 2nd ed.*, (London: Routledge, 2002), 161.
[77] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 140.
[78] Ibid, 122.
[79] Ibid, 146.
[80] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 146.

between a LORENZ curve and the line of absolute equality to the area of the entire triangle below that line.[81]

Globalization – The increasing worldwide integration of economic, cultural, political, religious and social systems. Economic globalization is the process by which the whole world becomes a single market i.e. goods and services, capital and labor are traded on a worldwide basis, and information and the results of research flow readily between countries.[82]

Great Depression – A worldwide economic downturn beginning in the late 1920s and lasting until the mid 1930s. The effect of the Great Depression was to reduce international trade and national incomes. Farming was particularly badly hit with large declines in agricultural product prices.[83]

Import Substitution – A strategy for industrialization of less developed countries (LDCs), of concentrating initially on replacing imports by domestically produced substitutes. This has the advantage that it is already known what markets exist for the products, but the disadvantage that as the imports most easily displaced fall, further progress becomes ever more difficult.[84]

Imports – Goods and services bought by residents of a country but provided by non-residents. Visible imports are goods physically brought into the country. Invisible imports may involve the supplier entering the country, for example to put out oil-well fires, or residents going abroad to enjoy the services of hotels, or entertainments.[85]

Indo-Nepal Treaty of 1996 – signed in 1996 and renewed in March 2007, in which both countries would provide national treatment to each other free of any

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[81] Donald Rutherford, *Routledge Dictionary of Economics 2nd ed.*, (London: Routledge, 2002), 252.
[82] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 174.
[83] Ibid, 178.
[84] Ibid, 196.
[85] Ibid, 196.

restriction. With respect to manufactured goods, the government of India would provide special treatment to Nepal i.e. India would provide preferential treatment to Nepal, free of customs duty and quantitative restrictions if Nepalese goods fulfilled certain conditions.[86]

Industrialization – The process of moving resources into the industrial sector. This is common in the early stages of economic development, when resources move out of primary production. Industrialization was the norm in the now advanced countries earlier in their development, and was energetically pursued by many less developed countries and by the former planned economies of the former Soviet Union and Central and Eastern Europe.[87]

International Economics – The parts of economics concerning the relations between countries. This includes trade in goods and services, factor movements, including migration, capital movements, and technology transfer, and international monetary arrangements, including exchange rates and exchange reserves. It also studies government policies affecting trade, factor movements, and monetary arrangements, international negotiations, regional institutions such as EU, NAFTA, WTO and IMF.[88]

Janata Government – India's first non-Congress government in power from March 1977 to July 1979 with Morarji Desai as Prime Minister.[89]

Jua Kali – a Swahili phrase translating to "hot sun" which is a reference to the informal economy of Kenya. The entrepreneurs have their businesses under the equatorial sunshine shaded by plastic bags or old *mabati* (tin roofing).[90]

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[86] Narottam P. Banskota, *South Asia Trade and Energy Security: The Role of India* (Florida: Universal Publishers, 2012), 54.
[87] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 205.
[88] Ibid, 217.
[89] John N. Mayor ed., *India: Issues, Historical Background and Bibliography* (New York: Nova Publishers, 2003, 51.

Kenya African Democratic Union (KADU) – This party was formed in June 1960 in Kenya and was headed by Ronald Ngala. KADU was the principal opposition to KANU and advocated for regional government system. KADU was later merged with KANU in 1964 to become one KANU.[91]

Kenya African National Union (KANU) – founded in May 1960 with James Gichuru as President of the party. KANU has dominated the Kenyan politics until the era of multiparty system when it was ousted from power in 2002.[92]

Kenya Tea Zones – An extensive area in the Kenyan highlands where Tea is grown in large scale for commercial, especially for export, purposes.

Kenya Vision 2030 – the country's new development blueprint covering the period from 2008 to 2030. The vision developed through an all-inclusive and participatory stakeholder consultative process, aims at transforming Kenya into a newly industrializing, "middle income country providing a high quality life to all citizens by the year 2030".[93]

Kenyatta Administration – This is the period in which President Jomo Kenyatta was in Power in Kenya from 1963 to 1978. President Jomo Kenyatta was the first president of Kenya.[94]

Kibaki Administration – This is the period in which President Mwai Kibaki was in power from 2002 to 2013. President Mwai Kibaki was the third president of Kenya.[95]

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[90] Steve Daniels, *Making Do: Innovation in Kenya's Informal Sector* (USA: Creative Common Attribution, 2010), 8

[91] S.J.W Musandu, *Kenya: An Official Handbook* (Nairobi: Ministry of Information and Broadcasting, GOK, 1988), 29

[92] S.J.W Musandu, *Kenya: An Official Handbook* (Nairobi: Ministry of Information and Broadcasting, GOK, 1988), 29

[93] Government of Kenya, *Kenya Vision 2030* (Nairobi: Government of Kenya, 2007), 1.

[94] Researcher's Knowledge.

[95] Researcher's Knowledge.

Liberalization – A programme of changes in the direction of moving towards a free-market economy. This normally includes the reduction of direct controls on both internal and international transactions, and a shift towards relying on the price mechanism to coordinate economic activities. In such a programme less use is made of licenses, permits, and prices controls, and there is more reliance on prices to clear markets. It also involves a shift away from exchange controls and multiple exchange rates, towards a convertible currency.[96]

License-quota 'Raj' – This is a type of governance [license-quota-subsidy raj (governance)]established in India in the year 1950 which allowed those who possessed a bit of paper signed by a bureaucrat or minister to raise investment capital or find a business partner.[97]

Limuru Conference of 1966 – The conference was held in Limuru, Kenya in which the KANU Governing Council implement the so called, "conservative plan" which saw the election of eight Vice Presidents.[98]

Mahalanobis Model – It represents an alternative approach to planning that focuses on the bottlenecks created by a shortage of capital goods rather than on the shortage of aggregate saving. Accordingly, given a specific time horizon the growth path of the economy is determined by three parameters, viz., incremental capital output ratio in the consumer goods sector and the capital goods sector, and the proportion of total investment going to the capital goods sector. The model concludes that, the higher the allocation of investment to capital goods industries, the lower will the rate of growth of

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[96] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 237.
[97] Manoj Joshi, *Passport India 3rd ed.*, (USA: World Trade Press, 2009), 30.
[98] G. G. Kariuki, *The Illusion of Power: Reflections on Fifty Years in Kenya Politics* (Nairobi: Kenway Publications, 2001), 46.

real income in the short run covering the immediate future but the growth rate of both real income and consumption will be higher in the long run.[99]

Mercantilists – proponents of Mercantilism, an economic theory popular in the 16th to 18th centuries that viewed a nation's supply of capital as the determinant of welfare. When this view was coupled with assumptions that the total value of world trade was fixed it implied a policy of seeking balance-of-payments surpluses to increase capital inflow, and advocacy of protectionism to achieve this.[100]

Most Favored Nation (MFN) – A country with rights for equal treatment under a trade agreement. An MFN clause stipulates that imports from the partner country will be treated no less favourably than imports of similar goods from any other country.[101]

Moi Administration - This is the period in which President Daniel Arap Moi was in Power in Kenya from 1978 to 2002. President Daniel Arap Moi was the second president of Kenya.[102]

Mudaliar Committee – This was a sixteen member group also known as the Health Survey and Planning Committee headed by Mudaliar, which was appointed in 1962 to review and assess the implementation of the First and Second Five Year Plans of the Indian Economy and to make recommendations for the future.[103]

National Rainbow Coalition government (NRC) – the party in power in Kenya from 2002 to 2007 with President Mwai Kibaki as head of government.[104]

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[99] C. Rangarajan and B.H. Dholakia, *Principles of Macroeconomics* (Delhi: Tata McGraw-Hill Publishing Company Ltd, 1979), 201.
[100] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 261.
[101] Ibid, 270.
[102] Researcher's Knowledge.
[103] Benazir Patil, *Communication Strategies in Reproductive Health* (New Delhi: Discovery Publishing House Pvt. Ltd, 2009), 50.
[104] Researcher's Knowledge.

New Economic Policy (NEP) – Refers to a set of transformational policy changes introduced by the Indian government in 1991 to reverse the then existing economic policies to achieve the country's macroeconomic objectives.[105]

Nilotes – A group of people whose languages are closely related. They are pastoralists and are mainly divided into three major branches i.e. Highland Nilotes, Plains Nilotes and River and Lake Nilotes.[106]

Nyanza – This is the South Western region in Kenya home to the abagusii, Luo, Kuria communities.[107]

Open General License (OGL) – OGL includes those items which are freely importable and do not require import license.[108]

Outward looking policies – Policies that not only encourage free trade but also the free movement of capital, workers, enterprises and students, a welcome to multinational enterprise, an open system of communication.[109]

P.C. Alexander Committee of 1978 – Committee on Import Export Policies and Procedures instituted by the government of India which recommended the simplification of import licensing procedures and provided a framework involving a shift in the emphasis from 'controls' to 'development'.[110]

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[105] A.C. Fernando, *Business Environment* (Noida: Dorling Kindersley (India) Pvt., Ltd, 2011), 249.
[106] W.R. Ochieng' and R.M. Maxon ed. *An Economic History of Kenya* (Nairobi: East African Educational Publishers Ltd, 1992), 9.
[107] Researcher's Knowledge.
[108] Pradip Kumar Sinha and Sanchari Sinha, *International Business Management: A Global Perspective* (New Delhi: Excel Books, 2008), 470.
[109] Ahmed Riahi-Belkaoui, *Evaluating Capital Projects* (USA: Greenwood Publishing Group, Inc., 2001), 135.
[110] Uma Kapila ed., *India's Economic Development Since 1947 3rd ed.*, (New Delhi: Academic Foundation, 2008), 556.

Parastatal – This is a firm with some government ownership i.e. in legal terms, a parastatal is either government owned or jointly government and private owned.[111]

Planning Commission – Set up in March 1950 by the Government of India with the aim of promoting rapid rise in the standard of people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community.[112]

Post-Election Violence – Kenya was engulfed by severe political and ethnic violence which was sparked off by election fraud and controversy over the results of presidential elections that took place in December 27, 2007.[113]

Protectionist Measures – Policies of restriction of international trade, with the aim of preventing unemployment or capital losses in industries threatened by imports, promoting particular types of industrial development affecting the internal distribution of incomes, or improving a country's terms of trade by exploiting its international monopoly power.[114]

Quantitative Restrictions – Quotas especially on imports and foreign exchange, imposed to reduce a Balance of Payments deficit.[115]

Real Gross Domestic Product – Gross domestic product divided by a suitable price index, to express it in real terms. The price index used for this purpose is usually the GDP deflator; since this covers the prices of investment goods and government

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[111] Hossein Jalilian et al eds., *Industrial Development and Policy in Africa: Issues of De-Industrialization and Development Strategy* (UK: Edward Elgar Publishing Ltd, 2000), 252.
[112] R. K. Bhatt, *History and Development of Libraries in India* (New Delhi: Mittal Publications, 1995), 101-102.
[113] Researcher's Knowledge.
[114] John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 329.
[115] Donald Rutherford, *Routledge Dictionary of Economics 2nd ed.*, (London: Routledge, 2002), 483.

purchases as well as consumer expenditure, it is more suitable than the retail price index.[116]

Real Growth Rate – A measure of (economic) growth from one period to another expressed as a percentage and adjusted for inflation (i.e. expressed in real as opposed to nominal terms). The real economic growth rate is a measure of the rate of change that a nation's gross domestic product (GDP) experiences from one year to another. Gross national product (GNP) can also be used if a nation's economy is heavily dependent on foreign earnings.[117]

Savings and Credit Cooperative Societies (SACCOs) – A registered cooperative society whose main function is to promote savings among its members and to create a source of credit to its members at a fair and reasonable interest rate.[118]

***Shifta* (brigand) War** – was a rebellion against the Kenyan government from 1964 to 1967 fought mainly by people of Somali origin who wanted to secede the predominantly Somali populated North Eastern Province of the country to be part of the Republic of Somalia.[119]

Simla Agreement of 1972 – An agreement signed between India and Pakistan pledging to use peaceful means to sort differences in the future. Both countries also agreed to pull back their troops in Jammu and Kashmir to their respective sides of internationally recognized border. The agreement also stipulated the countries resume economic and diplomatic relations.[120]

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116 John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 341.
117 Investopedia, Definition of 'Real Economic Growth Rate' available from http://www.investopedia.com/terms/r/realeconomicrate.asp; internet; accessed on April 09, 2014.
118 Shaaban A. Sheuya, *Informal Settlements and Finance in Dar Es Salaam, Tanzania* (Nairobi: UN-HABITAT, 2010), 26.
119 Charles Hornsby, *Kenya: A History Since Independence* (London: I.B. Tauris & Co Ltd, 2012), 96-97.
120 James Wynbrandit, *A Brief History of Pakistan* (New York: Infobase Publishing, 2009), 204.

Small and Micro Enterprises (SMEs) – According to the definition by the European Commission, an enterprise qualifies as an SME if it meets the criterion on the employee headcount (between 50 and 249 for medium-sized, between 10 and 49 for small, and between 1 and 9 for micro), and one of two other criteria: a turnover of no more than 50, 10, or 2 million Euros, or a balance sheet of no more than 43, 10, or 2 million Euros, for medium-sized, small or micro, respectively.[121]

Structural Adjustment Loan – Loans at concessional rates available only to low-income countries. Usually lasting up to three years, covering both structural and macro-economic adjustments and are drawn up in collaboration with the World Bank. These are loans to support structural adjustment programs affecting the whole economy.[122]

Sub-Saharan Countries – African countries south of the Saharan Desert.

Tariffs – A scale of charges. In economics a tariff was originally a schedule of taxes on imports; it now refers to the actual import duties.[123]

Terms of Trade – The ratio of an index of a country's export prices to an index of its import prices. The terms of trade are said to improve if this ration increases, so that each unit of exports pays for more imports, and to deteriorate if the ratio falls, so that each unit of exports buys fewer imports.

The Abid Hussain Committee of 1984 - Committee on Trade Policies instituted by the government of India in 1984 which recommended on export promotion policy and strategy, import policy, technology imports and in perspective: rationalization of duty drawback system, exemption of Cash Compensatory Support (CCS), and 50% of the

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121 John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 377.
122 Giles Mohan et al eds., *Structural Adjustments: Theory, Practice and Impacts* (New York: Routledge, 2013), 28.
123 John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 400.

export's profit from the income tax, reformulation of import replenishment system for export production, and so on.[124]

Trade – The exchange of goods between individuals or nations. Trade is the basic component of economic activity and is undertaken for mutual advantage. It is the process of distribution.[125]

Trade Policy – A (Liberal) Trade Policy is aimed at allowing a country's residents to take part in international trade with the minimum of interference[126] whereas A (Strategic) Trade Policy is intended to influence the trade policies of other countries.[127]

Westminster Model Of Constitutionalism – British styled form of constitutionalism.

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124 Saleem Shaikh, *Business Environment 2nd ed.*, (Noida: Dorling Kindersley, 2010), 94.
125 John Black et al, *Dictionary of Economics, 4th ed.*, (UK: Oxford University Press, 2012), 411
126 Ibid, 238.
127 Ibid, 391.

4 CHAPTER FOUR – KENYA

4.1 Country Profile

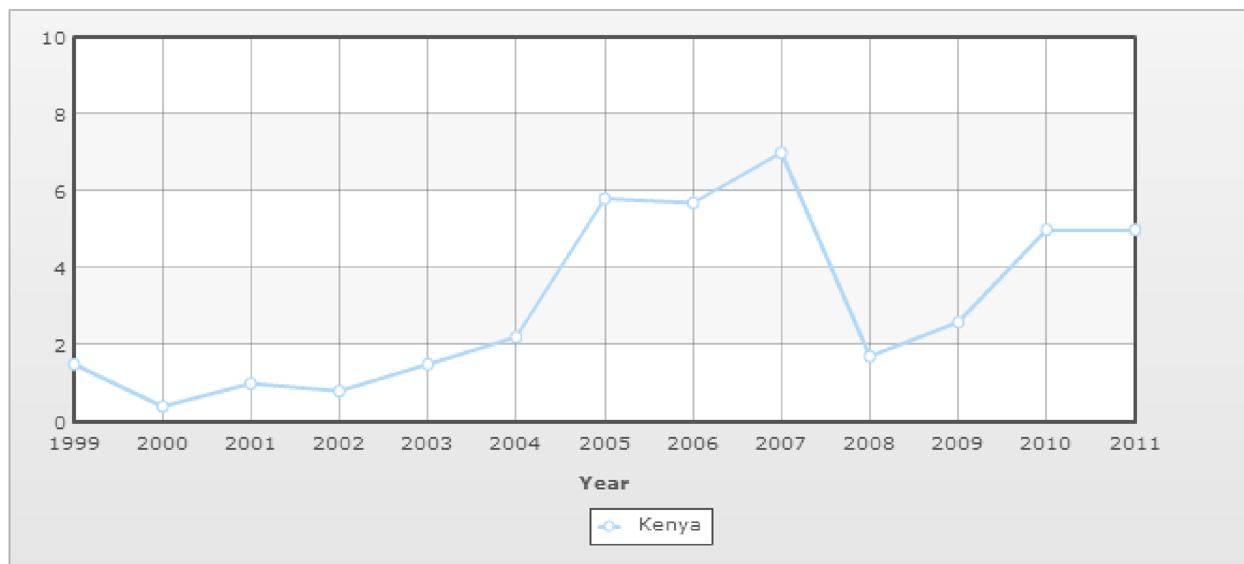
Kenya boasts over fifty years of self rule with an economy that dates back to the pre colonial era. For most part of it, Kenya has been considered as a stable nation in East Africa and in Africa as a whole because it has managed to maintain social tranquillity as well as showing fairly stable and mature political culture. The socio-economic gains since its independence have been modest, showing improved living standards except for pockets of high inflation pressure attributed to external and internal factors, hence slackening the economic growth especially in the 1980s.

According to the Economic Survey 2013, the Real Gross Domestic Product of Kenya grew by 4.6 percent in the year 2012 with all sectors of the economy recording a moderately positive growth trend with moderate expansion across economic indicators. This is attributed to favorable weather conditions and improved precipitation levels affecting Agriculture which is the backbone of the economy, cheaper energy costs and high confidence of the people in the likelihood of stable prices of essential goods and services.[128]

As regards the period under study, graph 4.1 shows the real growth rate as revealed by the Economic Surveys of the same period. It can be seen that the real growth rate of the GDP was 0.4% in 2000. It started a steady climb thereafter to 0.8 % in 2002, 2.2% in 2004, 5.8% in 2005 and an all time high of 7.6% in 2007. However, owing to the fact that the country was plunged into post-election violence during the period 2007-2008, the real growth rate plummeted to 1.7% in 2008. Thereafter, it began another slow rise to close at a modest 5% in 2010

[128]Kenya National Bureau of Statistics, *Economic Survey 2013* (KNBS, GOK: Nairobi, 2013), 1.

Line Graph 4:1: Kenya's GDP - real growth rate (%)



Source: Kenya Economic Survey (Various issues)[129]

Like many third world economies, agriculture is the main backbone of the Kenyan economy. The agricultural centers in the country are mainly in Central Kenya, the Rift Valley, Western Kenya and Nyanza areas with the Rift Valley being considered as the granary of the country. Crop production of coffee is mainly from central Kenya, tea is largely produced in the Kenya highlands home to the Kenya Tea Zones; pyrethrum, maize and wheat are vastly cultivated in the Rift Valley. Sugarcane growing is popular in Nyanza and in Western Kenya, while livestock and livestock products production is widely distributed in the agricultural centers mentioned above.

It is further observed that these agricultural activities are heavily dependent on erratic rains which are due to the fact that rainfall precipitation is seasonal and occurs twice a year in the months of March to May for the long rains as opposed to the short seasonal rains later in the year from October to December.

[129] Kenya National Bureau of Statistics, *Economic Survey (various issues)*. Nairobi: GOK

The tourism industry plays an essential role in the performance of the Kenyan economy. Kenya is home to beautiful and natural scenic national parks, game reserves, and historical sites among many others. Hence its contribution to the economy's GDP is significant. As of 2012, the receipts accruing to the tourism sector stood at KSh.96.02 billion, thought this was a slight drop of 1.92% from KSh. 97.90 billion in 2011. This was mainly due to the Euro zone crisis, insecurity fears and uncertainties related to the related to the general elections of Kenya in 2013.[130]

The economy had already suffered a blow in 2007-2008 elections when the country was plunged into post election violence which rocked the country like never before. Over 1,200 people were killed and as many as 350,000 people were internally displaced and this has adversely affected the social fabric of the Kenyan society especially between ethnic groups in areas that were hit the hardest by the violence.

In the years 2000 to 2010, the Kenyan economy experienced an expansion in leaps and bounds as compared to the period preceding 2000, dating back to independence, mainly because of the approach that the new government, NARC- the National Rainbow Coalition government (2002) had with regard to economic policy. The NARC government brought in reforms across the board both in government departments and in those sectors that led to robust performance in the Economy resulting in the highest GDP growth rate so far of 7.6 percent in the year 2006-2007.

The government encouraged investment and introduced significant economic reforms in an attempt to accelerate economic growth and further increase external trade. The reforms included privatization of state corporations [some of which had become white elephants and some were failing], removal of most regulatory constraints that were hindrances to smooth operations, liberalization of foreign exchange controls, and, the creation of various economic incentives. Government policy encouraged the growth of the business sector by reducing controls over some

[130] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 206.

industries which promoted flexibility and responsiveness in business operations, cutting direct tax rates and providing financial incentives, particularly to export oriented business in a bid to promote and expand the sector. It is also noted that Kenya enjoys a free enterprise economy where state intervention is limited to semi-autonomous agencies that generally support services and infrastructure and serve as marketing, administrative and advisory boards.[131]

4.2 Size and Location

Kenya is named after Mount Kenya or Kirinyaga – the mountain of whiteness – which is almost in the centre of the country. Lying on the East African Coast, to the Indian Ocean, Kenya straddles the Equator. Kenya is located approximately between 4ºN to 4ºS latitudes and 34ºE to 41ºE longitude and is the 2nd largest country in East Africa after Tanzania. Situated next to the Indian Ocean at the East African Coast, it covers an area of 582,646 sq.km with 1,025km as the longest distance from North to South of the country and has water surface of 13, 393 sq.km. The country is bordered by, Ethiopia and South Sudan to the North, Uganda to the West, Tanzania to the South, and Somalia to the East and North East as well as the Indian Ocean to the South East with a Coastal line of 536 kilometers long.[132]

R.T Ogonda and W.R Ochieng observe that the shape of the country is attributed to the political influence of the colonial powers at the twilight years of the 20th century. Colonial masters of Kenya, Great Britain, influenced the shape of the country to a great degree by the role they played facing challenge and pressure from other imperial powers such as German, Italy and Ethiopia to give Kenya its geographical position in relation to East Africa and the fertile Kenya

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[131] Camerapix ed., *Spectrum Guide to Kenya* (Nairobi: Camerapix Pub. Intl, 1997), 322.
[132] Kul Bhushan, *Kenya Fact Book 2000-2001*. 16th ed. (Newspread International: Nairobi, 2000),1

highlands.[133] Further, the British colonial masters gave Kenya patterns and policies which it used in the early stage of its newly independent young government after 1963. This played a big role in the shaping up of its political face and influence in politics and economics in the East African region as well as Africa and the world over.

An interesting phenomenon in the physical characteristics of Kenya is the Kenya Highlands which start rising from 3000m to 10000m above sea level. It is in this Kenya Highlands that the Rift Valley is found as it cuts across the physical face of Kenya from North to South. A number of lakes are found in the Rift Valley such as Lake Baringo, Lake Bogoria, Lake Nakuru, Lake Naivasha among others which are all tourist attractions. Different escarpments find their home in the Rift Valley with Aberdare range, Mau Hills, Uasin Gishu Plateau, Kericho Highlands as some examples.[134]

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[133] W.R. Ochieng' and R.M. Maxon ed. *An Economic History of Kenya* (East African Educational Publishers Ltd: Nairobi, 1992), 1.

[134] Edward W. Soja, *The Geography of Modernization in Kenya: A Spatial Analysis of Social, Economic and Political Change* (New York: Syracuse University Press, 1968), 6.

Map 4:1: Map of Kenya[135]

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135 "Democratic Republic of Kenya: Political Map." Map. United Nations. December 2011. Department of Field Support Cartographic Section. <http://www.un.org/depts/Cartographic/map/profile/kenya.pdf>.

4.3 Climate

Kenya is called a land of contrasts and this is mainly because of the different climatic regions portraying various disparities. Basically, Kenya is a rangeland and therefore harvests both temperate and tropical products. The climatic regions of Kenya are as follows:

Coastal Belt – here the altitude is of 17m, with a minimum rainfall of 20mm in month of February and a maximum of 240mm in May. The temperatures vary from a minimum of 22ºC to a maximum of 30ºC. The Coastal belt has warm and humid coral beaches which are followed by thin coastal belt suitable for farming. Further inland, it gives way to thorn scrub and semi desert cover.[136]

Rift Valley Highlands – have an altitude of 1,661m or 5,450ft with minimum rainfall of 201mm in July and a maximum of 750mm to 1000mm in the month of April. The temperatures range from 10-14ºC and 57-64ºC. The highlands are the most agriculturally productive areas because they enjoy two rainy seasons from March to May the long rains and November to December which are the short rains.[137]

Western Kenya – In Western Kenya, the altitude range starts from 1157m or 3,795ft with minimum rainfall of 60mm in the month of January and a maximum of 200mm in April with an annual average of 1000mm to 1300mm. The temperatures in Western Kenya vary from 14-18ºC at the minimum to 30-34ºC at the maximum. Western Kenya climate has the feature of weather patterns that are hot and rainy all year round which goes with typical rain forest vegetation.[138]

Northern and Eastern Kenya – has an altitude of 128m or 420ft. This is a dry area and therefore the rainfall is zero in the month of July with a maximum of 80mm in November. The temperatures in this region vary from a minimum of 22ºC to a maximum of 34ºC. This climate

[136] Kul Bhushan, *Kenya Fact Book 2000-2001*. 16th ed. (Nairobi: Newspread International, 2000), 3.
[137] Ibid, 3.
[138] Kul Bhushan, *Kenya Fact Book 2000-2001*. 16th ed. (Nairobi: Newspread International, 2000), 3.

region is semi desert and desert with very little vegetation and it is the home of nomads of Kenya.[139]

Table 4:1: Showing 5 Different Climatic Zones of Kenya

S.NO	Zone	Average Annual Rainfall	Average daytime temperature
1	Coastal belt	1,000mm	28-31°C.
2	Central and Rift Valley Highlands	3,000mm	21-26°C
3	Western Kenya	1,000mm	27-29°C.
4	Northern and Eastern Kenya	510mm	30s°C, soaring to 39°C in some desert areas.

Source: Our Africa[140]

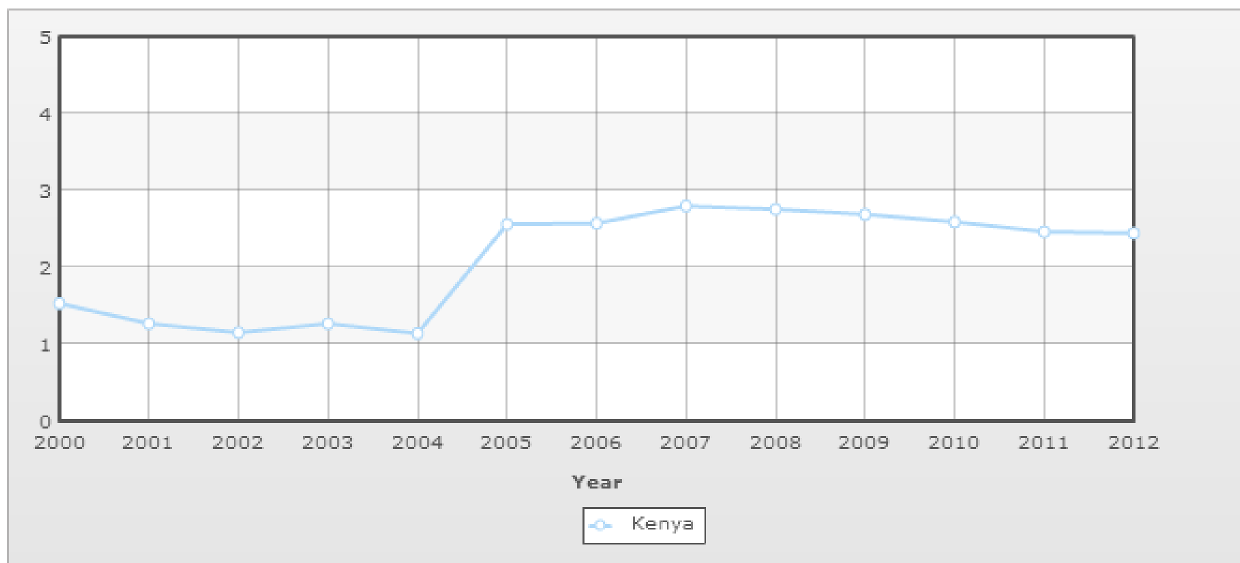
4.4 Population

Table 4.2 shows that the number of persons enumerated during the 2009 Population and Housing Census was 38,610,097 representing an increase of 35% from 28,686,607 in the 1999 census. Of this, 19,192,458 were males while 19,417,639 were females. It is significantly noted that Kenya's population is growing rapidly and has more than tripled from 10.9 million people in 1969 to 38.6 million people in 2009. Given the high number of births per women, the population will continue to increase steadily. Even if the total fertility rate declines from an average of 4.6

[139] Ibid, 3.
[140] "Kenya: Climate and Agriculture". http://www.our-africa.org/kenya/climate-agriculture. Website accessed on February 13,2015

children per woman in 2009 to 3.7 by 2030, the population will still grow to 65.9 million people.[141]

Line Graph 4:2: Kenya's Population growth rate (Source: KNBS)



The 2009 population census reveals that 12,487,375 million people, that is 32.3% of the population, live in the urban areas whereas 26,122,722 million people, 67.7%, dwell in the rural areas. It further indicates that the youthful population which is within the ages of 15 and 24 years are classified as 51.2% female and 48.8% as males. It is of significance to point out that 3.6% of the households in Kenya own at least a computer and 63.2% of the households own at least a mobile phone.[142]

The religious affiliation of the population is constituted by a variety of religions such as Catholics, Protestants, Other Christians, Muslim, Hindu, Traditionalists and others. Protestants have the highest population of approximately 18.3 million people, closely followed by Catholic at approximately 9 million people followed by Other Christians, and Muslims respectively.

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[141] Government of Kenya, *2009 Kenya Population & Housing Census vol.1A* (Nairobi: Kenya National Bureau of Statistics, 2010), 20.
[142] Ibid, 3-6.

As earlier noted, Kenya is a land of contrasts; Kenya has an African population of 42 tribes as well as a small minority of Asians, Arabs and Europeans. The Asians find themselves in Kenya due to the colonial masters dating back to 1896 when British East Africa began the construction of the railway line from Mombasa to Uganda and it was the Asians who did the actual construction. The Arab account is due to the Oman Arabs who were traders and historically expelled the Portuguese from the Coastal city of Mombasa in the late 1600s. The African population of Kenya is divided into three major linguistic groups of Bantus, Nilotes and Cushites. It is on this anthropological classification that the tribes of Kenya currently occupy their historical and geographical settlements. The ethnic classification of Kenya has the Kikuyu as the highest populace, followed by Luhya, Kalenjin, Lou and Kamba in that order.

Kenya is adding one million people yearly to its already high population, which easily approximated to 41 million people as of 2012. At this rate, this will result in adverse effects on the Government's spending on infrastructure, health, education, environment, water and other socio-economic sectors. Therefore, the government needs to empower the population through human development of the growing school age population. This will also result in productive manpower. Critical supplementary investment will be required in family planning services, health and other social and economic sectors with the objective of improving the welfare of Kenyans and thus meeting the development goals of Vision 2030.

Table 4:2: Kenya Population by Census Year

Year	1962	1969	1979	1989	1999	2009
Population	8,636,300	10,942,705	15,327,061	21,448,774	28,686,607	38,610,097

Source: Kenya National Bureau of Statistics

4.5 Kenya's Political System

On December 12, 1964, a year exactly after Kenya earned her independence; she finally discarded the residual trappings of external control over her affairs and assumed the status of a sovereign republic. This in effect led to Kenya acquiring her own personality in the International scene and thus enabled her to conduct and transact business with foreign countries on the basis of equality and reciprocity and, further, manage her domestic affairs subject only to obligations owed to the international community at large.[143]

Since then, Kenya enjoyed a remarkable political stability and economic progress for the next three decades mainly through the constitutional order which was adopted in 1963 that was heavily sculpted after the Westminster model of constitutionalism. At Independence, the constitution adopted was rather designed to meet the need of the political issues of that time, but as time passed, the configuration of the Constitution was changed to suit the need of the people.

It is of importance to indicate that Kenya has had four important phases in the restricting constitutional order of the country, which were characterized by a monolithic one party system with strong elements of presidential authoritarianism and curtailment of fundamental rights. The first phase, 1963 to 1969, involved the reordering of the state from a decentralized, regional system to a fully centralized system. Although the ultimate goal was political independence, there were internal differences on how political power was to be distributed in the about to be independent young Kenya. Leaders of Kenya African Democratic Union (KADU) party, the likes of Ronald Ngala, Daniel arap Moi, Masinde Muliro, Justus ole Tipus all advocated for a quasi-federal constitution *(majimbo)* for fear of being dominated by the major tribes at that time, the Kikuyus and Luos.

[143] S.J.W Musandu, *Kenya: An Official Handbook* (Nairobi: Ministry of Information and Broadcasting, GOK, 1988), 29.

On the other hand, Kenya African National Union (KANU) party led by Kenyatta, Oginga Odinga, Tom Mboya, and James Gichuru all were in favor for a unitary system of government. However, KADU had the ear of the colonial masters and in 1963 Kenya attained her independence with majimbo constitution that guaranteed autonomy to the regions. Sadly this was not to last, because in her first anniversary 1964, KADU was voluntarily absorbed by KANU[144], the majimbo constitution was replaced with one restoring strong central powers. This process led to the emergence of the, de facto, one–party state as the medium of political recruitment and organization in the country with Jomo Kenyatta as the President of the nation.

Some of the problems that President Kenyatta inherited from the colonial masters as the first African National leader were: a deep rooted tribalism caused by lack of contact between the various communities during the colonial days; there was skewed development and deliberate support of tribalism by the colonial masters; a complex *Majimbo* constitution; varied social and economic problems such as landlessness, unemployment, flight of capital, a foreign dominated economy, lack of skilled human resource and a Somali secessionist movement in North-Eastern Kenya.[145]

The second phase involved reorganization, through the constitution, of the political order from a *de facto* to a, *de jure*, one party system. The period lasted from 1969 to 1982 when Kenya African National Union (KANU) was proclaimed the only political party in an amendment to the constitution passed that year. The events leading to this are such that the relationship between President Kenyatta and his Vice President, Mr. Oginga Odinga had gone sour. Saliently KANU had become a conservative party and this led to the Limuru Conference of 1966 whereby the party

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[144] George S. Eshiwani, *Education in Kenya Since Independence* (Nairobi: East African Educational Publishers Ltd, 1993), 10.

[145] S.J.W Musandu, *Kenya: An Official Handbook* (Nairobi: Ministry of Information & Broadcasting, 1988), 25.

constitution was amended to clear way for election of eight Vice-Presidents instead of one in the person of Oginga Odinga. Subsequently, Mr. Odinga formed his party, the Kenya Peoples Party (KPU). To make matters worse, the murder of Tom Mboya in 1969 further marred the relations between the Luos and the Government which resulted to the banning of KPU and the detention of its leadership. Other political storms in the same period were for example, the alleged attempt to overthrow the government in a coup *d'état* in 1971, the murder of Kikuyu heavy weight politician J.M.Kariuki, and the unsuccessful attempt to change the constitution in 1976 in order to bar the Vice President, Daniel arap Moi from ascent to power in the event of the death of President Kenyatta.

It is of significance to highlight the progress and achievement that Kenya experienced under the leadership of President Kenyatta. To begin with, a Peace Accord was made in 1967, between Kenya and Somalia that gave way to the official end of the *shifta* (brigand) war in the North-Eastern Province. Secondly, President Kenyatta was able to hold the country together against waves of fears that he could not be able to do so especially on account of the turbulent politics of the young nation in the early years of its independence. Thirdly, Kenya remained a stable country despite the turbulent politics and evidence of this is that regular elections became a part and parcel of the political calendar of the country i.e. there have been general elections in 1969, 1974, 1979, 1983, 1988, 1992, 1997, 2002, and more resiliently the referendum of the Constitution held in 2005, the infamous elections of 2007 that resulted in post elections crashes that left over 1200 people dead, and in 2013. Last but not least, President Kenyatta was able to restore investor confidence and hence sustain economic growth.[146]

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[146] S.J.W Musandu, *Kenya: An Official Handbook* (Nairobi: Ministry of Information & Broadcasting, 1988), 25.

The third phase involved a shift from a centralized parliamentary system to a full executive presidency and this was most evident in the period 1983 to 1988 when the presidency emerged as the central figure of the state power in Kenya's constitutional order. After the death of President Kenyatta, there was a change of guard at State House and the Vice President, Daniel arap Moi ascended to power in a surprisingly smooth transition. However, in 1982 another attempt to overthrow the government through a coup *d'état* was foiled quickly. This significantly contributed to putting the face of the Presidency at the center of state power, in an attempt to establish his authority over his subjects and the nation at large.

It was under the presidency of Daniel arap Moi that a constitutional amendment was invoked to make KANU the only political party in the state by law. Consequently the leader of the party became the de facto President, thus enabling him to wield considerable influence in the conducting of parliamentary politics as well as in the running of government business. Due to this, there was resistance from other stakeholders especially from the student politicians at the State Universities of Kenyatta and Nairobi. Their protests were for the return to multiparty and democracy system of governance.

In 1992, multiparty system was reintroduced when Section 2(a) of the Constitution was repealed, thus ushering in a new crop of political parties. This culminated, in 2010, in the promulgation of a new constitution, the Constitution of Kenya 2010, which ushered in a new era of governance. The salient features of the new Constitution are, a democratic and devolved system of government, in which there is a President and a Deputy President, with tenure of security at the National level, and Governors, Senators, Members of Parliament, County Representatives and Women Representatives at the County level or regional levels. The constitution advocates reforms

in the Judiciary with the appointment of the Supreme Court, its Judges, and vetting of Judges and Magistrates in office before the new era, under the new dispensation.[147]

4.6 Economic Activities

Kenya's domestic economy is constituted by various sectors which make up the macroeconomic fabric. For the purpose of this study, the main sectors will be highlighted and these are:

Agricultural sector, which is the backbone of the economy and performs variedly due to the significant differences in the erratic long and short rains across the ecological zones. The key crops include coffee, tea, maize, sugar cane, wheat, horticulture, and pyrethrum. Livestock and its products are also subsectors that contribute to the economy significantly.[148]

It is realistic to point out that since the late 80s the Kenyan Government has been employing Structural Adjustment Policies (SAPs) with the objective of making a modest reduction of its budgetary deficits. However this resulted in the adoption of less sustainable practices in the Agricultural sector. The consequent effect was that it decreased employment through retrenchment programs and at the same time increased the number of people below the poverty line from 23% to 43%, who were forced to directly depend on the Agricultural sector for their survival.[149] There was therefore a call for the government and the private sector to work together in building and fostering a combination of factors, such as, forming strong social organizations of communities that support sustainable Agriculture, establish institutions that are well managed, corruption free and function with efficiency. These factors coupled with Government policies would provide an enabling

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[147] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 231.
[148] Ibid, 15-18.
[149] J.K. Nyoro and H.K. Muiruri, *Policies for Agricultural Sustainability in Kenya* (London: International Institute for Environment and Development, 2001), 45.

environment for sustainable agriculture would thus promote and guarantee an Agricultural sector which performs vibrantly and is self sufficient.[150]

Manufacturing sector consists of the food and non food subsectors. The food sub sector includes products such as meat and meat products, vegetable oil and fats, grain milling products, processed tea, milk and bakery products. The non food sub sector comprises production of cement, paper and paper products, rubber and plastics products as well as the fabricated metal products.

