

**THE EFFECTS OF GLOBALISATION ON THE  
ECONOMY AND ECONOMIC POLICY  
MAKING OF LESS DEVELOPED  
COUNTRIES: A CASE STUDY OF KENYA.**

**BY ANGELA TILITEI.**  
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UNIVERSITY OF NAIROBI  
EAST AFRICANA COLLECTION

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NAIROBI.**

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**DECLARATIONS.**

This thesis is my own original work and has not been submitted for a degree in any other university.

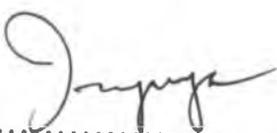
  
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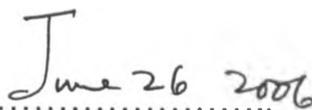
Date..... 6/06/2006

**Angela Tilitei.**

UNIVERSITY OF NAIROBI  
EAST AFRICANA COLLECTION

This thesis has been submitted for examination with my approval as University supervisor.

  
.....  
**Prof. J. D. Olewe Nyunya.**

  
.....  
**Date**

**DEDICATION:**

To my parents, for their inspiration and focus.

## ACKNOWLEDGEMENTS

I am greatly indebted to many persons and institutions that have made my research work possible.

My supervisor who gave me competent and dedicated guidance.

The Ministries of Trade and Industry, Tourism, Finance, Agriculture and Planning and National Development, the World Bank, the European Union and International Monetary Fund, Kenya Association of Manufacturers, British American Tobacco and Kenya Airways all of which provided useful information.

I am grateful to all my friends who, formally and informally, contributed to this work.

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## ABBREVIATIONS AND ACRONYMS.

|        |  |
|--------|--|
| ACP    | African, Caribbean and Pacific States.   |
| AFC    | Agricultural Finance Corporation.  |
| AGOA   | American Growth and Opportunity Act.   |
| APEC   | Asia Pacific Economic Cooperation.   |
| ASEAN  | Association of South Eastern Asian Nations.  |
| CEPR   | Centre for Economic Policy Research.   |
| CNN    | Cable News Network.  |
| COMESA | Common Market for East and Southern Africa.  |
| DFID   | Department for International Development.  |
| EU     | European Union   |
| EC     | European Commission.   |
| ECOWAS | Economic Community of West African States.   |
| FAO    | Food and Agriculture Organization.   |
| FDI    | Foreign Direct Investments   |
| G8     | A group of eight mostly industrialized countries (US, Britain, Canada, France, Italy, Germany, Russia & Japan) |
| GATT   | General Agreement on Tariffs and Trade.  |
| GDP    | Gross Domestic Product.  |
| GNP    | Gross National Product.  |
| GOK    | Government Of Kenya  |
| HDI    | Human Development Index  |
| HIPC   | Highly Indebted Poor Countries   |
| IBM    | International Business Machines Corporation.   |
| IBRD   | International Bank for Reconstruction & Development.   |
| ICEM   | International Council for Educational Media  |
| ICT    | Information and Communication Technologies   |

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|        |  |
|--------|--|
| IDRC   | International Development Research Institute         |
| ILO    | International Labour Organisation                    |
| IMF    | International Monetary Fund.                         |
| IPC    | Investment Promotion Centre                          |
| IUCN   | The world Conservation Union.                        |
| KAM    | Kenya Association of Manufacturers.                  |
| KCC    | Kenya Co-operative Creameries                        |
| KEMFRI | Kenya Marine and Fisheries Research Institute        |
| KIRDI  | Kenya Industrial Research Development Institute.     |
| KPCU   | Kenya Planters Co-operative Union                    |
| KSB    | Kenya Sugar Board                                    |
| KTDA   | Kenya Tea Development Agency                         |
| KTDF   | Kenya Tourism Development Federation.                |
| LDC    | Less Developed Country.                              |
| NAFTA  | North American Free Trade Agreement                  |
| NATO   | North Atlantic Treaty Organization.                  |
| NCPB   | National Cereals and Produce Board                   |
| NEMA   | National Environment Management Authority.           |
| NEPAD  | New Partnership for African Development.             |
| NGO    | Non-Governmental Organization.                       |
| OECD   | Organisation for Economic Co-operation & Development |
| PRSP   | Poverty Reduction Strategy Papers                    |
| SADC   | Southern Africa Development Co-operation.            |
| SSA    | Sub-Saharan Africa                                   |
| T/MNCs | Trans/Multinational Corporations.                    |
| UN     | United Nations                                       |
| UNDP   | United Nations Development Program                   |

|       |  |
|-------|--|
| UNEP  | United Nations Environmental Program.              |
| UNIDO | United Nations Industrial Development Organization |
| US    | United States of America.                          |
| USAID | United States Agency for International Development |
| USSR  | Union of the Soviet Socialist Republics            |
| WB    | World Bank   |
| WTO   | World Trade Organization.                          |

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## **Abstract**

This paper seeks to question some of the assumptions that are being made about the effects of globalisation on the economy and economic policy making in Less Developed Countries (LDC's) using Kenya as a case study. The research was analyzed within the context of international political economy and it builds a framework on the concepts of neo-liberalism.