One of the Government's flagship projects for 2008-2012 was to set up Special Economic Clusters (SEC) in the cities of Mombasa and Kisumu. The SEC at Mombasa is designed to facilitate the easy importation of raw materials as well as handling of finished goods for export. Further, the Mombasa SEC includes an Agro-Industrial zone specialized for activities such as blending and packing of the export crop production like tea, coffee and fertilizers along with a meat and fish processing facility to promote offshore fishing. The SEC at Kisumu has the intended strategy of accessing the regional markets and to facilitate further economic activities like horticultural production along the lakeshores.[151]

Transport and communication sector is considered as the life line of the economy. It consists of the sub sectors of road transport, railway transport, pipeline transport as well as aviation transport. It is of value to point out that the port of Mombasa handles cargo traffic for both imports and exports in conjunction with road and railway transport, the pipe line transport deals with the petroleum products while the aviation transport handles commercial passenger traffic along with cargo.

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[150] Ibid, 58.

[151] Government of Kenya, *First Mid Term Plan 2008-2012: Kenya Vision 2030* (Nairobi: Ministry of State for Planning and National Development and Vision 2030, 2010), 77.

The communication sector mainly includes postal services, fixed line and wireless telephony, mobile telephony segment which has been vibrant in the last 10 years, mobile money transfer service and internet services.

The financial intermediation sector records robust activities where by the Central Bank of Kenya is the apex institution dealing with monetary policy operations framework, and price stability, to enhance economic growth and employment creation. The other financial service providers in this segment include, the Banking Sector, Capital Markets, Insurance Industry, Pensions Schemes and Quasi Banking institutions such as Savings and Credit Cooperative Societies (SACCOs), Building Societies, Microfinance Institutions (MFIs), Kenya Post Office Savings Bank (KPOSB), Development Financial Institutions (DFIs), Agent Banking and Credit Reference Bureaus and Informal Financial Services such as Rotating Savings and Credit Associations (ROSCAs).[152]

Building and Construction sector plays a crucial role in the infrastructure development in the economy. This sector is inter-linked with the Housing and Transport sub sector to spur investment, growth and job creation. The Economic Survey of 2013 reports that in 2012, the sector grew by 4.8% attributed to a rapid population growth especially in the urban areas. It is also observed that the total wage employment in the sector gained by 9.9%.

Tourism sector contributes to the economy in the sense of foreign exchange earner as well as employment creation. Unfortunately, this sector heavily depends on the country's political and security atmosphere. Therefore, with presence of pockets of insecurity activities here and there in the recent past, the sector has suffered blows. However the industry has on the whole proved to be

[152] Government of Kenya, *First Mid Term Plan 2008-2012: Kenya Vision 2030* (Nairobi: Ministry of State for Planning and National Development and Vision 2030, 2010), 79.

resilient all along. The tourist attractions in Kenya comprise of National Parks and Game Reserves, Museums, Snake Parks and Historical Sites, Conference Tourism as well as Training.

The following table is portraying the contribution to GDP by the various sectors in the Kenyan economy from 2008 to 2012.

Table 4:3: Gross Domestic Product by Activity, 2000-2010

Percentage Contribution to GDP

Industry/Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Agriculture and Forestry	24.0	27.2	25.6	25.3	24.3	24.2	23.6	22.7	22.3	23.5	21.4
Manufacturing	13.1	9.8	10	9.7	9.9	10.5	10.2	9.7	10.8	9.9	9.9
Construction	2.4	3.1	3.2	3.3	3.6	4	4.3	3.8	3.8	4.1	4.3
Hotels and Restaurants (Tourism)	12.7[15]	1.2	1.2	0.9	1.3	1.4	1.5	1.6	1.1	1.7	1.7
Transport and Communication	6.1	9.1	9.7	9.2	9.9	10.9	9.7	11.4	10.3	9.9	10.1
Financial Intermediation	10.6#	4.1	3.6	4.3	3.5	3.1	3.2	4.7	4.6	5.4	5.6

SOURCES: Kenya National Bureau of Statistics, *Economic Survey (various issues)*

In the above table are shown just the main economic activities that contribute to the country's GDP. Other activities not mentioned in the table include, Education, Health and Social

[153] *#In 2000 the contribution of Hotels and Restaurants is 12.7% because this item included trade which formerly was called Trade, Restaurants, and Hotels; Similarly Financial intermediation included Finance, Insurance, Real Estate and Business Services.

work, Other Community, Social and Personal Services, Mining and Quarrying among others. One can observe that Agriculture is the leading contributor to the Economy's GDP which is closely followed by the Manufacturing sector while the Building and Construction Sector is noted to be contributing the least to the GDP.

4.7 Natural Resources

A quick look at Kenya gives an impression that the country lacks in natural resources since there are no major deposits of gold, diamond or oil. However, Kenya is home to a stunning flora and fauna in the East African region with astounding physical landscapes. This is important for the tourism industry of Kenya. Unfortunately, for long Kenyans have failed to appreciate her natural resources and this is seen by poaching and habitat destruction, the forests are felled for farmland or timber leading to the destruction of water catchment areas and wetlands are reclaimed for agriculture.[154]

Kenya's environmental and natural resources include forests which produce forest products like timber, wood and charcoal, wildlife population and minerals. In the mining industry, the minerals include Soda Ash, Fluorspar, and salt, gemstones, gold, carbon dioxide, Diatomite and oil which was recently discovered. Earnings from mineral productions are due to the exports in Gold, Soda Ash, and Fluorspar among others.[155]

In the years 2000 to 2010, the population of Kenya has increased by around 2.5% per annum and so has the economy expanded. Consequently, the need for energy to run the economy has increased proportionately. There are three main sources of energy in Kenya i.e. wood fuel, which accounts for 70% of total production, reflecting the high amount of deforestation in the

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[154] Rob Bowden, *Countries of the World: Kenya* (London: Evans Brothers Ltd, 2007), 16-18.
[155] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 169-170.

country, petroleum, which accounts for 21%, and electricity which accounts for 9%. The key sources of electricity are Hydro, Geothermal and Thermal. The major players in the power sector are Kenya Power and Lighting Company (KPLC), Kenya Electricity Generating Company Ltd (KENGEN) and other Independent Power Producers (IPP) all who function under the umbrella of the Energy Commission of Kenya.[156]

Kenya relies heavily on Hydro Electric Power most of which comes from the constructed dams along River Tana. To augment the short fall due to high demand, Kenya imports hydro power from Uganda. Efforts have been made by the government to create alternative sources of power by developing capacities to generate geothermal power in the Rift Valley region of Kenya. Feasibility studies are on going to map out the possibility and capacity of whether civil nuclear energy can be integrated in to the Kenyan power grid.

The table below shows the quantity and value of mineral production considering the period under study. It is observed that Soda Ash (washing soda) and more so in its refined form has a significant contribution in the sector.

[156] UNEP, *Sustainable Trade and Poverty Reduction* (Nairobi: UNEP, 2003), 103.

Table 4:4 showing Quantity and Value of Mineral Production, 2000-2010

MINERALS ('000T)/YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Soda Ash	238	297	304	352	353	360	374	386	502	404	473
Fluorspar	100	118	85	80	118	110	132	85	130	5	40
Salt	16	6	19	21	31	27	35	11	24	24	6
C R Soda Ash	383	207	474	576	605	640	663	843	866	948	959
Total	**737**	**630**	**882**	**1,030**	**1,109**	**1,136**	**1,204**	**1,326**	**1,523**	**1,382**	**1,479**
Value-KShs '000											
Soda Ash	1,955,500	2716000	2729113	3100169	3462707	3782249	4532391	4769457	88817000	60854000	69800000
Fluorspar	627,860	727000	632829	503630	999129	1061908	1155794	995867	19492000	1225000	789000
Salt	51,740	99000	61388	61105	124450	110382	164438	58068	1392000	1547000	35000
CR Soda Ash	42,200	22906	38252	46494	51473	47796	44551	430391	442000	4840000	467000
Total	**2,677,300**	**3,564,906**	**3,461,582**	**3,711,398**	**4,637,759**	**5,002,335**	**5,897,174**	**6,253,783**	**110,143,000**	**68,466,000**	**71,091,000**

SOURCES: Kenya National Bureau of Statistics, Economic Survey (various issues)

4.8 Industries

Kenya is the most industrially developed country in East Africa. Its manufacturing sector is mostly involved in agro-processing. Industrial growth however slowed down in the mid nineties owing to the fact that free imports started to compete strongly with the locally made goods. Other factors that have been a hindrance to the development of Industrial sector include poor infrastructure especially in power and water supply, lack of enthusiasm, by both the government and private sector, to develop strong Research and Development, high interest rates which make the cost of capital a burden, inflexible market laws and regulations which are mostly archaic and extraneous, just to point out a few.

It is important to point out that, in Kenya's Industrial sector, it is the informal sector that is the biggest employer as compared to the formal sector. The small scale establishments are initiated by enterprising craft persons and so employ the highest numbers.[157] They are commonly known as *'Jua Kali'* for '*In the Open Sun'*. This term was originally applied in the 1970s to artisans who produced goods in the open sun. Dynamic as it is, this sector has grown and expanded to include all the micro and small enterprises (SMEs) which produce consumer and capital goods under minimum regulation and protection from the government. The *Jua Kali* sector also covers the auxiliary sectors, such as trade, repair and raw material supply.[158]

The Census of Industrial Production (CIP) by the KNBS, observes that the formal establishments in Kenya's Industrial Sector consist of mining and quarrying, manufacturing, electricity, gas, steam, air conditioning supply, water supply, sewerage, waste management and remediation activities. A big chunk of the total industrial output is accounted for by

[157] Kul Bhushan, *Kenya Fact Book 2000-2001*. 16th ed. (Nairobi: Newspread International, 2000), 49-50.
[158] Steve Daniels, *Making Do: Innovation in Kenya's Informal Sector* (USA: Creative Common Attribution, 2010), 8.

manufacturing activities, closely followed by electricity, gas, steam and air conditioning supply activities.[159]

The capital utilization of the Kenya's industrial sector has a significant bearing on the level of labor productivity, employment, compensation of employees as well as the overall profitability of industrial activities. According to the CIP of 2010, the main determinants of the level of capacity utilization include the supply of skilled manpower, supply of raw materials and the mechanical condition of the machinery in use. Some of the causes identified for capacity utilization below 50 percent include high cost of materials, high cost of fuels and electricity, loss of products due to strikes and stoppages, high cost of labor and poor transportation.[160] When all these are in place, accordingly, the Industrial Sector as a whole will show improved performance across the board and hence a vibrant economy.

4.9 Infrastructure

Development of Infrastructure is a prerequisite for creating and supporting business environment that facilitates private sector investment, growth and job creation, which in turn will spur a sustained economic growth index. In a virtuous circle, the development of infrastructure contributes to growth of the economy and it can be indicated that when there is growth of the economy, this contributes to the development of Infrastructure.[161]

The Government of Kenya through the Economic Recovery Strategy for Wealth and Employment Creation 2003 -2007 and the Mid Term Plan 2008-2012 have emphasized infrastructure. Their objective is to accelerate and consolidate the development of infrastructure

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[159] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 254.
[160] Ibid, 255.

[161] Afeikhena Jerome, *Infrastructure for Economic Development and Poverty Reduction in Africa* (Nairobi: United Nations Human Settlement Program, 2011), 1.

with a deliberate focus not only on quantity but quality, aesthetics and seamless functionality of the infrastructure.

The Mid Term Plan 2008-2012 seeks for effective and reliable infrastructure which will be pivotal in lowering the cost of doing business and also increase competitiveness in the economy. Further, the government will promote the increase in utilization of the Information and Communication Technology (ICT) in the light of development and management of the infrastructural base.[162]

The Government plays its role in infrastructure development through the following avenues: The National Housing Corporation in the housing sub sector; Ministry of Roads and Kenya Roads Board (KRB) in road construction and development sub sector; Ministry of Public Works in the public building works in the major towns of Kenya among others.[163]

4.10 Transport

The Kenyan transport network is the most developed in Eastern and Central Africa region but has recently deteriorated due to poor maintenance and lack of accountability.[164] The transport sector in Kenya is comprised of sub sectors Road, Railways, Pipeline, Water, and Aviation and they all form the lifeline of the economy. Value of output from these sub sectors is such that Road Transport is the leader of the pack, and then followed closely by Air Transport. Funds for maintenance and rehabilitation, construction and development of the Kenyan road network are disbursed by the Government from the Roads Maintenance Levy Fund to road agencies.[165]

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[162] Government of Kenya, *First Mid Term Plan 2008-2012: Kenya Vision 2030* (Nairobi: Ministry of State for Planning and National Development and Vision 2030, 2010), 16.
[163] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 195.
[164] Kul Bhushan, Kenya Fact Book 2000-2001. 16th ed. (Nairobi: Newspread International, 2000), 108.
[165] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 219.

In respect to the goals of infrastructure development under the first Mid Term Plan of 2008-2012, the Kenya Roads Board will facilitate the following programs and projects that are in line with the Infrastructure and Transport sectors. These are: A National Integrated Transport Master Plan to secure the investment and location of transport infrastructure services that are consistent with public policies, to project Kenya as the most efficient and effective transport hub in the region; Development of a New Transport Corridor to Southern Sudan and Ethiopia forming the cornerstone for opening up the Northern Kenya region whilst integrating it with the national economy; instituting the National Road Safety Program that will fast-track the implementation of National Road Safety Action Plan which seeks to reduce the incidence of road accidents and their impacts on the Kenyan economy. Other programs constitute the initialization of the Computerized Information Maintenance Management System, Maintenance of Existing Road Network and Airstrips in the country, Road Network Expansion and development of Road Transport Policy.[166]

Railway transport lagged behind in the nineties and this trend is attributed to the influence of the colonial masters way back in the pre- colonial era. When carefully considered, Kenya's railway network only coincides with the limits of the then agricultural settlements of the British. This is so because of the heavily biased colonial development policies. The colonial masters had little interest in the development of the African agricultural areas for fear of competition in the world market. Their main objective was to develop a raw material exporting economy to furnish their metropolitan industries and to further import back the finished goods in to the Kenyan economy.[167] Because of the above reasons, the railway network in Kenya was

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[166] Government of Kenya, *Change Ahead: Kenya Road Board Strategic Plan 2008-2012* (Nairobi: Kenya Roads Board, 2010), 20-21.

[167] W.R. Ochieng' and R.M. Maxon ed. *An Economic History of Kenya* (Nairobi: East African Educational Publishers Ltd, 1992), 141.

literally not developed further for decades well after Independence. However, all is not lost; under the new dispensation and Kenya Vision 2030, the development of the railway network is a priority and its development will augment the already clogged up road networks to facilitate trade within Kenya and the East African region. It is of significance to mention that even though there is negligence, the railway network handles passenger and cargo traffic from the Mombasa port to inland destinations of Kenya and also Uganda to post a minimum impact in the overall GDP growth rate of the country.

Kenya does not have an inland water transport network; water traffic is limited to Lake Victoria and the coastal waters at the Mombasa port. The inland waterways at Lake Victoria are an important commercial link between the small islands of Rusinga, and Migingo as well as the neighboring countries of Uganda and Tanzania. At the Mombasa Port, container traffic handles imports and exports of dry bulk and dry general cargo as well as bulk liquids. The Kilindini harbor at Mombasa is a portal for cargo heading to other countries like Uganda, Rwanda, Burundi, Democratic Republic of Congo and Southern Sudan. A new port is to be constructed in Lamu and is designed to offset the traffic from the Mombasa port. Other smaller ports at the coastline include Malindi, Shimoni, Kilifi, and the Old Mombasa Port. Ferry services and boats and canoe play a role in local transport between Mombasa and the South Coast.[168]

Kenya's pipeline is owned and operated by the Kenya Pipeline Company (KPC) which has been operational since 1978. The pipeline runs from Changamwe in Mombasa to Nairobi, through Nakuru to Kisumu and Eldoret to service Western Kenya as well as Uganda and Rwanda. The KPC owns, operates and maintains the pumping stations and storage tanks that are along the line. The pipeline offers a more cost effective and energy saving means of transport for

[168] Assa Okoth and Agumba Ndaloh, *Social Studies* (Nairobi: East African Educational Publishers Ltd, 2008), 226.

white petroleum products intended for exports and imports. The products transported included different petrol blends, kerosene, light diesel, industrial diesel and jet fuel.[169]

Kenya is home to the major airline hub in the East African region. This service will facilitate and continue to play a major role in sustaining development in the sectors of tourism and trade. Therefore, a secure air transport service which is coupled with efficiency and effectiveness in their operations will be of great importance to the growth of the economy. The national carrier, Kenya Airways, competes with regional airlines in handling both passenger and cargo traffic. The air transport network is such that there are two international airports, Jomo Kenyatta International Airport situated in Nairobi, and Moi International Airport in Eldoret; local airports, Wilson Airport in Nairobi, Kisumu airport and Mombasa airport; as well as a stream of air strips spread across the country in various Counties.[170]

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[169] Simiyu Wandibba and Joseph Thuranira, *Social Studies 8* (Nairobi: East African Educational Publishers Ltd, 2008), 139.
[170] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 219.

Table 4:5 Showing Transport and Communication – Value of Output, 2000-2010

KSh. Million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Road Transport	21,503	100,400	101,581	110,899	143,267	159,321	201,672	221,225	273,044	285,262	326,318
Railway Transport	5,954	4,878	4,653	4,609	4,674	4,600	4,553	4,550	4,449	4,747	5,591
Water Transport	7,608	9,589	10,490	11,296	13,187	17,204	21,475	23,355	21,868	21,039	23,847
Air Transport	23,025	32,501	34,904	36,871	46,512	59,670	63,996	65,425	83,010	81,609	84,257
Services Incidental to Transport	3,750	12,239	12,214	13.521	174,974	20,480	29,204	32,276	38,822	40,019	48,342
Pipeline Transport	6,194	6,532	6,631	6,761	7,386	8,270	8,750	8,919	9,222	11,837	13,906
Communi cation	28,166	41,270	50,022	51,699	55,691	62,687	68,721	86,087	93,466	100,009	106,467
TOTAL	96,200	207,408	220,495	235,656	288,664	332,231	398,370	441,836	523,881	544,522	608,728

SOURCES: Kenya National Bureau of Statistics, Economic Survey (various issues)

From the above table, the value output of Transport and Communication Sectors have been shown from 2000 to 2010. It is clearly revealed that Road Transport is the dominant player in the sector with the highest value of output across the board. For example, the road transport sector posted a minimum of Ksh. 201, 726 million since 2006 a trend which has been skyward to Ksh. 326, 318 million in 2010. It is further observed that Air Transport follows closely, with Water transport and the Railways being the least.

4.11 Trade

The trade in Kenya and the policies shaping it has evolved from the beginning of the colonial era in 1895 through to modern day Kenya. The colonial conquest of Kenya led to the formation of trade policy which laid the foundation of future developments. The First World War of 1914, and the Great Depression of 1929 through to the Second World War of 1945, had a direct impact on Kenyan trade both in the internal and external fronts. The British colonial masters introduced policies that would benefit the European settlers in Kenya as well as service their interests in the world markets. However, this trend came to an abrupt end when Kenya freed herself from the clutches of the British Empire.[171]

After Independence, the Kenyatta Government embraced the Import Substitution Policy (ISP). This was the policy of the 1960s that ran through to the 1980s. Even though the economy performed well especially in the manufacturing and industrial sectors, the government exercised control in the protection of the local markets and there was a regular element of interference in

[171] W.R. Ochieng' and R.M. Maxon ed. *An Economic History of Kenya* (Nairobi: East African Educational Publishers Ltd, 1992), 202.

private exchange. This blossomed to a virtually closed economy which saw Kenya lose out on most of her regional markets in the 1970s.[172]

However, in the mid 1980s, the Moi Administration introduced the Structural Adjustment Programs which promoted the Manufacturing and Industrial to produce goods and services that would be exported to world markets. This was the genesis of the trade liberalization and measures of decontrol in price mechanism took centre stage to bloom in 1993-1994 bringing about significant impact in Kenya's international trade. These reforms further stimulated efficiency in production, significantly encouraged private investment in the economy, and increased foreign exchange earnings.[173]

In the period under study, the trade policy was largely guided by the market driven principles of the World Trade Organization (WTO) which were harmonized into Kenya's trade policy regime in 1995. This approach resulted in the lowering of tariffs, and reduction of the non tariff barriers by other countries to Kenya's exports, which enabled Kenya's indigenous products to enter the export market. Kenya also joined hands in economic integration initiatives in the region resulting to the formation of the East African Community (EAC), Common Market for Eastern and Southern African (COMESA) and Inter-Governmental Authority on Development (IGAD). It is of significance to note that the current trade policy of Kenya is also guided by the Constitution of Kenya which recognizes the role played by two levels of government i.e. the Central Government and the County Governments in trade matters. Some of the instruments employed by the Government as laid down by the Constitution are taxation, trade facilitation and promotion, licensing, import and export administration among others. [174]

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[172] Mwangi S. Kimenyi, John Mukum Mbaku and Ngure Mwaniki ed. *Restarting and Sustaining Economic Growth and Development in Africa* (England: Ashgate Publishing Ltd, 2003), 124.
[173] Government of Kenya, *National Trade Policy* (Nairobi: Ministry of Trade, 2012), 5.
[174] Government of Kenya, *National Trade Policy* (Nairobi: Ministry of Trade, 2012), 5.

The current scenario of Kenya's international trade and the balance of payments is that the merchandise trade deficit continues to increase due to a huge import bill. According to the Economic Survey 2013, the import bill grew by 5.7% while the balance of trade widened by 8.7% with deteriorated export -import ratio of 37.7% in 2012. The main principal drivers for the huge import bill were petroleum products, capital goods, food products and chemical products which together accounted for 58.4% of the total import bill.[175]

[175] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 117.

5 CHAPTER FIVE: INDIA AND KENYA FOREIGN TRADE POLICIES

5.1 Introduction

Trade is a unique component, which is a necessity for the thriving of a nation's economy. It involves the exchange of goods and services within the economy as well as between two or more external economies. Trade is necessary because a nation, or any of its regions, may not at all have, or may not have enough of, some things it needs. Therefore, for its own production and consumption, it will acquire these things from outside nations or regions. Moreover the country/region may have excess of what it produces and may need to export it to other countries/regions. Thus, trade closes the gap between the concerned parties through a meaningful exchange. Goods and services that change hands range from essentials like food grains, to inputs like petroleum products, capital goods like machinery, and consumer goods like electronic and electrical appliances.

There are many prospective economic gains that a nation can obtain from trade. This depends on the policies that the nation will develop and employ to push for the desired economic gains. Consequently the more the trade transacted, the more the economic gains that will be translated into growth in the local and global economy. This in essence will result in expansion of markets, increased competition, and better investments to further stimulate economic growth and development of the nation.

The underlying principles that will motivate a nation to encourage foreign trade will be firstly to increase and maximize its potential in economic production and secondly to improve the social welfare of its citizens. This in effect will raise the standards of living for the citizens and also improve the economy from a less developed status to a more developed one. The above

mentioned problems come about because of the differences in endowment of natural resources in respect to the geographical placements of the different countries. This further dictates the production of different goods and services and hence the need for foreign trade to facilitate the exchange.

Another rationale for foreign trade is because of the presence of the troika of developed countries, developing countries and underdeveloped countries. The difference in the level and nature of production in these three categories of countries necessitates trade. The less developed economies depend more on the developed economies for resources, technical know-how, goods and services so as to lift them to a higher platform of economic prosperity.

Foreign trade is a stipulation and an outcome of Globalization. The national markets are combined with the international markets to form a world market where there is an ongoing process of reducing restrictions on trade in goods and services. Further, such a reduction of restrictions is possible today because of the presence of a uniform mechanism of negotiations under the World Trade Organization (WTO). Liberalization which preceded Globalization was a process which constituted removal of a number of limitations in various sectors and territories. However, the removal of these limited barriers in the said sections led to Globalization.[176]

It is of significance to consider that the capacity of a country to make foreign economic policies affects the nature and direction of foreign trade. However this is determined by the underlying economic model that the country is employing and the influence of government powers. When the country has inward looking policies, then the scope of foreign trade will be narrower, featuring elements of limited liberalism with strong influence from the government. Conversely, when the country has outward looking policies, then the obvious consequence will

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[176] Power Boyzk, *Globalization and Transformation of Foreign Economic Policy* (England: Ashgate Publishing Ltd, 2006) 1.

be a presence of vibrant foreign trade influenced by external patterns. This will give play to a variety of agreement policies. But above all, the foreign economic policies of a country should be all-inclusive spreading over a wide range of players in the economy both in the internal economy as well as those with the external patterns.

Albert O. Hirschman convincingly argues that foreign trade has two main effects in regards to the country's national power. To begin with and from the perspective of power, a country is able to supply itself with more of the goods it wants i.e. this is to augment the military potential of the country. A country can protectively control the international trade routes; it can also instigate policies of widespread preventive measures of amassing weapons in the era of peace and thirdly by redirecting trade where favorable. The second effect of foreign trade is that trade in itself is a means and source of power. The huge amounts of national wealth created by commerce can be exploited to acquire the wealth of another country. This in effect will encourage economic warfare between nations that share rivalry in the bid for supremacy in the region or even the global arena.[177]

The question of Least Developed Countries (LDCs) and the role of commerce and trade is one of importance. The salient features of the LDCs are that there is a strong presence of poor infrastructure especially in the sectors of Transport and Information Technology, their local markets are undersized and therefore the supply capabilities is undermined. Consequently, this leaves the LDCs to be more dependent on the developing and developed countries. When the case is so, then the LDCs do not benefit much from the terms of trade in place but rather lose out because the framework under which the foreign trade and world market operate is biased towards the developed countries. Nevertheless, for the LDCs to take advantage of commerce and trade

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[177] Albert O. Hirischman, *National Power and Structure of Foreign Trade* (California: University of California Press, 1980), 14.

between their patterns and the world market, it is important that they develop their infrastructure so as to upgrade their supply capacity in order to accrue benefits and thus promote their development agenda.

Good governance in the LDCs is the key to development and to a fruitful role of foreign trade and commerce. The government should provide a good climate for export promotion and policy formulation, and implementation processes should be streamlined, and a presence of a democratic process of decision making will further enhance the agenda of development with foreign trade and commerce as the vehicle for the LDCs growth and development. A combination of outward looking policies by the LDCs and the abolition of restrictive quotas and duties on the imports in the developed world markets will stimulate growth in the LDCs local markets and industries to boost their supply capacities.

To further highlight the important role that good governance plays for the development of LDCs in regard to foreign trade as an instrument for development, the LDCs governments have to ensure that a vibrant political commitment is in place to guarantee the seamless implementation of sound socio-economic policies. Political instability has the negative effect of incapacitating the government machinery to implement consistent long term policies and this becomes a hindrance in the process of financing development and promotion of export trade. Therefore good governance is of significance since it will guarantee political security of the LDC, and hence encourage the businessmen and foreign investors to invest in the economy.

A few of the unique elements in good governance that the International development partners to the LDCs promote are: a well developed parliamentary system that is guided by a sound Constitution; a very strong and credible electoral system that is free and fair; stable judicial machinery that uphold justice for all and defends human rights; an objective process of

local governance which is decentralized to ensure all-inclusive growth and development, access to information and vigorous reforms in public administration and civil service sectors. A combination of the above elements of governance will promote the foreign trade of the LDCs and consequently development.[178]

The relationship between Industrialization and foreign trade begs consideration because of the nature of inter-linked elements i.e. more industrialization leads to increased foreign trade and increased foreign trade also impinges on industrialization. Generally, Industrialization increases the capacity of manufacturing sector of a nation but also this trend has recently shifted from the labor intensive production processes to capital intensive systems of production. This shift consequently determines the trends and the direction of exports and imports of a nation. In addition to that, the composition of foreign trade is undergoing changes owing to the impact of expeditious technological advancement to consequently stimulate the increased production and trading of wide ranging of products, rather than traditional homogenous products. This trend is mainly experienced in trade between industrialized and industrializing nations.

The responsibility of policy makers and economists is very important with respect to drawing up of policies that strike a balance in regard to the prevalent advantages and disadvantages existent in Industrialization and foreign trade. They must design policies that will carefully shift from the dependence and production of primary commodities towards production of industrial products for export. This will offer increased volumes of production due to expanded rapid growth, better foreign exchange earnings and stable prices.[179]

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[178] ESCAP, *Challenges of the Least Developed Countries: Governance and Trade* (Bangkok: United Nations, 2007), 4.
[179] Yilmaz Akyuz, *Trade Growth and Industrialization: Issues, Experiences and Policy Challenges* (Malaysia: Third World Network, 2005), 26.

However, Yilmaz Akyuz, indicates that most of the countries that have shifted from an import substitution model of economy to embrace outward looking policies through liberalization and foreign trade with an emphasis on imports and Foreign Direct Investment (FDI) have not really expanded. This is because the technology intensive and value added manufacturing sector has recorded high import bills instead of increased exports resulting in deficits. The consequent outcome of this is great dependence on high private capital inflows to stimulate the growth of the economy.[180]

Trade policy and industrialization is largely affected by the state of a country's infrastructure, the prevalent market efficiency and the macroeconomic environment. As already pointed out, trade policies are either outward oriented or inward oriented. Balanced trade policies are those that incorporate both elements of outward oriented and inward oriented stratagem. The outward oriented policies promote tariffs rather than quantity restrictions while the inward oriented policies advocate for quantitative restrictions and not tariffs. In a study of forty-one economies conducted by the World Bank, it was ascertained that the outward oriented economies performed better than the inward policy oriented economies. The conclusions were founded on the basis that the overall productivity grew more rapidly and that the process of industrialization showed smooth transition.[181]

The World Trade Organization (WTO) was formed in 1995 succeeding the General Agreement on Tariffs and Trade (GATT) of 1947. The mandate of the WTO is to oversee the ever expanding international economic affairs. Therefore, it is the de facto major player in the turf of global trading systems and global governance. Through the instrument of foreign trade, the WTO wields enormous control to practically effect and even manipulates the economic and

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[180] Ibid, 27.

[181] The World Bank, *Industrialization and Foreign Trade* (England: World Bank and Oxford University Press, 1987),

political bearing of its member nations. Based in Geneva, Switzerland and with over 146 nations as its members, the WTO is viewed as an abstruse establishment that negotiates trade regulations that appear complex to the public. It is of worth to note that governing policies that govern the WTO in executing its mandate sometimes requires the member nations to change their legislation in regards to intellectual property, industrial and agricultural policy and sometimes even changes in their Constitutions.[182]

As regards the need of rules to govern foreign trade in the international markets, primarily countries must be kept in check from implementing trade restrictive policies to their own profit, which would divert trade to other markets and result to protectionist measures and a possible further retaliation. Subsequently, there is a necessity for traders and investors to be accorded a degree of security and predictability to encourage further investments and trade. Thirdly, national governments need the organizational functionality of the WTO to cope up with the challenges presented by globalization especially in the areas of clean natural environment, public health, consumer safety, minimum standards of goods and services among many others. Finally, the international rules promote the objective of achieving a greater gradation of equity in the international economic relations. This is because of the great disparity that exists between the developed nations and the poor nations which hinders the process of integration in the international markets and therefore calls for a framework where the special needs of the poor nations can also be addressed to derive sizable gains from foreign trade.[183]

The GATT framework was established with the objective to do away with or to moderate weaken the trade barriers which hamper the heave of international trade. It was also formed with

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[182] Fataumata Jawara and Aileen Kwa, *Behind the Scenes at the WTO: The Real World of International Trade Negotiations* (New York: Zeb Books Ltd, 2004), 3.
[183] Peter Van den Bossche, *The Law and Policy of the World Trade Organization: Texts, Cases and Materials* (England: Cambridge University Press, 2008), 32-34.

the intention to expand trade and commerce among the member nations. Further, the GATT provided a solution for the time-inconsistency dilemmas created by the barriers and offered a platform for effective coordination in light to foreign trade. It was of most benefit to the developing nations since a relaxation of tariffs resulted to an expansion of trade under the basis of Most Favored Nation (MFN). The scope of the GATT constituted the members, non member participants and also members on provisional basis.

Since its inception in 1947, there has been many conference and rounds of negotiations all to promote foreign trade. Each subsequent conference came with an expanded scope for the GATT with more policies of trade liberalization. The table below shows the history of GATT and WTO and the relevant round of negotiations along with their membership at their time of occurrence.

Table 5:1: GATT/WTO Negotiating Rounds and Membership[184]

Name of Round	Chronology	Number of Participants
Geneva	1947	19
Annecy	1949	27
Torquay	1950	33
Geneva	1956	36
Dillon	1960-61	43
Kennedy	1962-67	74
Tokyo	1973-79	85

[184] Benard M. Hoekman and Peter C. Mavroidis, *The World Trade Organization (WTO): Law, Economics and Politics* (Abingdon: Routledge, 2007), 9.

Uruguay	1986-94	128
Doha	2001-	150

SOURCE: WTO

From the table 1 above, the scope of GATT and WTO has grown. Several expansion and modification have been passed to simplify the complex system of restrictive policies and hence promote foreign trade.

It is generally acknowledged that trade barriers instruments are largely grouped to Tariff barriers, Non-Tariff barriers (NTB), Currency Control and Administration Delay. These have their genesis from trade policies of the national government in relation to the domestic industry and the export sectors. National governments have the jurisdiction to protect the domestic industry from stiff competition of the advanced economies and thus the stringent application of tariffs and barriers. With the aim of protecting the domestic industries, tariffs are usually a monetary imposition on goods and services at national ports of entry.

According to Graham Dunkley, there are several types of barriers and it is worth consideration in light to this study. To begin with, Natural barriers are those that occur naturally owing to current geographical settings. These include distance, transport and communication costs and geographical impediments. Subsequently, Cultural barriers deal with language, traditions, and negative attitudes of trading and divergent commercial practices. He goes on to point out that Market Barriers constitute imperfect competition, monopolistic or oligopolistic stratagem. Forth, Policy barriers range from tariffs, subsidies, quotas, import bans, and export promotion schemes to a wide range of NTB such as administrative technicalities. Service

regulations by the government also fall under barriers in circumstances where operations of Foreign Service provide i.e. insurance and banks are placed under restrictions.[185]

5.2 Trade Formation Policy in Kenya

The process of trade policy formulation in the Kenyan Government is in the mandate of the Ministry of Trade and Industry (MoIT) coordinated along with other concerned ministries. This process involves the stages from need for policy formulation, to Presidential Assent. The Permanent Secretary in the concerned ministry sets up a task force to collect views on the policy and develop a Session Paper. The Joint Industrial and Commercial Consultative Committee (JICCC) and the Department of External Trade coordinate the discussions among the stakeholders. This is followed by the Ministry designing a Cabinet Memorandum seeking Cabinet approval. After approval, the Ministry draws up a draft policy which is forwarded to the office of the Attorney General who prepares a draft bill for parliamentary debate. The Cabinet and the President approve the bill to give it legitimacy. It becomes an Act of Parliament which can be enforced by law. This is then followed by the implementation process the Ministry along with the other relevant bodies.[186]

Under the Ministry of Trade, there is the Department of External Trade that coordinates policy in regards to WTO, Regional Trade and Bilateral Trade Relations. The Department of Internal Trade deals with Small Business and Support Services, Trade Policy and EAC, Monitoring, Research and Promotion. Other government departments besides the Ministry of Trade and Industry that play different roles in the process of trade policy formulation consist of; Ministry of Planning and National Development that coordinates policy making of other

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[185] Graham Dunkley, *Free Trade: Myths, Realities and Alternatives* (Bangladesh: The University Press Ltd, 2004), 9.
[186] John Omiti, Nicholas Waiyaki and Verena Fritz, *Trade Policy Making Process in Kenya: The Institutional Arrangements and Interaction Actors (*Nairobi: KIPPRA and ODI, 2007), 31.

ministries, Ministry of East African Community (EAC) that deals with matters of EAC, Ministry of Foreign Affairs in charge of political significance of trade policy and its alliances. The Ministry of Finance that is accountable in the implementation of government programs and projects in regards to finance, and the Ministry of Agriculture. Other trade related government bodies include Exports Promotion Council (EPC) to support export promotion functions, Export Promotion Zones Authority (EPZA) with the mandate to integrate Kenya into the global market, Kenya Investment Authority (KIA) that approves and provides information in light to investment policy, regulation and opportunities.[187]

The other supplementary bodies involved in trade policy formulation are Quality Assurance Bodies like Kenya Bureau of Standards (KEBS) which is a centre of standardization, testing and quality management, Kenya Plant Health Inspectorate Services (KEPHIS) with the authority to coordinate all matters relating to crop pests and disease control. Regulation institutions include Central Bank of Kenya (CBK) with responsibilities that have a bearing on trade policy formulation, Kenya Revenue Authority (KRA) that accesses, collects, administers and enforces laws related to revenue. The Attorney Generals office, Parliament and the Executive too play important roles in the formulation of legislations on trade policies.[188]

Having considered that elaborate introduction as a background, this chapter will examine the Indo-Kenya Foreign Trade Policies. Emphasis will be given on the export and import trade policies undertaken by Kenya during the three different Presidential Administrations. A general outlook of the Indian trade policy will be considered to give an introduction to the Indo Kenya foreign trade relations commencing in 1981. Further, observations and conclusions shall be

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[187] Ann Capling and Patrick Low, ed., *Governments, Non-State Actors and Trade Policy-Making* (Cambridge: Cambridge University Press, 2010), 211.
[188] John Omiti, Nicholas Waiyaki and Verena Fritz, *Trade Policy Making Process in Kenya: The Institutional Arrangements and Interaction Actors* (Nairobi: KIPPRA and ODI, 2007), 23-29.

drawn to see if there has been an economic benefit in these bilateral trade arrangements between India and Kenya.

5.3 Kenya's Foreign Trade Policy

The government is the custodian of the social-economic development activities of the country. Due to an ever changing paradigm in economic development, governments therefore adopt a planned system of economic development as a tool for progressive growth. The process is fundamentally held together by the role the government plays through the designed policies to effect change and development. As need arises, the policies keep changing and hence this dynamic attribute. Therefore, it is through government incentives that sound policies can be affected in regards to fiscal policy, macroeconomics and growth of the economy. To this end, the basic legal and institutional infrastructure must be in place to foster economic development.

In the last 50 years, many of the developing nations have recognized the deep role that international trade plays in the process of economic development. Trade policies will then play the fundamental role that governs the movement of foreign trade from the local market into the international markets. For this end to be achieved, a varied number of instruments will be employed to facilitate the desired economic activities as according to the desires of the government. These measures operate within the prevalent price mechanism and they include tariffs such as subsides to local industries, export duties and quotas.

The trade policy administration could be either protectionist or liberal. A protectionist trade administration is where the government takes deliberate action to protect or rather shield the local manufacturing industries from the competition created by the influx demand for technologically advanced products of foreign origin. In contrast, the latter trade regime is one

with willingness to trade in the foreign market. It is graced with a high intensity in export promotion schemes. It is of significance to note that a liberal trade policy is generally easy to implement owing to its open nature. This stimulates improvements in the implementation process. As it is, a transparent liberal trade policy encourages the release of administrative resources that can be reallocated for further development.

In the pursuit for sustainable economic growth and development, Kenya has gone through a series of trade policy episodes since her independence in 1963. This discourse will highlight the various trade policies undertaken by Kenya through the years under the three different Presidential Administrations. The first one being the Kenyatta Administration, which began when Kenya earned her Independence in 1963 and stretch to 1978 at the time of his death. It is useful to mention though that the trade polices of the Kenyatta Administration extended to the Moi's Administration in the early 1980s.

The subsequent administration was the Moi's Administration which spanned from 1978 to 2002. It is during this time that the Kenya economy experienced its worse trade turbulent storms. Therefore, the trade policy regime during Moi's Administration is of importance as it will show the direction of trade and the policies that influenced the same. The last phase for consideration is during the Kibaki's Administration, 2002 to 2013. The Kibaki Administration frantically implemented many comprehensive reforms that aimed at promoting and improving the environment for export led growth within the framework of regional and multilateral trade agreements. The Kibaki Administration emphasized on foreign trade as the drive for economic growth and development. It is also useful to indicate that this is the period in which the study is based on.

5.3.1 Current Trade Regime

Kenya's current trade administration is guided by several policy instruments that are embodied in the Constitution of Kenya 2010, various policy documents and legislations. These policies are executed by various governmental Ministries and departments, the private sector and civil society. Some of these policy instruments include[189]:

i. Import/Export management
ii. Taxation
iii. Trade Facilitation and Promotion
iv. Licensing and Registration
v. Production and Productivity
vi. Skills and Labor Laws
vii. Investment and Privatization Incentives
viii. Government Procurement
ix. Intellectual Property Rights
x. Competition and Consumer Protection
xi. Final Services
xii. ICT
xiii. Trade in Services
xiv. Governance (Arbitration and Bankruptcy)

The significant legislations that empower these policy instruments comprise of Government Acts and By-laws, Customs and Excise Acts, Company Acts, EAC Customs

[189] Ministry of Trade, *National Draft Policy: Efficient Globally Competitive Economy* (Nairobi: Government of Kenya, 2012), 7.

Management Act, Weights and Measures Act, Trade Descriptions Act, Hotels and Restaurants Licensing Act, Investment Act, Standards Act, Environment Act, Industrial Property Act, Liquor Licensing Act, Animal Disease Act (Sanitary and Phytosanitary [SPS] and Technical Barriers of Trade [TBT]), Public Health Act, among others.[190] Reference to the Annex I will give more details on the trade relating activities with their corresponding implementing government institutions, departments and their legislation to empower the process.

5.3.2 Foreign Trade Policy during Kenyatta Administration (1963-1978)

Kenya's development agenda takes its roots from the Session Paper No.10 of 1965 on African Socialism. This paper was key in the planning of the development agenda for Kenya as it is from here that the then national policy makers and planners introduced Import Substitution policy as the instrument to foster development. Many other African countries had embraced the import substitution process and it therefore made sense for Kenya to leap into the same boat and pursue a similar course. This Session Paper No. 10 emphasized on import substitution with the objective of encouraging the import of inputs, plant, machinery, equipment to ease the production of local goods.[191]

The inducing background to this policy direction was from the British Colonial masters who used Kenya as a producer base for Agricultural products and other raw materials intended for their manufacturing sector and also as a ready market for the finished goods. Due to this reasons, the British colonialists jealously protected Kenya by use of inward looking policies from external competition especially the Asian market with countries like Japan and India exporting

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[190] Ministry of Trade, *National Draft Policy: Efficient Globally Competitive Economy* (Nairobi: Government of Kenya, 2012), 7.
[191] Government of Kenya, *National Export Strategy Implementation Action Plan 2005-2008* (Nairobi: Government of Kenya, 2005), 9.

finished goods to Kenya. This was the birth of the Import Substitution Policy in the evolution story of the Kenyan trade policy formation.

From the first Development Plan of 1964/65 to 1969/70 the Import Substitution Policy (ISP) is credited with the successful industrialization process in Kenya. The impact of ISP was much experience in the Second Development Plan of 1970/71 to 1974/75. The various sub sectors that expanded from this inward looking approach include textile, food and beverage and tobacco. These sectors become the leading indicators in economic growth from 1963 to 1989.

As noted by John S. Wilson and Victor O. Abiola, during the First and Second Development Plans, Kenya achieved praiseworthy economic growth rate as compared to other developing nations at that time. The GDP grew at an average of 6.6% annually and this was attributed by mainly three things; first, an import substation policy that stimulated industrial development which serviced the East African Community (EAC), secondly, good practice of prudent macroeconomic management policies which was an effect of the expanded manufacturing sector and third, the rural development policy of redistribution of land from the white settlers to Africans which in turn increased the Agricultural output significantly from the other non utilized African Agricultural reserves that the white settlers had purposely ignored to develop.[192]

The Kenyatta Administration generally continued to increase the levels of protection measures towards the Manufacturing and Industrial sectors by use of tariffs, quantitative restrictions and an overvalued currency regime which had a negative impact on the other sectors like Agriculture and Exports. The institutional and administration structure in operation for the Import Substitution Policies took presidency into the Third Development Plan of 1974 to 1978.

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[192] John Sullivan Wilson and Victor O. Abiola ed., *Standards and Global Trade: A Voice for Africa* (Washington D.C.: The World Bank, 2003), 3.

To promote the agenda of domestic trade, the Kenyatta Administration planned on empowering the '*Mwanainchi'* – the people, by disbursing loans to small traders and engaging them in training programs. Industrial centers were constructed to stimulate the development of the manufacturing sector with special emphasis in the Agricultural sector where education, research and extension services, infrastructure development in water supply and credit were of prominence.

The measures in place for the promotion of Import Substitution Policy over time became largely unsustainable. As matter of fact, the bureaucracy of the Kenyatta Administration stringently implemented the policies of import bans and controls, foreign exchange allocation and issuance of licenses to a high degree of unsustainable levels which was a burden on the economy. Into this bargain, the first international energy and oil price crisis of 1973 was a basis for declined economic growth and these revealed weakening structural constraints in the economy. The growth rate for Agricultural sector slowed down and consequently exposed the weak incentive system of Import Substitution Policy and its diminishing opportunities of efficient import substitution. But the collapse of EAC in 1977 intensified the failing economic conditions which rather called for an urgent restructure and redesign of trade policies to aid the ailing Kenyan economy.[193] The collapse of the EAC in 1977 ended a framework of joint services of key economic infrastructure in the region. The services included the East African Railway Corporation (EARC), East African Harbor Corporation (EAHC), East African Airways (EAA), the East African Income Department, and the East African Custom and Excise.

As observed by Maureen Were and et al in their empirical evaluation of *Analysis of Kenya's Export Performance*, this resulted to high imports costs and limited market and this was

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[193] John Sullivan Wilson and Victor O. Abiola ed., *Standards and Global Trade: A Voice for Africa* (Washington D.C.: The World Bank, 2003), 5.

corollary to excess capacities and inefficiencies in the government policy structure. The further unsystematic protective policies garbled the resource allocation process; it further constrained foreign competition and restricted technology inflows. By the end of the Third Development Plan, the government came out of its ISP stupor to recognize that there was a need for change of policy. This was clearly noted in the then second and third National Development Plans.[194]

Francis F. Mwega and Njuguna S. Ndung'u in their research studied the Kenyan economic growth and the policies that molded it to point out that the major trend in the ISP was marked with selective controls on bank lending; licensing of foreign exchange transactions; quota restrictions on most imports; direct price control on goods and control on interest rates. According to them, these controls were a measure in response to the inflationary pressure and the control of the balance of payments. However, this controls resulted to major distortions and inefficiencies.[195]

The impact of Kenyatta's inward looking policies posted mixed results i.e. there was rapid development in the early years of his administration, but to the end, the policies failed to achieve and sustain the desired objectives. In the first decade after Independence, there was a high industrial growth with the manufacturing sector growing averagely at 8% as compared to the Moi Administration years as indicated in the table below. Industries that recorded soaring rates of rapid development were plastics, steel rolling and galvanizing, pharmaceuticals, electoral cables, vehicle assembly, industrial gases, ceramics. Industries like textile, food processing leather tanning and footwear are among the few that expanded to produce a wide range of goods and absorbed many people in terms of employment.

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[194] Maureen Were, et al., *Analysis of Kenya's Export Performance: An Empirical Evaluation* (Nairobi: Kenya Institute for Public Policy Research and Analysis, 2002), 13.
[195] Benno J. Ndule, et al, ed., *The Political Economy of Economic Growth in Africa 1960-2000 vol. 2* (Cambridge: Cambridge University Press, 2008),341.

Table 5:2 Showing Growth Rate of Selected Economic Indicators 1966-1994[196]

Growth Rate %	1966-70	1970-75	1975-80	1980-85	1985-90	1990-94	1994-98
Industrial	-	8.6	8.7	12.9	7.3	9.6	17.4
Manufacturing	6.2	5.2	7.8	3.7	5.0	2.5	0.7
GDP	11.5	11.8	12.2	10.4	11.3	12.1	12.4

Source: Kenya's Economic Survey and Statistical Abstracts (various issues)

Charles C. Soludo et al continue to observe that the Kenyatta's Import Substitution Policy was strongly biased against exports and conversely import substituting industries had a lower capacity of creating new jobs and brought into play inappropriate capital intensive equipment which caused the manufacturing sector to profoundly depend on heavy doses of imported equipment and raw materials. Furthermore the industrial sector failed to integrate itself to the rest of the economy due to lack of emphasis in the manufacture of consumer goods at the expense of capital and intermediate goods.[197]

In 1976, the Export compensation scheme was established to promote the exports. However, it is of importance to note that the export trade policy of the Kenyatta Administration was skewed only to commodity production of Tea and Coffee which indicated that there as a poor drive for export promotion across the sector and consequently this accounted for the poor

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[196] Charles C. Soludo, Osita Ogbu & Ha-Joon Chang ed., *Politics of Trade and Industrial Policy in Africa* (New Jersey: Africa World Press, 2004), 211.
[197] Charles C. Soludo, Osita Ogbu & Ha-Joon Chang ed., *Politics of Trade and Industrial Policy in Africa* (New Jersey: Africa World Press, 2004), 212.

export performance of Kenya's manufacturing sector and the orientation towards the consumer goods. However, the relative rapid real growth in the 1970s is mainly attributed to the sharp rise of the international prices for Tea and Coffee but this could not impinge on considerable impact as compared to what the shocks of oil crisis of 1973 which led to severe problems in the Balance of Payment and the eventual collapse of the EAC.

From the table below, it is clearly observed that the trade regime during the Kenyatta Administration was an inward looking oriented policy regime to an extent of mostly exporting the Agricultural products Coffee, Tea, and Petroleum products. The table reflects a typical trade regime whose policies don't promote a vibrant export promotion from the traditional industries.

Table 5:3 Showing Principal Commodities as Percent of Total Value of Export

Year	Coffee (a)	Tea(b)	Horticulture (c)	Petroleum Products (d)	Total (a+b+c)	Total (a+b+c+d)
1962-63	26.5	13.3			**39.8**	**39.8**
1964-66	31.6	13.6		8.2	**45.2**	**53.4**
1967-69	26	16.3		12.2	**42.3**	**54.5**
1970-72	20	12.5		13.3	**32.5**	**45.8**
1973-75	18.9	10.1		16.9	**29**	**45.9**
1976-78	35.2	14		16.4	**49.2**	**65.6**
1979-81	24.1	13.4		26.5	**37.5**	**64**
1982-84	26.3	19.6		21	**45.9**	**66.9**
1985-87	31.9	21.4	9.5	12.6	**62.8**	**75.4**
1988-90	21.6	24.3	12.2	11.2	**58.1**	**69.3**
1991-93	13.6	25.8	11.5	13	**50.9**	**63.9**
1994-96	15.2	19.8	11.1	5.7	**46.1**	**51.8**
1997-99	12.1	26.2	13.4	7.5	**51.7**	**59.2**
2000	9.8	29.3	17.7	7.9	**56.8**	**64.7**

Source: Kenya's Economic Survey and Statistical Abstracts (various issues)

5.3.3 Foreign Trade Policy during the Moi Administration (1978-2002)

Into the Moi Administration, enters the second phase of Kenya's trade policy evolution. With a failing economy that was greatly driven by Import Substitution Policies, the Moi Government recognized that there had to be a change in policy. The Government was obligated to seek financial aid from the IMF and World Bank. This was the genesis of Structural Adjustment Policies since the Loan from IMF and World Bank had attached conditions. The Government had to promote nontraditional exports, liberalize its market systems, and reform in the International Trade regulations. This is when the Moi Administration signed its first Structural Adjustment Loan of the 1980.[198]

It is because of the poor implementation of the Structural Adjustment Programs (SAPs) attached to the IMF and World Bank Loan that brought into play Session Paper No.1 of 1986 on Economic Management for Renewed Growth found presidency. It was a paper that had a strong prominence on a change from dependence on Import Substitution and Protectionism to promote the industries to manufacture products for export with reorganization in the agenda of improving efficiency in government operations, stimulating private investment and to foster an increase in the sector's foreign exchange earnings.[199]

The SAPs created a way forward for the reduction of the role of the Public Sector institutions which the government bureaucracy had jealously controlled and coordinated the trade distribution networks. Inefficiency in operations had clogged the policy implementation process such that SAPs in effect introduced the Economic Liberalizations to pave way for the private sector in the management and coordination of the trade facilitation and promotion

[198] John Omiti, Nicholas Waiyaki and Verena Fritz, *Trade Policy Making Process in Kenya: The Institutional Arrangements and Interaction Actors* (Nairobi: KIPPRA and ODI, 2007), 19.
[199] Ministry of Trade, *National Draft Policy: Efficient Globally Competitive Economy* (Nairobi: Government of Kenya, 2012), 5.

activities. The ISP trade regime was an era where there was minimal role played by the private sector, the civil society or even donors. This was a paradigm shift from inward looking policy to liberate the economy and embrace outward looking policy as the stratagem for development.

The role of the private sector in the development agenda of the Government was emphasized in its Fifth Development Plan of 1984-88. The government under great pressure from International governments, multilateral donors and agencies promised to liberalize the economy. This was aimed at promoting the role of the stakeholders like the private sector, civil society, trade unions and the public at a large to play a role in governance and policy formulation.

5.3.3.1 Structural Adjustment Policies

Some of the policies that the Moi Government embraced with the objective of moving away from the then inward looking policies to liberalized and export let growth included[200]:

i. Promotion of nontraditional exports
ii. Liberalization of market systems i.e. training, credit and information transfer
iii. Reform of International trade regulations i.e. government support for regional and international trade
iv. Tariffication of quantitative barriers i.e. reduction and dispersion of tariffs.
v. Export promotion programs mainly to promote the manufacture export goods i.e. Manufacturing Under Bond (MUB) of 1988, Export Processing Zones (EPZs) of 1990[201]
vi. Duty and VAT Exemption Schemes

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[200] Maureen Were et al., *Analysis of Kenya's Export Performance: An Empirical Evaluation* (Nairobi: Kenya Institute for Public Policy Research and Analysis, 2002), 14.

[201] Mwangi S. Kimenyi et al, ed., *Restarting and Sustaining Economic Growth and Development in Africa* (England: Ashgate Publishing Limited, 2003), 87.

vii. Export Incentive Schemes, i.e. Green Channel, Export Guarantee and Credit Scheme, Kenya Trade Authority, Export Promotion Council, Export Promotion Program Office

The Export Promotion Programs were introduced with the objective of supporting the labor intensive manufacturers particularly the textile and tanning industries for production of garments and foot wares for the international markets. The MUB and EPZ policy encouraged the growth of new industries and investments in manufacturing sectors while the Duty and Vat exemption schemes were intended for promotion of the existing manufactures.

It is of significance to point out that even though the government introduced a number of various export promotion incentives and programs with the intention to promote foreign trade through the SAPs, the poor implementation process of these policies was a major hindrance to their effective and efficient performance. Somehow, these incentives were not dynamic in nature in comparison to the import policy and thus they were less attractive. Further more, the poor coordination in the process of implementation rendered the SAPs weak for them to mobilize resource movement and spur efficient allocations to effect changed and development.

5.3.3.2 Import Policy

The import policy during the 1980s largely remained the same from the previous trade regime of the Kenyatta Administration. As observed earlier, the Kenyatta Bureaucracy had effectively implemented the ISP and this still in place to protect the economy. Some of the policies that were still in operation in the 1980s include[202]:

i. Protection accorded to domestic industries

[202] Maureen Were et al., *Analysis of Kenya's Export Performance: An Empirical Evaluation* (Nairobi: Kenya Institute for Public Policy Research and Analysis, 2002), 14.

ii. Exchange rats biased against the exports
iii. Foreign exchange controls
iv. Administrative delays
v. High transactions costs
vi. High costs of imported capital goods

The above named policies coupled with poor government macroeconomic practices worked against the meager exports profits and hence there was an imbalance in the terms of trade. The autocratic rule of the Moi Administration too had a bearing in the performance of the economy especially in the light of policy coordination and implementation process.

5.3.3.3 Trade Liberalization during Moi Administration

The trade liberalization era during the Moi Administration was heavily emphasized by the Fifth Development Plan (1984-88). In this plan, the role of the private investment was highlighted in light to industrial development. In as much as the government planned to support export oriented industries, there was a key policy developed on the promotion of nontraditional products for export markets. This was a concerned since the Kenyan Industry and manufacturing sector was poor endowed in the production of value added consumer and intermediate goods, which could be exported to the international markets.

Session Paper No.1 of 1986 'Economic Management for Renewed Growth' found presidency in the Fifth Development Plan to emphasis the importance of the Kenya Manufacturing and Industrial sector to be exposed to the international competition. The paper was also in support of promotion of the non traditional products for export markets. Further, the government embraced an open approach to moving away from the ISP policies of restrictive import licensing and high tariffs to bring in incentives that would sponsor exports such as the

Export Promotion Strategy. Some of these incentives included : Manufacturing Under Bond (MUB) –duties and taxes on imports used for manufacturing were waived, General Import Duty and VAT exemption scheme; The Green Channel System – to fast track administration approvals; Government financed export credit guarantees; and a proposal for a Preferential Trade Area (PTA). [203]

The progressive liberalization process of the trade policy coupled with the macroeconomic reforms and regional integration the led to a surge in exports from 1988 to 1992. This surge was due to the trade activities with the PTA partners and the wide Common Market for East and Southern Africa (COMESA) to which the major exports of Kenya were traded to. As indicated by Graham Glenday and David Ndii, the PTA market absorbed over 100% of the cumulative increase in processed exports in 1993-98 period while the Non COMESA markets accounted for 95% of increase in primary goods exports.[204]

The policy reforms of liberation in Kenya during the Moi Administration are generally accepted to be seeking to enhance trade liberalization and to inculcate institutional reforms in the government in regards to privatization and governance. Some of these trade liberalization reforms include: competition enhancing reforms in both the domestic and external trade markets. This consisted of the removal of quantitative restrictions, the reduction of tariffs and engagement of flexible exchange rate process. Some of the exchange transactions and exchange rate policy reforms comprised of the introduction of Foreign Exchange Bearer Certificates, initiation of export earnings retention schemes, the merging of official exchange rate with that of the inter-bank foreign exchange rate and the removal of exchange controls on current and capital account

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[203] Walter Odhiambo and Gloria Atieno, *Trade Policy Reforms and Poverty in Kenya: Processes and Outcomes* (Nairobi: KIPPRA, 2005), 7.
[204] Mwangi S. Kimenyi et al, ed., *Restarting and Sustaining Economic Growth and Development in Africa* (England: Ashgate Publishing Limited, 2003), 87.

transactions. Reforms on the reduction of barriers to foreign ownership and investment along with the establishment of EPZs were of key in facilitating the repatriation of profits and dividends by foreign investors.

The financial sector reforms that were instituted undertook on eliminating the distortions in the credit market. Attractive interest rates had the objective of facilitating the efficient use of the available credit resources. The Banking Act was amended in 1989 to strengthen regulation and supervisory in the sector. Further reforms on the Capital Market Authority were aimed to further liberalize the financial and markets. On the domestic trade policy reforms, price controls on manufacturing and agricultural products were done away with. This is categorically observed by Graham and David by stating that between 1983 and 1991, the price controlled commodities under the general order had dropped from 56 to 6 and 87 to 29 under the specific controlled order.[205]

The institutional change oriented policy reforms focused on the Parastatal sector reforms. Many of these state bodies were poorly managed which required subsides from the government from time to time and hence budget deficits. This provided the rationale for reforms to tune up governance and thus process of liberalization with the objective of improving efficiency in service delivery, and to intensify the opportunities for the private sector. This course was to be achieved by restructuring the strategic government enterprises to raise their productivity and efficiency and by privatizing the non-strategic parastatals.

It is in the Sixth Development Plan of 1989-93 that more emphasis was accorded in the process of trade liberalization process. To begin with, the Plan addressed the need for regional development by focusing on inducing positive externalities to stimulate enhanced and balanced

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[205] Mwangi S. Kimenyi et al, ed., *Restarting and Sustaining Economic Growth and Development in Africa* (England: Ashgate Publishing Limited, 2003), 45.

economic development. The Plan also recognized that some of the trade policies needed to be readdressed since the export incentives already in place from the previous Plan was not yet fully implemented. Therefore, the Government pledged to enforce the incentives to be operational. As regards to the export promotion strategy, the government through the Plan as an instrument of action was firm on the following stratagem for creating an enabling environment for export led growth. They are[206]:

i. Further emphasis on institutional reforms;
ii. Reduction and restructuring of tariffs
iii. Abolition of export duties;
iv. Introduction of export retention schemes;
v. Improvement of foreign exchange and insurance regulations;
vi. The establishment of National Export Credit Guarantee Corporation.

By the time the Seventh National Development Plan of 1993-97 was rolling in, all restriction on current account and capital accounts were lifted. This resulted to a surge in the dramatic rise in the exports from 13% of GDP in 1992 to over 20% of GDP in 1993-96. The plan recommended further changes to make investments in bonded manufacturing Industries and EPZ more attractive. To throw more light to this, John Omiti and Nicholas Waiyaki indicate that by 1994, 40 enterprises had been cleared by the Government to operate in the EPZs and that the only barriers existing in International trading was the countervailing duties.[207]

[206] Marilyn Carr and Mariama Williams, ed., *Trading Stories: Experiences with Gender and Trade* (United Kingdom: Commonwealth Secretariat, 2010), 16.
[207] John Omiti, Nicholas Waiyaki and Verena Fritz, *Trade Policy Making Process in Kenya: The Institutional Arrangements and Interaction Actors* (Nairobi: KIPPRA and ODI, 2007), 20.

5.3.3.4 Liberalization under Regional and International Partners

It is of significance to point out that during the Moi Administration, the process of liberalization and adoption of outward looking policies was undertaken extensively. The Moi's Administration was also characterized by enormous influence for these International partners especially the World Bank and IMF in regards to the quick implementation of trade reforms more in particular after the commencement of the Structural Adjustment Policies that were attached to the 1981 Loan agreement. Therefore, in 1995 Kenya was among the founding members of the World Trade Organization (WTO) and this made Kenya by default to be a signatory member to all WTO agreements such as General Agreement on Trade and Tariffs (GATT), Agreement on Agriculture (AOA), General Agreement on Trade in Services (GATS), Agreement on Textiles and Clothing (ATC), Agreement on Trade-Related Intellectual Property Rights (TRIPS).

Under the regional trade initiative, Kenya enhanced integration efforts with regional partners in the East African region as well as the whole of African. To begin with the East African region, trade relations were commenced under the umbrella of East African Community in 1999 with its founding member states Uganda and Tanzania. This trading block brings the countries together on issues dealing with economic, social and political cooperation. On the other hand, the COMESA trading relations started in 1984 under the Preferential Trade Area structure. Another body formed though not on the direct linkages of trade is Inter-Governmental Authority on Development (IGAD) of 1986 with the mandate to facilitate regional development among the member states.

5.3.4 Foreign Trade Policy during the Kibaki Administration (2002-2012)

The trade policy under the Kibaki Administration picks up from a long autocratic political rule of President Daniel arap Moi. Though there were political constraints, it is evident that there were extensive reforms in the trade policies all through the more than two decades of his presidency. Therefore, President Kibaki inherited a trade regime that had undergone progressive liberalization and one that had experienced limited success in stimulating economic growth. It is worthy to mention though that this process of liberalization resulted to Kenya engaging itself in economic, social and as well as political corporation with Kenya's regional trading partners as well as the international community through the Globalization process.

The Development Plan under President Kibaki's NARC Government launched the Economic Recovery Strategy for Wealth and Employment Creation 2003-2007 (ERS). This plan consisted of a trade policy framework that highlighted on trade promotional strategies as well as regional and international trade parameters that would seek out to guarantee that maximum trade benefits were tenable. The objective of the Plan was to reverse a past of slow and stagnated economic growth through job creation with a blend of sound macroeconomic practices, good governance and efficient and effective delivery systems that will foster growth and development. These objectives were to be achieved with a background of how to tackle the prevalent structural problems of a weak economy in an era of Globalization seeking to lay a strong framework for sustained economic and social progress.[208]

Export expansion as a constituent of trade was identified in the ERS as a vehicle to accelerate the economic development prospects of Kenya. Therefore, the NARC government established a National Export Strategy in 2004 with the objective to stimulate and expand

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[208] Anyang' Nyong'o, *A Leap into the Future: A Vision for Kenya's Socio-political and Economic Transformation* (Nairobi: African Research and Resource Forum, 2007), 10.

international trade. The NES's mandate was to efficiently implement the government regulations and processes to ensure that the movement of goods and services especially at the borders was effectively managed to facilitate trade transactions at the least of cost and time. Hence this will remove the impediments that hinder the smooth flow of goods and services. Further, NES will therefore make Kenya a preferred destination for trade for business.

From the table 5.4 below, it is evident that the ERS had an impact in the exports of the Kenya economy. For example, there was a significant burst of export activities between the years 2002 and 2004. With the exception of exports to the Australia and Oceanic trade regions which had a negative growth, the rest of the export destinations recorded a sudden burst in export increase. This is attributed to the policy of ERS that was launched by the Kibaki Administration in 2003. This is further emphasized by the clear increase in the total exports between the years of 2002 and 2004. As indicated, it can be observed that in 2002 the total exports were valued at KSh. 169,241 million while in 2004, it stood at KSh. 214,793 million. This recorded a surge of 26.9% increase in total exports.

Another important observation from the table 5.4 is a general trend of increased exports from Kenya. There is a steady rise in exports from the year 2000 with an export value of Ksh. 134, 527 millions through to Ksh. 2,719,133 million 1921.3%. It is also evident that Kenya's regional trading partners in the EAC and COMESA contribute significantly to the Kenya exports. As observed, the total exports to African region surpass the other exports in the rest of the export destinations. The total Africa exports for the 10 years stood at Ksh. 1,270,905 million contributing 46.74% followed by the exports to Europe valued at Ksh. 778,070 million with 28.61% and then exports to Asia at Ksh. 453,638, which is 16.68%.

Table 5:4: Total Kenya Exports by Destination, 2000-2010

KSh Million

DESCRIPTION	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total Exports	% Contribution
TOTAL WEST. EUROPE	41,191	41,588	48,125	54,877	58,982	64,316	69,439	76,846	94,685	94,707	101,689	**746,445**	**27.45%**
TOTAL EAST EUROEPE	613	910	1,352	1,702	1,951	2,859	1,976	2,381	3,716	6,268	7,734	**31,462**	**1.16%**
TOTAL EUROPE	41,804	42,499	49,478	56,579	60,933	67,175	71,415	79,277	98,513	100,975	109,422	**778,070**	**28.61%**
TOTAL AMERICA	3,588	4,256	4,107	3,880	6,066	6,014	18,288	20,520	22,054	18,961	24,387	**132,121**	**4.86%**
TOTAL AFRICA	61,935	72,513	83,085	84,653	101,809	120,327	108,306	124,029	162,541	162,732	188,975	**1,270,905**	**46.74%**
TOTAL MIDDLE EAST	6,583	8,938	7,065	6,604	7,465	8,824	9,714	13,734	15,932	19,300	30,525	**134,684**	**4.95%**
TOTAL FAR EAST	15,657	16,456	18,849	21,177	25,574	28,226	28,201	32,493	41,310	39,935	51,075	**318,953**	**11.73%**
TOTAL ASIA	22,241	25,395	25,914	27,781	33,038	37,050	37,915	46,227	57,241	59,236	81,600	**453,638**	**16.68%**
AUSTRALIA & OCEANIC TOTAL	615	835	559	747	618	893	723	1,232	680	914	759	**8,575**	**0.32%**
ALL OTHER COUNTRIES, AIRCRAFTS AND SHIP STORES TOTAL	4,345	2,093	6,099	6,639	12,329	12,739	11,147	3,340	3,284	2,130	4,649	**68,794**	**2.53%**
TOTAL EXPORTS	**134,527**	**147,590**	**169,241**	**183,154**	**214,793**	**244,198**	**250,993**	**274,947**	**344,947**	**344,949**	**409,794**	**2,719,133**	**100.00%**

Source: Various Economic Surveys of Kenya

A growing need for important services in regional and international trade and their consequent impact to economic and social development prompted the NES to identify a few service and goods products of great potential for export that could be exploited in the process of export promotion strategy. These included; Freeport services at the points of entry for goods and services; professional services in regards to quality of service delivery; transport services with ultra modern infrastructure; energy to drive the economy; the role of Information and Communication Technology; improved financial services; traditional goods like commercial crafts; meat and meat products as well as leather and leather products.[209]

In the Kibaki Administration, the trade policy formulation and implementation process was largely guided and influenced by Kenya's membership in trading agreements. These trade agreements are either bilateral or multilateral. To bring this into perspective, in the EAC framework, the tariff structure is now custom made to the Common External Tariff (CET). Conversely, the multilateral bodies like WTO have also influenced the trade trajectory story of Kenya due to the agreements made between Kenya and this trade governing institution.

Some of the trade policies and measures that were considered for implementation through the ERS include the following[210]:

i. Development of export stratagem that considers all sectors, revision of existing export development incentives, promotion of export market diversification to reduce vulnerability to the making of unilateral decisions over trade matters.

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[209] Ministry of Trade, *A Handbook for Importing and Exporting in Kenya* (Nairobi: Government of Kenya, 2005), 7-9.

[210] Ministry of Planning and National Development, *Kenya: Economic Recovery Strategy for Wealth and Employment Creation* (Nairobi: Government of Kenya, 2003), 27-28.

ii. The launch of the Investment Code that consolidates all incentives, property rights' protection, and institutional arrangements with the objective of reducing the red tape and cost of bureaucracy.
iii. Incentive schemes of VAT and Duty exemptions or remissions on imported goods.
iv. Expansion and strengthening of private sector partnerships in negotiations of trade protocols and business related issues.
v. Strong surveillance on transport imports to avoid diversion
vi. Identification of zones suitable for SME incubation
vii. Improve of market access abroad especially in the European Union and Africa
viii. Development of an Industrial Master Plan to identify institutional, infrastructural, and incentives to promote Industrialization
ix. Active participation in regional and international integration and cooperation schemes e.g. EAC, COMESA
x. Build capacity in order to monitor international trade malpractices to effectively apply anti-dumping and countervailing measures.
xi. Benchmark key resource based industries to international competitors and structure recovery efforts to foster international benchmark prices

Some of the Import/Export incentives trade policy provided by the Kibaki Administration to encourage trade to engage in foreign trade include: Duty drawback incentive provided by the EA Customs Management Act which services the drawback of import duty on goods imported the manufactured; Tax Remission for Exports Office (TREO) Scheme that promotes the local manufacturers to export their products by remitting duty and Vat on the raw materials used for

the manufacture of export goods; advanced incentives services by EPZs by providing incentives that facilitate and provide aftercare services to the already existing and new investors. These incentives include Fiscal Incentives, Procedural Incentives, and Physical Infrastructural Benefits among many others.[211]

From Table 5, the imports of the Kenyan economy from 2000 to 2010 are shown. The table depicts the value of imports from the various trading entities that Kenya engages with such as Europe, America, Middle East, Asia, Australia and the Oceanic regions as well as the rest of the other un categorized regions.

[211] Ministry of Trade, *A Handbook for Importing and Exporting in Kenya* (Nairobi: Government of Kenya, 2005), 13-15.

Table 5:5: Total Kenyan Imports by Country Of Origin, 2000 to 2010

DESCRIPTION	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total Imports	% Contribution
Total E Union	75,653	72,028	83,090	66,840	87,159	93,500	116,351	121,771	135,201	140,846	171,652	**1,164,091**	**21.14%**
Other W Europe	3,553	5,433	4,077	5,304	5,722	7,820	10,392	9,309	13,652	10,700	13,779	**89,741**	**1.63%**
Total W Europe	79,205	77,461	87,167	72,143.38	92,881	101,321	126,743	130,416	146,847	151,546	185,431	**1,251,161**	**22.73%**
TOTAL E EUROPE	5,082	2,131	1,688	5,499	5,675	5,564	8,791	10,027	17,606	20,331	18,484	**100,878**	**1.83%**
TOTAL EUROPE	84,287	79,592	88,854	77,642	98,555	106,884	135,534	141,095	166,459	171,878	203,914	**1,354,694**	**24.61%**
Total America	14,785	45,509	19,144	18,173	24,458	51,774	32,327	55,448	43,577	64,916	55,672	**425,783**	**7.73%**
TOTAL AFRICA	22,746	31,749	28,873	37,318	52,435	61,410	63,613	72,039	85,991	104,672	114,920	**675,766**	**12.27%**
TOTAL MIDDLE EAST	73,505	68,878	51,315	75,440	100,228	106,804	119,777	129,853	183,900	148,874	168,726	**1,227,300**	**22.29%**
TOTAL FAR EAST	49,164	60,897	66,623	71,145	85,818	100,259	166,515	204,256	284,870	293,251	399,195	**1,781,993**	**32.37%**
TOTAL, ASIA	122,669	129,775	117,939	146,584	186,046	207,063	286,292	334,108	468,770	442,125	567,921	**3,009,292**	**54.66%**
TOTAL AUSTRALIA & OCEANIC	2,679	3,422	2,018	1,731	1,462	1,628	3,092	1,871	1,792	4,354	3,907	**27,956**	**0.51%**
All Other Countries	638	62	882	395	1,600	1,980	626	569	155	152	871	**7,930**	**0.14%**
GRAND TOTAL	**247,804**	**290,108**	**257,710**	**281,844**	**364,557**	**430,740**	**521,484**	**605,112**	**770,651**	**788,097**	**947,382**	**5,505,489**	**100.00%**

From the table 5.5 above, it is observed that Kenya imports more largely from the Asian region as compared to the other trading areas. Considering the total imports for the 10 years, Kenya has imported from the Asian region imports worth of Ksh. 3, 009,292 Million which is a 54.66% contribution of the total imports. This is closely followed by the Far East region with a 32.37% contribution to the total imports valued at Ksh. 1,781,993 million. Europe and the Middle East follow closely with contribution percentages of 24.61% and 22.29% respectively.

Considering table 5.6 below, key indicators of International trade constitute Domestic Exports and Re-exports to give the total figure for Exports whereas the Imports are comprised by imports made by the Commercial sector and the Government. It is of significance to note that for the period under review, the volume of exports expanded by 204.62% to stand at Ksh. 409,793.7 million in 2010 as compared to Ksh.134, 527 million in 2001. During the review period, it is also observed that the import bill grew by 293.42% from Ksh. 240, 804 million in 2001 to Ksh. 947,381.90 million in 2010. Further, the balance of trade under the 10 year period, is observed to have widened from a deficit of Ksh. 113, 277 million recorded in 2001 to a deficit of Ksh. 537, 588.30 million translating to an 374.58% increase.

Table 5:6: Balance of Trade 2000 to 2010

Ksh Million

DESCRIPTION	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EXPORTS (f.o.b):											
Domestic Exports	119,764	121,434	131,394	136,709	159,048	193,692	228,181	261,685.1	322,659.8	323,571.4	385,665.7
Re-exports	14,763	26,156	37,889	46,445	55,745	50,506	22,813	12,972.5	22,286.9	21,378.4	24,128.0
Total	**134,527**	**147,590**	**169,283**	**183,154**	**214,793**	**244,198**	**250,994**	**274,657.6**	**344,946.7**	**344,949.8**	**409,793.7**
IMPORTS (c.i.f):											
Commercial	*240,473*	285,107	254,006	278,838	361,293	428,179	510,792	597,877	763,704.2	780,323.4	934,905.5
Government	7,331	5,001	3,704	3,005	3,264	2,561	10,691	7,235	6,947.0	7,773.3	12,476.4
Total	**240,804**	**290,108**	**257,710**	**281,844**	**364,557**	**430,740**	**521,483**	**605,111.8**	**770,651.2**	**788,096.7**	**947,381.9**
BALANCE OF TRADE	**-113,277**	**-142,518**	**-88,427**	**-98,690**	**-149,764**	**-186,542**	**-270,489**	**-330,454.3**	**-425,704.5**	**-443,146.9**	**-537,588.3**
TOTAL TRADE	**382,331**	**437,698**	**426,993**	**464,997**	**579,350**	**674,938**	**772,477**	**879,769.4**	**1,115,597.8**	**1,133,046.5**	**1,357,175.6**
COVER RATIO* (in percentage)	**54**	**50.9**	**65.7**	**65.0**	**58.9**	**56.7**	**48.1**	**45.4**	**44.8**	**43.8**	**43.3**

Source: Various Economic Surveys

5.4 India's Trade Policies

Considering that India has been in existence from the Ancient of times through the Medieval ages to now in the Modern times, it is of importance to note that India has been a major trader of textiles, food grains, species, and metal wares from antiquity to date.[212] This is because of the general acceptance that India is considered as one of the oldest civilization. Even more to this knowledge, India had been a trading partner to the ancient civilization the Egyptians, Mesopotamia and even the might Roman Empire. But to bring this into perspective and for the consideration of the present study, trade and more in particular foreign trade in India will be considered from the late 19th Century to date.

Just like Kenya, India was a British colony and therefore the trade pattern and policies employed by the British then were similar. It was business as usual for the British to use India as a base for the production of raw materials for their Industrial interests in the United Kingdom. To this end, the traditional industries of India handcrafts suffered stiff competition and therefore could not be developed. More to that, the British colonial powers were using India as a market for their manufactured goods owing to the fact that India had a huge demand created by the huge population.

At Independence in 1947, the planners and policy makers of the Indian Economy under the able leadership of Jawaharlal Nehru recognized that there was a need for policy change in regards to foreign trade. This was consequent to the reality that there was a huge imbalance in the balance of payments of the Indian economy due to the high imports of the British manufactured goods. With a poor industrial base, and with trade relations to only Britain and the Commonwealth countries, there was need for change of policy was of great urgency to suit the needs of a developing India. India had been colonized for over one

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[212] Mahesh Prasad, *India's Foreign Trade from Antiquity to Date* (Delhi: Kalpaz Publications, 2011), 33.

hundred and fifty years by the British and had also had been used to service the interests of England in the two World Wars.

Therefore, the trade pattern that was embraced just after Independence was an 'Inward looking' trade policy. This was a policy that promoted the production of goods and services for the local market and not exports. The objectives of this policy was to extensively develop the Industrial base for the economy so that among many other things, the high unemployment and poverty could be addressed, create new capacities of production as well as increase the production capacities of the already existing industries. This is observed by Dr. Bimal Jalan that the import liberalization policy would more likely generate high inputs for the domestic use and that a favorable impact on the exports would be realized after sometime to indicate that India's balance of payments will deep further.[213]

5.4.1 Development of India's Foreign Trade Policy

We shall now appraise briefly India's foreign trade policy to disclose the trends of development of the policies from post independent India to date. This examination will help us appreciate the rationale as why and what policies were employed in the effort to induce nation growth and development.

To begin with, the government set up a Planning Commission in 1950 with a mandate to chart up the new course of development of the country. An extensive assessment was done by the planners and it was decided that a mixed economy approach would be embraced but with the government to play a key role in large scale industries, railways, waterways, services, minerals and resources and other public sectors. The private sector was also accorded a minimal role in the growth and development of the Indian economy. Therefore,

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[213] Mahesh Prasad, *India's Foreign Trade from Antiquity to Date* (Delhi: Kalpaz Publications, 2011), 45.

the government and the Planning Commission had a leading role in the design and implementation of the trade policies of the country.