Globalisation is a multi-dimensional process, which is transforming at a rapid rate and in a profound way all aspects of national and global activities and interactions. This study seeks to analyze the far-reaching implications of globalisation on LDC's with a focus on the economic environment and economic policymaking. It further explores the relationship between the state and globalisation. The study based on extensive research on Kenya, revealed that there are constraints and advantages of globalisation, in economic development and LDC's are not benefiting. The thesis has analysed the disparity and its results challenge the assumption that globalisation benefits all countries.

This study reveals that to benefit from globalisation certain mechanisms have to be in place such as good governance, democracy, economic reforms,

policy reforms, technical assistance and respect for an ever-expanding list of human rights

The research also shows that transfer of model economic policies that are recommended by World Bank (WB) and International Monetary Fund (IMF) are not wholly successful. Policies should be formulated to fit individual states, as the needs are different and various within each country.

Given the current trends in globalisation, it is clear that less developed countries; need to immediately commence a process of strategic global repositioning. However, the internal changes required in these economies to adapt to this new environment must be complemented by action at the international level. The thesis concludes by indicating that, LDC's should not wait for action by the international community to begin their adjustment process. The extent to which these countries can take advantage of and capitalize on opportunities presented by the new global marketplace ultimately depends on proactive measures taken internally. Indeed, this paper realizes that the overall impact of globalisation can be positive or negative depending on the economic policies implemented by individual countries.

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## **CHAPTER ONE**

### **Towards Explaining Globalisation and Economic Policy Making**

This work reports the results of a research into the economic policy issues of the LDCs, showcasing how Kenya has been and continues to respond to globalisation. Today there is great evidence that we are living in an interdependent world, in which communication, money and power travel the globe like never before. There is evidence that the importance of traditional political institutions like the nation state is diminishing. Policies that have been erected in regulating international trade in order to protect national interests and promote national justice are becoming obsolete.

Since the collapse of the Soviet Union and the end of the Cold War, the word 'globalisation' has infiltrated the everyday language of nations worldwide. Globalisation is considered by many to be the inevitable wave of the future yet it has been pointed out that it is benefiting the developed world at the expense of the developing world.

What then is the meaning of globalisation? Globalisation is seen as the many links and interactions between societies and states. Globalisation can be defined as "the integration of trade, finance and information that is creating a single global market and culture."(Freedman 1997) Furthermore globalisation is the process by which events, decisions and activities in one part of the world have significant consequences for individuals and communities in distant parts of the globe. In a sense, globalisation is also the intensification in the levels of interconnection between the state and societies. It is clear that this is not a new phenomenon but it has been evolving since time in immemorial.

Global economic issues such as trade, agriculture or industrial development affect almost all countries, rich or poor. It should therefore come as no surprise when nude demonstrators from all over the world help bring down the WTO trade conference at Cancun Mexico on September 2003 to protest unfair world trade practices; or when a Korean farmer stabs himself to death at the same conference, far away from home, to make himself felt. Kenya whose Trade Minister was a facilitator at that same conference, is also credited with its collapse; a clear evidence of how the country is now stamping its global authority.

## 1.1 PROBLEM STATEMENT

The phenomenon of globalisation can be identified by its 'driving forces'.

At the core, globalisation is the explosion of both technology and information and has considerably reduced the concepts of time and space. In particular, information technology has emerged as the most dominant driving force behind the process of globalisation. The dynamics of capitalism and the forces of imperialism have also played a big role in bringing the world into the contemporary global economy.

Globalisation can be better understood by looking at how it affects different aspects of international relations. State sovereignty has been the guiding principle of international relations. One of its main principles is the concept of 'territorial integrity' whereby national boundaries are clearly delineated and any kind of trespass or infringement is considered a serious violation of sovereignty. Everything that occurs within the boundary of a sovereign nation-state is the business of that nation-state alone. 'Interference' in the internal affairs of one nation-state by another is seen as a transgression against the national sovereignty of that nation-state. Article 2, paragraph 4, of the UN Charter emphasises this ([www.un.org](http://www.un.org)). In practice, this principle

is always violated. Usually strong nations have always exerted influence in the internal affairs of weaker ones. Weaker states will always be prepared, to an extent, to surrender a portion of their sovereignty in exchange for some protection and advantage. Absolute sovereignty is rare. A slight loss of sovereignty can mean an increase in security, power, control and wealth. Trade blocs (like NAFTA, APEC) and economic communities (e.g. EC), reduce government control over the national economy. This reduces the flexibility of national economic policy.