5.4.1.1 Phase I (1948-49 to 1950-51)

India did not have a Development Plan in place at the dawn of Independence. The years between 1947 to 1951 posted trends of high imports than there were exports. The rationale for this trend is put in perspective with the observations of Mustafa to be[214]:

i. Pent up demands of the war and the post war period as a consequence of various controls and restrictions
ii. The shortage of food and basic materials like jute and cotton as a result of the partition
iii. The rise in the imports of machinery and equipments or capital goods to meet the growing demand for hydro-electric and other projects started during the same period

It is of significance to point that the high imports trends of this nature were consequent to the fact that the United Kingdom had placed restrictions on the utilization on the sterling balance hence India had to continue with the already implemented wartime controls. It is at this period that India too had to devalue her currency because of the adverse balance of payments with the dollar trading partners.

5.4.1.2 Phase II (1951-52 to 1956-56)

The second phase of the trade policy of India is in the First Development Plan period. It is during this period that the programs of Industrialization were in full flight and therefore it experienced a surge in imports of capital goods to provide for the capacity of the new

[214] A. Mustafa, *Foreign Trade Finance and Documentation* (New Delhi: University Science Press, 2010), 5.

industries. This was a clear indication that in as much as the industry sector was growing due to the importation of the capital goods, the traditional industries were taking a severe beating if not failing to develop in regards to technological expertise.

The Second Development Plan experienced adverse effects in the balance of payments. This was unfavorable due to the inward looking policies that had been adopted for the sake of Industrial development. Datt and Sundharam high light these negative balances of payments were caused due to[215]:

i. The heavy importation of capital goods directed to Industrialization program
ii. The failure of the agricultural production in regards to offsetting the demand for food and raw material fundamentally caused by the expanding industry and a growing population
iii. The lack of capacity for the economy to increase its exports
iv. The constraint of maintaining minimum imports for a developing economy

It is of significance to point out that it is in the Second Development Plan that liberalization of foreign trade policy was implemented with import licenses being granted copiously. The Indian exports at that time the traditional products namely tea, jute and cotton textiles were facing stiff competition from without. On the other hand, Industrialization had not yet picked up to support the manufacturing of products for exports and therefore, export promotion policies were adopted. Some of these policies comprised of the reduction of export duties, elimination of export quotas and the relaxation of export controls. All this policies were adopted with the aim of developing and diversifying the economy.

5.4.1.3 Phase III (1956-57 to 1966)

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[215] Ruddar Datt and K.P.M Sundharam, *Indian Economy 58th ed*. (New Delhi: S. Chand & Company Ltd, 2008), 749.

The third phase of the Indian trade policy experienced reorientation to implement very restrictive import policy and tight import controls. This was a result of the implementation of the previous import policy measures that had upshot the imports to cause corrosion in the Indian foreign reserves. The trade policy patterns during this period showed a trend that lacked dynamism and therefore they were similar to previous trends. However, a vigorous expansion of export promotion and diversification export products remained to be key in the foreign trade agenda. This was given a push with the formation of the Mudaliar Committee of 1962 that proposed an extensive revision of the trade policies. The committee gave more emphasis to the captive creation of Industries of local and export oriented products and also recommended a raise in the restriction on the importation of non essential products.[216]

5.4.1.4 Phase IV (1966 to 1975)

It is in 1966 that the story of Indian foreign trade is marked for the first time with the devaluation of the Indian the rupee. The devaluation of the rupee was a move based on the ongoing unfavorable balance of trade and balance of payments, the corrosion of India's foreign reserves and negative effect of the huge loans from the IMF. Further, the recommendations by the Mudaliar Committee had not brought the desired results. Therefore, the devaluation of the rupee was aimed at among other things, reducing the value of imports, to promote the exports and correct the adverse balance of trade and balance of payments.

The process of rationalization of the Indian rupee was followed by intensified efforts liberalization which brought a mixed orientation of export-import policies though with more emphasis for export promotion. As pointed out by Panchamukhi, some of the policies implemented in the fourth phase included the withdrawal of export subsides, import entitlements, and imposition of export taxes. The other policies enforced were the restrictions

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[216] Ruddar Datt and K.P.M Sundharam, *Indian Economy 58th ed.* (New Delhi: S. Chand & Company Ltd, 2008), 759.

on foreign capital inflows, indigenous content conditions, import licensing among several others on the liberalization process.[217]

It is important to point out that a series of events of external nature in this period played a role in the determination of the trade regime. The Bangladeshi War of 1971 that was followed by poor agricultural performance due to bad weather contributed to the rising of inflation rate in the economy. The collapse of the Bretton Wood System of fixed exchanged rates in 1971 coupled with the shocks of world oil crisis in 1973 all were contributing factors to the dynamics of trade policy regime.[218]

5.4.1.5 Phase V (1975-76 onwards)

The trade regime of the third phase was largely extended into the fourth phase. The process of liberalization continued though with tight implementation of Quantitative Restrictions extended from the previous regime. It is of importance to indicate that two important three-year export-import policies were introduced in the years 1985-88 and 1988-91 respectively. These policies had the design of giving stability to the general trade policy by the removal of a number of intermediate goods from Quantitative Restrictions to Open General License (OGL) of which many were non competitive with no local substitutes.

Some of the objectives of the import-export policy consist of policies that would furnish supply for momentum to exports; stimulate the growth of indigenous industry; facilitate the optimum exploitation of the country's natural resources with a special emphasis in human resource and agriculture; to speed up the adoption of technology in the processes of export and energy conservation; offer support to export oriented manufacturing industries; and to further effect all possible saving on imports. The import-export policy commonly

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[217] V.R. Panchamukhi, *Trade Policies of India: A Quantitative Analysis* (Delhi: Concept Publishing Company, 1978), 36.
[218] Rajesh Chadha et al, *The Impact of Trade and Domestic Policy Reforms in India: A CGE Modeling Approach* (USA: The University of Michigan Press, 1998), 13.

known as The Exim Policy was directed to further liberalize the trade policy since it was highly protected and regulated.

There are three committees that principally contributed to the trade policy process of the Indian Economy. These leading policy makers and economists led in the committees that are now known to be as: The P.C. Alexander Committee of 1978; The Abid Hussain Committee of 1984; and The Narasimham Committee of 1985. These three committees made recommendations that gave prominence to the need to develop an efficient system that would make export less costly and more profitable; and on the need to gradually move away from the discretionary system of quantitative import controls that was based on tariffs. The Abid Hussain Committee significantly recommended that it was of importance for the trade policy makers to strike a balance between export promotion and import substitution.[219]

5.4.1.6 Major Reforms in India's Trade Policy (1991-2000)

The trade reforms of 1991 under the New Economic Policy of the Rajiv Gandhi Government can be termed as the second generation reforms duly noted so because it is at this time that the trade regime measures acquired a new face, momentum and a defined direction. The sole objective of the reforms was to rapidly increase the exports, encourage an export led growth economy, promotion international competition, to stimulate investment for increased production, the adoption of technology into governance and to urgently address the unfavorable balance of payments. The significant elements of the trade policy of 1991 constitute: the removal of trade protections and the dualistic structure in production, the

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[219] Rajesh Chadha et al, *The Impact of Trade and Domestic Policy Reforms in India: A CGE Modeling Approach* (USA: The University of Michigan Press, 1998), 18.

elimination of trade restrictions, the integration of the economy to the world, allowing foreign brand use, patent protections among others.[220]

As observed by Petia, this serious attempt to overhaul the trade policy regime in India sharply reduced the role of import and export controls. For example, the quantitative restrictions were decreased from 87% to 45% by 1994, restrictions on exports were loosen up and the famous 26 import licensing lists were all abolished and in their place a "negative" list was established. There was also a further easy on the import restrictions as well as a far-reaching reduction on tariffs. All these policies resulted to a surge in export and import volumes in the early 1990s.[221] For the purpose of this current study, these major trade reforms of 1991 include:

i. The Replenishment Import License (REP) became the principle instrument for export related imports.
ii. All exports were to have a uniform Rep rate of 30% of the f.o.b value
iii. The new Rep scheme gave maximum support incentive to exporters with low import intensity.
iv. All supplementary licenses were abolished with exception of the small sector and producers of life-saving drugs/equipment.
v. The entire additional licenses to export houses were cancelled.
vi. All the items under the Limited Permissible List OGL items were to be imported through the Rep route.
vii. The Unlisted OGL under the Exim policy was abolished and all items were to be imported under the Rep Scheme
viii. The Advance License was left open, supplement to Rep Scheme

[220] P.P Arya and B.P Tandon ed., *Economic Reforms in India: From First to Second Generation and Beyond* (New Delhi: Deep & Deep Publication Pvt. Ltd, 2003), 552.
[221] Petia Topalova, *Trade Liberization and Firm Productivity: The Case of India,* (Washington D.C.: International Monetary Fund, 2004), 3.

ix. The government decanalized all items except the essential

x. The Cash Compensatory Scheme was abolished.[222]

5.4.1.7 Trade Reforms in 2000 to 2010

Considering to the period under study, the policy makers and planners of the Indian economy continued to design and implement further reforms on trade policies that would promote the overall trade volume in the world markets. To begin with, the EXIM policy of 2002 to 2007 was announced with the principal aim of doubling-up the volume of India's trade in the global market. As pointed out by Jain and et la, the objectives of this trade foreign policy of 2002-2007 were: to amplify the growth rate of exports, to raise the economic growth through a liberal policy of importing raw materials and capital goods for the manufacturing sector, to promote technological advancement by increased importation of technology, adopting a simplified format for business operations in regards to foreign trade, and lastly to set up business centers in support for Indian exporters.[223]

Further, the salient features of the EXIM policy of 2002-2007 consisted of an emphatic address on the Special Economic Zones (SEZs), the policy also considered employment generation measures in an attempt to address the high unemployment in the country; it also had a dynamic nature in inducing growth in the economy as well as introducing Duty Neutralization Instruments. In a addition to that, the policy provided for facilities in the agricultural sectors by the removal of the quantitative restrictions on agro products for most of the exports; a Market Access Initiative policy was launched to promote the Small Scale, Cottage and Handicraft sectors; the textile industry was also addressed by permitting the Duty Entitlement Passbook to support the industry; Gems and Jewelry sector

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[222] Ruddar Datt, K.P.M Sundharam, Indian Economy 58th Ed. (New Delhi: S. Chand & Company Ltd, 2008), 758.

[223] T.R. Jain, V. K. Ohir, and B.D. Majhi, *Economic Development and Policy in India* (New Delhi: V.K. Publication, 2010), 538.

were allowed for importation at a zero custom duty basis and special schemes for export promotion.[224]

Another foreign trade policy was announced in 2004 entitled, Foreign Trade Policy 2004-2009. This policy had the intention of doubling up India's share of global trade as well as to provide an effective mechanism for economic growth through employment generation with a special emphasis in the rural and semi urban areas. The strategies for arriving at these objectives were in the liberation of the controls, fostering an atmosphere of trust and transparency, reducing to bare bones in produces and transactions costs, the adoption of primary principle that duties and levies were not for export and emphasis on identifying and nurturing special areas to facilitate development of India as a global hub for manufacturing, trading and services.[225]

This new Foreign Trade Policy 2004-09 commonly known as FTP, replaced the EXIM 2002-07 and brought in an enhanced integrated format for overall development of the economy focusing on export led growth. The FTP outlined export incentives to be availed at pre-export and post export levels with an intention to make India's exports acceptable at the global markets. It is of importance to note that the FTP keenly gave emphasis to the imports that would further spur economic growth. But more importantly, FTP promoted the coherency and consistency in the integration of the trade and other economy policies that would guarantee development in the short term and long term.[226]

Table 5.7 below shows the trade volume if the Indian economy in regards to the export, import and the resultant balance of trade from the years 2000 to 2010 which is the period under review. The years 2000 to 2002 fall under the Ninth Plan where the years 2002

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[224] T.R. Jain, Mukesh Trehan, Ranju Trehan, *Indian Economy and Business Environment* (New Delhi: V.K. Publications, 2010), 266-272.

[225] Suvranshu Pan and Raj Kumar Sen, *Foreign Direct Investment and Trade in India* (New Delhi: Deep & Deep Publications, 2007), 126.

[226] Ram Singh, *International Trade Operations* (New Delhi: Excel Books, 2009), 155.

to 2007 are under the Tenth Plan with 2007 to 2010 are covered under the Eleventh Plan of the Indian Economy.

Data from the table indicate that the exports in the year 2002-03 increased by 22.1% from Rs. 209018 Crores to stand at Rs. 297206 Crores. This increase is attributed to the EXIM policy 2002-2007 of which concentrated aggressively promoting India's exports. A similar trend is also recorded in the year 2004-2005 where by the Exports increased by 27.9 % from Rs. 293367 Crores to Rs. 375340 Crores. This too is attributed to the FTP of 2004-2009 that focused on an annual double digit growth of the exports. Considering the imports, an equally similar trend is observed in 2002-2003 to record a 21.2% increase in imports and a 39.5% in 2004-2005.

Further observations made from the data in table 5.7 indicate in the period under review, there has been a trend of increasing of both exports and imports from the year 2001 to 2010. To put this into perspective, the volume of exports and imports in 2000 stood at Rs. 203571 Crores and at Rs. 230873 Crores respectively while in 2010 recorded a volume of Rs. 845534 Crores and Rs. 1363736 Crores. The trade balance too indicates a growing trend of increasing deficits all through the period under review.

Table 5:7: India Exports, Import and Trade Balance 2000 To 2010[227] (Rs. Crores)

				Rate of Change (%)	
Year	**Exports**	**Imports**	**Trade Balance**	**Export**	**Import**
2000-01	203571	230873	-27302	27.6	7.3
2001-02	209018	245200	-36182	2.7	6.2
2002-03	255137	297206	-42069	22.1	21.2

[227] Ministry of Finance, *Economic Survey 2012-13: Statistical Appendix* (New Delhi: Government of India, 2013), A82.

2003-04	293367	359108	-65741	15	20.8
2004-05	375340	501065	-125725	27.9	39.5
2005-06	456418	660409	-203991	21.6	31.8
2006-07	571779	840506	-268727	25.3	27.3
2007-08	655864	1012312	-356448	14.7	20.4
2008-09	840755	1374436	-533680	28.2	35.8
2009-10	845534	1363736	-518202	0.6	-0.8

Source: Various Indian Economic Surveys

5.5 Indo-Kenya Foreign Trade Policies and Trade Agreements

When all the aims and objectives of foreign trade are considered in light of the national trade regime in place, the countries participation in the regional trade blocks and also the correlation of foreign trade in regards to the WTO operational frame work, the focus is to promote and sustain a domestic economy that is robust and vibrantly growing. Employment and wealth creation in the domestic economy is focal point in all the activities of trade whether it is internal or foreign trade. Therefore, it is of significance to understand that different nations will have different tailor made trade policies to suit their own local needs in as much as these same policies affect the trade related activities of their trading partners and other countries.

Taking this further, it will therefore imply that the trade policy of two countries will not to most probability be in synchronization or even complementary to one another because of the different individual configurations as it pertains to their needs. Considering the period under study, India's EXIM policy was largely aimed at increasing India's exports while reducing the transaction costs, whereas Kenya's export policy was more skewed to economic recovery and the creation of employment and wealth. However, each distinctive policy had a direct or indirect impact to the said countries.

5.5.1 Indo-Kenya Agreements

A historical account of the Indo-Kenya Trade Agreements dates back to the early 1980s under the Moi Administration. The trade policy then had just opened up to the SAP, after the Kenya government signing a SAP program with the international donors. It is at this point when the process of liberalization of the Kenyan economy had begun that India and Kenya signed their first trade agreement in March 1981. This Indo-Kenyan agreement had the purpose of according two countries the "Most Favored Nation" status. This resulted to a significant rise in trade volume between the two countries.[228]

To enhance the trade relations between India and Kenya in the light of strengthening bilateral trade, investment and economic cooperation, the India-Kenya Joint Trade Committee was set up in 1983 while the a Joint Business Council was set up in 1985 by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Kenya National Chamber of Commerce and Industry (KNCCI). Another trade agreement between Indian and Kenya was signed in 1985 known as the India-Kenya Double Taxation Avoidance Agreement. This was to promote a preferred taxation treatment for the traders between India and Kenya. Signed on the 12th April in 1985, this Indo-Kenya Double Taxation Avoidance Agreement in context stated:[229]

> The Government of India and the Government of the Republic of Kenya desiring to conclude a Convention to avoid double taxation and to prevent fiscal evasion with respect to taxes on income have agreed upon the following measures.

ARTICLE 1 Personal Scope

This Convention shall apply to persons who are residents of one or both of the Contracting States.

ARTICLE 2 Taxes Covered

[228] Tony Falola and Jessica Achberger ed., *The Political Economy of Development and Underdevelopment in Africa* (New York: Routledge, 2013), 292.
[229] Matta, Ali Mohammad. *Taxation of foreign investments in India*. New Delhi: Uppal Publishing House, 1991. Pp 365-368

> 1. This Convention shall apply to taxes on income imposed on behalf of each Contracting State, irrespective of the manner in which they are levied.
>
> 2. There shall be regarded as taxes on income all taxes, imposed on total income, or on elements of income including taxes on gains from the alienation of movable or immovable property, and taxes on the total amounts of wages or salaries paid by enterprises.
>
> 3. The existing taxes to which the Convention shall apply are, in particular :
>
> (a) in the case of India : the income-tax including any surcharge thereon imposed under the Income-tax Act, 1961 (43 of 1961) ; and the surtax imposed under the Companies (Profits) Surtax Act, 1964 (7 of 1964) (hereinafter referred to as " Indian tax ")
>
> (b) in the case of Kenya :
>
> the income taxes imposed under the Income-Tax Act (Cap. 70) (hereinafter referred to as " Kenyan Tax ").
>
> 4. This Convention shall apply also to any identical or substantially similar taxes on income which are imposed after the date of signature of this Convention in addition to, or in place of, the existing taxes. The Contracting States shall notify each other of significant changes which have been made in their respective taxation laws.

There are other several trade agreements and memorandums of understanding that India and Kenya have put on paper. These documents have all had the objective of increasing the trade activities between the two countries. For instance, in 1996, the Kenya National Chamber of Commerce and Industry signed a MoU with Confederation of Indian Industries (CII). Due to the fact that there in an enormous untapped potential in the informal sector in Kenya-Jua Kali Sector, another MoU was in 2009 between the National Small Industries Corporation (NSIC) and Kenya Industrial Estates (KIE) Ltd. According to Felix Kirutu et al, the agreement was to augment the development of micro, small and medium enterprises in both countries. Further, the NSIC was to assist KIE in the carrying out of industrial potential surveys and feasibility studies to identify the key areas in setting up of small scale industries. The designing and development of policy and instrumental framework, and the setting up of

business incubator centers and training on technology in regards to small-scale industries was also agreed upon.[230]

In 2003, India and Kenya signed another MoU to enhance the trade relations between the two countries. The India Trade Promotion Organization and Export Promotion Council (EPC) of Kenya signed an agreement that would further facilitate the trade activities of the producers and exporters of goods and services. The EPC laid more emphasis in promoting the outward orientation policies that would concentrate on stimulating development and promotion of trade between India and Kenya.

[230] Tony Falola and Jessica Achberger ed., *The Political Economy of Development and Underdevelopment in Africa* (New York: Routledge, 2013), 298.

Schedule A: LIST OF PRODUCTS FOR EXPORT FROM KENYA TO INDIA

SNo:	Actual Product Description
1	Parts and accessories of vehicles of headings 8711 to 8713.
2	Dried leguminous vegetables, shelled, whether or not skinned or split.
3	Carbonates; peroxocarbonates (percarbonat-es); commercial ammonium carbonate.
4	Tea , whether or not flavored.
5	Felspar; leucite; nepheline and nepheline syenite.
6	Tanned or crust skins of sheep or lambs.
7	Ferrous waste and scrap.
8	Mineral substances not elsewhere specified or included.
9	Plated or coated with tin.
10	Unwrought lead.
11	Coconuts, brazil nuts and cashew nuts, fresh or dried.
12	Tanned or crust hides and skins of bovine.
13	Flat-rolled products of iron or non-alloy steel.
14	Wool, not carded or combed.
15	Copper waste and scrap.
16	Coconut, abaca, ramie and other vegetable textile fibers.
17	Raw hides and skins of bovine or equine animals.
18	Tanned or crust hides and skins of other animals.
19	Sisal and other textile fibers of the genus agave raw or processed.
20	Threaded articles.
21	Aluminum waste and scrap.
22	Steam or other vapor generating boilers.
23	Recovered (waste and scrap) paper or paperboard.
24	Containing mainly zinc.
25	Plants and parts of plants of a kind used primarily in perfumery.
26	Coffee, whether or not roasted or decaffeinated; coffee husks and skins.
27	Other nuts, fresh or dried, whether or not shelled or peeled.
28	Cloves (whole fruit), cloves and stems.
29	Manganese ores and concentrates.
30	Raw skins of sheep or lambs.

Schedule B: LIST OF PRODUCTS FOR EXPORT FROM INDIA TO KENYA

SNO	Actual Product Description
1	Flat-rolled products of iron or non-alloy steel.
2	Plated or coated with tin.
3	Petroleum oils and oils obtained from bituminous.
4	Medicaments.
5	Electrical transformers, static converters and inductors.
6	Parts and accessories of vehicles of headings 8711 to 8713.
7	Stranded wire, cables, plaited bands and the like, of aluminum, not electrically insulated.
8	Raw sugar not containing added flavoring or coloring matter.
9	Hydraulic turbines, water wheels, and regulators.
10	In coils, not further worked than cold-rolled (cold-reduced).
11	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor.
12	Structures (excluding prefabricated buildings of heading 9406) and parts of structures.
13	Other woven fabrics of synthetic staple fibers.
14	Maize (corn).
15	Woven fabrics of synthetic filament yarn.
16	New pneumatic tyres of rubber.
17	Zinc, not alloyed.
18	Women’s or girls’ suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib.
19	Special purpose motor vehicles, other than those principally designed for the transport of persons.
20	Uncoated paper and paperboard.
21	Machinery for sorting, screening, separating ,washing, crushing, grinding, mixing or kneading earth.
22	Winding wire.
23	Machinery.
24	Food preparations not elsewhere specified or included.
25	Rice.
26	Motor vehicles for the transport of goods.
27	Oil-cake and other solid residues.

SNO	Actual Product Description
28	Machines and mechanical appliances having individual functions.
29	Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated.
30	Flat-rolled products of other alloy steel, of a width of 600 mm or more.
31	Yarn of synthetic staple fibers, not put up for retail sale.
32	Polyacetals, other polyethers and epoxide resins, in primary forms; polycarbonates, alkyd resins.
33	Threaded articles.
34	All items of machinery including prime movers, instruments, apparatus and appliances, control gear.
35	Parts and accessories of the motor vehicles of headings 8701 to 8705.
36	Machinery for working rubber or plastics or for the manufacture of products.
37	Other made up articles, including dress patterns.
38	Primary forms polymers of ethylene.
39	Metal-rolling mills and rolls therefore
40	Glands and other organs for organo- therapeutic uses, dried, whether or not powered.
41	Sheet piling of iron or steel.
43	Hand tools, blow lamps, vices.
44	Wrist-watches, pocket-watches and other watches.
45	Polymers of propylene or of other olefins.
46	Tea.
47	Other articles of plastics and articles of other materials of headings 3901 to 3914.
48	Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool.
49	Printed books, brochures, leaflets and similar printed matter, whether or not in single sheets
50	Synthetic proganic coloring matter and preparations.
51	Woven fabrics of cotton, containing 85% or more by weight of cotton.
52	Antibiotics.
53	Of man-made textile materials.
54	Metal-rolling mills and rolls.
55	Synthetic filament yarn.
56	Printing machinery used for printing by means of the printing type, blocks, plates, cylinders and others.

5.6 Observations (Benefits and Impacts)

From this discussion, it is observed that both Kenya and India had a common historical background in regards to the influence of the British Empire. Both countries were colonized by the British who implemented exploitative policies by the use of their protectorates as a base for raw material production for their manufacturing interests in the world markets as well as a dumping destination for the finished goods. This being a significant factor, Kenya and India, therefore decided on embracing inward looking policies that would promote the development of their local industries to address the immediate needs of high unemployment, poverty and self reliance.

Even though Kenya and India decided on the inward looking policies, this was adopted at varying measures. Kenya adopted inward looking policies using the import substitution strategy with the objective of importing capital inputs that were directed to the promotion of Industrialization process of the Kenyan manufacturing sector, to ease the negative balance of payments, increase the domestic control of the economy and address unemployment. Whereas, India opted for heavy-industry development as anticipated by the Indian planners and policy makers. This had the objective of domestic manufacture of all consumer goods.

As for the case of Kenya, the Import Substitution Policy did not have that much impact as it created a few jobs, mainly because of the inappropriate use of capital intensive technology which resulted to a sector that heavily dependent on imported equipment and raw materials. Further, the Industrial sector failed to integrate itself with the rest of the economy and the external causes by the oil crisis in the 1970s escalated the costs of production as well as increased pressure on the balance of payments hence the economy could not continue to rely on an inward looking policy that was chocking the economy.

As for the case of India, a planned economy was embraced as early as 1951 with a very strong import substation policy directed to the industrialization. This resulted to a significant development of Industrial sector in the 1960s. It is also noted that the import substation policy implemented by the Indian trade policy planners was rather indiscriminate to a level that there was an environment of export pessimism especially in the first and second development plans. Further impact of this inward looking policy was that the protected market encouraged inefficiencies especially in the newly developed industrial sector, high costs of exports due to high input costs and other adverse effects called for an address. This resulted to the formation of various committees such as the committee on Export-Import policies (Mudaliar Committee), Committee on Import-Export Policies and Procedures (Alexander Committee) and the Committee on Trade Policies (Abid Hussain Committee) to suggested remedies for the same.

The structural adjustment policies in Kenya had a comprehensive impact on the economy across most of the sectors. Due to the adverse macro-economic developments, the budget deficits had increased and this called for a redress by scaling down the government expenditures. Therefore, these Structural Adjustment Programs had direct impact on sectors like education, employment and health. It further called for the liberalization of the Kenya economy with the objective of stimulating export led growth. It is noted that there was some element of achievement in trade liberalization than there was in export development. The rationale for this is that the Kenyan government implemented the SAPs half-heartedly and not to the letter as it was inconsistent and unbalanced. Consequently, this is why the SAPs showed better results in the second phase of the implementation processes as the government had learnt lessons from initial phase of the reforms in the first half of the decade.

The continued liberalization process of the Kenyan economy in the 1990s by opening up to the regional trade blocks and international market under the frame work of WTO

necessitated the completion the decontrol of market prices, extensive promotion of export schemes and a further development of the regional markets. The removal of most of the regulatory barriers has encouraged a substantial gain to the Kenyan economy by improving the productivity of labor and capital. Consequently, this has resulted to the increased accumulation of capital and broad expansion of the industrial sector as well as the economy in general.

With the New Economic Policy of 1991, the export sector of the Indian economy has expanded extensively. There has been seen an equivalent growth of imports as well as exports with the exports surging a little more than the imports and thus making up for the balance of payments. Further impacts in the post liberalization era have been noted to record increased inflows of foreign capital for investment as well as an increasing accumulation of the dollar reserves. This open door policy by the Indian government has encouraged the freedom of capital and labor mobility and flexible trade domestic policies, joint ventures in foreign markets, policy coordination and regional coordination among many other things.

6 CHAPTER SIX: INDO-KENYA TRADE RELATIONS

6.1 Indo-Kenya Trade Relations: A Historic Perspective

India has interacted with the people of Kenya since the ancient times. Though modern history pegs the building the Kenya-Ugandan railway as the most significant of those interactions, historical records have revealed other important details linking Indians to the people of present day East Africa, which comprises majorly of Kenya, Uganda and Tanzania. During the British rule in East Africa, Indian interaction with East Africa was intensified though the parameter was different from what it used to be before then. It will be noted that during the years leading up to Kenyan independence, most people of Indian origin in Kenya held British passports though they didn't have the same privileges as the white British citizens. After independence, the Kenyan government asked those who held the British passport to either leave for England or take Kenyan citizenships. Many preferred to go to England and only about 10% remained in Kenya. Nevertheless, that population was fair enough to encourage Indian government to be interested in the affairs of people of Indian origin in Kenya and to find better ways to foster stronger ties with Kenya.[231] For the sake of this study, we will look into the historical perspective of Indo-Kenya trade relations in three phases:

i. Ancient encounters

ii. Pre-colonial to colonial times

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[231] Lone, Salim. "*The Lost Indians of Kenya.*" New York Times Review of Books. Volume 17, Number 5, 7 October 1971. 23

iii. Post Colonial and Development of Indo-Kenya trade in modern times

6.1.1 Ancient encounters

Ancient Indians were known for many things, one of them being their excellent seafaring. According to Prof. Robert Gregory in his book *India and East Africa*[232], there are records of Indians trading with Mesopotamia and Egypt as early as 3000 BC. Indians controlled much of the ocean routes of those days. Evidence to support Indians seafaring activities in the ancient times can further be found in the works of Prof. R.K. Mookherjee who in is his book *India Shipping*[233] quotes Dr. Sayce, a famous Assyriologist who had found tangible evidence of trade between Indian and Babylon that was going on around 3000 BC.

As regards to contacts with East Africa, evidence is traced way back to the time of the Puranas. In her book *Indo-Kenyan Political and Economic Relations*, Aparajita Biswas[234] quotes Panchanan Tarkaratna's edition of *Agni Puranam* when it is written in the Puranas that the earth consisted of seven territories which included (sapita Dwipa Vasumati). Out of these territories, one of them is known as Cusha. Though the exact location of Cusha is widely contended, there is more weight to support the theory that Cusha is indeed a region below Egypt along river Nile which is present day Ethiopia or at times Sudan. One of the proponents of such theory is David Goldenberg who suggested that Cusha is from and Hebrew name Kash which stands for the Egyptian name of Lower Nubia and later of the Nubian kingdom at Napata, known as "Kingdom

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[232] Robert, Gregory. India and East Africa: A History of Race Relations within the British Empire, 1890-1939. O.U.P., 1971, p. 8.
[233] Mookherjee, R. K. India Shipping: A History of the Sea-Borne Trade and Maritime Activity of the Indians from the Earliest Times. Madras, 1957, p. 60.
[234] Biswas, Aparajita. *Indo-Kenyan Political and Economic Relations*. Delhi: Kahishka Publishing House, 1992. P. 38

of Kush" in modern literature. The Nubian Kingdom in biblical times and in all other classical antiquity was located at Meroe in the modern-day nation of the larger Sudan.[235]

A paper read at the Asiatic Society Bengal, (Calcutta) in 1792 by LR. Francis Wilford tried to show that Cusha is actually Ethiopia. According to Wilford, Indians had established their settlement along river Nile all the way to the areas around Lake Victoria. Wilford asserted that river Nila or Cali mentioned in the Puranas was in fact river Nile and went on to show that the name was given by the Hindus of East Africa after their goddess 'Maha-Cali'.[236] Wilford went on to show that 'Bhagavat Purana' had indeed showed that the world is represented by four petals of a lotus. These petals represent India, Europe, Siberia and China. Further, the paper deduced that apart from these, there is a mention of a land to the South-West of India known as Sancha which is present day Zanzibar and Harina which is Madagascar, which are represented by small petals between India and Europe. The paper also indicates that the name Africa is derived from the Ceylonese Sanskrit word 'Aparica' which means 'behind' or 'west' as one faced the rising sun.[237]

Though a few other scholars have out rightly rejected the fact that the supposed evidence in the Puranas was indeed tangible enough to tell the world that ancient Indians had good account of East Africa, later studies have shown that ancient Hindus had a significant knowledge of the East African coast and perhaps the interior.[238] What is not doubted from these ancient contacts is the fact that India had achieved great maritime achievements in the period of the 1st millennium B.C for which the historical accounts are relatively clearer. More evidence suggests

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[235] Goldenberg, David M., The Curse of Ham: Race and Slavery in Early Judaism, Christianity, and Islam p. 18.
[236] Lt. F. Wilford. 'On Egypt and other Countries adjacent to the Cali River, or Nile of Ethiopia, from the Ancient books of the Hindus', Asiatic Researches, III Calcutta, 1801. pp. 303-304
[237] Lt. F. Wilford. 'An Essay on the Sacred Isles in the West with other Essays Connected with that work', Asiatic Researches, VIII, 1805 (Reprinted in 1808) pp. 254-367
[238] Robert, Gregory. India and East Africa: A History of Race Relations within the British Empire, 1890-1939. O.U.P., 1971, p. 8-9

that trade between India and Babylon was thriving in the 6th and 7th century, a trade that was facilitated by merchant ships.[239] Studies have shown that by this time, there were several Indian traders who had settled in Arabia and on the East Coast of China. And in recent times, many scholars now believe that Indian traders had begun settlement on the East African coast by the 7th century B.C.[240]

6.1.2 Pre-colonial to Colonial time

The Periplus of the Erythrean Sea[241] a guidebook to the Indian Ocean, written in Greek about 60 A.D is the first historical reference to India trade with East Africa in the ancient times. The book contains accounts of how ships moved from 'Ariaca' and 'Berygaza' to the cost of East Africa with products such as seasame oil, cotton cloth, rice, wheat, rice, clarified butter, honey and reed of 'Sacchari'[242].[243] According to Vincent William, the commentator of the book, Ariaca represents modern day Cutch, Kathiawar and Gujarat while Barygaza will represent Broach. If this evidence holds water, we can conclude that there was a lot of trade going on between India and towns in the East African coast by 60 A.D.

Another solid evidence on Indo-East African trade relations prior to the colonial rule is found in the Geography of Potelmy which mentions between 2nd and 7th centuries India and Persian sea powers were on the rise following the decline in Groccea-Roman era and the disintegration of the Roman empire.[244] It is further argued by Ababu that J.H. Speke who was a

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239 Mookherjee, R. K. India Shipping *op. cit., p. 62*

240 M. Posnanski. 'Bantu Genesis: Archeological Reflexions'. Journal of African History, vol. IX, No. 1, 1968. P 1-11

241 The author of *The Periplus of the Erythrean Sea* is unknown but various versions and translations have been done since then.

242 Saccahari is the Prakit version from the Sansnkriti Sarkara, Arabic Sukkar, Latin Saccharun and English sugar.

243 William Vincent. The Periplus of the Erythrean Sea. London: A Strahan, 1800, pp 34-36

244 C. Muller, (ed). Potelmy's Geography, Book 1.

nineteenth century explorer was convinced of the presence of Indian traders in the East African coasts with by the fact and presence of Indian products such as ivory, incense, food items, slaves and others. Ababu goes on in argument for the pre-colonial presence of the Indian traders in East African by stating that sailors from an Egyptian exploration to the land of Punt, presumed to be modern Somalia brought back a huge cargo of cinnamon which had most probably been originally imported from India by the Indian traders to the region.[245]

It is believed that the trade relations between the East African coast and India were largely supported by the monsoon or 'trade winds'. These winds would blow across the Indian Ocean from the southward in summer and northward in the winter and thus the trade ships from either Africa or India will sail with ease due to the 'trade winds'. These trade winds therefore, largely influenced and further facilitated the cross ocean trade between East African, the Arab world and the western Asian regions.[246]

The spread of Islam in the seventh and eighth century as well as the increased rise of the Asian empires gave a heighten expansion of the Indian Ocean trade networks. As a result, Arabs and Gujarati Muslims settled in the East African island towns with the objective of making trade more beneficial to their own advantage. Healthy relations were developed with the local African clans and this further facilitated the trade for the African Ivory as well as gold. The African Ivory and gold were considered superior in the merchant trade routes since the African tusks were larger in size as compared to the Indian ones, and possessed a finer and softer texture. Ababu

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[245] Ababu Minda, *An African Indian Community in Hyderabad: Siddi Identity, Its Maintenance and Change* (Gottigen: Cullivier Verlag, 2004), 64.
[246] Ababu Minda, *An African Indian Community in Hyderabad: Siddi Identity, Its Maintenance and Change* (Gottigen: Cullivier Verlag, 2004), 65.

states that the Gujaratis virtually monopolized the trade in East African as they traded in gold, ivory and slave trade for exchange of clothes and other luxury goods.[247]

Slave trade was prominent trade activity and therefore it is evidence that there was external contact and influence in the East African coast. As observed by Ali in his book, "*The African Dispersal in the Deccan: From Medieval to Modern Times"*, much of the ocean shipping was Indian owned and manned an aptitude expressed by the Indians due to their superior techniques in business in regards to mastery in finance and banking. Because of their dexterity in business, the Indian traders dealt in ivory, gold and slaves, and consequently this led to dispersal of the African slaves in the Arab world such as Turkey, Arabia, and Persia as well as in the eventual dispersion into the Deccan region of India.[248] It is therefore clearly seen that the proximity provided by the Indian Ocean played a critical role in the chatting up of the trade routes to influence the history of commercial contact, spreading of the cultural heritage as well as population movements.

Further evidence suggests that the Indo-Africa relations had taken shape in the form of bilateral trade as early as the 18th century. Tarrosy comments in his book, *'The African State in a Changing Global Context: Breakdowns and Transformations'* that Sey yid Said, the Sultan of Oman moved his capital from Muscat to the East African island of Zanzibar. This consequently created an international trade route junction in the Indian Ocean trade route networks which further was pivotal for the growth of the Indian immigrants in the region. Tarrosy goes on to emphasis that, throughout the 19th century, it was the Indian traders who were the most exclusive partners of the Sultan of Zanzibar.[249]

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[247] Ibid, 66.
[248] Shanti Sadiq Ali, *The African Dispersal in the Deccan* (New Delhi: Orient Longman Limited, 1996), 26-27.
[249] Istvan Tarrosy, Lorand Szabo and Groyan Heyden eds., *The African State in a Changing Global Context: Breakdowns and Transformations* (Berlin: Lit Verlag, 2011), 24.

In considering the trade relations of India and the East Africa from the Pre-Colonial to the Colonial era, Strobel observes that the Europeans relations with Africa started with trade and that these relations were concluded in the late nineteenth century with the formal end of colonialism. To ascertaining that India had trade relations with East African, Stroble further points out that Europe's contact with Africa and especially East Africa, preceded that of India and South East Asia.[250]

It is of significance to consider the remarks of Tuhunen and Saavala who comment that India's engagement with Africa dates back to the 14th century in trade relations that deal with resources and development. They further state that these relations were strengthened even during the colonial era when Kenya and India shared the colonial masters. They further go on to illustrate by example of the British East Africa protectorate which was consisted of Kenya and Uganda and was administered from Bombay, in India. It is noted further that they state that many African countries have influential minorities whose ancestral roots came from India during the colonial times.[251]

6.1.3 Post Colonial and the Development of Indo-Kenya trade in modern times

In this section, we shall consider the political to trade relations of India in light of the African continent but more especially the relations between India and Kenya. To begin with, it is observed by V.S. Sheth that the Indian Prime Minister Nehru firmly believed that the common milieu of colonial rule and the comparable political and economic problems that were shared by India and African countries would foster a close relationship among these two divides. To this

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[250] Michal Adas ed., *Islamic and European Expansion: The Forging of a Global Order* (Philadelphia: Temple University Press, 1993), 347.
[251] Sirpa Tuhunen and Mina Saavala, *An Introduction to Changing India: Culture, Politics and Development* (London: Anthem Press, 2012), 62.

end, the Indian African policy of the 1950s promoted the decolonization and triumph of African majority rule. The policy further encouraged the Indian settlers to assimilate themselves with the indigenous African population. In as much as India played a big role in influencing the Commonwealth countries to assume a liberal view on the British colonial policies in East Africa, it was only four African nations, namely Ethiopia, Kenya, Nigeria and Libya that supported India in her Chinese Aggression in 1962.[252]

The relations between Kenya and India were heightened in the mid 1960s by Prime Minister Indira Gandhi, as noted by V.S. Sheth, to a point where by Indira Gandhi called on the people of Indian origin in African countries as the 'Ambassadors of India' and also initiated the negotiations that led to the Kenyan Government instituting an African-Indian Development Corporation. It is of significance to categorically emphasize that the Indian Government encouraged Indian industrialists in Kenya to set up an industrial estate of 22 units in Nairobi; that the Indian Government allowed the export of private capital and managerial expertise to African countries through joint ventures and also that the Indian Government set up Eleven joint ventures of productions in Libya, Algeria, Kenya and Ethiopia all related to cotton textiles and pharmaceuticals. Sheth goes on to state that in the 1970s, the Indian Government took an initiative of supporting the liberation forces in the African continent and also pursued an agenda of intensifying her Diplomatic efforts in an attempt to make Africans cognizant of the dark forces of imperialism.[253]

However, this intriguing picture of the post colonial Indian presence in East African countries suffered a setback. Rangaswamy notes that in the late 1960s, an exodus of the Asians from Kenya began when the British Government passed the British Immigration Bill in 1968. By

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[252] Anjali Ghose and et al ed., *India's Foreign Policy* (New Delhi: Dorling Kindersley (India) Pvt, Ltd, 2009), 422.
[253] Anjali Ghose and et al ed., *India's Foreign Policy* (New Delhi: Dorling Kindersley (India) Pvt, Ltd, 2009), 424.

1972, Indians in Uganda were slapped with a mass expulsion by President Idi Amin which resulted in a stampede to exit East Africa, a crisis that was resolved through global cooperation. The rationale for this exodus was that the Indians, even though a minority, were cohesive, self sufficient and economically superior as compared to the indigenous population which was poor. Therefore, the African leaders found an easy excuse to blame the Indians for their inferior economic status hence the motive for expulsion.[254]

Trade relations between Kenya and India date back to the pre colonial and colonial space and time as noted earlier in this discussion. To bring this into perspective, the textile and clothing industry was among the earliest manufacturing industrial activities in Kenya. Indian investors were connected to this sector as early as in 1936 when Sunflag was started by Indian investors in Kenya. In the 1960s through to the 1990s both Governments i.e. India and Kenya did initiate foreign joint ventures to enhance the trade relations.[255]

Having considered that, it is interesting to know that the Indian trade and business relationship with Africa, and Kenya in particular, have increased rapidly across the years since the 1960s. Tenhunen et al states that the trade between the two regions has increased tenfold in the period 1997 to 2007. It is further noted that the India-Africa bilateral trade was projected to grow over nine times, from US$26 billion in 2007 to US$150 billion by 2012 according to the estimates by the Associated Chambers of Commerce and Industry of India (ACCIA). It is also of significance to point out that in 2004, the Indian Government entered into economic, commercial and technical partnership with 8 West African countries namely Burkina Faso, Chad, New Guinea, Ghana, Guinea Bisau, Ivory Coast, Mali and Senegal. It is of further interest that the

[254] Padma Rangaswamy, *Namaste America: Indian Immigrants in an American Metropolis* (The Pennsylvania State University Press, 2000), 25.
[255] Samwel M. Wangwe, *Exporting Africa: Technology, Trade and Industrialization in Sub-Saharan Africa* (London: Routledge, 1995), 299.

Indian Government in its EXIM policy 2002 to 2007 embarked on the 'Focus Africa Program' whereby trade promoting activities were to be emphasized in three East African countries namely, Mauritius, Kenya and Ethiopia.[256]

6.2 The Concept of Balance of Trade

The concept of Balance of trade is not a very modern one. It dates back to the 16th and 17th century when the Mercantilists dismissed the contribution of domestic commerce arguing that it did not benefit the commonwealth of the nation. The Mercantilist believed that it was only those that involved in foreign trade such as merchants, fishermen and cattle breeders who brought in wealth to the nation from abroad. They further supposed that the domestic commerce of every nation hinged on foreign trade thus it was inferior and less advantages to the nation. It is of interest to note that the Mercantilist promoted the doctrine of universal economy for the purposes of upholding and emphasizing the distinctive importance and role that international trade played in the commerce of the nation.[257]

The balance of trade of a nation refers to the difference in value of the total imports and exports of visible goods. It is a statistical calculation based on the value of visible imports and exports of a nation. It is of significance to point out that the balance of trade can be classified into three different categories depending on the nature of the value of the imports and exports. These are: firstly, a surplus or favorable balance of trade which depicts a higher receipt from exports as compared to expenditure on imports; secondly, deficit or unfavorable balance of trade which is when there is a higher outlay on imports as opposed to receipts from exports, and

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[256] Sirpa Tuhunen and Mina Saavala, *An Introduction to Changing India: Culture, Politics and Development* (London: Anthem Press, 2012), 63.

[257] Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (New Jersey: Princeton University Press, 1996), 29-30.

thirdly, equilibrium in balance of trade refers to when the value of exports and imports are equal.[258]

To provide some more insight into the national balance of trade, a perusal of the factors that affect the balance of trade is of significance. To begin with, business cyclical factors affect the terms of trade since they are closely related to the level of imports and exports of a nation and thus play a role in shaping of the balance of trade. This is more prominent when the business economic activities of a nation are largely influenced by the international trade. Secondly, structural factors such as the existent trade policies, tariffs and the prevailing agreements regime among other structural policies will certainly have a bearing on the dynamics of the balance of trade in a nation. Thirdly, the country's competitive position in regards to international trade also is a factor that affects the balance of trade. To put this in perspective, for example, the value of exports and imports is affected by Exchange Rate of the foreign currency. Consequently, this in turn will lead to the improvement of the competitive position of the country accordingly. Fourthly, the performance of the terms of trade will have an influence in the balance of trade. The terms of trade are further determined by the increase of money wages, the appreciation of the exchange rate, relative costs and productivity levels. Finally the prices of exports and imports which depend on the type of goods exported and imported play an important role in balance of trade. All these will in one way or another affect the balance of trade of a country.[259]

6.2.1 India's Balance of Trade

Since time immemorial, India has been the hub of the world in regards to trade. The vast wealth, resources and trade prospects in India have always been an attraction from the rest of the

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[258] T.R. Jain, Mukesh Trehan and Ranju Trehan, *Business Environment* (New Delhi: V.K. Enterprises, 2009), 92.
[259] Clarance L. Barber and John C.P. McCallum, *Unemployment and Inflation: The Canadian Experience* (Canada: Canadian Institute for Economic Policy, 1980), 62-65.

world. Due to this, it is suggested that India at the least experienced favorable balance of trade when considering the absolute volume of trade and its proportion to national income, the wide range of commodities in trade, and the large number of trading partners from around the world.[260]

Considering the period in which India was under the colonial powers of the British Empire dating back from the mid 18th century to 1947, the East India Company (EIC) was used by the British to conquer India and further imposed a monopolistic pattern of trade. It is during this period that India experienced structural as well as quantitative changes in trade such that India's foreign trade policy was altered from an orientation of export manufactured goods to an import oriented structure of economy that eventually resulted to the creation of adverse balance of trade that has haunted India ever since she was independent.

Raman records that in the mid 18th century, India's foreign trade was mainly controlled by the merchants and traders from the English and Dutch East India Company, foreign Asian merchants such as the Armenians and Arabs as well as the native Indian merchants. The trade of goods was mainly comprised of textiles, foodstuffs, raw materials, precious metals and manufactured goods. However, the trade scenario changed when Calcutta was captured by the English East India Company in 1756 and this was the genesis of dominance of the British Empire and the colonial exploitation of India's trade resources.[261]

Jayapalan made the same assessment when revealing that the EIC controlled by the British did a good job in draining out of the Indian wealth. It seems that the EIC altered the principles of trade to their favor and as such India's imports registered a rise of more than 1100%

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[260] Rakesh Raman, *India's Balance of Payment Problem: A Monetary Solution* (New Delhi: Deep & Deep Publications Pvt., Ltd., 2005), 3.

[261] Rakesh Raman, *India's Balance of Payment Problem: A Monetary Solution* (New Delhi: Deep & Deep Publications Pvt., Ltd., 2005), 4.

in between 1844 and 1855. This implies that wealth was drained from India only to be heaved into the British coffers. It is further estimated that about £100 million was sunk into Britain from India between 1757 and 1815 for the purposes of facilitating the Industrial Revolution in Britain. This action is believed to have adversely influenced the structure of the India trade.[262]

It is of significance to consider the Indian trade in the years from 1850 and leading to the First World War (WWI) and its impact on the balance of trade. This period marks another phase in the story of India's trade as it is when the construction of the railway lines begun. As recorded by Raman, there are several factors which influenced the rapid growth of the Indian trade. To mention just a few, the development of transport and communication i.e. the construction of the railway facilitated bulk transportation of goods; the adoption of Free Trade policy by the British promoted trade between India and Britain; the rapid process of industrialization of countries such as USA and Japan created a significant increase in demand for primary goods exported by India; the construction of the Suez Canal in 1869 that resulted to an increased number of ships to cause a reduction in oceanic freight; among others all played a unique role in the increase of India's trade volume. However, it is of importance to note that the rate of growth of imports to India exceeded the rate of growth of exports from India facilitated by the constant import of basic consumer goods, the import of capital by Britain to India after Queen Victoria's Proclamation in 1857 hence the negative balance of trade.[263]

The period leading to Indian independence is worthy of consideration to throw light on the balance of trade. It is of importance since the events of the World War I had a direct impact on the Indian foreign trade. Raman observes that it is during this period that the gold exchange

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[262] N. Jayapalan, *Economic History of India: Ancient to Present Day 2nd ed.,* (New Delhi: Atlantic Publishers & Distributors (p) Ltd., 2008), 177.

[263] Rakesh Raman, *India's Balance of Payment Problem: A Monetary Solution* (New Delhi: Deep & Deep Publications Pvt., Ltd., 2005), 12-15.

standard system was discontinued and a new era of tariffs, protection and foreign exchange controls came into being. The resultant impact of this action was that countries exporting huge quantities of primary goods, like India, found it difficult as there was a reduction in real terms in the exports and imports. The factors that contributed to the reduction of real terms were cessation of trade with enemy countries, internal and external trade restrictions, and a virtual stoppage of trade with allies such as Russia due to transport difficulties. All these factors contributed to higher rate of fall of exports compared to the rate of fall of imports. Further impacts on India's balance of trade were necessitated by the removal of the war restrictions, and the world wide economic depression in the 1930s. However, in the period of World War II, India stood to gain in the balance of trade as there was a surplus in the exports since India had to supply the British Government with goods to facilitate her interests in the war and thus India accumulated huge Sterling balances.[264]

At India's independence in 1947, the country had a backdrop of colonial pillage and this set up the tone for the country to be impoverished, with a backward rural economy that was predominantly agricultural and employed primitive production techniques. All this called for the Government to play a leading role in the process of a planned development. Therefore, the leaders of India spearheaded by Nehru embraced the Mahalanobis model of development and promoted the inward looking strategy as a path for growth and development.

This period leading to 1991 when India embraced New Economic Policy was a period whereby the Government of India implemented the Import Substitution Policy which led to the establishment of the 'License-quota Raj'. This resulted to a controlled and restrictive trade environment. It is of importance to point out that even up to the 9th Plan with the exception of the

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[264]Rakesh Raman, *India's Balance of Payment Problem: A Monetary Solution* (New Delhi: Deep & Deep Publications Pvt., Ltd., 2005), 19-22

late 1970s; the balance of trade largely remained negative and created a consistent deficit which eventually affected the Balance of Payments.[265]

6.2.2 India's Balance of Trade during the Period under Study (2000-2010)

In this section, we will consider India's balance of trade from the year 2000 to 2010 as this is the period considered in this current study. However, a short preview of Indi's trade balance performance from the years before the start of the planning period, followed by the 1st Five Year Plan all through to the 11th Five Year Plan is worth considering. Mustafa observes that in the years before the planning period, the imports were in excess over the exports. This was because of the need for high imports of capital goods, shortage of food and basic raw materials such as jute and cotton and the consequences of various controls and restrictions during the war and post war period. In the First Five Year Plan of India for the period 1951-52 to 1955-56, it is noted that the trade deficit was of no consequence since the export and imports were almost at the same level. However, the negative trade balance in the same period was attributed to the industrialization program that he Government was implementing and thus drove up the demand for imports of capital goods.[266]

The Third Plan of India posted adverse balance of trade caused by the capital imports during the Second Plan. Increased internal pressure in the country by reason of shortage of food grain compelled an increase in such imports that necessitated an annual average adverse balance of trade that was higher than that of the First Plan. It is further indicated that the foreign exchange crisis in this period advanced to acute levels[267].

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[265] Ibid, 25.
[266] A. Mustafa, *Foreign Trade Finance and Documentation* (New Delhi: University Science Press, 2010), 4.
[267] Ibid, 5.

Table 6:1 Showing Trade Balance for First Plan to Fourth Plan

YEAR	EXPORTS (f.o.b.)	IMPORTS (c.i.f)	TRADE BALANCE (Rs. In Crores)
1ST Plan			
1950-51	647	650	-3
1951-52	730	963	-233
1952-53	602	633	-31
1953-54	540	592	-52
1954-55	597	690	-93
1955-56	641	773	133
Total	**3109**	**3651**	**-542**
2nd Plan			
1956-57	635	1102	-467
1957-58	594	1233	-639
1958-59	576	1029	-453
1959-60	627	932	-305
1960-61	631	1106	-475
Total	**3063**	**5402**	**-2339**
3rd Plan			
1961-62	668	1006	-338
1962-63	681	1097	-416
1963-64	802	1245	-443
1964-65	801	1421	-620
1965-66	783	1350	-567
Total	**3735**	**6119**	**2384**
1966-67	1086	1992	-906
1967-68	1255	2043	-788
1968-69	1367	1740	-373
Total	**3708**	**5775**	**-2067**
4th Plan			
1969-70	1413	1582	-169
1970-71	1535	1634	-99
1971-72	1608	1824	-216
1972-73	1971	1867	+104
1973-74	2523	2955	-432
Total	**9050**	**9862**	**-812**

Source: Indian Economic Surveys (various issues)

It is in the 4th Plan that it's observed for the first time since independence that the Economy recorded favorable balance of trade. This was attributed to the bumper harvest in the years of 1968-69 that enabled a decline in food grain imports. In addition to that, the impact of the prevailing polices of import restriction and dynamic export promotion measures in 1972-73 were also an element in the favorable balance of trade. However, it should be noted that external factors that lead to the increase in prices for oil, steel products, fertilizers and newsprint were the basis for the negative balance of trade in 1973-74.[268]

The effect of a rise in international oil prices caused an adverse trade balance during the Fifth Plan period. However, in 1976-77 a favorable balance of trade of Rs. 72 Crores was recorded accounted for by high exports of fish products, coffee, tea, fabrics, garments and others. On the whole the Fifth Plan period experienced unfavorable trade balances since the Janata Government pursued a policy of unsystematic import liberalization that negated the productive and complimentary effects of the export promotion policies. There were two Sixth Plans in India, formulated by two governments i.e. from 1978-79 to 1980-81 by the Janata Government and 1980-81 to1984-85 by the Congress Government. In this period the trade deficit continued to expand due to the price rise of oil products by the OPEC.[269]

The Congress (I) was in power during the Seventh Plan and unfortunately, its policy of liberalization resulted in a deficit in trade balance in the early years of the Seventh Plan. It is further noted that in the SixthPlan period, the Janata Dal Government too had pursued a liberalization policy that necessitated a loan of US$ 6.7 billion from the IBRD and the IMF. In as much as the years 1990-1992 fall under no specific Plan, or, we can say there was a "Plan Holiday", the trade balance was unfavorable because of the impact of Gulf War during which as

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[268] A. Mustafa, *Foreign Trade Finance and Documentation* (New Delhi: University Science Press, 2010), 7.
[269] Ibid, 8

there were imports of Rs. 43193 Crores, and exports of Rs. 32558 Crores to give a deficit of Rs. 10635 Crores. It should be noted that the growth of exports failed to improve even after the new trade policies of 1991 such as devaluation of the Rupee, EXIM scrips, and the abolition of the Cash Compensatory Support (CCS).[270]

A number of policies were introduced in the 8th Plan of 1992-93 to 1996-97 as a recipe for the adverse trade balances. These policies included the reduction of trade barriers, introduction of tax reforms, and the abolishing of the licensing requirements as well as the devaluation of the Rupee. The trade balance during the Ninth Plan of 1997-98 to 2001-02 was unfavorable as there was external pressure due to the South East Asian economic crisis, recession in Japan and economic turmoil in Russia. It is of significance to point out that during the Ninth Plan there was an upward trend of both exports and imports which resulted in a deficit that was double the average in the Eigth Plan.[271]

Table 6:2 Showing Trade Balance for 5th Plan to 8th Plan

YEAR	EXPORTS (f.o.b.)	IMPORTS (c.i.f)	TRADE BALANCE (Rs. In Crores)
5th Plan			
1974-75	3329	4519	-1190
1975-76	4043	5265	-1222
1976-77	5146	5074	+72
1977-78	5404	6025	-621
1978-79	5726	6814	-1088
Total	**23648**	**27697**	**-4049**
6th Plan			
1979-80	6459	8908	-2449
1980-81	6711	12524	-5813
1981-82	7806	13608	-5802
1982-83	8908	14356	-5448
1983-84	9770	15831	-6061
1984-85	11959	18680	-6721

[270] A. Mustafa, *Foreign Trade Finance and Documentation* (New Delhi: University Science Press, 2010), 9.
[271] Ibid, 10.

Total	**45154**	**74999**	**-29845**
7th Plan			
1985-86	10895	19658	-8763
1986-87	12452	20096	-7644
1987-88	15674	22244	-6570
1988-89	20231	28235	-8004
1989-90	27658	35328	-7670
Total	**86910**	**125561**	**-38651**
1990-91	32558	43193	-10635
1991-92	44042	47851	-3809
Total	**76600**	**91044**	**-6826**
8th Plan			
1992-93	53688	63375	-9687
1993-94	69751	733101	-3350
1994-95	82674	89971	-7297
1995-96	106353	122678	-16325
1996-97	118817	138920	-20103
Total	**431283**	**488045**	**-431283**

Source: India Economic Survey (various Issues)

The period under study, the years 2000 to 2010 begins during the Ninth Plan (1998-2002), through the Tenth Plan (2002-2007) and it ends in the beginning years of the Eleventh Plan (2007-2012) period of the Indian development story. Having considered the performance of the trade balance of the first 2 years in the Ninth Plan, it is of significance to stress that during this Plan, the exports increased by 5.6% as compared to the target of 11.8% while the imports improved by 4.1% as compared to the projected 10.8%. It is also noted that there was a negative trade balance to the tune of US$ 74 billion.[272]

During the Tenth Plan period which was from 2002 to 2007, "the Indian exports were considered to be determined by the supply side", as observed by Jayapalan. He further states that the Indian exports were projected to grow at a compound growth rate of 12.4% per annum. In

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[272] N. Jayapalan, *Economic History of India: Ancient to Present 2nd ed.* (New Delhi: Atlantic Publishers & Distributors (P) LTD, 2008), 304.

regards to the imports, the projected growth rate was of 16.3% per annum which was to be accompanied by the gradual reduction of tariffs from 37.1% to 18% in 2001-02 to 2006-07 whereas the trade balance deficit was estimated to grow from 2.9% to 6.6% in the years 2001-02 to 2006-07.[273] It is of importance to consider that the performance of the exports would have done well was it not that it was undermined by the prevailing import policies that were heavily influenced by the WTO. Due to this, therefore the trade balance was once again unfavorable.

Table 6:3 Showing Trade Balance for 9th Plan to 11th Plan

YEAR	EXPORTS (f.o.b.)	IMPORTS (c.f.f)	TRADE BALANCE (Rs. In Crores)
9th Plan			
1997-98	130101	154176	-24076
1998-99	139753	178332	-38579
1999-00	159561	215236	-55675
2000-01	203571	230873	-27302
2001-02	209018	245200	-36182
Total	**842004**	**1023817**	**-181814**
10th Plan*			
2002-03	255137	297206	-42069
2003-04	293637	359108	-65741
2004-05	375340	501065	-125725
2005-06	465748	695412	-229664
2006-07	579128	865404	-286276
Total	**1968990**	**2718195**	**-749475**
11th Plan*			
2007-08	655864	1012312	-356448
2008-09	840755	1374436	-533680

[273] Ibid, 306-307.

2009-10	845534	1363736	-518202
2010-11	1142922	1683467	-540545
2011-12	1465959	2345463	-879504
Total	**4951034**	**7779414**	**-2828380**

Source: DGCIS, Kolkata; *[274]

6.3 Terms of Trade

International trade is relevant in our times because the countries that are involved in trade do benefit in one way or another. If there was no gain from trade, then the whole point of trade is defeated. However, when considering the gains of trade, we must factor in the terms of trade. It is from this concept that the participating parties are able to measure the income levels in relation to trade output. It will of value then, to discuss what is meant by terms of trade and its significance in international trade.

Shrivastava states that the terms of trade determine the gains that will accrue to a country. He also holds that domestic terms of trade refer to the ratio at which one commodity will exchange for another while international terms of trade measure the ratio between the domestic terms of trade of two countries at which goods are cleared. Shrivastava further observes that the study of terms of trade held more importance especially after the World War II in that it determined international trade, balance of payment disequilibrium, volume of national income and its distribution. More importantly, the terms of trade influence the net effect of economic forces which affect international economic relations.[275]

It is further observed that Economists such as Adam Smith, Ricardo and Mill propounded that the terms of trade were healthy for a country only if they were not artificially induced such

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[274]Ministry of Commerce, GOI, "Annual Report 2013-14" [article online]; Available http://commerce.nic.in/MOC/pdf_download/5.Trends%20in%20India's%20Foreign%20Trade.pdf;internet; accessed November 21, 2014.

[275] O. S. Shrivastava, *International Economics* (New Delhi: Concept Publishing Company Pvt., Ltd, 2011), 89.

as through protective tariffs which in actuality worked against the benefits of free trade accruing to a country, and will lead to sacrificing the benefits of comparative advantage. It is noted that most economists held that so long as there were not offsetting factors, changes in commodity terms of trade were of benefit to the country.[276]

It is of importance to indicate that there are different concepts of the terms of trade which are categorized by three distinct groups.[277] These are:

1. According to the rate of exchange between the goods:
    a) Net Barter Terms of Trade
    b) Gross Barter Terms of Trade
    c) Income Terms of Trade
2. According to the exchange between productive factors:
    a) Single Factorial Terms of Trade
    b) Double Factorial Terms of Trade
3. According to the gain from international terms in trade of utility:
    a) Real Cost Terms of Trade
    b) Utility Terms of Trade

It is of importance to point out here that the terms of trade under the first named above category, i.e. those according to the rate of exchange between goods, are usually employed in empirical analysis.

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[276] O. S. Shrivastava, *International Economics* (New Delhi: Concept Publishing Company Pvt., Ltd, 2011), 89-90.
[277] T.N. Hajela, *Money, Banking and International Trade* (New Delhi: Ane Books Pvt. Ltd., 2009), 42.

6.2.3 Net Barter Terms of Trade

The Net Barter Terms of Trade is also known as Commodity Terms of Trade. It is used to represent the ratio between export price index and import price index. This can be expressed in an equation form as follows[278]:

$$N = \frac{Px}{Pm} \text{ X } 100$$

Where *Px* represents the export price index and *Pm* stands for the import price index. For illustration purposes, let us imagine that in 2010 country A has the index number of export prices as 400 and that the index number of import prices as 200. The net barter terms of trade for that year will be:

$$N = \frac{400}{200} \text{ X } 100 = 200$$

This will therefore imply that the net barter terms of trade for country A in the year 2010 posted an increase of 100% over the base year. The significance of this is that a given volume of exports will exchange for a larger volume of imports than formerly thus to indicate favorable terms of trade. Alternatively, country A has favorable conditions for it to export the same volume of commodities in return for a larger volume of imports.

6.2.4 Gross Barter Terms of Trade

Gross Barter Terms of Trade is used to measure the real gain from trade by comparing the imports received against the exports shipped out. It is of importance to note that apart from trade merchandise, gross barter terms of trade also takes into account gifts, tourist income and unilateral transfers. This measurement is obtained by calculating the index of import quantity and the index of export quantity to determine a ratio between the two. It is of importance to point out

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[278]Sharan Vyuptakesh, *International Business: Concepts, Environment and Strategy 3rd ed*. (New Delhi: Dorling Kindersly (India) Pvt., 2006), 73.

that the gross barter terms of trade are favorable when the value of exports is able to import a larger quantity of imports. This is to state that the gross barter terms of trade are reciprocal in nature to the net barter terms of trade. Gross barter terms of trade can be expressed in an equation form as follows[279]:

$$G = \frac{Qx}{Qm} X\ 100$$

Where *Qx* represents the export quantity index while *Qm* stands for the import quantity index. For illustration purposes, let us imagine that in 2010 country B posted an export quantity index of 160 while the import quantity index was at 70. Then the gross barter terms of trade for country B in 2010 will be:

$$G = \frac{160}{70} X\ 100 = 228.57$$

This will therefore imply that the gross barter terms of trade for country B in 2010 posted an increase of about 128.57% over the base year. The significance of this is that the value of gross barter terms of trade is increasing which indicates that more imports are purchased for a certain volume of exports. However, it will be wise to be cautious here because import prices can fall due to various reasons or even different determining factors of the balance of payments such as the increase of "invisible" receipts.[280]

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[279] Sharan Vyuptakesh, *International Business: Concepts, Environment and Strategy 3rd ed.* (New Delhi: Dorling Kindersly (India) Pvt., 2006), 73.
[280] Sharan Vyuptakesh, *International Business: Concepts, Environment and Strategy 3rd ed.* (New Delhi: Dorling Kindersly (India) Pvt., 2006), 74.

6.2.5 Income Terms of Trade

The Income Terms of Trade is an improved version of the Net Barter Terms of Trade. This was first used by G.S. Dorrance who proposed that the income terms of trade can be defined as the index of value of exports which is divided by the price index of imports. This can further be illustrated as:

$$I = \frac{PxQx}{Pm} \text{ X } 100$$

Where *I* is the income terms of trade, *Px* is the price of exports in base year and *Qx* is the quantity of exports while *Pm* is the price index of imports. It is important to point out now that when there is an increase in the value of the index, this implies that there is a larger value of imports for the same value of exports, while a fall in the index will indicate that there is a decline in the country's capacity to import. It is also of significance to observe that a country's income terms of trade can improve while its net barter terms of trade decline. The rationale behind this is that when import prices remain the same and there is a fall in the export prices, the export sales will be raised and thus an increased value of exports[281].

6.2.6 India's Terms of Trade with Kenya

In this segment, the Indo-Kenyan trade will be investigated to appraise the gains from the terms of trade on the foundation of the available data. However, before embarking on this exercise, a brief analysis of the process and factors to be taken into account will be reviewed. It

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[281] T.N. Hajela, *Money, Banking and International Trade* (New Delhi: Ane Books Pvt. Ltd., 2009), 46.

is important to also note that the index numbers of the terms of trade are fundamental since they are used to convey the comparative changes in a variable in relation to a particular base. The computation of index numbers involves:

a) Choice of data
b) Choice of an average i.e. weights and formulae
c) Choice of a base year

Choice of Data

The choice of data will be sourced from the government publications that are rich in statistics. These include the Economic Surveys of various years as regards to Kenya and India; as well as trade statistics from the department of Commercial Intelligence and Statistics, Government of India. The purpose for the acquirement of data from these entities is for the need to maintain reliability and consistency.

Choice of an average i.e. Weights and Formulae

To arrive at an average which is employed for the calculation of terms of trade, a formula is identified and applied. However, it is important to keep in mind that the formulae are determined by the choice of weights that is employed. A formula such as the arithmetic mean is the simplest of all since it considers all commodities to be homogenous. However, the weighted arithmetic average gives room for one to use the weights of commodities in light to their importance in the combined trade.

A brief description of the formulae employed in the calculations of volume and value index numbers include Paasche's Index, Laspeyre's Index and Fisher's Index. Fisher's Index

presents a difficulty in the calculations due to the inconsistency of time and money.[282] The Paasche's Index also known as the Current-Weighted Index by nature is a weighted index which presents the advantage of comparing the development of prices of commodities in the same/current year.[283] However, it has also been observed that Paasche's Index underestimates the quantities involved due to fact the formula considers these quantities in the base year to be the same as of the current year. On the other hand, the Laspeyre's formula which is a base weighted index[284] will project the changes in prices/value and not weight. This has the disadvantage such that over time, the quantities of the trade will change but not be reflected as the reality. Therefore, it is observed that the Laspeyres' formula will overestimate the changes.

Choice of Base Year

The selection of a base year could be problematic for the reasons that the year selected is to be a 'normal' year of which this presents an ambiguous definition for the phrase 'normal'. However, for the purpose of the current study, the base year selected was based on the following: (i) that the year was free from strong economic and other fluctuations, and (ii) the year was not remote from the period under consideration. Just to mention a few of the indicators of 'normality' i.e. free from changes in official policies such as tax rates, tariffs and other economic policies that may significantly impact the fabric of trade and business. For the purpose of analysis, the year 2000 was selected as the choice of the base year.

Table 6:4: Index Numbers of India's Trade with Kenya for the Period 2000- 2010

(Base: 2000=100)

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[282] John Black et al, *Oxford Dictionary of Economics 4th ed* (UK: Oxford Press University, 2012), 158.
[283] John Black et al, *Oxford Dictionary of Economics 4th ed* (UK: Oxford Press University, 2012), 96.
[284] Ibid, 30.

Year	Values In INR (m)		Values In USD (m)		Terms of Trade
	Import	Export	Import	Export	Net
2000-2001	100.00	100.00	0.00	0.00	**100**
2001-2002	282.95	142.10	100.00	100.00	**-50.22**
2002-2003	595.83	308.98	0.00	0.00	**-51.86**
2003-2004	633.81	810.17	226.14	581.51	**127.83**
2004-2005	1,274.50	1,388.60	466.86	1,017.95	**108.95**
2005-2006	1,080.90	1,984.98	410.30	1,499.79	**183.64**
2006-2007	1,800.79	3,166.56	658.54	2,327.05	**175.84**
2007-2008	1,770.61	3,260.97	711.60	2,624.00	**184.17**
2008-2009	1,968.68	5,365.81	757.06	4,166.52	**272.56**
2009-2010	1,854.46	5,889.74	636.28	4,084.65	**317.60**
2010-2011	3,193.87	6,234.40	1,150.85	4,546.16	**195.20**

Source: GoI Monthly Statistics of Foreign Trade of India, D.G.C.I. &S, Calcutta (various issues)

At this juncture, we shall focus on the terms of trade between India and Kenya for the period under study i.e. 2000 to 2010. As presented in the above Table 6.4, the index numbers for import and export in terms of value are presented in accordance to the currency as well as the Net Terms of Trade. It is evident from the table that the Net Terms of Trade for the years 2001-02 and 2002-03 displayed negative terms of trade in that on both accounts the Net Barter Terms of Trade were below 100 - the base year index. This means that the terms of trade for India were

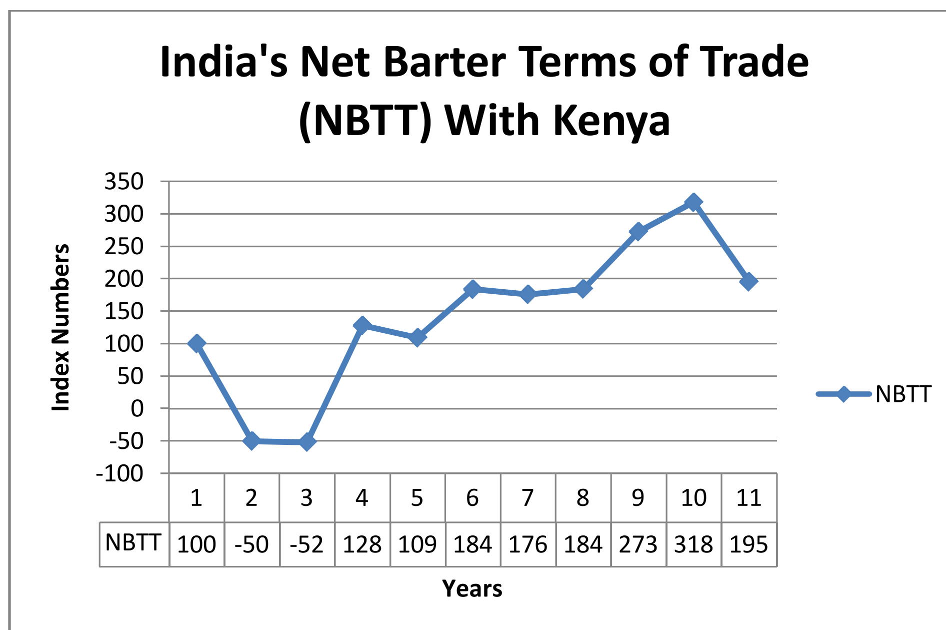
unfavorable since India had to pay a higher quantum of exports in return for the same value of imports. This was on account of the percentage decrease of -49.22 and -50.86 respectively.

In the subsequent years, India had favorable net barter terms of trade. To begin with, in the year 2003-04, the index number of net barter terms of trade stood at 127.83. The 27.83% increase from the previous year was accounted to two factors interacting simultaneously i.e. there was a 162.21% increase in export value index and a 6.37% marginal rise of import index value. However this trend displayed negative growth when the net barter terms of trade stood at 108.95 in 2004-05 to indicate a 7.95% increase compared to the base year. This is attributed to the increased import values of up 101.1% over the previous year.

India's trade patterns following the years 2004-05 to 2009-10 displayed improving net barter terms of trade with an exception in the year 2007-08 when the net barter terms of trade posted negative growth of 9.44% even though the terms were favorable for India as compared to the base year. Nevertheless, from the year 2006-07 to 2009-2010 displayed high performing net barter terms of trade. As indicated in the above table, the index numbers were 175.84, 184.17, 272.56 and 317.60 respectively. This trend is attributed to an increase in export value from 83.17% in 2006-07 to 216.60% in 2009-2010 whereas the import value was marginally increase and decreasing. However, the period under study closes with the net barter terms of trade falling from 317.60 to 195.20 a decrease of 38.54% attributed to the increase of index numbers of import values from 1,854.46 to 3,193.87 which was a handsome increase of 72.23%.

It must be noted here that even though there were fluctuations in the net barter terms of trade owing to the erratic movements in import as well as the export value indices considered in the period under study, collectively India enjoyed favorable net barter terms of trade since the imports from Kenya were comparatively cheaper.

Line Graph 6:1: India's Net Barter Terms of Trade with Kenya



	1	2	3	4	5	6	7	8	9	10	11
NBTT	100	-50	-52	128	109	184	176	184	273	318	195

The above line graph points out India's net barter terms of trade with Kenya i.e. above 100 is favorable terms of trade and below 100 is unfavorable.

6.3 Review of Kenya's Exports

It is unequivocal that foreign trade is of importance to Kenya in the process of integrating itself into the world markets so as it can be a major exporter in East African region and among the Sub-Saharan countries. However, Kenya's performance in exports is fairly poor and this builds up pressure for the country to renovate to new products other than the traditional and non-traditional exports and diversify its exports so as to stay ahead and be competitive. This is an indication that the strategy of traditional export led growth for the economy is not a winning solution and therefore suggests a gradual departure. This trend can be attributed to decline of prices of the traditional commodities in export segment to point out that focus should be on non-traditional commodities which reflect a rather strong comparative advantage for Kenya.

From the forgone chapters, it has been discussed that since independence, Kenya's economy adopted import substitution policies but also was hinged on the Agricultural sector. As a primary commodity exporting economy, Kenya's traditional exports included tea and coffee while the non-traditional commodities have increased over time especially in regards to the period under review i.e. 2000 to 2010 for this current study. Currently, the growth of Kenya's economy is largely by far a consumer based one. However, this is a weak point since it presents vulnerability to the economy on a variety of measures especially from external shocks. To this end, the researcher emphasizes strongly that the economy must restructure itself to expand its growth from a consumer based to export based growth.

Moving on ahead, the performance of exports especially those of developing economies and more so of the Sub-Saharan Africa depends on the internal conditions that determine supply and as well as the external demand factors. One could argue that the expansion of internal demand diminishes the quantity of goods on hand for exports. This is of course on the supposition that the domestic trade is more rewarding than that on the international scene. This seems to be the case for the Kenyan economy due to the lag in the exports. This rational could be attributed to the dynamic internal structure of the Kenyan economy, rise in internal demand for consumer goods, and the ever increasing domestic production that deters vibrant exports among other factors.

While reviewing the exports of Kenya, it is of importance to note that the exports of Kenya are grouped into two segments as in recorded in the Balance of Trade documents. These segments are (i) Domestic Exports that comprises of the locally produced goods and services for export market, and (ii) Re-Exports which comprises of goods of import nature that are exported. So as noted above, these two categories are clubbed together to give the total description of

exports. On the other hand, considering the Imports, this section is comprised of Commercial imports as well as Government imports.

In regards to the current study, the structure and composition of Kenya's exports will be highlighted by the researcher with the objective understanding the trade relationship between Kenya and Indian more especially during the period under review.

6.4 Structure of Kenya's Exports

As could be seen from Table 6.3, it is evident that both categories of exports and imports have displayed strong fundamental growth during the period under review. To begin with, the total value of exports in 2000 stood at Ksh. 143,527 million which was 4.95% of the total trade of the period under review while in 2010, the value of exports was Ksh. 409,793.70 million which was 15.07% of the total value of trade in the same period. This indicated an expansion of trade from 4.95% in 2000 to 15.07% in 2010.

On the import side, vibrant growth is seen with imports at Ksh. 240,804 million in 2000 while in 2010 imports stood at Ksh. 947,381.9 million. It is observed that in 2002 the growth of imports posted a negative trend from 5.28% to 4.69%. Further analysis confirms that imports exceed the exports in the period under review thereby indicating a negative Balance of Trade. The cover ration expressing the total exports to total imports indicates that in 2002 it stood at 65.7% as the highest while in 2010 it was at 43.3% as the lowest. A higher Cover Ratio indicates a smaller difference between imports and exports while a lower Cover Ratio indicates larger difference. This is to suggest that since 2006, the Kenyan economy has been importing more as compared to the period 2000 to 2005 hence confirming that the economy depends more in imports for growth as opposed to exports which is the ideal method of growth.

Table 6:5: Balance of Trade, 2000 – 2010 (Ksh Million)

DESCRIPTION	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total 2000-10
EXPORTS (f.o.b):												
Domestic Exports	119,764	121,434	131,394	136,709	159,048	193,692	228,181	261,685.1	322,659.8	323,571.4	385,665.7	
Re-exports	14,763	26,156	37,889	46,445	55,745	50,506	22,813	12,972.5	22,286.9	21,378.4	24,128.0	
Total	134,527	147,590	169,283	183,154	214,793	244,198	250,994	274,657.6	344,946.7	344,949.8	409,793.7	2,718,886.80
% of Total Exports 2000-10	4.95	5.43	6.23	6.74	7.90	8.98	9.23	10.10	12.69	12.69	15.07	100.00
IMPORTS (c.i.f):												
Commercial	240,473	285,107	254,006	278,838	361,293	428,179	510,792	597,877	763,704.2	780,323.4	934,905.5	
Government	7,331	5,001	3,704	3,005	3,264	2,561	10,691	7,235	6,947.0	7,773.3	12,476.4	
Total	240,804	290,108	257,710	281,844	364,557	430,740	521,483	605,111.8	770,651.2	788,096.7	947,381.9	5,498,487.60
% of Total Imports 2000-10	4.38	5.28	4.69	5.13	6.63	7.83	9.48	11.01	14.02	14.33	17.23	100.00
BALANCE OF TRADE	-113,277	-142,518	-88,427	-98,690	-149,764	-186,542	-270,489	-330,454.3	-425,704.5	-443,146.9	-537,588.3	
TOTAL TRADE	382,331	437,698	426,993	464,997	579,350	674,938	772,477	879,769.4	1,115,597.8	1,133,046.5	1,357,175.6	
COVER RATIO (%)*[285]	54	50.9	65.7	65.0	58.9	56.7	48.1	45.4	44.8	43.8	43.3	

[285] * *Source: Kenya National Bureau of Statistics/ Kenya Revenue Authority*
COVER RATIO= (Total Exports/Total Imports)*100

As regards the structure and composition of Kenya's exports, it is of importance to note that the exports are comprised of primary commodities along with other goods and services. Further on, the exports are also divided into traditional and non-traditional exports. Kenya's traditional exports include those that are from the Agricultural sector i.e. Tea and Coffee being the most strongly performing goods. A later entry to this category is the Horticulture industry. Additionally, other categories of exports include the natural resources, animal and vegetable, manufactured goods, machinery and equipments.