Transnational corporations (TNC's), especially US corporations have influenced almost all nation-states in the world towards Americanised democracy. Coca-Cola, IBM, Ford, Microsoft, CNN, have big impact on national economies. Global TNCs within a nation-state effectively claims and controls a part of the national economy. These external influences reduce the control of the state of its own economy.

Communication, as earlier mentioned, has come a long way and is no longer contained to just the territories of a nation-state. The existence of satellites and the Internet, which broadcast messages instantly across jurisdictional border, have rendered the local laws on control of media in regards to local

public policies on culture, language, and morality less useful. The internet and satellite dish have made geography and time relatively unimportant. This differs from the basic principle of the nation-state that is 'territorial integrity'. If national-culture can be formed without borders then the future of the nation-state is rather bleak.

The English language is emerging as the international language. It is now almost compulsory for any politician; high government official, technologist and other business people the world over to master this language. Its influence can be felt on all other languages and it completely dominates the vocabulary of commerce and technology.

The US through her enormously popular films and television and even news is dominating other cultures. These programs are filled with cultural assumptions and values of the US community. A single culture, ideology and worldview are slowly being created.

The World Trade Organisation (WTO) and the International Monetary Fund (IMF) have an impact on the internal social security and economic autonomy of the nation state. If national economy is in trouble, intervention by IMF

can seriously undermine the credibility of a nation state. The IMF and World Bank are forcing not only developing nations but also developed nations to adopt their guidelines or suffer the consequences. Globalisation is moving to the direction where the nation-state, especially in developing countries, will be rendered guarantors of debt repayment and social control within agreed boundaries. Nation-states have little choice but to compromise their political policies to the demand of economic survival. On the other hand, you cannot with the systems today reject the effects of globalisation and be economically autonomous. Several nation-states such as North Korea, Burma, and Albania have tried to isolate themselves with devastating consequence. They have negative economic and social achievements and face many problems. They have had to turn to the international community for help.

It is argued that globalisation benefits not only for the western world but also brings in high incomes and economic growth to the world's poor. This study attempts to assess and analyse the extent to which this is true.

In the LDCs, states are thought to be losing the ability to determine and implement policies of their own. The liberalisation required by donors aiming to restructure the economy has reduced the control that governments have at their disposal. In less developed countries there is some everyday interference by the international community on domestic issues. Policies like Structural Adjustment Programs (SAPs) have greatly affected them. How are poor countries coping with globalisation? Is it a threat or an opportunity in economic terms? This research sought to clearly show the challenges and opportunities that the less developed countries experience in relation to globalisation, with special reference to Kenya.

## **1.2 OBJECTIVES**

The broad objective of the study was to analyse how globalisation has impacted on the economic performance of the LDCs, using Kenya as an example.

### **Specific Objectives**

1. Critically examine how globalisation has influenced economic policymaking.
2. Assess how economic environment would best take advantage of the globalisation process.
3. To identify constraints and advantages of globalisation and their implications for economic development.

The research was analysed within the context of international political economy.

## 1.3 CONCEPTUAL FRAMEWORK

The theory adopted for this study of the research is neo-liberalism. This is a set of economic policies that became wide spread in the last 25 years and can best explain globalisation theory. A general characteristic of neo-liberalism is the desire to intensify and expand the market, by increasing the number, frequency, repeatability, and formalisation of transactions.

"Neo" means new and therefore means we are taking a new form of liberalism. What then was the old liberal school of thought? Adam Smith, an English economist, propagated the liberal thought. He and others advocated the abolition of government intervention in economic matters. No restriction of manufacturing, no barriers to commerce, no tariffs. Free trade was seen to be the best way for a nation's economy to develop. These ideas were seen as "liberal" in the sense that there were no controls. Economic liberalism prevailed especially in the United States through the 1800s and early 1900s. After the great depression, of the late 1920s economist John Maynard Keynes challenged liberalism saying that full employment is necessary for capitalism to grow and it can only be achieved if governments and central banks intervene. This led to the "Keynesian" model of development and after World War II formed the foundation for the rebuilding of the U.S-

European-centered international economic system. His ideas greatly influenced the United States President Roosevelt's New Deal that did improve the economy. The belief that governments should advance the common good becomes widely accepted all over the world.