However, for the purpose of this current study a more detailed consideration will be applied in regards to the composition of the exports from Kenya are concerned. As can be observed from Table 6.6 below, the composition of the Domestic Exports from Kenya are largely divided into 7 categories. These include (i) Food and Beverage that is constituted by both primary and processed items; (ii) Industrial Supplies that are of Non-food nature comprised of primary and processed; (iii) Fuel and Lubricants of both primary and processed kinds; (iv) Machinery and Other Capital Equipments; (v) Transport Equipments that entails Passenger, Industry and Non-Industry; (vi) Consumer Goods both of durable and semi-durable natures; and lastly (vii) Goods Not Elsewhere Specified. This is the composition of the Domestic Exports of the Kenyan Economy.

Table 6:6: Domestic Exports by Broad Economic Category, 2000 – 2010

DESCRIPTION	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. FOOD AND BEVERAGES	**67,390.3**	**59,717**	**68,141**	**70,070**	**75,071**	**90,946**	**97,801**	**105,549**	**130,273**	**136,751**	**170,050**
Primary	56,804.1	47,680	53,358	55,163	60,062	69,442	76,330	78,558	97,994	107,319	136,579
For Industry	11,805.5	7,623	8,403	7,350	7,317	9,915	11,151	11,689	11,381	16,710	18,099
For Household Consumption	44,998.5	40.057	44,955	47,813	52,745	59,526	65,179	66,869	86,613	90,608	118,480
Processed	10,586.2	12,037	14,783	14,907	15,009	21,504	21,471	26,991	32,279	29,433	33,471
For Industry	965.0	963	2,501	2,629	1,172	3,736	3,176	3,543	4,036	5,151	4,130
For Household Consumption	9,621.2	11,075	12,283	12,278	13,837	17,769	18,295	23,448	28,243	24,282	29,341
2. INDUSTRIAL SUPPLIES (Non-food)	**22,921.3**	**27,541**	**32,548**	**34,743**	**39,479**	**49,978**	**53,715**	**66,678**	**92,500**	**87,342**	**108,201**
Primary	6,436.8	9,379	10,928	12,129	15,147	11,207	11,999	13,545	18,463	19,975	19,356
Processed	16,484.5	18,163	21,620	22,614	24,332	38,771	41,716	53,133	74,037	67,367	88,845
3. FUEL AND LUBRICANTS	**10,241.4**	**12,421**	**4,007**	**423**	**1,182**	**6,755**	**6,882**	**8,931**	**4,589**	**4,553**	**7,454**
Primary	4.6	3	3	3	5	7	15	12	12	9	7
Processed	10,236.9	12,418	4,004	420	1,177	6,747	6,867	8,919	4,577	4,543	7,448
Motor Spills	3,629.5	3,217	418	9	31	1,778	199	417	238	318	561
Other	6,607.4	9,201	3,586	411	1,146	4,969	6,668	8,502	4,339	4,225	6,887
4. MACHINERY AND OTHER CAPITAL EQUIPMENT	**597.5**	**691**	**911**	**890**	**1,904**	**2,154**	**3,529**	**4,426**	**5,566**	**6,781**	**9,036**
Machinery & Other Capital Equipment	431.9	497	649	590	1,254	1,471	2,932	3,518	4,787	5,492	7,320
Parts and Accessories	165.6	193	262	300	650	683	597	908	779	1,288	1,715

5. TRANSPORT EQUIPMENT	**557.0**	**502**	**1,049**	**1,034**	**1,716**	**2,201**	**2,762**	**3,475**	**3,672**	**5,828**	**6,576**
Passenger Motor Vehicles	149.2	117	57	81	147	75	68	115	69	100	228
Other	116.7	154	189	299	362	1,120	1,441	1,888	2,168	3,978	3,885
For Industry	98.7	142	171	191	349	1,071	1,368	1,815	2,124	3,944	3,517
Non-Industrial	18.0	12	18	108	13	49	73	73	44	34	368
Parts and Accessories	291.0	230	803	654	1,207	1,006	1,253	1,473	1,435	1,750	2,464
6. CONSUMER GOODS NOT ELSEWHERE SPECIFIED	**18,044.6**	**20,345**	**23,175**	**26,340**	**33,648**	**41,512**	**63,436**	**72,623**	**86,036**	**82,291**	**84,044**
Durable	274.2	402	327	373	381	678	629	2,211	2,560	3,234	1,326
Semi-durable	3,912.6	4,548	5,101	5,081	6,525	7,429	22,939	22,278	24,091	20,239	22,036
Non-durable	13,857.8	15,395	17,748	20,885	26,742	33,405	39,868	48,134	59,385	58,818	60,683
7. GOODS NOT ELSEWHERE SPECIFIED	**11.6**	**217**	**1,562**	**3,209**	**6,048**	**147**	**56**	**3**	**24**	**25**	**305**
TOTAL	**119,763.7**	**121,434**	**131,394**	**136,709**	**159,048**	**193,692**	**228,181**	**261,685**	**322,660**	**323,571**	**385,666**
PERCENTAGE SHARES											
1. Food and Beverages	56.27	49.18	51.86	51.25	47.20	46.95	42.9	40.3	40.4	42.3	44.1
2. Industrial Supplies (Non-Food)	19.14	22.68	24.77	25.41	24.82	25.80	23.5	25.5	28.7	27.0	28.1
3. Fuel and Lubricants	8.55	10.23	3.05	0.31	0.74	3.49	3.0	3.4	1.4	1.4	1.9
4. Machinery and other Capital Equipment	0.50	0.57	0.69	0.65	1.20	1.11	1.5	1.7	1.7	2.1	2.3
5. Transport Equipment	0.47	0.41	0.80	0.76	1.08	1.14	1.2	1.3	1.1	1.8	1.7
6. Consumer Goods	15.07	16.75	17.64	19.27	21.16	21.43	27.8	27.8	26.7	25.4	21.8

not elsewhere Specified											
7. Goods not elsewhere Specified	0.01	0.18	1.19	2.35	3.80	0.08	0.0	0.0	0.0	0.0	0.1
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: Various Publications of Kenya National Bureau of Statistics/Kenya Revenue Authority

As could be seen from Table 6.6 above, domestic exports categories of Food and Beverage, Industrial Supplies and Consumer Goods Not Elsewhere Specified are easily noted to be steadily gaining prominence in the share of National exports during the period under review. To begin with, in 2000 Food and Beverage assumed increased importance in the country's exports accounting for 56.27%. While on the other hand, Industrial supplies and Consumer Goods Not Elsewhere Specified assumed an increasing importance accounting for 19.14% and 15.07% respectively in the same period. It is to be noted that the other categories together accounted for 9.53% of the total exports for that year.

Analysis shows that there was significant change in the exports as regards to the year 2001. As can be seen, Food and Beverage recorded a significant decrease in exports from 56.57% to 49.18%. There was a positive change in share improvements as regards to Industrial Supplies, Fuel Lubricants, and Consumer Goods not Elsewhere Specified all contributing 22.68%, 10.23% and 16.75% respectively. Machinery and other Capital Equipments, Transport Equipment as well as Goods not Elsewhere Specified all recorded marginal improvement in export performance as compared with the previous year.

It is of importance to note that in the period 2002 and 2003, there was little change in export performance. However, there was an obvious feature of marginal declines in Food and Beverage from 51.86% to 51.25%, Machinery and Other Capital Equipments recorded a drop from 0.69% to 0.65% while Transport Equipment feature a marginal decline from 0.80% to 0.76%. However, there was a slight improvement in Industrial Supplies, Consumer Goods not Elsewhere Specified and Goods not Elsewhere Specified all recording perceptive increases to 25.41%, 19.27% and 3.80% respectively. It must be noted that in Fuels and Lubricants, there was a significant decrease in share exports in 2001 from previous 10.23% to 0.31% in 2003 and this

same trend, however marginal, was noticed in Transport Equipments that recorded a decrease to 0.76%.

Trends of declining exports continued to abate from 2004 to 2010 of the review period especially from the Food and Beverage category. As noted, in 2004, the exports stood at 47.20% indicating a drop from the previous year and this trend was consistent to 2007 and 2007 where the exports recorded lowest mark of 40.3% and 40.4%. This is attributed to the Post Election Violence that engulfed the country in the disputed General Elections of 2007. The same trend is noted in categories Fuel and Lubricants, Transport Equipments, and Goods not Elsewhere Specified that all indicated diminishing exports. It must be noted that between 2006 and 2010 that exports fell drastically to 0% in the category of Goods not Elsewhere Specified. However, categories such as Industrial Supplies and Consumer Goods not Elsewhere Specified held their grounds and even posted significant increases in exports. For example, there was an improvement from 21.43% in 2005 to 27.8% in 2006 under the Consumer Goods not Elsewhere Specified while in Industrial Supplies also emerged strongly to post highest export percentage share of 28.7% in 2008 and closing with 28.1% in 2010 in the period under review.

As regards the destination of the Kenyan exports, the researcher will employ Table 6.7 below. The destination of Kenya exports are divided into zones and countries. These are: (i) Europe which is comprised of 3 zones namely Western Europe of which the European Union (EU) falls under, Other Western Europe and Eastern Europe. It is important to note that EU comprises of countries such as Belgium, Finland, France, Germany, Italy, Netherlands, Spain, Sweden, United Kingdom (UK), and others. The Easter European countries include Russia Federation, Poland, Romania and others; (ii) The America zone is comprised of U.S.A, Canada and others; (iii) The Africa zone includes South Africa, Rwanda, Egypt, Tanzania, Uganda and

Others; (iv) The Asia zone that is comprised of Middle East and Far East. Countries of the Middle East include Iran, Israel, Jordan, Saudi Arabia, United Arab Emirates and others while the Far East zone is comprised of China (Mainland), India which is the focus of the current study, Indonesia, Japan, Korea South, Pakistan, Singapore, Others; (v) the Australia and Oceanic destinations. It is of significant to point out that all other countries, Aircrafts and Ships Stores have also been considered as destinations for Kenyan exports. The researcher will point out here that due to the limitation of space and time, Table 6.5 has been condensed to just indicate the vitals and more especially exports to Far East of which India is grouped under. This is solely for the purpose of highlighting Kenya's export behavior in relation to India in the Far East zone.

Table 6:7: Total Kenyan Exports by Destination, 2000-2010 (KSh Million)

DESCRIPTION	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	T. Exports 2001-10
TOTAL[286] **EUROPE**	**41,804**	**42,499**	**49,478**	**56,579**	**60,933**	**67,175**	**71,415**	**79,277**	**98,513**	**100,975**	**109,422**	**7,78,070**
TOTAL AMERICA	**3,588**	**4,256**	**4,107**	**3,880**	**6,066**	**6,014**	**18,288**	**20,520**	**22,054**	**18,961**	**24,387**	**1,32,121**
TOTAL AFRICA	**61,935**	**72,513**	**83,085**	**84,653**	**101,809**	**120,327**	**108,306**	**124,029**	**162,541**	**162,732**	**188,975**	**12,70,905**
TOTAL M. EAST	**6,583**	**8,938**	**7,065**	**6,604**	**7,465**	**8,824**	**9,714**	**13,734**	**15,932**	**19,300**	**30,525**	**1,34,684**
FAR EAST												
China (Mainland)	323	248	375	510	903	1,265	1,555	1,471	2,030	2,487	2,512	**13,679**
INDIA	**1,361**	**2,362**	**2,543**	**2,498**	**4,147**	**4,000**	**3,749**	**5,824**	**6,769**	**5,137**	**8,478**	**46,868**
Indonesia	108	71	191	227	475	768	318	420	672	567	989	**4,806**
Japan	1,450	1,332	1,753	1,215	1,593	1,855	1,255	1,302	2,340	2,228	2,091	**18,414**
Korea South	174	55	52	68	92	137	399	318	210	262	177	**1,944**
Pakistan	9,986	8,877	8,341	9,153	11,359	14,072	14,547	13,531	13,935	15,172	18,069	**1,37,042**
Singapore	433	531	264	174	192	193	168	1,723	1,491	1,838	649	**7,656**
Other	1,823	2,981	5,330	7,333	6,813	5,935	6,210	7,905	13,862	12,246	18,111	**88,549**
TOTAL	**15,657**	**16,456**	**18,849**	**21,177**	**25,574**	**28,226**	**28,201**	**32,493**	**41,310**	**39,935**	**51,075**	**3,18,953**
TOTAL, ASIA	**22,241**	**25,395**	**25,914**	**27,781**	**33,038**	**37,050**	**37,915**	**46,227**	**57,241**	**59,236**	**81,600**	**4,53,638**
TOTAL AUSTRAILIA & OCEANIC	**4,345**	**2,093**	**6,099**	**6,639**	**12,329**	**12,739**	**11,147**	**3,340**	**3,284**	**2,130**	**4,649**	**68,794**
TOTAL EXPORTS	**134,527**	**147,590**	**169,241**	**183,154**	**214,793**	**244,198**	**250,993**	**274,947**	**344,947**	**344,949**	**409,794**	**27,19,133**

[286] **Figures as from 2004 includes the 25 EU members

Source: Various Publications of Kenya National Bureau of Statistics/Kenya Revenue Authority

Table 6.7 presents Kenya's total exports to various destinations i.e. zones around the world during the period under review. The table reveals that Africa is the single largest exporting destination of the Kenya's exports. This is an indication that's perhaps points out the inability of the government to reorient and diversify the export sector with the objective of increasing exports to the other export destinations other than African which are more lucrative in export earnings as opposed to the African market. For instance, it is the major value traditional commodities such as Tea, Coffee, and Horticulture that make up most of the exports to zones such as Europe, Americas and Asia. This further illustrates the inability of diversifying the exports from traditional to non-traditional exports.

Noted in Table 6.7 is the increase in growth of exports across the board during the period under review. It is also evident that there is a year on year increase in exports to all exports zones though with exceptions of a few pockets of stagnation or decline in Europe and South Korea and Singapore in the Far East during the period 2008 to 2009. It is also noted that exports are highest to the African zone with a total of Ksh.1, 270,905 millions accounting for 46.76% of the total exports during the period under study. In the trend for export destination, Africa is followed by Europe zone, then by Far East zone, followed by Middle East zone, then America, and lastly Australia & Oceanic at 28.61%, 11.73%, 4.95%, 4.86% and 2.53% respectively as revealed in Table 6.6.

Further analysis from Table 6.7 reveals interesting observations when considering the Far East Zone of which India is listed as a Kenyan export destination. It is revealed that the highest value of exports to the Far East Zone is concentrated in Pakistan. This is to state that Pakistan is Kenya's single largest export destination accounting for 5.04% of the 11.73% of total exports to the Far East region. The other single largest leading export destinations in the region in order of

rank are India, Japan, and China (main land) all accounting for 1.72%, 0,68% and 0.50% respectively as revealed in Table 6.6.

According to Table 6.7, considering the period under review there was a steady rise in total exports from Kenya beginning with a value of Ksh.134, 527 millions in 2000 to close with a value of Ksh.409, 794 millions in 2010. This indicates a 204.62 % increase in the total exports during the same period. However, it is important to noted that in 2008 and 2009, the exports experiences a marginal increase and this was attributed to the marginal increase of exports to the Africa i.e. Ksh.162, 541 million in 2008 and Ksh.165, 732 million in 2009; as well as a decline in exports to Australia & Oceanic zone which posted a drop from Ksh.3, 284 million in 2008 to Ksh.2, 130 million in 2009.

As regards to Kenya's exports to India which is under the Far East Zone, it is of importance to note that trend of exports put up a steady performance in growth all through the period under review with the exception between the years 2004 to 2006 and 2008 to 2009 where the exports recorded a perceptive weakening exports value from Ksh.4, 147 million in 2004 to Ksh.3, 749 million in 2006 and from Ksh.6, 769 million in 2008 to Ksh.5, 137 million in 2009 respectively.

Table 6:8Total Exports, Average Exports & % Contribution

DESCRIPTION	Total Exports 2001-10	Avg of Exports 2001-10	% Share Zone/Country to Total Exports 2001-10
TOTAL EUROPE	**778,070**	**70,734**	**28.61%**
TOTAL AMERICA	**132,121**	**12,011**	**4.86%**
TOTAL AFRICA	**1270,905**	**115,537**	**46.74%**

TOTAL MIDDLE EAST	**134,684**	**12,244**	**4.95%**
FAR EAST			
China (Mainland)	13,679	1,244	0.50%
INDIA	**46,868**	**4,261**	**1.72%**
Indonesia	4,806	437	0.18%
Japan	18,414	1,674	0.68%
Korea South	1,944	177	0.07%
Pakistan	**137,042**	**12,458**	**5.04%**
Singapore	7,656	696	0.28%
Other	88,549	8,050	3.26%
TOTAL	**318,953**	**28,996**	**11.73%**
TOTAL, ASIA	**453,638**	**41,240**	**16.68%**
TOTAL AUSTRAILIA & OCEANIC	**68,794**	**6,254**	**2.53%**
TOTAL EXPORTS	**2,719,133**	**247,194**	**100.00%**

Source: Researcher's Analysis based on Table 6.5

Table 6.8 above presents Kenya's total exports during the period under review, the average exports for the same period as well as the percentage contribution of exports as according to their respective export destinations.

6.5 Kenya's Principal Exports

As pointed out earlier in this discourse, the Kenyan economy is hinged on the Agricultural sector and this is clearly observed from the commodities of exports as illustrated by Table 6.6. However, in this section we will highlight the principal exports i.e. domestic

commodities for exports from the Kenyan market as well as present the value of these principal exports with special emphasis to the period under review.

Conversely, as we proceed further, it is of significance to note that the Kenya's principal exports are grouped under Domestic Exports which comprises of:

i. Food and live animals
ii. Beverages and tobacco
iii. Animal and vegetable oils and fats
iv. Crude materials, (inedible)
v. Minerals fuels
vi. Chemicals
vii. Manufactured goods
viii. Machinery and transport equipment
ix. Miscellaneous manufactured articles.[287]

[287] Kenya National Bureau of Statistics, *Economic Survey 2013* (Nairobi: KNBS, GOK, 2013), 120.

Table 6:9: Values of Principal Exports, 2000-2010 (Ksh Millions)

COMMODITY	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	T. Value 2000-10	% Share 2000-10
D. EXPORTS													
Fish and Fish Preparations	2,953	3,858	4,205	4,010	4,178	4,607	3,971	4,117	5,131	4,391	5,029	**46,450**	**1.95%**
Maize (raw)	33	18	1,693	125	246	287	360	563	473	283	284	**4,365**	**0.18%**
Meals and Flours of Wheat	201	155	32	6	1	3	17	19	95	109	78	**716**	**0.03%**
Horticulture	**21,216**	**19,846**	**28,334**	**36,485**	**39,541**	**44,562**	**48,813**	**56,808**	**71,182**	**65,220**	**72,093**	**504,100**	**21.15%**
Sugar Confectionery	1,326	1,576	1,879	1,829	2,005	2,600	2,689	3,050	3,457	3,629	4,499	**28,539**	**1.20%**
Coffee, Unroasted	11,707	7,460	6,541	6,286	6,944	9,702	9,138	10,425	10,126	15,309	16,244	**109,882**	**4.61%**
Tea	**35,150**	**34,485**	**34,376**	**33,005**	**36,072**	**42,291**	**47,349**	**46,754**	**63,812**	**68,766**	**91,617**	**533,677**	**22.39%**
Margarine and Shortening	246	245	306	383	1,017	1,374	2,014	2,714	2,923	2,597	2,006	**15,825**	**0.66%**
Beer made from Malt	69	29	48	75	37	106	980	1,782	2,065	2,508	2,775	**10,474**	**0.44%**
T & tobacco Manufactures	2,167	2,887	3,454	2,982	2,951	5,137	7,869	8,532	9,053	10,411	10,562	**66,005**	**2.77%**
Hides and Skins (undressed)	494	635	445	551	956	866	622	143	40	30	11	**4,793**	**0.20%**
Sisal	606	728	792	906	1,119	1,182	1,248	1,389	1,495	1,291	1,589	**12,345**	**0.52%**
Stone, Sand and Gravel	123	85	65	78	117	102	155	209	135	64	121	**1,254**	**0.05%**
Fluorspar	644	652	734	664	882	1,205	1,139	963	2,191	153	726	**9,953**	**0.42%**
Soda Ash	1,440	1,993	2,127	2,392	3,166	3,858	3,976	5,419	13,185	8,305	7,265	**53,126**	**2.23%**
Metal Scrap	153	123	98	147	208	375	691	1,814	1,713	752	596	**6,670**	**0.28%**
Pyrethrum Extract	704	993	798	813	943	1,122	1,086	127	--	--	--	**6,586**	**0.28%**
Petroleum Products	9,429	12,345	3,896	69	1,104	6,463	4,299	7,720	4,223	4,466	4,850	**58,864**	**2.47%**
Animal and Vegetable Oils	1,204	1,298	2,277	2,410	2,505	2,533	2,453	3,453	4,851	5,910	9,893	**38,787**	**1.63%**
Medicinal and Pharmaceutical Products	2,350	1,570	1,697	2,153	2,274	2,515	2,997	4,436	4,457	5,185	5,862	**35,496**	**1.49%**
Essential Oils	2,116	2,470	2,452	2,838	3,121	5,885	3,779	4,420	6,427	8,231	9,625	**51,364**	**2.15%**

Insecticides and Fungicides	465	523	353	255	425	443	707	854	1,642	1,269	1,659	**8,595**	**0.36%**
Leather	486	576	601	1,018	1,115	1,604	1,971	3,036	3,313	2,237	4,192	**20,149**	**0.85%**
W.Manufactures n.e.s	388	449	433	288	399	298	484	310	212	160	167	**3,588**	**0.15%**
P & Paperboard	713	784	647	777	1,026	1,036	911	1,039	1,354	642	544	**9,473**	**0.40%**
Textile Yam	488	518	485	394	349	344	712	594	551	549	621	**5,605**	**0.24%**
Cement	1,358	1,031	1,479	1,976	1,959	2,858	3,849	4,612	7,253	7,766	7,399	**41,540**	**1.74%**
Iron and Steel	2,605	3,673	4,122	4,047	7,532	8,852	9,025	8,224	10,824	9,073	12,127	**80,104**	**3.36%**
M Containers	97	121	114	204	256	200	335	348	402	437	447	**2,961**	**0.12%**
Wire Products: Nails screws, Nuts, etc.	113	117	100	154	360	381	325	411	478	493	921	**3,853**	**0.16%**
Footwear	1,140	1,204	1,549	1,457	1,789	1,952	2,279	3,029	2,618	2,665	3,214	**22,896**	**0.96%**
Articles of Plastic	2,104	2,572	2,990	2,598	3,136	4,307	4,941	4,440	6,136	5,916	6,793	**45,933**	**1.93%**
A. of Apparel & C. Accessories	--	598	711	1,056	1,276	1,269	16,561	16,165	17,452	13,948	15,561	**84,597**	**3.55%**
All Other Commodities	**15,476**	**16,415**	**22,271**	**25,334**	**31,315**	**34,642**	**40,437**	**53,767**	**63,392**	**71,172**	**87,884**	**462,105**	**19.39%**
Grand Total	**119,764**	**121,434**	**131,394**	**136,709**	**159,048**	**193,692**	**228,181**	**261,685**	**322,660**	**323,571**	**385,666**	**2,383,804**	**100.00%**

Source: Various Publications of Kenya National Bureau of Statistics/Kenya Revenue Authority

As could be seen in Table 6.9, Kenya's principal exports are listed against their values from 2000 to 2010. What is discernable from the available data is that the domestic exports grew steadily all through the period under review to record a total of Ksh.2, 383,804 millions. A significant chunk of this growth is contributed by the traditional export commodities of Tea and Horticulture which accounted for 22.39% and 21.15% respectively. However, it is important to point out that the third trend setter in the period under review is the commodities under the category of 'All Other Commodities' that accounted for 19.39%.

Considering the Food and Live Animals category which is comprised of Fish & Fish Preparations, Maize, Meals and Flour of Wheat among others, the top performer in this category is Fish and Fish Preparations which accounted for 1.95% share in the total value of the period under review. The highest recorded exports are in 2008 with Ksh.5, 131 millions while the lowest was in the year 2000 with Ksh.2, 953 millions. It must be observed at his point that Horticulture is under Food and Live Animals category but however, it is grouped under itself. It is of significance to note that Horticulture includes cut flowers, fruits and vegetables, both fresh and processed. But considering the Horticulture exports, the total value of was pegged at Ksh.504,100 million with the highest mark of Ksh.72.093 millions in 2009 while the lowest was Ksh.19,846 millions in 2001. There was a significant decline of exports to Ksh. 65,220 million from Ksh.71, 182 millions in the previous year.

To highlight the Beverage and Tobacco segment, tea, coffee, beer, and tobacco manufacturers make up the pack. The highest performing exports is Tea with a total exports valued at Ksh.533, 677 million accounting for 22.39% of the total exports.

Coffee, Tobacco and Beer follow in that order each accounting for 4.61%, 2.77% and 0.44% of the total exports. It is important to however, point out that Tea exports on 4 consecutive accounts following the year 2000 kept on a declining trend from Ksh.35, 150 million to Ksh.33, 005 million in 2003. Thereafter, the exports significantly improved for the next 3 years to again record a marginal drop in exports to Ksh.46, 754 million in 2007 from Ksh.47, 349 million the previous year. But considering the period under review, the highest Tea exports were recorded in 2010 pegged at Ksh.91, 617 million which was a 33.23% increase from the previous year.

As regards to the Animals and Vegetable Oils and Fats and Essential Oils group, both of these together accounted for 3.12% of the total exports in the period under review. It is observed that of the two, Essential Oils accounting for 2.15% of the total exports is a stronger performer in exports as compared to Animal and Vegetable Oils. However, in the 4 years leading to 2009, the exports performance of the former were higher than that of the latter in that there was a steady and significant improvement of exports from Ksh.3,779 millions to Ksh.8,231 millions whereas in Animal and Vegetable Oils the performance was pegged at Ksh. 2,453 millions to Ksh. 5,910 millions.

To emphasis the performance of Crude Materials (inedible), it is comprised of exports such as Hides & Skins, Sisal, and Stone, Sand and Gravel and Leather. Among the 4, Leather has a higher export share accounting for 0.85% of the total exports as opposed to the other 3 in this category. Moving on to the Mineral Fuels category, it is to be noted that this category is comprised of Petroleum products, Soda Ash and Fluorspar. The performance of exports herein is led by Petroleum products accounting for 2.47% while Soda Ash stood at 2.23% and Fluorspar at 0.42% of the total exports considering

the period under study. It must be noted that the highest export performance of Petroleum products was in 2001 with an export value pegged at Ksh.12, 345 million from Ksh.9, 429 millions in the previous year. However, this impressive performance isn't recorded elsewhere during the period under study and it is the researcher's observation that exports have dwindled by the fact that in 2010 exports were pegged at Ksh.4, 850 millions.

The Chemicals segment is made up of the Medical and Pharmaceutical products, Insecticides and Fungicides just whereby the former has a higher export share than the latter. To put it into perspective, the Medical and Pharmaceutical Products accounts for 1.49% of the total exports while the Insecticides and Fungicides accounts for 0.36%. It is of importance to state that beginning from 2001 the Medical and Pharmaceutical products had a very gradual but steady growth in exports i.e. from Ksh.1, 570 millions to Ksh.5.862 millions in 2010.

On the other hand, the Manufactured Goods segment comprising of Cement, Iron and Steel, Textile Yan, Footwear just to name a few. In this section, Cement as a manufactured good records the second highest exports with a total value of Ksh.41, 540 millions which accounted for 1.74% of the total exports. The highest exports were recorded by the Iron and Steel sector which accounted for 3.36% export share valued at Ksh.80, 104 millions. The Textile Yan and Footwear each accounted for 0.24% corresponding to Ksh.5, 605 million and 0.96% same as Ksh.22, 896 million respectively during the same period under study. As regards to Machinery and Transport Equipment sector which includes Wire Products: Nails and Screws as well as Metal Containers, both depict a weak export share as compared to other commodities across the board though they accounted for 0.16% and 0.12% respectively.

The Miscellaneous Manufactured Articles is comprised of Articles of Plastic, Articles of Apparel and Clothing Accessory as well as All Other Commodities. In this section, the highest performer in export value is the 'All Other Commodities' category that recorded a total export of Ksh.87,884 millions which was 19.39% of the total export. Following in order of rank under this section is 'Articles of Apparel and Clothing Accessories' at 3.55% equivalent to Ksh.84,597 millions while Articles of Plastic pegged at 1.93% which was Ksh.45,933 millions in export shares.

6.6 India's Major Imports from Kenya (Kenya's Exports to India)

The table below shows the major imports by India from its trading partner Kenya.

Table 6:10: Showing Kenya's Exports to India

S.No	**HS Code**	**Actual Product Description**	**Frequency 2001-10**
1	2836	Carbonates; peroxocarbonates (percarbonat-es); commercial ammonium carbonate containing ammonium	10
2	5101	Wool, not carded or combed : greasy	10
3	713	Dried leguminous vegetables, shelled, whether or not skinned or split	9
4	4105	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prep	9
5	4101	Raw hides and skins of bovine (including buffalo) or equine animals (fresh or salted, dried, limed,	9
6	4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on wheels	9
7	4106	Tanned or crust hides and skins of other animals, without wool or hair on, whether or not split but	9
8	902	Tea , whether or not flavored	9
9	1211	Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in p	9
10	4102	Raw skins of sheep or lambs (fresh, or salted dried, limed, pickled or otherwise preserved, but not	9
11	4103	Other raw hides and skins (fresh, or salted dried, limed, pickle or otherwise preserved, but not tanned	8
12	7204	Ferrous waste and scrap; remelting scrap ingots of iron or steel	8
13	7602	Aluminum waste and scrap	7
14	801	Coconuts, brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled	6

15	2529	Feldspar; leucite; nepheline and nepheline syenite;	6
16	5304	Sisal and other textile fibres of the genus agave raw or processed but not spun; tow and waste	6
17	907	Cloves (whole fruit, cloves and stems:	5
18	2602	Manganese ores and concentrates, including ferruginous manganese ores and concentrates with a manganese	5
19	3201	Tanning extracts of vegetable origin; tannins and their salts, ethers, esters and other	5
20	7404	Copper waste and scrap	5

Considering the question of India's major imports from Kenya, it is clearly observed that there were 59 different categories of products that were exported from Kenya to India during the period under study (See Annexure 2). These different products were classified under the HS Code and varied from HS Code 501 to HS Code 8714. The total value of the imports under consideration during the same period stood at IRs. 19,853,828,278 billions.

For the purposes of the study, the top 20 products considered included various assorted classifications of minerals, vegetables, nuts, wool, plants, metals, hides and skins of various processed categories, different textile fibers, tea products, fruits, coffee etc. The rest of the products in the list of imports from Kenya to India include products such as machine tools, boilers, household articles, antibiotic, inner tubers of rubber, uncoated paper, packing containers, medicants, just to mention a few.

Among the products, further analysis reveals that products HS Code 2836 and HS Code 5101 were the most exported product in the period under study which had the highest frequency of 10 times. This was closely followed by products HS Codes 713, 4105, 4101, 4104, 4106, 902, 1211 and 4102 with a frequency of 9 while HS Code 7602 and 7204 came in third with a strong frequency of 8. They are then followed by products with HS Codes 2529, 5304, and 801 with a modest frequency of 6. At the bottom of the

table, we have products such as HS Code 907, 2602, 3201 and 7404 all with the same frequency of 5. The rest of the 39 products from the total 59 held an import frequency of below 5 with 79% of them having a frequency of 1.

It is therefore evident that from the table above, the less featured products for export from Kenya to India had a frequency of below 5. The table that follows illustrates better as regards to the percentage of the frequency.

Table 6:11Showing % of Total Products in Relation to Frequency of Export

S. No	**Frequency of**	**No of Products**	**% of the Total Products**
1	10	2	3.4%
2	9	8	13.5%
3	8	1	1.7%
4	7	3	5.0%
5	6	3	5.0%
6	5	2	3.4%
7	4	4	6.7%
8	3	1	1.7%
9	2	5	8.4%
10	1	30	50.8%
	Total	**59**	**100.0%**

From the table above, it is clearly evident that the most frequent products exported every year on average from Kenya to India bear the frequency of 7 and above and comprised of a total of 14 products with a combined percentage of 23.6% of the total number of products. It is also clear that at least 50% of the products were exported once on average in the same period.

6.7 India's Major Exports to Kenya

The table below shows the major imports by Kenya from India as its trading partner.

Table 6:12 Showing India's top Exports to Kenya

S.No	HS Code	Actual Product Description	Frequency 01-10
1	4011	New pneumatic tyres, of rubber	10
2	7210	Plated or coated with tin:	10
3	3003	Medicaments (excluding goods of heading 3002, 3005 or 3006) consisting of two or more constituents w	9
4	7208	Flat-rolled products of iron or non-alloy steel, of width of 600 mm or more, hot-rolled, not clad, a	9
5	5407	Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading	8
6	8504	Electrical transformers, static converters (for example, rectifiers) and inductors	7
7	2710	Petroleum oils and oils obtained from bituminous m	6
8	7209	In coils, not further worked than cold-rolled (cold-reduced):	6
9	8711	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars;	6
10	8479	Machines and mechanical appliances having individual functions, not specified or included elsewhere	6
11	7308	Structures (excluding prefabricated buildings of heading 9406) and parts of structures (for example,	5
12	8438	Machinery, not specified or included elsewhere in this chapter, for the industrial preparation or ma	5
13	5509	Yarn (other than sewing thread) of syntheti staple fibres, not put up for retail sale	5
14	8708	Parts and accessories of the motor vehicles of headings 8701 to 8705	5
15	3001	Glands and other organs for organo- therapeutic usses, dried, whether or not powered; extracts off g	4
16	7323	Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool;	4
17	8704	Motor vehicles for the transport of goods	4
18	2304	Oil-cake and other solid residues whether or not ground or in the form of pellets, resulting from th	4
19	3920	Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated,	4
20	3204	Synthetic organic colouring matter and preparations based thereon as specified in note 3 to this cha	3

Considering the question of India's major exports to Kenya, it is clearly observed that there were 75 different types of products that were exported from India to Kenya during the period under study (See Annexure 3). These different products were classified under the HS Code and varied from HS Code 0101 to HS Code 9801. The total value of the exports under consideration during the same period stood at IRs. 104,330,138,710.72 billion.

For the purposes of the study, the top 20 products considered included various assorted classifications of pneumatic rubber tires, medicants, electrical transforms, petro chemicals, machinery, motorcycles, body organs, yarn, transport vehicles, etc. The rest of the products in the list of exports from India to Kenya include products such as antibiotic, rice, maize, food preparations, live horses, polymers, printing machinery, synthetic filament yarn, sugar, tea, wrist watches, just to mention but a few.

Among the products, further analysis reveals that product HS Code 3004, 4011 and 7210 were the most exported products in the period under study which had the highest frequency of 10 times. This was closely followed by product HS Code 7208 and 3003 with a frequency of 9 while HS Code 5407 came in third with a frequency of 8. Product with HS Code 8504 followed with a frequency of 7 while HS Codes 2710, 7209, 8711 and 8479 equally had a frequency of 6. At the bottom of the table, we have products with HS Codes 7308, 8438, 5509 and 8708 came in with frequency of 5 while HS Codes 3001, 7323, 8704, 2304, and 3920 followed closely with frequency of 4, with HS Code 3204 completing the top 20 list with a frequency of 3. The rest of the 55 products from the total 75 held an export frequency of below 3 with 53% of them having a frequency of 1.

It is therefore evident that from the table above, the less featured products for export from India to Kenya had a frequency of below 5. The most featured product as evident from the table is HS Code 4011 and 7210 which comprises of pneumatic rubber tires products plated or coated with tin respectively. The table that follows illustrates better as regards to the percentage of the frequency.

Table 6:13 Showing % of Total Products in Relation to Frequency of Export

S. No	Frequency of	No of Products	% of the Total Products
1	10	3	4.0
2	9	2	2.7
3	8	1	1.3
4	7	1	1.3
5	6	4	5.3
6	5	4	5.3
7	4	6	8
8	3	11	14.7
9	2	10	13.3
10	1	33	44
	Total	**75**	**100.0**

From the table above, it is clearly evident that the most frequent products exported every year on average from India to Kenya bear the frequency of 10 and comprised of a total of 3 products with a combined percentage of 4% of the total number of products. It is also clear that 44% of the products were exported once on average in the same period.

The table below shows the comparative aspects of the trade exports between Kenya and India illustrating the strengths and weakness during the period under study.

Table 6:14: Comparison of Export/Import Products for Kenya and India

S.No	Particulars	Kenya	India
1	No of Products	59	75
2	Highest Frequency	10	10
3	Lowest Frequency	1	1
4	Products with HF	2	3
5	No of Products with LF	30	33
6	% of Agricultural Products (Top 20)	70%	0%
7	% of Non Agricultural Products (Top 20)	30%	100%
8	% of Agricultural Products (All)	38.98%	11.94%
9	% of Non Agricultural (All)	61.02%	88.06%
10	Total Value	IRs. 19,853,828,278 billions	IRs. 104,330,138,710 billion

Observations from the above table reveal that Kenya exported 59 products while India exported 75 products in the period under study. It is further observed that in the top 20 products for export, 70% of the Kenyan exports to India were Agricultural while 100% of Indian exports to Kenya were Non-Agricultural products. When all the products are taken to consideration, 61% of the Kenyan products were Non-Agricultural though most were also primary goods from the mining and mineral sector. India on the other hand had 88% of the products which were non-agricultural, most of which were from the manufacturing sector. It is also clearly indicated that Non-Agricultural products account for more revenue earnings as is indicated in the above table which shows the total value of exports of India was above IRs.100 billion while the Kenyan exports were worth just about IRs.20 billion. This suggests that for the Kenyan exports to show better performance, there must be a shift from Agricultural products to more of Non-Agricultural products so as to attract better revenue.

6.8 Gains from Indo-Kenya Trade

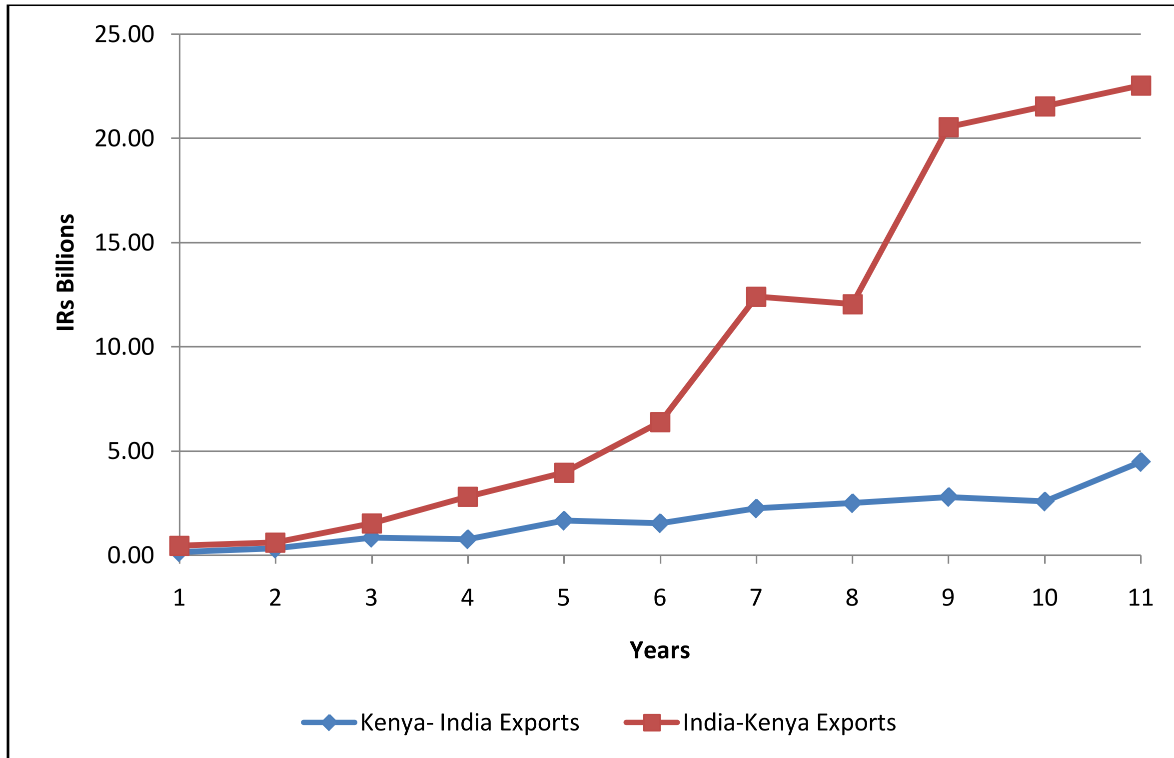
The analysis in regards to the gains of trade between Kenya and India calls for a comparative exercise to show to which country the terms of trade were favorable and therefore arrive at a conclusion that either India or Kenya gained from trade partnership. For the purpose of this study, the researcher used terms of trade as a measure for gains from trade between India and Kenya.

In the case of the exports from Kenya to India, it is observed that the commodities are basic and raw crude materials as shown in Table 6.8 whereas the exports from India to Kenya the commodities comprised of largely manufactured and semi manufactured goods as indicated in Table 6.12. A further comparison of the commodities of export/import between these two trading partners is also illustrated in Table 6.14 to support the same observations.

The exercise for establishing the gains for trade between Kenya and India during the period under study has deliberately been limited to the analysis of the values of the commodities exported during the period under study i.e. year wise as well as a percentage changes in exports or imports for the period under study. Further, the analysis was not based on weight of commodities for the obvious reasons of differences in the weights i.e. commodities were either in solid, liquid or gas states and hence will not give a homogeneous weight for measurement and this would result to misleading values.

Line Graph 6.2 shows the trajectory of the trade export values for Kenya and India to clearly point out the different trajectory followed through the period and thereby give more light as to the gains of trade between Kenya and India.

Line Graph 6:2 Showing Export Commodity Values for Kenya and India 2000-2010



From the above line graph, it can be observed of the trading trends between Kenya and India for the years 2000 to 2010. Unfortunately for Kenya, the export values of each year all through the study period did not cross over the IRs. 5 billion mark to end with a cumulative export value of IRs. 19,853,828,278 billions. This performance is on the account of the nature of goods exported to India i.e. Kenya export commodities were 70% of the top 20 commodities and 39% of all commodities were of agricultural basic and raw crude materials.

As regards to the Indian exports to Kenya, it is observed that up to the year 2005 and just as the trend was with Kenya's exports to India, the commodity values were below the IRs 5billion per year mark. However, following 2006, the commodity values of

Indian exports grew exponentially with a 93.73% change in increase value of IRs. 12,401,880,435.87 billion and further to close at IRs. 22,536,495,470.80 billion for the year 2010 and with a cumulative export value of IRs. 104,330,138,710.72 billion for the period under study. Close analysis of the Indian exports to Kenya especially in 2006 reveal that commodities such as HS Code 2710 i.e. petroleum oils and oils obtained from bituminous and HS Code 7208 i.e. Flat-rolled products of iron or non-alloy steel were exported with a high demand to thereby significantly increase the export values.

In addition to that, there was a sharp rise in 2008 in the Indian exports to Kenya to significantly make a difference in the trends of exports. As seen from the line graph and as well as from Table 6.15, there was a 73.53% change to reflect an increase in the export values from India to Kenya to the tune of IRs. 20,539,070,686.79 billion.

According to Table 6.15, the best performing years of exports as regards to Kenyan exports to India in the period under study include 2001 which had a 117.14% increase from the previous year to make exports valued at IRs. 317,010,590.13 million. The same performance was recorded in the following year where the exports increased by 164.47% valued at IRs. 838,392,415.80 million. Another equally performing year was 2004 which recorded an increase of 116.60% valued at IRs. 1,658,653,722.57 billion. It must be noted that this increase follows that of negative growth of -8.66% that was experienced in 2003. The year 2010 can also be considered as a performing year with respect to an increase of 73.48% valued at IRs. 4,474,800,451.68 billion that also followed a year with negative growth i.e. 2009 experienced negative growth of -7.74%.

Table 6:15 Showing the Comparative Analysis of Kenya and Indian Export/Import from 2000 to 2010

	Kenya to India Exports		India to Kenya Exports	
YEAR	**VALUES IN IRS.BILLIONS**	**% Change**	**VALUES IN IRS. BILLIONS**	**% CHANGE**
2000	145,991,302.00	N/A	453,405,423.8	N/A
2001	317,010,590.13	117.14%	600,353,128.97	32.41%
2002	838,392,415.80	164.47%	1,520,496,119.63	153.27%
2003	765,774,285.02	-8.66%	2,797,401,310.34	83.98%
2004	1,658,653,722.57	116.60%	3,962,159,567.51	41.64%
2005	1,536,485,178.94	-7.37%	6,401,574,897.39	61.57%
2006	2,245,332,568.57	46.13%	12,401,880,435.87	93.73%
2007	2,496,060,537.64	11.17%	12,044,085,995.30	-2.89%
2008	2,795,830,784.90	12.01%	20,539,070,686.79	70.53%
2009	2,579,496,440.86	-7.74%	21,526,621,098.12	4.81%
2010	4,474,800,451.68	73.48%	22,536,495,470.80	4.69%
Cumulative Total	**19,853,828,278**		**104,330,138,710.72**	

The India scenario also paints a picture of high performing years of exports to Kenya. To begin with, the year 2002 had an increase of 153.27% valued at IRs. 1,520,496,119.63 billion up from IRs. 600,353,128.97 million ((32.41%) in 2001. The year 2003 showed an increase of 83.98% with the exports value standing at IRs. 2,797,401,310.34 billion. The year 2005 had an increase of 61.57% from the previous year while 2006 featured an increase of 93.73% with the value of exports at IRs. 12,401,880,435.87 billion. The last year that featured significantly increased exports from India to Kenya was 2008 with a 70.53% increase that pegged the value of exports at IRs. 20,539,070,686.79 billion.

As regards to negative growth in export values, it indicates that export value fell below the previous year's value. With regard to the Kenyan exports to India, negative

growth was seen in the years 2003 with -8.66%, 2005 featuring a negative growth of -7.37% and 2009 spotting a negative growth of -7.74%. On the other hand, India featured a onetime entry of negative growth in the year 2007 of -2.89% when exports were valued at IRs. 12,044,085,995.30 billion, down from IRs. 12,401,880,435.87 billion in 2008.

6.9 Testing of Hypotheses

The researcher has used Correlation Matrix and other important findings from data analyzed to test the hypothesis using various values in the matrix. The matrix has got negative and positive values. The higher the positive value, the more favorable it is for a country to trade in those products which have those values. For the analysis, the researcher has calculated correlation of export and import of India and Kenya. The analysis can be given as below in reference to each hypothesis.

Hypothesis No. 1- Differences in foreign trade policies have contributed to trade imbalances between Kenya and India.

The researcher has analyzed the relative differences in the Indo-Kenya trade policies in Chapter 5. In the first part of the analysis, Kenya's foreign trade policies during 'Kenyatta Administration', 'Moi Administration' and 'Kibaki Administration' have been explored. In the second part of analysis, India's trade policies during pre-globalization period, after 1991 to 2000 and trade reforms during the period of 2000-2010 have been studied. In the third part of analysis, the researcher has given the Indo-Kenyan trade policies and trade agreements.

Table 6:16: Correlation matrix for Kenya imports from India

Correlation Matrix

Correlation matrix of Kenya's Imports From India

Kenya's imports from India

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
		Electrical ma	Bituminous n	Plans or draw	Motorcycles,	Synthetic sta	Flat-rolled pr	Bars&rods,h	Prefabricate	Medicament	Synthetic org	Parts and ac	Plates, shee	Woven fabric	Flat-rolled pr	New pneuma	Electric trans	Glands & ext	Ground-nut o	Copper table	Trucks, motor v
1	Electrical mac	1																			
2	Bituminous m	0.359931	1																		
3	Plans or drawi	0.59771	-0.08071	1																	
4	Motorcycles, s	0.8102	0.145511	0.653499	1																
5	Synthetic stap	-0.38028	-0.13407	-0.07457	-0.24018	1															
6	Flat-rolled pro	0.578441	0.093272	0.400726	0.717625	0.197547	1														
7	Bars&rods,ho	0.160438	-0.0807	-0.1668	0.18735	-0.11801	-0.17958	1													
8	Prefabricated	0.857022	0.545965	0.725329	0.824978	-0.2577	0.517933	-0.00249	1												
9	Medicament n	0.893256	0.329069	0.642541	0.953878	-0.31102	0.735034	0.118947	0.898632	1											
10	Synthetic orga	0.781436	0.117665	0.672307	0.9833	-0.18266	0.787189	0.093187	0.805191	0.955402	1										
11	Parts and acce	-0.46132	-0.06946	-0.4436	-0.56306	0.435807	-0.14866	0.017395	-0.50836	-0.45323	-0.44907	1									
12	Plates, sheets	0.817524	0.078993	0.564645	0.875996	-0.50132	0.553788	0.155127	0.713997	0.872383	0.881749	-0.41063	1								
13	Woven fabrics	0.227461	0.399222	-0.04023	0.202116	0.422251	0.5653	0.156979	0.241467	0.334679	0.249839	0.377401	-0.02253	1							
14	Flat-rolled pro	0.268476	0.443163	-0.12472	0.092959	-0.20759	-0.26987	0.457554	0.261984	0.123611	0.013469	-0.00642	0.134311	-0.04651	1						
15	New pneumat	0.812252	0.198971	0.381598	0.642113	-0.35529	0.512422	0.385392	0.598532	0.760763	0.642191	-0.07824	0.669505	0.439514	0.361175	1					
16	Electric transf	0.867006	0.302766	0.286289	0.766225	-0.35235	0.6893	0.335711	0.645858	0.853911	0.749394	-0.28622	0.735917	0.481924	0.175117	0.885669	1				
17	Glands & extr	0.399775	-0.17414	0.932288	0.521083	-0.12601	0.237095	-0.19905	0.579664	0.482271	0.51678	-0.51691	0.389368	-0.12015	-0.23073	0.221507	0.119253	1			
18	Ground-nut oi	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!		
19	Copper table,	0.83413	0.387178	0.709466	0.761595	-0.26213	0.728976	-0.24066	0.869208	0.893956	0.804138	-0.34538	0.707452	0.366747	-0.06474	0.679492	0.727867	0.565814	#DIV/0!	1	
20	Trucks, motor	0.906282	0.198383	0.762794	0.78148	-0.3311	0.654077	-0.0321	0.825364	0.88775	0.801377	-0.36581	0.762739	0.280903	0.045239	0.825143	0.789338	0.614763	#DIV/0!	0.939478	1

Table No.2

Key to Numerals representing columns and rows on X and Y axis

1. Electrical machines having individual functions
2. Bituminous mixtures from..natural asphalt, natural & petroleum bitumen
3. Plans or drawings for architectural, engineering, industrial, commerce
4. Motorcycles, side-cars
5. Synthetic staple fibers, carded, combed
6. Flat-rolled prod of iron or non-al/s wd>/=600mm,clad, plated or coated
7. Bars & rods, hot-rolled, in irregularly wound coils, of other alloy steel
8. Prefabricated buildings
9. Medicament mixtures (not 3002, 3005, 3006), put in dosages
10. Synthetic organic coloring matter & preparations
11. Parts and accessories of motorcycles & cycles
12. Plates, sheets, film, foil and strip, of plastics
13. Woven fabrics of synth. flam yarn
14. Flat-rolled products of other alloy steel, of a width of 600mm or more
15. New pneumatic tires, of rubber
16. Electric transformer, static converter (for example rectifiers)
17. Glands & extracts, secretions for organotherapeutic uses
18. Ground-nut oil-cake and other solid residues
19. Copper table, kitchen, household articles
20. Trucks, motor vehicles for the transport of goods

Table 6:17: Correlation matrix for Kenya Exports to India

Correlation Matrix

Correlation matrix of Kenya's Exports to India

Kenya's exports to India

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
		Dried vegeta	Medicinal pl	Leather of bo	Carbonate;p	Sheep/lamb	Brazil nuts, c	Cloves	Vegetable ta	Tea	Raw skins of	Felspar; leuc	Raw hides&s	Raw hides&s	Wool, not ca	Goat/kid skin	Sisal&other	Ferrous wast	Manganese o	Copper wast	Aluminum was
1	Dried vegeta	1																			
2	Medicinal pl	-0.34752	1																		
3	Leather of bo	0.388987	-0.36466	1																	
4	Carbonate;p	0.205978	-0.53612	0.599311	1																
5	Sheep/lamb	0.591933	-0.55168	0.564739	0.735889	1															
6	Brazil nuts, c	-0.4428	0.104389	-0.52749	-0.17008	-0.09744	1														
7	Cloves	0.26897	-0.14447	0.158385	0.446194	0.492876	0.269872	1													
8	Vegetable ta	-0.21866	0.292239	-0.27708	-0.46539	-0.55739	0.412039	0.196786	1												
9	Tea	0.597385	-0.56361	0.640291	0.694496	0.932827	-0.12277	0.669191	-0.36543	1											
10	Raw skins of	-0.33102	0.252052	-0.52563	-0.84311	-0.72743	0.426354	-0.35669	0.666142	-0.64101	1										
11	Felspar; leuc	0.162261	-0.25817	0.743258	0.72021	0.594431	-0.10828	0.088644	-0.36285	0.508403	-0.584	1									
12	Raw hides&s	-0.16902	0.531779	-0.19684	-0.12453	-0.28173	-0.20091	-0.23929	0.082294	-0.3569	-0.13978	-0.02693	1								
13	Raw hides&s	-0.19862	0.146634	-0.30386	-0.57382	-0.61281	0.367472	-0.02397	0.878063	-0.46298	0.825547	-0.47012	-0.25757	1							
14	Wool, not ca	0.403922	-0.33983	0.749669	0.859546	0.813931	-0.31807	0.388944	-0.45566	0.775684	-0.84731	0.789972	0.124026	-0.66406	1						
15	Goat/kid skin	-0.03207	0.53688	0.054653	-0.04378	0.007489	-0.0917	-0.35112	-0.22305	-0.23356	-0.14312	0.242205	0.321495	-0.17702	0.1546	1					
16	Sisal&other	-0.26725	0.77025	-0.40356	-0.39916	-0.33636	0.181514	-0.17627	0.197495	-0.41064	0.145564	-0.13794	0.838811	-0.10255	-0.09491	0.432502	1				
17	Ferrous wast	-0.36258	0.47779	-0.38838	-0.33099	-0.09233	0.518499	-0.09862	0.041694	-0.17258	0.196844	-0.01046	0.469633	-0.19099	-0.0926	0.193345	0.792322	1			
18	Manganese o	0.915273	-0.29194	0.381789	0.131472	0.576891	-0.32156	0.408561	-0.191	0.661144	-0.26604	0.128841	-0.34724	-0.17331	0.30416	-0.21429	-0.32672	-0.27457	1		
19	Copper wast	-0.38492	0.418376	-0.17061	0.20056	-0.1339	0.313066	0.120098	-0.00839	-0.22379	-0.22903	0.309679	0.134288	-0.12739	0.001702	0.229038	0.190566	0.158758	-0.28118	1	
20	Aluminum wa	0.238714	0.374654	-0.15475	-0.05152	0.155277	-0.07223	-0.2641	-0.42459	-0.11618	-0.17925	0.071926	0.17696	-0.31071	0.089054	0.848125	0.332326	0.157053	0.067003	0.144503	1

Key to Numerals representing columns and rows on X and Y axis

1. Dried vegetables, shelled
2. Medicinal plants
3. Leather of bovine/equine animal, other than leather of hd 4108/4109
4. Carbonate; peroxocarbonate, commercial ammonium carbonate
5. Sheep/lamb skin leather, other than leather of hd no4108/4109
6. Brazil nuts, cashew nuts & coconuts
7. Cloves
8. Vegetable tanning extracts; tannins & their salts
9. Tea
10. Raw skins of sheep or lambs
11. Felspar; Lucite; nepheline & nepheline syenite; fluorspar
12. Raw hides & skins of bovine/equine animals
13. Raw hides & skins
14. Wool, not carded or combed
15. Goat/kid skin leather, other than leather of hd no 41.08/41.09
16. Sisal & other tex fibres of genus Agave, raw/processed, not spun; tow & waste
17. Ferrous waste and scrap; remelting scrap ingots or iron or steel
18. Manganese ores and concentrates etc
19. Copper waste and scrap
20. Aluminum waste and scrap

The foreign trade policies adopted by two countries were differed on the basis of endowments. Table No. 5.6, and 5.7 in Chapter 5, clearly shows the trade imbalances between Kenya and India. In case of Kenya, during 2000 to 2010, the trade balance was not favorable, where Kenya recorded negative balance of trade to a tune of Ksh -113277 million in the year 2000 and Ksh -537588 million in the year 2010. In case of India though, the trade balance again was not favorable in the same period (Rs. -277302 Crores in 2000-01 and Rs. -518202 Crores in 2009-10). Thus the first hypothesis seems to be true. By signing trade agreements, the two countries will aim to have better terms and policies that would enhance trade. All in all, in the years where there were very varying trade policies between the two countries, trade seemed to be affected negatively. This hypothesis is therefore found to be true.

Hypothesis No.2- In terms of Indo-Kenya trade, Kenya suffers negative balance of trade since it mostly exports agriculture based products and mostly imports industrial based products.

The researcher has used correlation matrix to test this hypothesis. From the data collected, it has been seen that Kenya has been exporting mostly agriculture based products viz., medicinal plants, leather, sheep, lamb, nuts, cloves, tea, raw skin of sheep, wool, raw hides and skins etc. There are very few other products like manganese ores, copper waste, and aluminum waste, which are also not industrial as such but from the mining sector. Agricultural products are relatively less valued than non-agricultural products. According to the correlation matrix table 6.16 regarding Kenya's exports to India most of the agricultural products shows either negative values or lowest values. Here are a few example:

Correlation matrix value between Sheep/Lamb and medicinal plants = -0.53612

Correlation matrix value between cloves and medicinal plants = -0.14447

Correlation matrix value between raw hides and sheep = - 0.61281

As shown above, values between two pairs of products exported by Kenya are in the negative or very low. This is the case with most products Kenya exports to India, which shows that Kenya deals with low value products and hence may suffer negative balance of trade. On the contrary, in case of non-agricultural products export from Kenya, the correlation matrix values shows positive result. But although we see positive values in such products like Ferrous Waste, Manganese Wastes and Aluminum wastes, the values are relatively weak as compared to what India exports to Kenya. It is still right to suggest that Kenya can get more revenue if it deals with more non agriculture goods. Kenya can also be well placed dealing with products that are showing good values like in the case of correlation between sheep /lamp (+ 0.591933) and leather products (+ 0.564739). This means these products have greater potential to increase their exports revenues.

In case of Kenya's imports from India (table 6.17), similar trend is seen. Kenya has been importing various industrial based products like electrical machines, motorcycles, synthetic staples, bars and rods, etc. Out of 20 selected products, Kenya imports only one agricultural based product i.e. groundnut oil. The correlation matrix values are favorable for India. Some of the values are given as below:

Correlation matrix value of motorcycle and electrical machines = + 0.8102

Correlation matrix value of copper plates/sheets and electrical machines = +0.817524

There are negligible correlation values which are negative. Therefore, it is right to say that India can continue increasing her exports to Kenya and India is showing positive balance of trade among the two partners. This mainly because, Kenya is exporting agricultural based products and importing industrial based products, thus the second hypothesis also found to be true.

Hypothesis No.3- **As far as trade between Kenya and India is concerned, India is the bigger contributor in terms of value of exports to Kenya as compared to what Kenya exports to India.**

The researcher has tabulated and compared India's export to Kenya and Kenya's export to India. Chapter 6, Table 6.15 shows the total values of Kenya exports to India and India exports to Kenya. As far as trade values of the countries are concerned, India was massively superior than Kenya with a total of INR. 104,330,138,710.72 billion as compared to Kenya's INR. 19,853,828,278 billion between 2000 to 2010. Therefore, in terms total value of exports, India is the bigger contributor in terms of value of exports to Kenya as compared to what Kenya exports to India. Thus, the researcher can state that, the third hypothesis also found to be true.

6.10 Observations

From the foregone analysis, the researcher concludes that India and Kenya have had a long lasting relationship but their contemporary economic relations are of recent times. The trade turnover between the Kenya and Indian has been rapidly increasing when considering the period under study. However, for most of the period if not all 10 years under study, the balance of trade was favorable for India. Further analysis of the

terms of trade (Table 6.4) as well as the gains from trade, show that India enjoyed favorable Net terms of trade.

This is on the account of the factors in regards to Kenya's exports to India being wholly primary goods i.e. basic crude raw materials which commanded low prices as compared to India's exports to Kenya which were manufactured i.e. secondary goods that attracted high prices. Kenya is still largely a monocultural economy that is heavily dependent on its agricultural sector for internal and external markets. However, it must be noted that there has been in recent times, attempts made towards diversification of exported commodities so as to improve Kenya's gain from trade and terms of trade.

Other factors that support the skewness of the trade relations in favor of India are those that are aligned with Ricardo's Theory of Comparative Advantage. India, as compared to Kenya, enjoys a comparative advantage in Capital Goods and Human Resources; it also has an advanced pool of Technology, a strong Currency Value and Market Mechanisms compared to Kenya. Moreover Kenya has a big appetite for Indian commodities. This results in favorable terms of trade for India which has been seen from the foregone analysis in the current study.

Consequent upon the constricted base of Kenya's exports, this translates to exports to India that are limited to a few commodities. It therefore calls for India to enlarge significantly, her capacity to import of those commodities that Kenya demonstrates competence to export at internationally aggressive prices. To promote this, if necessary, Memorandum of Understanding (MoUs) or any other instruments could be employed so that India's imports from Kenya's non-traditional exports could be increased significantly. However, the two governments must be cautious so as not

to adversely perpetuate the trade balance against either country in the long term to counter to the mutuality objectives articulated by the two countries.

7 CHAPTER SEVEN: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

This study about Kenya trade relations with India covered the period 2000 – 2010. These years are very significant in the history of Kenya as they were historical in a way and decisions taken by various political regimes shaped who the country progress from there on. This time is divided into three periods. The first period is from 2000 to 2002, the second period is between of 2003 to 2007 and the third period is from 2008 onwards. The first phase is the last years of President Moi's term who is the second Kenyan president. The second phase is the first term of the third president Mr. Mwai Kibaki and the last phase is the second term of Mr. Kibaki's tenure, which ran up to 2012.

The mains reason why the research saw a need to conduct this study is because after going through various literatures related to trade between India and Kenya, he did not find any study made on trade between the two countries from 2000 to 2010. Considering that the world is changing fast with global issues like globalization becoming ever more important, it is vital for a study to be made to find out how a country like Kenya can assert herself in the global map. India is a country that is seen by many as moving from a developing to a developed country or at least to an economic power. It makes academic sense therefore to study how trading with a country that has 'mixed strengths' would be for a country like Kenya. The researcher is confident that this study can and should be used as a reference material in economics to study trade relations between Kenya and India in recent times.

The study therefore sheds light on the economies of the two countries by studying in depth the composition, trends and direction of trade in Kenya and India. The main focus however was on how these two nations have been trading with each other with special emphasis on the years under study.

7.1.1 Objectives of the study

The researcher had the following objectives as the main purpose of the study:-

i. To outline and analyze Kenya and India's foreign trade policies with respect to how they traded with each other during the period under study (2000-2010)

ii. To determine and analyze balance of trade between India and Kenya and make valid recommendations based on findings.

iii. To study and analyze the composition of trade between Kenya and India with special emphasis on selected commodities.

iv. To study and analyze the direction of trade in both Kenya and India, dealing closely with their main trading partners during the period under study.

v. To find out benefits accruing from trade between Kenya and India if any, and come up with recommendation aimed at enhancing this bilateral trade.

7.1.2 Significance of the study

The researcher amalgamated data and evidence from various sources to come up with worthwhile conclusions and recommendations. The following are the expected contributions of the study.

1. There have been studies done on Kenya's relationship with India in various fields, trade being one of them, but no detailed study has been made of trade relations during the period between 2000 and 2010. The study will therefore make assessment of trade relation between India and Kenya during the period 2000 to 2010.
2. Since Kenya and India have had a long and lasting trade relationship that can be traced over many years, the researcher will try to trace the development and growth of trade relations between these two countries. However, the emphasis will be on the years under study.
3. After evaluating trade relationship between India and Kenya during the study period, the study shall proceed to make recommendations and conclusion based on the findings. The study will therefore be significant as it shall bring to light various weaknesses of the Indo-Kenya trade relations that inhibit proper growth and draw suggestions that will help boost trade relations.
4. Though Kenya and India have been trading partners for a long time, their contribution to each other's total trade may not be the same due to various reasons. The study is significant as it will attempt to analyze composition and direction of trade between the two countries and find out why there is imbalance in trade and how it can be made more balanced.

7.1.3 Hypotheses

The following hypotheses were formulated for the purpose of this study:

1.5.1 Differences in foreign trade policies have contributed to trade imbalance between Kenya and India.

1.5.2 In terms of Indo-Kenya trade, Kenya suffers negative balance of trade since it mostly exports agriculture based products and mostly imports industrial based products.

1.5.3 As far as trade between Kenya and India is concerned, India is the bigger contributor in terms of the value exports to Kenya as compared to what Kenya exports to India.

7.1.4 Research Methodology

This study, being qualitative and analytical in nature, employed various descriptive, theoretical and where feasible, simple statistical analytical tools to explain the facts as borne out by available data. The study sought to test the hypotheses mentioned and compute various aspects in order to get the desired conclusions.

Selection of countries

The researcher employed Purposeful Sampling method to select countries for this study. According to Patton, qualitative inquiry typically focuses in depth on relatively small samples even single cases (N=1).[288] According to Purposeful Sampling method, there are certain points that guide the selection of a sample. First, the selection should not be haphazard. Secondly, the criteria for inclusion must be identified *before* drawing the sample. Thirdly, the researcher must be knowledgeable about the population, the sites, & the conditions of the research and lastly, there must be enough variation to substantiate arguments.

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[288] Patton, Michael Quinn. Qualitative Research and Evaluation Methods. California: Sage Publications, 2002. Pg. 230

These four criteria were satisfied in choosing both Kenya and India as subjects of the study. The main purpose was to study Kenya's foreign trade with the aim of improving or enhancing it. For the study to be more meaningful, a second country was required in order to run some comparisons of data and policies. The research therefore used the same purposeful method of sampling to name Indian as the second country.

Selection of Period

This being a case study, the researcher employed time based purposeful sampling method. The subcategory selected for period selection was the one based on political term in office. The assumption was that each political period in a country shapes the outlook of social and economic affairs in the country. In this case, Kenya being the primary point of focus in this study had intense political tenures worth studying.

The period that the study covers spans from 2000 to 2010. These years are very significant in the history of Kenya and many issues were affected during that that time. This time-period is divided into three sub-periods. The first period is from 2000 to 2002, the second period is between of 2003 to 2007 and the third period is from 2008 to 2010. The first phase is the last years of President Moi's term who is the second Kenyan president. The second phase is the first term of the third president Mr. Mwai Kibaki and the last phase is the second term of Mr. Kibaki's tenure that is supposed to run up to 2012.

2000 was selected as the starting year of this study since being part of the last period of Moi's era, it will be important to study the overall effect the regime had on international trade. This year was 'a normal' year, meaning it was free from adverse influences such as government change, civil wars or serious economic fallout,

therefore it would bring out data that can be used to compare years before and after it. The same consideration was in place for the year 2010 as the year to culminate the study. After disputed presidential election of 2007 that brought shocking post elections violence (PEV) especially in the first part of 2008, Kibaki somehow settled into presidency though this time leading a coalition government. 2010 was a normal year with no major adverse influences and being part of Kibaki's last tenure; it was taken as a good year to culminate this study.

The period is chosen so as to study if there have been any changes in the pattern, structure and composition of Kenya's trade with India during the period of two important political regimes in Kenya. And in the light of the changed international politico-economic scenario, the study will aim to capture the context of the revealing paradigm vis-à-vis India's trade relations with Kenya. The period is important also as it will shed light on India's foreign policy and how it changed or affected the relationship between these two countries during the eras that shaped the Kenya's history in one way or the other.

Data Collection

The research relied on secondary data; therefore the researcher will collected data from the following secondary sources.

- Government records: The researcher shall rely more on data tabulated by the government ministries of both countries. The Ministry of Trade and Commerce of India has data dealing with trade of the two countries and the so does the Ministry of Commerce and Industry of

Kenya. From these sources also, the researcher will gather data on joint ventures of the two countries.

- Semi-government records: The research will also gather data from semi-government sources like Institutions which are dedicated to keeping records related to the variables to be studied.
- Mass Media: The researcher shall also gather information from published scholarly journals, dealing with related topic.
- Books
- Ph.D. theses
- Reports of government, semi-government and research papers.
- Reports of International Organizations such as those of the World Bank and IMF will be used.

Data analysis and tabulation

The researcher has employed various mathematical and statistical formulae to compute the data in order to draw conclusions from the study. The researcher also analyzed the data critically and draw conclusions based on trends, composition and direction of trade.

The researcher employed various tools to tabulate, analyze and present data collected. These tools include Statistical Package for the Social Sciences (SPSS) and the MS excel sheets. Among the various methods the researcher has used to test hypothesis and make conclusion, use of index numbers of exports and imports to calculate net terms of trade and correlation matrix are the main methods used.

INDEX NUMBERS

The researcher has used Index Number method to calculate net terms of trade between Kenya and India. The index numbers shows changes in overall trade between the two countries over a period of time. The researcher has calculated the trade trends of two countries considering 20 products. The Index number calculations can suggest if it is favorable for a country to continue trading or not.

CORRELATION MATRIX

The researcher has also used correlation matrix to show the correlation between various products of two selected countries. Each matrix (table 6.16 and table 6.17) will test either exports or imports for one country. Considering that for country A (India) the products exported to Country B (Kenya) have given values of [$X_{1,}$ $X_{2,}$ $X_{3,}$ $X_{4....}$ X_n], the matrix show values on Y or vertical axis as well as on slanting diagonally at the main diagonal side horizontal axis on top of the matrix. Every row shows the correlation of one product, say, (X_1) with another product, say, (X_7). This relationship between two products gives exact correlation between two variables or products.

When values of two variables are positive, this shows that, the trade balance between the two products is favorable. In other words, when the export of one of those products increases, the import of the other product also increases and vice versa. On the other hand, when the values of two variables are negative, it shows that trading in those products together is not favorable. Thus the researcher has used correlation matrix to calculate the correlation between various products of selected countries to find out if a country is gaining much by trading with certain products and how the two countries can improve their trade composition. The higher the positive value, the more

favorable the trade would be and vice-versa. The researcher has used correlation matrix to some hypothesis.

7.2 Summary

The study is divided into seven chapters, this being the seventh. Each chapter is well thought of and written with an aim of buiding the case of arguing the purpose, objectives and hypotheses of the study. Here is the summary of each chapter.

Chapter 1

Chapter one gave the introduction of the study, research design and the methodology. In it, the statement of the problem, nature, objectives and significance of the study are highlighted. Sources of data used are listed in this chapter.

In introducing the study, the researcher pointed out that he sought to study about Kenya's trade relations with India covering the period 2000 – 2010. The research was prompted to undertake this study as there was no any study made on trade between the two countries from 2000 to 2010. The chapter also gives a glimpse as to why the period is important for this study. The chapter pointed to the three political regimes or periods in Kenya during this period. The first period is from 2000 to 2002, the second period is between of 2003 to 2007 and the third period is from 2008 onwards. The first phase is the last years of President Moi's term who is the second Kenyan president. The second phase is the first term of the third president Mr. Mwai Kibaki and the last phase is the second term of Mr. Kibaki's tenure, which ran up to 2012.

Chapter 2

Chapter 2 consists of the review of related literature, which critically examined the various books, journals, articles and theses related to the study. Though

there wasn't much literature on Kenya trade with India, the ones studied in this chapter helped to understand how a study of this nature was approached by various other scholars. Around eighteen books or important literature was studied which included books on India study with countries of East Europe, India trade with Nepal, Kenya trade with South African, Kenya trade with India etc.

Chapter 3

Chapter 3 laid down the theoretical framework for the purpose of the study and gave definitions of terms used in the thesis. In this chapter, various theories of international trade were elucidated in order to show the theoretical foundation of this study. The researcher studied the following theories in this chapter:

i. The Theory of Comparative Costs by David Ricardo
ii. Heckscher-Ohlin Theorem: Modern Theory of International Trade
iii. Porter's Theory of Competitive Advantage of Nations
iv. The Vent-For-Surplus Approach
v. The Gravity Model of Trade
vi. The Stolper-Samuelson Theorem
vii. Product Life Cycle Theory

Each of these theories was studied in depth and its significance to the study given after each theory. Some theories were found to be more significant in the case of trade between Kenya and India but all theories were argued in details anyhow.

Chapter 4

This chapter gives an introduction to the Kenyan economy, with special emphasis on the situation of the economy during the period under study. Kenya's country profile is given with details like geopolitics, population being highlighted.

Kenya is situated next to the Indian Ocean at the East African Coast, it covers an area of 582,646 sq.km with 1,025km as the longest distance from North to South of the country and has water surface of 13, 393 sq.km. The number of persons enumerated during the 2009 Population and Housing Census was 38,610,097.

Kenya’s domestic economy is constituted by various sectors which make up the macroeconomic fabric. **Agricultural sector** is the backbone of the economy and performs variedly due to the significant differences in the erratic long and short rains across the ecological zones. **Manufacturing sector** consists of the food and non food subsectors. **Transport and communication sector** is considered as the life line of the economy. It consists of the sub sectors of road transport, railway transport, pipeline transport as well as aviation transport. **The financial intermediation sector** records robust activities where by the Central Bank of Kenya is the apex institution dealing with monetary policy operations framework, and price stability, to enhance economic growth and employment creation. **Building and Construction sector** plays a crucial role in the infrastructure development in the economy. This sector is inter-linked with the Housing and Transport sub sector to spur investment, growth and job creation. **Tourism sector** contributes to the economy in the sense of foreign exchange earner as well as employment creation.

The research found out that Kenya relies heavily on Hydro Electric Power most of which comes from the constructed dams along River Tana. To augment the short fall due to high demand, Kenya imports hydro power from Uganda. Kenya is the

most industrially developed country in East Africa. Its manufacturing sector is mostly involved in agro-processing. It is important to point out that, in Kenya’s Industrial sector, it is the informal sector that is the biggest employer as compared to the formal sector.

Finally, the chapter discusses Kenya trade and states that the current scenario of Kenya’s international trade and the balance of payments is that the merchandise trade deficit continues to increase due to a huge import bill. According to the Economic Survey 2013, the import bill grew by 5.7% while the balance of trade widened by 8.7% with deteriorated export -import ratio of 37.7% in 2012. The main principal drivers for the huge import bill were petroleum products, capital goods, food products and chemical products which together accounted for 58.4% of the total import bill

Chapter 5

Chapter deals with trade policies of Kenya and India and how these policies affect trade relations between these two countries. The study noted that Kenya's trade policies have evolved through four phases, namely: 1) Import substitution period (1960s – 1980s), 2) The Period of SAPs and Export Promotion Schemes (1980s), 3) A Period of Export Oriented Policies (1990s) and 4) Vision 2030 and National Trade Policy (from 2004 to-date). The chapter also discusses India's trade policies from 1948 to 2000 and trade policy changes during the period under study. It was noted that the EXIM policy of 2002 to 2007 was one of the major additions to India's trade policies and was announced with the principal aim of doubling-up the volume of India’s trade in the global market.

The chapter also discusses various trade agreements signed between Kenya and India, pointing out at their purpose and effect on trade between these two

countries. The main trade agreement was signed in 1981. This Indo-Kenyan agreement had the purpose of according two countries the “Most Favored Nation” status. This resulted to a significant rise in trade volume between the two countries. In 2003, India and Kenya signed another MoU to enhance the trade relations between the two countries. The India Trade Promotion Organization and Export Promotion Council (EPC) of Kenya signed an agreement that would further facilitate the trade activities of the producers and exporters of goods and services

Chapter 6

Chapter 6 deals with trade relation between India and Kenya in the period considered, which includes, trends of imports and exports, pattern of imports and exports and balance of trade. The chapter also shows how various trade policies and foreign policies have shaped the course of Kenya’s trade with other countries especially India. The data will be analyzed to confirm or reject the hypotheses.

Based on the data gathered, it was found out that during the period under study, Kenya exported 59 categories of products to India while India exported 75 products to Kenya. India was found to have received more revenue from this trade than Kenya mainly due to the type of products it was dealing with. In total, Kenya exported products worth INR 19,853,828,278 billion while India exported to Kenya goods worth INR 104,330,138,710.72 billion.

Calculation on terms of trade between India and Kenya showed that India was doing better than Kenya and had index number of above 100 in most of the years except in the years 2001-2002 and 2002-2003 where India recorded negative numbers due to low growth of exports to Kenya. Kenya on the other hand had numbers below

100 through out the period which showed that it was suffering negative balance of trade.

7.3 Key Findings

i) The relative differences in the Indo-Kenya Trade policies have affected trade between the two countries.

ii) Kenya's foreign trade policies during 'Kenyatta Administration', 'Moi Administration' and 'Kibaki Administration' have been more traditional in nature, promoting primary products rather than tertiary or secondary products unlike the stance taken by India's trade policies.

iii) India's trade policies especially, after 1991 to 2000 and trade reforms during the period of 2000-2010 have benefitted India's trade, especially its trade with Kenya.

iv) Trade agreements and MOUs signed between Kenya and India has helped to strengthen trade and economic relations between the two countries.

v) Foreign trade policies adopted by two countries differed mainly due to difference in each country's endowments.

vi) Both data collected from various sources and calculations on correlation matrix (table 6.16 and table 6.17) showed that there were trade imbalances between Kenya and India. In case of Kenya, during 2000 to 2010, the trade balance was not favorable. (Ksh.-113277 million in the year 2000 and Ksh. -537588 million in the year 2010), whereas, In case of India, the trade balance again was not favorable (Rs. -277302 crores in the year 2000-01 and Rs. -518202 crores in the year 2009-10).

vii) Kenya has been exporting mostly agriculture based products viz., medicinal plants, leather, sheep, lamb, nuts, cloves, tea, raw skin of sheep, wool, raw hides and skins and others.

viii) There are very few products like manganese ores, copper waste, and aluminum waste which are non-agricultural products, though they are also primary goods from the mining sector.

ix) From the correlation matrix, most of the agricultural products shows either negative values or very low values (table 6.17). For example, correlation

matrix values between Sheep/Lamb and medicinal plants = -0.53612; correlation matrix value between cloves and medicinal plants = -0.14447 Correlation matrix value between raw hides and sheep = - 0.61281

x) In case of non-agricultural products, export from Kenya, the correlation matrix values show the positive result. However these values are relatively weaker hence, there is potential to increase export of such products as Ferrous Waste, Manganese Wastes and Aluminum wastes. This can be seen from few examples from the correlation matrix. Values of export of sheep /lamp (+ 0.591933) and leather products (+ 0.564739) is more favorable to Kenya. This means these products have greater potential hence Kenya can increase their exports.

xi) Kenya has been importing various industrial based products like electrical machines, motorcycles, synthetic staples, bars and rods, accessories and others. Out of 20 selected products, Kenya imports only one agricultural based product i.e. groundnut oil.

xii) The correlation matrix values for Indian exports show that India is at a better position to continue trade with Kenya (table 6.16). For example, correlation matrix values of motorcycle and electrical machines = + 0.8102; Correlation matrix value of copper plates/sheets and electrical machines = +0.817524

xiii) Kenya mostly exports low value agricultural based products and imports high value industrial based products, which has resulted in negative trade balance in Indo-Kenyan trade relations.

xiv) Cumulative values of total export from Kenya to India and from India to Kenya showed that Kenya exported a total of INRs. 19,853,828,278 billion worth of products while India exported INRs. 104,330,138,710 billion worth of products. Therefore, in terms total value of exports, India is the biggest contributor in the Indo-Kenya trade.

xv) From these findings which includes data from various sources, researches calculations and various methods to test hypothesis, the research was able to conclude that all the hypotheses were found to be true

7.4 Conclusions

From the foregone analysis, the researcher concludes that India and Kenya have had a long lasting relationship but their contemporary economic relations are of recent times. The trade's turn over between the Kenya and Indian has been nothing but rapidly increasing when considering the period under study. However, for most of the period if not all 10 years under study, the balance of trade turned favourably for India. Further analysis of the terms of trade as well as the gains from trade, it is clearly pointed out that India enjoyed favorable Net terms of trade. This is on the account of the factors in regards to Kenya's exports to India being wholly primary goods i.e. basic crude raw materials which commanded low prices as compared to India's exports to Kenya which were manufactured i.e. secondary goods that attracted high prices.

Another consequent reason as to why India enjoyed favorable trade relations in comparison to Kenya, Kenya is still largely a monocultural economy that is heavily dependent on its agricultural sector for internal and external markets. However, it must be noted that there has been in recent times, attempts made towards a change of attitude in terms of diversification for export base commodities so as to further promote the export trade with India as well as the global market in general.

Other factors that support the skewness of the trade relations in favor of India are such as those that are aligned to the classical dissertation of Ricardo for the theory of Comparative Advantage. India, as compared to Kenya, enjoys a comparative advantage in Capital Goods, Human Resource; home to an Advanced pool of Technology, a strong Currency Value and Market Mechanisms i.e. Kenya has a big appetite for Indian commodities. Conversely, this results to favorable terms of trade for India which has been evident from the foregone analysis in the current study.

Consequent upon the constricted base of Kenya's exports, this translates to exports to India that are limited to a few commodities. It therefore calls for India to enlarge significantly, her capacity to import of those commodities that Kenya demonstrates competence to export at internationally aggressive prices. To promote this, if necessary, Memorandum of Understanding (MoUs) or any other instruments could be employed so that India's imports from Kenya's non-traditional exports could be increased significantly. However, the two governments must be cautious so as not to adversely perpetuate the trade balance against either country in the long term to counter to the mutuality objectives articulated by the two countries.

In a nutshell, all the important conclusion from the study are thus elucidated below:

7.2.1 In the pursuit for sustainable economic growth and development, Kenya has gone through a series of trade policy episodes since her independence in 1963. This discourse will highlight the various trade policies undertaken by Kenya through the years under the three different Presidential Administrations. The first one was the Kenyatta Administration, which began when Kenya earned her Independence in 1963 and stretch to 1978 at the time of his death. The second was the Moi Administration which spanned from 1978 to 2002. And the last was the Kibaki Administration, 2002 to 2013.

7.2.2 The Moi regime is considered as the worse in the history of Kenya in terms of governance and development. During this period the trade policies of the Kenyatta Administration continued. It is during this time that the Kenya economy experienced its worse trade turbulent storms.

7.2.3 The Kibaki Administration frantically implemented many comprehensive reforms that aimed at promoting and improving the environment for export led growth within the framework of regional and multilateral trade agreements.

7.2.4 The Kibaki Administration emphasized on foreign trade as the drive for economic growth and development. It is also useful to indicate that this is the period in which part of the study is based on.

7.2.5 The British Colonial masters used Kenya as a source of Agricultural products and other raw materials intended for their manufacturing sector and also as a ready market for their finished goods.

7.2.6 The British colonialists jealously protected Kenya by use of inward looking policies from external competition especially the Asian market with countries like Japan and India exporting finished goods to Kenya. This was the birth of the Import Substitution Policy in the evolution story of the Kenyan trade policy formation.

7.2.7 The impact of Import Substitution Policy (ISP) was much experience in the Second Development Plan of 1970/71 to 1974/75. The various sub sectors that expanded from this inward looking approach include textile, food and beverage and tobacco.

7.2.8 In order to promote the agenda of domestic trade, the Kenyatta Administration planned on empowering the '*Mwanainchi*' – the people, by disbursing loans to small traders and engaging them in training programs.

7.2.9 The growth rate for Agricultural sector slowed down and consequently exposed the weak incentive system of Import Substitution Policy and its diminishing opportunities of efficient import substitution.

7.2.10 The Kenyatta's Import Substitution Policy was strongly biased against exports and conversely import substituting industries had a lower capacity of creating new jobs and brought into play inappropriate capital intensive equipment which caused the manufacturing sector to depend heavily on large doses of imported equipment and raw materials.

7.2.11 The Moi Administration entered the second phase of Kenya's trade policy evolution with a failing economy that was greatly driven by Import Substitution Policies.

7.2.12 The Government had to promote nontraditional exports, liberalize its market systems, and introduce reforms in the International Trade regulations.

7.2.13 In the Fifth Development Plan period (1984-88), the role of private investment was focused upon in the light of the need for industrial development. In as much as the government planned to support export oriented industries, a key policy was developed on the promotion of nontraditional products for export markets.

7.2.14 The progressive liberalization process of the trade policy coupled with the macroeconomic reforms and regional integration led to a surge in exports from 1988 to 1992.

7.2.15 The policy reforms of liberalization in Kenya during the Moi Administration are generally accepted to be seeking to enhance trade liberalization, and, to inculcate institutional reforms in the government in regards to privatization and governance.

7.2.16 The financial sector reforms that were instituted undertook to eliminate the distortions in the credit market. Attractive interest rates had the objective of facilitating the efficient use of the available credit resources.

7.2.17 The reforms on the Capital Market Authority were aimed to further liberalize the financial markets.

7.2.18 The institutional change oriented policy reforms focused on the Parastatal (an organization or industry, having some political authority and serving the state indirectly) sector reforms. Many of these state bodies were poorly managed which required subsides from the government from time to time and hence resulting in budget deficits.

7.2.19 In the Sixth Development Plan of 1989-93 emphasis was placed on the process of trade liberalization.

7.2.20 As the Seventh National Development Plan of 1993-97 was rolling in, all restrictions on current account and capital accounts were lifted. This resulted in the dramatic rise in the exports from 13% of GDP in 1992 to over 20% of GDP in 1993-96.

7.2.21 The trade policy under the Kibaki Administration picks up from a long autocratic political rule of President Daniel arap Moi. President Kibaki inherited a trade regime that had undergone progressive liberalization and one that had experienced limited success in stimulating economic growth.

7.2.22 There was a significant burst of export activities between the years 2002 and 2004. With the exception of exports to the Australia and Oceanic trade regions which had a negative growth, the rest of the export destinations recorded a sudden burst in export increase.

7.2.23 It was observed that in 2002 the total exports were valued at KSh. 169,241 million while in 2004, it stood at KSh. 214,793 million. This recorded a surge of 26.9% increase in total exports.

7.2.24 There is a steady rise in exports from the year 2000 with an export value of Ksh. 134, 527 millions through to Ksh. 2,719,133 million 1921.3%.

7.2.25 The total Africa exports for the 10 years stood at Ksh. 1,270,905 million contributing 46.74% followed by the exports to Europe valued at Ksh. 778,070 million with 28.61% and then exports to Asia at Ksh. 453,638, which was 16.68%.

7.2.26 Considering the total imports for the 10 years, Kenya has imported from the Asian region imports worth of Ksh. 3, 009,292 Million which was 54.66% contribution of the total imports. This is closely followed by the Far East region with a 32.37% contribution to the total imports valued at Ksh. 1,781,993 million. Europe and the Middle East follow closely with contribution percentages of 24.61% and 22.29% respectively.

7.2.27 The volume of exports expanded by 204.62% to stand at Ksh. 409,793.7 million in 2010 as compared to Ksh.134, 527 million in 2001. The balance of trade under the 10 year period, was observed to have widened from a deficit of Ksh. 113, 277 million recorded in 2001 to a deficit of Ksh. 537, 588.30 million translating to an 374.58% increase.

7.2.28 In case of India, the years between 1947 to 1951 posted trends of high imports than there were exports as far as India and the rest of the world is concerned.

7.2.29 The exports from India to Kenya in the year 2002-03 increased by 22.1% from Rs. 209018 Crores to stand at Rs. 297206 Crores. This increase is attributed to the EXIM policy 2002-2007 which concentrated aggressively promoting India's exports.

7.2.30 A similar trend is also recorded in the year 2004-2005 where by the Exports from India to Kenya increased by 27.9 % from Rs. 293367 Crores to Rs.

375340 Crores. Considering the imports from Kenya to India, a similar trend is observed in 2002-2003 to record a 21.2% increase in imports and an increase of 39.5% in 2004-2005.

7.2.31 The volume of exports and imports in 2000 of India stood at Rs. 203571 Crores and at Rs. 230873 Crores respectively while in 2010 they recorded a volume of Rs. 845534 Crores and Rs. 1363736 Crores respectively.

7.2.32 There were several trade agreements and memorandums of understanding that India and Kenya have put on paper. These documents have all had the objective of increasing the trade activities between the two countries.

7.2.33 The first trade agreement between Kenya and India was signed in 1981. In 2003, India and Kenya signed an MoU to enhance the trade relations between the two countries. The India Trade Promotion Organization and Export Promotion Council (EPC) of Kenya signed an agreement that would further facilitate the trade activities of the producers and exporters of goods and services.

7.2 34 Kenya adopted inward looking policies using the import substitution strategy with the objective of preventing the import of capital inputs to ease the negative balance of payments, increase the domestic control of the economy and address unemployment.

7.2.35 On the other hand, India opted for heavy-industry development with an objective of producing the basic inputs necessary to enable the growth of domestic manufacturing sector.

7.2.36 In the case of Kenya, the Import Substitution Policy did not have much impact as it created few jobs, mainly because of the inappropriate use of capital

intensive technology which resulted in the industrial sector being heavily dependent on imported equipment and raw materials.

7.2.37 In the case of India, a planned economy was embraced as early as 1951 with a very strong import substitution policy directed towards industrialization.

7.2.38 Since the New Economic Policy of 1991, the export sector of the Indian economy has expanded extensively. There has been an equivalent growth of imports as well as exports, with the exports surging a little more than the imports and thus improving the balance of payments situation.

7.2.39 In considering the trade relations of India and the East Africa from the Pre-Colonial to the Colonial era. The Europeans relations with Africa started with trade and these relations were concluded in the late nineteenth century with the formal end of colonialism.

7.2.40 At India's independence in 1947, the country had a backdrop of colonial pillage and this set up the tone for the country to be impoverished, with a backward rural economy that was predominantly an agricultural which employed primitive production techniques.

7.2.41 At independence, Kenya's economy was skewed towards promotion of rapid economic growth through public investment, encouragement of smallholder agricultural production, and incentives for private often foreign industrial investment. The government was eager to shed of the dependence tag as it had just dealt away with the colonial government.

7.2.42 The period under study, the years 2000 to 2010 begins during the 9th Plan (1998-2002) through the 10th Plan (2002-2007) and it ends in the beginning years of the 11th Plan (2007-2012) of the Five Year Plans process in the Indian

development story. Having considered the performance of the trade balance of the first 2 years in the 9th Plan, it is of significance to stress that during the 9th Plan, the exports perked up by 5.6% as compared to the target of 11.8% while the imports improved by 4.1% as compared to the projected 10.8%.

7.2.43 The terms of trade between India and Kenya for the period under study i.e. 2000 to 2010 show the following: The index numbers for import and export in terms of value are presented in accordance to the currency as well as the Net Terms of Trade. As can be seen from the table 6.4 in page 211, the Net Terms of Trade for the years 2001-02 and 2002-03 showed negative terms of trade for India for both years. The Net Barter Terms of Trade were below 100 - the base year index. This means that the terms of trade for India were unfavorable since India had to pay a higher quantum of exports in return for the same value of imports. This was on account of the percentage decrease of -49.22 and -50.86 respectively.

7.2.44 In the subsequent years, India had favorable net barter terms of trade. To begin with, in the year 2003-04, the index number of net barter terms of trade stood at 127.83. The 27.83% increase from the previous year was accounted to two factors interacting simultaneously i.e. there was a 162.21% increase in export value index and a 6.37% marginal rise of import index value. However this trend displayed negative growth when the net barter terms of trade stood at 108.95 in 2004-05 to indicate a 7.95% increase compared to the base year. This is attributed to the increased import values of up 101.1% over the previous year.

7.2.45 India's trade pattern during the years 2004-05 to 2009-10 displayed improving net barter terms of trade with an exception of the year 2007-08 when the net barter terms of trade posted negative growth of 9.44% even though the terms were favorable for India as compared to the base year. Nevertheless, from the year 2006-07 to 2009-2010 India displayed high performing net barter terms of trade. The index numbers were 175.84, 184.17, 272.56 and 317.60 respectively.

7.2.46 The above trend is attributed to an increase in export value from 83.17% in 2006-07 to 216.60% in 2009-2010 whereas the import value was marginally increasing in some years and decreasing in others. However, the period under study closes with the net barter terms of trade falling from 317.60 to 195.20 a decrease of 38.54% attributed to the increase of index numbers of import values from 1,854.46 to 3,193.87 which showed a big increase of 72.23%.

7.2.47 For Kenya, both the categories of exports to, and imports from, India have displayed strong fundamental growth during the period under review. To begin with, the total value of exports in 2000 stood at Ksh. 143,527 million which was 4.95% of the total trade of the period under review while in 2010, the value of exports was Ksh. 409,793.70 million which was 15.07% of the total value of trade in the same period. This indicated an expansion of trade from 4.95% in 2000 to 15.07% in 2010.

7.2.48 On the import side, vibrant growth is seen with imports at Ksh. 240,804 million in 2000 while in 2010 imports stood at Ksh. 947,381.9 million. It is observed that in 2002 the growth of imports posted a negative trend from 5.28% to 4.69%. Further analysis confirms that imports exceed the exports in the period under review thereby indicating a negative Balance of Trade.

7.2.49 The cover ratio expressing the total exports to total imports indicates that in 2002 it stood at 65.7% as the highest while in 2010 it was at 43.3% as the lowest. A higher Cover Ratio indicates a smaller difference between imports and exports while a lower Cover Ratio indicates larger difference. This suggests that since 2006, the Kenyan economy has been importing more as compared to the period 2000 to 2005 hence confirming that the economy depends more in imports for growth as opposed to exports resulting in a negative balance of trade.

7.2.50 Kenya's traditional exports include those that are from the Agricultural sector i.e. Tea and Coffee being the most strongly performing goods. A later entry to this category is the Horticulture industry. Additionally, other categories of exports include the natural resources, animal and vegetable, manufactured goods, machinery and equipments.

7.2.51 The composition of the Domestic Exports from Kenya are largely divided into 7 categories. These include (i) Food and Beverage that is constituted by both primary and processed items; (ii) Industrial Supplies that are of Non-food nature comprised of primary and processed; (iii) Fuel and Lubricants of both

primary and processed kinds; (iv) Machinery and Other Capital Equipments; (v) Transport Equipments that entails Passenger, Industry and Non-Industry; (vi) Consumer Goods both of durable and semi-durable natures; and lastly (vii) Goods Not Elsewhere Specified.

7.2.52 In the year 2000 Food and Beverage assumed increased importance in the country's exports to all countries accounting for 56.27%. While on the other hand, Industrial supplies and Consumer Goods Not Elsewhere Specified assumed an increasing importance accounting for 19.14% and 15.07% respectively in the same period. It is to be noted that the other categories together accounted for 9.53% of the total exports for that year.

7.2.53 There was significant change in the exports as regards to the year 2001. As can be seen, Food and Beverage recorded a significant decrease in exports from 56.57% to 49.18%. There was a positive change in share improvements as regards to Industrial Supplies, Fuel Lubricants, and Consumer Goods not Elsewhere Specified all contributing 22.68%, 10.23% and 16.75% respectively.

7.2.54 Trends of declining exports continued to abate from 2004 to 2010 of the review period especially from the Food and Beverage category. As noted, in 2004, the exports stood at 47.20% indicating a drop from the previous year and this trend was consistent to 2007 and 2007 where the exports recorded lowest mark of 40.3% and 40.4%.

7.2.55 There was a steady rise in total exports from Kenya beginning with a value of Ksh.134, 527 millions in 2000 to close with a value of Ksh.409, 794 millions in 2010. This indicates a 204.62 % increase in the total exports during the same period. However, it is important to noted that in 2008 and 2009, the

exports experiences a marginal increase and this was attributed to the marginal increase of exports to the Africa i.e. Ksh.162, 541 million in 2008 and Ksh.165, 732 million in 2009; as well as a decline in exports to Australia & Oceanic zone which posted a drop from Ksh.3, 284 million in 2008 to Ksh.2, 130 million in 2009.

7.2.56 The domestic exports grew steadily all through the period under review to record a total of Ksh.2, 383,804 millions. A significant chunk of this growth is contributed by the traditional export commodities of Tea and Horticulture which accounted for 22.39% and 21.15% respectively.

7.2.57 The highest recorded exports are in 2008 with Ksh.5, 131 millions while the lowest was in the year 2000 with Ksh.2, 953 millions.

7.2.58 The highest performing exports is Tea with a total exports valued at Ksh.533, 677 million accounting for 22.39% of the total exports. Coffee, Tobacco and Beer follow in that order each accounting for 4.61%, 2.77% and 0.44% of the total exports.

7.2.59 The performance of exports herein is led by Petroleum products accounting for 2.47% while Soda Ash stood at 2.23% and Fluorspar at 0.42% of the total exports considering the period under study.

7.2.60 The Medical and Pharmaceutical Products accounts for 1.49% of the total exports while the Insecticides and Fungicides accounts for 0.36%. It is of importance to state that beginning from 2001 the Medical and Pharmaceutical

products had a very gradual but steady growth in exports i.e. from Ksh.1, 570 millions to Ksh.5.862 millions in 2010.

7.2.61 It is clearly evident that the most frequent products exported every year on average from India to Kenya bear the frequency of 10 and comprised of a total of 2 products with a combined percentage of 3% of the total number of products. It is also clear that 38.8% of the products were exported once on average in the same period.

7.2.62 Kenya exported 59 products while India exported 75 products in the period under study. It is further observed that in the top 20 products for export, 70% of the Kenyan exports were Agricultural while 100% Non-Agricultural products for the Indian exports.

7.2.63 As regards to the Indian exports to Kenya, it is observed that up to the year 2005 and just as the trend was with Kenya's exports to India, the commodity values were below the INRs 5 billion per year mark.

7.2.64 In the year 2006, the commodity values of Indian exports grew exponentially with a 93.73% change in increase value of INRs. 12,401,880,435.87 billion and further to close at INRs. 22,536,495,470.80 billion for the year 2010 and with a cumulative export value of IRs. 104,330,138,710.72 billion for the period under study.

7.2.65 As regards to negative growth in export values, it is to be understood that negative growth in export values was below the export value of the previous year and therefore attracting the negative status. In light to the Kenyan exports

to India, negative growth was seen in the years 2003 with -8.66%, 2005 featuring a negative growth of -7.37% and 2009 spotting a negative growth of -7.74%. On the other hand, India featured a onetime entry of negative growth in the year 2007 with a 2.89% valued at INRs. 12,044,085,995.30 Billion, down from INRs. 12,401,880,435.87 billion in 2008.

7.5 Recommendations

While analyzing Indo-Kenya Trade relations, the researcher found out that India was better placed than Kenya. This was due to various reasons which broadly included, socio-economic and geographical conditions, which greatly varied between the two countries. In order to strengthen trade relation between these two countries, the research recommends the following:

7.4.1 Kenyan economy is more traditional and hence need to be industrialized. In the process of industrialization modern industries must be promoted by the Kenyan Government.

7.4.2 The government may not be fully equipped to quickly move to modern industries as such due to various other reasons like availability of capital, modern technology, market for the finished products etc but it can start by setting up various small scale industries in various parts of the country to encourage manufacturing or at least processing of raw materials at the grass root level.

7.4.3 As far as setting up of modern industries, Kenya could successfully pursue this path if it can have collaborations with the Indian government since India has more experience in industries and could provide capital as well as technology to Kenya.

7.4.4 Kenyan economy is agricultural based. To be better in agriculture, Kenya should employ more mechanization, invest in agriculture research to find better crops and promote diversification in horticulture crops.

7.4.5 The Kenyan Government needs to promote structural adjustment policies in the economy, which may help the economy to grow, as it has been seen in Indian economy.

7.4.6 Kenya needs to improve the infrastructure sector rapidly to enhance production and transportation of goods and services. The basic infrastructure that needs to be improved are the roads and railways so that the country can have a good connectivity in all areas. Then the power sector should also be improved so that electricity can reach all rural areas and towns and lastly industrial infrastructure should be installed or improved in various parts of the county.

7.4.7 Though Kenya and India have had long trade relations, a lot has been happening in the world of economics and international trade. For the two countries to compete in the world trade arena and enhance bilateral trade ties, they should periodically review their trade agreements or sign more MOU for this purpose.

7.4.8 Human resource position in Kenya is relatively at a lower position. Therefore, the Kenyan Government must plan the Human Resource Development, which is a base for economic development.

7.4.9 Indian exports are diversified, whereas Kenyan exports are not. Therefore, the Kenyan Government must have diversified crops and industries. The non-traditional commodities must be promoted.

7.4.10 In recent years, India has shown more interest in increasing trade with African countries. Kenya has been one of the countries mentioned by India as a focus country in this engagement. Kenya should therefore take advantage of this move by the Indian government and aggressively pursue avenues of improving and increasing trade with India.

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9 ANNEXURE

Annexure 1: Key Institutions involved in Trade activities

Trade Related Activities	Implementing Agencies	Legislations/ Regulations
Customs	Min. of Finance, KRA,	EAC Protocol, 2005 EAC Customs Management Act, 2004 Customs and Excise Act (Cap. 472), revised edition 2000 Finance Act, 1999
Import/Export control	KRA, Min of Trade, Min of Finance	Import, Exports and Essential Supplies Act (Cap. 502)
	SLO	Trade Disputes Act (Cap. 234), 1991
	MOA/KEPHIS	Plant Protection Act (Cap 324),
	MOA/KEPHIS	Agricultural Produce (Export) Act (Cap 319)
Licensing of businesses	Min of Local Government	Local Government Act Cap 265
	Min of Immigration	Aliens Restriction Act, 1985
	SLO	Companies Act (Cap. 486), 1978
	Min of Labour	Factories Act (Cap. 514), No. 38 of 1950
	SLO	Bankruptcy Act (Cap. 53), 1930
	Min of Local Government	Physical Planning Act (1996)
	Min of Lands	Government Land act (cap280)
Taxation	Min of Finance	Income Tax Act (Cap. 470), 1989
	Min of Finance	Value Added Tax Act (Cap. 476), 1989
	Min of Lands	Stamp Duty Act, 1982
Exchange Rate	Min of Finance/CBK	Exchange Control Act, 1994
Sanitary and phytosanitary measures	MOA/PCPB,	Pest Control Products Act, 1985
	DVS	Meat Control Act, 1977
	DVS	Dairy Industry Act Cap 336,
	DVS	Fertilizers and Animal Foodstuffs Act (Cap 345), 1977

Trade Related Activities	Implementing Agencies	Legislations/ Regulations
	DVS,	Animal Disease Act (Cap 364), 1972; revised, 1989
	KWS	Kenya Wildlife Act
	Kenya Vaccine Production Institute (KEVEVAPI)	Animal Disease Act (Cap 364), 1972; revised, 1989
	Min of Environment/LVEMP	Environmental Management and Coordination Act (EMCA)
	Min. of Livestock/International Centre for Insect Physiology and Ecology (ICIPE)	Animal Disease Act (Cap 364), 1972; revised, 1989
	KEPHIS, HCDA	Plant Protection Act (Cap 324), 1937; revised, 1979
	MOA	Seeds and Plant Varieties Act (Cap326),
	MOPH	Public Health Act (Cap. 242)
	Ministry of Fisheries Development	Food, Drugs, and Chemical Substances Act (Cap. 254)
	KARI	
	KEBS	Fish Quality Assurance Regulations (2000)
Standards	MoI, KEBS, W&Ms National Standards Council (NSC), Kenya National Accreditation Service (KENAS), KEPHIS	Standards Act (Cap. 363), 1981 Weights and Measures Act (Cap. 513),
	NEMA	Environmental Management and Coordination Act (EMCA)
	Min of Agriculture(MOA)	Suppression of Noxious Weeds Act (Cap 325), The **Agriculture Act**, Cap 318
	Ministry of Labour, Min of Environment & Mineral Resources	Eco-labeling/Labour standards/ environmental standards
	Government Chemist	
	KDB Milk Processors/Marketers	Dairy Industry Act, Cap. 336

Trade Related Activities	Implementing Agencies	Legislations/ Regulations
Labour	Min of labour	Wages and Conditions of Employment Act (1951, with subsequent amendments) Employment Act Labour Relations Act Labour Institutions Act
	Min of Immigration	Immigration Act
Foreign investment	Min of Finance	Constitution of Kenya (Section 75), 1963
	Min of Finance	Investment Promotion Act, 2004
	Min of Housing	Housing Act, 1990
	Min of Lands	Land Acquisition Act, 1983
	SLO	Companies Ordinance Act (Cap. 486), 1959
	SLO	Investment Disputes Convention, 1967
	SLO	Partnership Act (Cap. 20 and 30)
	SLO	Arbitration Act, No. 4 of 1995
Privatization	Min of Finance	Privatization Act, 2005
Export processing zones	Min of Trade	Export Processing Zone's Act (Cap. 517), 1991
Government procurement	Min of Local Government	Local Government Act, 1998
	Min of Finance	Sale of Goods Act, 1981
	Min of Finance	Government Contracts Act, 1979
	Min of Public Works	Architects and Quantity Surveyors Act, 1978
	Min of Finance	Public Procurement and Disposal of Public Assets Bill, 2005
Intellectual property rights	Min of Industrialization/KIPI	Industrial Property Act, 2001 Trade marks Act Patents and Designs (Conventions Countries) Order, 1971
	MOA	Seeds and Plant Varieties Act (Cap. 326), 1991
	SLO	Copyright Act, 2001
	Min of Higher	Science and Technology Act

Trade Related Activities	Implementing Agencies	Legislations/ Regulations
	Education, Science & Technology	(Cap. 250), 1977
Competition	Min of Finance	Restrictive Trade Practices, Monopolies and Price Control Act (Cap. 504), 1990
	SLO	Arbitration Act, 1985
Agriculture and related activities	Tea Board of Kenya (TBK)	Tea Act (Cap. 343), 1950
	National Tea Development Corporation (NTDC)	
	Kenya Tea Development Agency (KTDA Ltd)	
	East African Tea Trade Association (EATTA).	Societies Act 1957
	MOA	Sugar Act, 2001
	MOA	HCDA Act
	Min of Cooperative Development Coffee Board of Kenya (CBK)	Coffee Act, 2001
	Kenya Coffee Research Foundation	
	Coffee Research Foundation (CRF)	
	Ministry of Forestry and Wildlife	Forests Act, 1992
	Agriculture Finance Corporation (AFC)	
Fisheries	Department of Fisheries	Fisheries Act, 1972
	Min of Fisheries	Exclusive Economic Zone (foreign fishing craft) regulations 1990
	Min of Fisheries and Development	Marine Zones Act cap 371(1991).
	Kenya Marine and Fisheries Research Institute (KMFRI)	Science and Technology Act
	Kenya Wildlife Services (KWS)	KWS Act
	KETRI,	

Trade Related Activities	Implementing Agencies	Legislations/ Regulations
	KWS	Wildlife Conservation and Management Act (Cap. 389).
Financial services	Min of Finance/CBK	Banking Act (Cap. 488), 2002
	Min of Finance	Finance Act, 1999
	Min of Finance	Insurance Act, 1984
	Min of Finance/CBK	Central Bank of Kenya Act (Cap 491), 1966
	Min of Finance	Unit Trust Act (Cap 521)
Energy	Kenya Petroleum Refineries Limited (KPRL)	Energy Act, Cap 116
Transport	Min of Transport	Merchant Shipping Act (Cap. 389), 1989
	Min of Roads	Kenya Roads Board Act, 2000
	Kenya Airport Authority	Kenya Airport Authority Act (Cap 395), 1992
	Kenya Civil Aviation Authority,	Civil Aviation (Amendment) Act, 2002
	Min of Transport/KPA	Kenya Ports Authority Act (Cap 391)
Telecommunications and postal services	Min of Communication and Information	Kenya Communications Act, 1998
Tourism	Min of Tourism	Hotels and Restaurant Act, 1986
		Tourist Industry Licensing Act, 1990
		Wildlife Conservation and Management Act, 1989
Trade Facilitation, Promotion	Public Sector Infrastructure development and Parastatal utility providers County Council	Transport Licensing Act
	Kenya Wildlife Services (KWS)	Kenya Wildlife Act
	Ministry of Environment and Natural Resources/NEMA	National Environment Managing Act
Production/Marketing	Kenya Meat Commission (KMC).	Kenya Meat Commission Act, Cap 363
	MOA	Hide, Skin and Leather Trade

Trade Related Activities	**Implementing Agencies**	**Legislations/ Regulations**
		Act, Cap 359
	Min of Livestock	Rabies Act, Cap 365
	Min of Livestock	Veterinary Surgeons Act, Cap 366 (as amended in 1993)
Consumer Protection	Min of Trade	Trade Description Act (Cap. 505), 1962
	Min of Trade/ Weights and Measures Department	Weights and Measures Act Cap513
	Min of Industrialization/ Kenya Bureau of Standards	Kenya Bureau of Standards Act Cap 496
	Min of Agriculture	Pest Control Products Act 1995
	Min of Agriculture	Plant Control Act Cap 324

Annexure 2: Table of Kenya Exports to India 2000-2010

S.No	**HS Code**	**Actual Product Description**	**Frequency 2001-10**
1	2836	Carbonates; peroxocarbonates (percarbonat-es); commercial ammonium carbonate containing ammonium	13
2	713	Dried leguminous vegetables, shelled, whether or not skinned or split	12
3	4105	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further preparation	11
4	5101	Wool, not carded or combed : greasy, including flex	11
5	4101	Raw hides and skins of bovine (including buffalo) or equine animals (fresh or salted, dried, limed,	10
6	4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on wheels	10
7	4106	Tanned or crust hides and skins of other animals, without wool or hair on, whether or not split	10
8	902	Tea , whether or not flavoured	9
9	1211	Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery,	9
10	4102	Raw skins of sheep or lambs (fresh, or salted dried, limed, pickled or otherwise preserved, but not	9
11	4103	Other raw hides and skins (fresh, or salted dried, limed, pickle or otherwise preserved, but not tanned	8
12	7204	Ferrous waste and scrap; remelting scrap ingots of iron or steel	8
13	7602	Aluminum waste and scrap	7
14	801	Coconuts, brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled	6
15	2529	Feldspar; leucite; nepheline and nepheline syenite;	6
16	5304	Sisal and other textile fibres of the genus agave raw or processed but not spun; tow and waste	6
17	907	Cloves (whole fruit, cloves and stems:	5
18	2602	Manganese ores and concentrates, including ferruginous manganese ores and concentrates with a manganese	5
19	3201	Tanning extracts of vegetable origin; tannins and their salts, ethers, esters and other	5
20	7404	Copper waste and scrap	5
21	2530	Mineral substances not elsewhere specified or included	4
22	5305	Coconut, abaca (manila hemp or musa textiles), ramie and other vegetable textile fibres, not else	4
23	7801	Unwrought lead	4
24	901	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes contain	3
25	1301	Lac; natural gums, resins, gum- resins and oleoresins (for example, balsams)	2

26	2826	Fluorides; fluorosilicates, fluoro aluminates and other complex fluorine salts	2
27	4707	Recovered (waste and scrap) paper or paperboard	2
28	7615	Table, kitchen or other household articles and parts thereof; pot scourers and scouring or polishing	2
29	7902	Zinc waste and scrap	2
30	501	Human hair, unworked, whether or not washed or scoured; waste of human hair	1
31	508	Coral and similar materials, unworked or simply prepared but not otherwise worked; shells of mollusc	1
32	510	Ambergris, castoreum, civet and musk; cantharides;bile, whether or not dried; glands and other anima	1
33	802	Other nuts, fresh or dried, whether or not shelled or peeled	1
34	1801	Cocoa beans, whole or broken, raw or roasted	1
35	2833	Sulphates; alums; peroxosulphates (persulphates)	1
36	2941	Antibiotics	1
37	3004	Medicaments (excluding goods of heading 3002, 3005 or 3006) consisting of mixed or unmixed products	1
38	4013	Inner tubes, of rubber	1
39	4113	Leather further prepared after tanning or crusting, including parchment-dresses leather, of other a	1
40	4403	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared	1
41	4802	Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and	1
42	4819	Cartons, boxes, cases, bags and other packing containers, of paper, paperboard, cellulose wadding or	1
43	5105	Wool and fine or coarse animal hair, carded or combed (including combed wool in fragments)	1
44	5201	Cotton, not carded or combed	1
45	5402	Synthetic filament yarn (other than sewing thread), not put up for retail sale, including synthetic	1
46	5607	Twine, cordage, ropes and cables, whether or not plaited or braided and whether or not impregnated,	1
47	7208	Flat-rolled products of iron or non-alloy steel, of width of 600 mm or more, hot-rolled, not clad, a	1
48	7210	Plated or coated with tin:	1
49	7226	Of silicon-electrical steel:	1
50	7308	Structures (excluding prefabricated buildings of heading 9406) and parts of structures (for example,	1
51	7311	Containers for compressed or liquefied gas, of iron or steel	1
52	7318	Threaded articles:	1
53	8402	Steam or other vapour generating boilers :	1
54	8438	Machinery, not specified or included elsewhere in this chapter, for the industrial preparation or ma	1

55	8452	Sewing machines, other than book-sewing machines of heading 8440; furniture, bases and covers special	1
56	8453	Machinery for preparing, tanning or working hides, skins or leather or for making or repairing foot	1
57	8459	Machine-tools (including way-type unit head machine	1
58	8708	Parts and accessories of the motor vehicles of headings 8701 to 8705	1
59	8714	Parts and accessories of vehicles of headings 8711 to 8713	1

Annexure 3: Table of Indian Exports to Kenya 2000-2010

S.No	HS Code	Actual Product Description	Frequency 1-10
1	7210	Plated or coated with tin:	10
2	3004	Medicaments (excluding goods of heading 3002, 3005 or 3006) consisting of mixed or unmixed products	10
3	4011	New pneumatic tyres, of rubber	10
4	3003	Medicaments (excluding goods of heading 3002, 3005 or 3006) consisting of two or more constituents w	9
5	7208	Flat-rolled products of iron or non-alloy steel, of width of 600 mm or more, hot-rolled, not clad, a	9
6	5407	Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading	8
7	8504	Electrical transformers, static converters (for example, rectifiers) and inductors	7
8	2710	Petroleum oils and oils obtained from bituminous m	6
9	7209	In coils, not further worked than cold-rolled (cold-reduced):	6
10	8479	Machines and mechanical appliances having individual functions, not specified or included elsewhere	6
11	8711	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without side-cars;	6
12	5509	Yarn (other than sewing thread) of syntheti staple fibres, not put up for retail sale	5
13	7308	Structures (excluding prefabricated buildings of heading 9406) and parts of structures (for example,	5
14	8438	Machinery, not specified or included elsewhere in this chapter, for the industrial preparation or ma	5
15	8708	Parts and accessories of the motor vehicles of headings 8701 to 8705	5
16	2304	Oil-cake and other solid residues whether or not ground or in the form of pellets, resulting from th	4
17	3001	Glands and other organs for organo- therapeutic usses, dried, whether or not powered; extracts off g	4
18	3920	Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated,	4
19	6307	Other made up articles, including dress patterns	4
20	7323	Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool;	4
21	8704	Motor vehicles for the transport of goods	4
22	3204	Synthetic prganic colouring matter and preparations based thereon as specified in note 3 to this cha	3
23	5515	Other woven fabrics of synthetic staple fibres	3
24	6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib	3
25	7606	Rectangular (including square):	3
26	7614	Stranded wire, cables, plaited bands and the like, of aluminium, not electrically insulated	3
27	7901	Zinc, not alloyed:	3

28	8477	Machinery for working rubber or plastics or for th the manufacture of products from these materials,	3
29	8544	Winding wire :	3
30	8706	Chassis fitted with engines, for the motor vehicles of heading 8701 to 8705	3
31	8714	Parts and accessories of vehicles of headings 8711 to 8713	3
32	9801	All items of machinery including prime movers,instruments, apparatus and appliances, control gear an	3
33	0902	Tea , whether or not flavoured	2
34	1701	Raw sugar not containing added flavouring or colouring matter :	2
35	2828	Hypochlorites; commercial calcium hypochlori-tes; chlorites; hypobromites	2
36	3907	Polyacetals, other polyethers and epoxide resins, in primary forms; polycarbonates, alkyd resins, po	2
37	4802	Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and	2
38	5208	Woven fabrics of cotton, containing 85% or more by wight of cotton, weigning not more than 200 g/m2	2
39	8410	Hydraulic turbines, water wheels, and regulators therefor	2
40	8455	Metal-rolling mills and rolls therefor	2
41	8536	Electrical apparatus for switching or protecting electrical circuits, or for making connections to o	2
42	8705	Special purpose motor vehicles, other than those principally designed for the transport of persons o	2
43	0101	Live horses, asses, mules and hinnies	1
44	1005	Maize (corn)	1
45	1006	Rice	1
46	2106	Food preparations not elsewhere specified or included	1
47	2526	Natural steatite, whether or not roughly trimmed or merely cut, by sawing or otherwise, into blocks	1
48	2832	Sulphites; thiosulphates	1
49	2941	Antibiotics	1
50	3901	I. primary forms polymers of ethylene, in primary	1
51	3902	Polymers of propylene or of other olefins, in prim	1
52	3926	Other articles of plastics and articles of other materials of headings 3901 to 3914	1
53	4015	Gloves, mittens and mitts :	1
54	4901	Printed books, brochures, leaflets and similar printed matter, whether or not in single sheets	1
55	5402	Synthetic filament yarn (other than sewing thread), not put up for retail sale, including syntheric	1
56	5608	Of man-made textile materials:	1
57	7005	Float glass and surface ground or polished glass, in sheets, whether or not having an absorbent, ref	1
58	7205	Granules and powders, of pig iron, spiegeleisen, iron or steel	1
59	7219	Flat-rolled products of stainless steel, of a width of 600 mm or more	1
60	7225	Flat-rolled products of other alloy steel, of a width of 600 mm or more	1
61	7301	Sheet piling of iron or steel, whether or not drilled, punched or made from assembled elements;	1
62	7306	Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly close	1

63	7307	Tube or pipe fittings (for example, couplings, elbows, sleeves), of iron or steel	1
64	7318	Threaded articles:	1
65	8203	Files, rasps, pliers (including cutting pliers), pincers, tweezers, metal cutting shears, pipe-cutte	1
66	8205	Hand tools (including glaziers' diamonds), not elsewhere specified or included; blow lamps; vices; c	1
67	8214	Other articles of cutlery (for example, hair clipp	1
68	8402	Steam or other vapour generating boilers :	1
69	8418	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps	1
70	8443	Printing machinery used for printing by means of the printing type, blocks, plates, cylinders and ot	1
71	8474	Machiner y for sorting, screening, separating ,washing, crushing, grinding, mixing or kneading earth	1
72	8541	Diodes, transistors and similar semi-conductor devices; photosensitive semi-conductor devices, inclu	1
73	9028	Gas, liquid or electricity supply or production meters, includng calibrating meters therefor	1
74	9030	Oscilloscopes, spectrum analysers and other instruments and apparatus for measuring or checking elec	1
75	9101	Wrist-watches, pocket-watches and other watches including stop-watches, with case of precious metal	1