In fact, the Bretton Woods Institutions (the International Monetary Fund (IMF) and World Bank) were actually designed with Keynesian policies in mind; to help provide international regulation and control of capital. "When these institutions were created at Bretton Woods in 1944, their mandate was to help prevent future conflicts by lending for reconstruction and development and by smoothing out temporary balance of payments problems. They had no control over individual government's economic decisions nor did their mandate include a license to intervene in national policy." (George, 1999).

However, from the mid-1980s shrinking profits and trade prospects inspired the corporate elite to revive economic liberalism. The Reagan and Thatcher era in particular, saw neoliberalism pushed to most parts of the globe, almost demonizing anything that was public, and encouraging the privatization of anything that was owned by the public, using military interventions if needed. Structural Adjustment policies were used to open up economies of

poorer countries so that big businesses from the rich countries could own or access many resources cheaply. (George, 1999)

The principle of neo-liberalism underlies most policies devised by international economic regimes.

The main points of Neo-liberalism are:

1. The rule of the market. Liberate 'free' enterprises or private enterprises from the Government.
2. Greater openness to international trade and investment.
3. No price controls, total freedom of movement of capital goods and services.
4. Deregulation and privatisation of state-owned enterprises, goods and services to private investors.

According to Hirst and Thompson (Thompson 1996) the new Globalisation economy allows companies and markets to allocate the factor of production to greater advantage and without the distortion of state intervention. The trade, transnational companies and the world's capital markets have liberated business from the constraints of politics. Globalisation realises the

ideals of mid-nineteenth century free trade liberals, like Cobden and Bright, that is a demilitarised world in which business activities in primary and political power has no other task than the protection of the world free - trade system.(Read, 1967)

## **1.4 HYPOTHESES**

- Globalisation in less developed countries affects economic growth
- The effects of globalisation on the role of the State.
- Globalisation reduces independent economic policy making within less developed countries

## **1.5 DEFINITIONS**

In the new wave of scholarly and policy interest that has emerged around the subject of globalisation, a concerted effort has been made to forge and enforce a dominant perspective that it is, by definition and in practice, something which is desirable and 'good', in which all countries, especially the developing ones, must strive to participate so that they can harvest the

bountiful fruits it promises. Integral to the debates on globalisation are the questions of identity, citizenship and location/geography

### ➤ **Globalisation**

An acceptable working and operational definition of "Globalisation" is needed for this analysis. This being an economic paper the operational definition will be on an economic perspective. *Globalisation entails one single world market; enormous inter-penetration of capital; minimization of national-border interference's with trade and commerce; fostering of an indifference to national differences.*

### ➤ **Less developed countries**

The operational definition of LDCs is country characterized by:

- a poverty level of income,
- low living standards (i.e. low level of income per capita)
- a high rate of population increase,
- a substantial portion of its workers employed in agriculture,
- a low proportion of adult literacy,
- high unemployment,
- a significant reliance on a few items for export.

Terms such as third world, poor, developing nations, and underdeveloped have also been used to describe less developed countries.

### ➤ **The State**

It is widely agreed that the processes of "globalisation" are changing the State in both North and South. The state's competence used to lie in its ability to provide public goods, uphold international commitments, oversee economic planning and implement socially redistributive measures. Such competence has gradually been redefined and qualified as new pressures, actors and intermediaries have arisen at supra-national, international and sub-national levels (Keen, 1996)

While the terms country, state, and nation are often used interchangeably, there is a difference.

A state is a self-governing political entity. The term state can be used interchangeably with country.

A nation, however, is a tightly knit group of people, which share a common culture. A nation-state is a nation, which has the same borders as a state.

The state has the following characteristics;

- Has space or territory, which has internationally recognized boundaries.
- Have people who live there on an ongoing basis.
- Have economic activity and an organized economy. A state regulates foreign and domestic trade and issues money transportation system for moving goods and people.
- Has a government, which provides public services and security.
- Has sovereignty. No other state should have power over the country's territory.
- Has external recognition.

➤ **Economic growth**

This is an economic process that involves the steady growth of productive capacity of the national income of a state. Economic growth involves the pace at which the economy increases during a given interval. The quantities most commonly used to measure economic growth rate are Gross National Product and Gross Domestic Product.

## ➤ Economic Policy Making

Since the mid-1980s, most developing countries (with the notable exception of China) have been required to adopt liberalisation policies, generally under Structural Adjustment Programs (SAPs) of the IMF and World Bank. These policies have become the dominant influence over government policy through most of the developing world.

However, the most recent evidence (World Bank 2000) suggests that the numbers of people living on less than \$1 per day is growing in most regions of the world (with the notable exception of China). The numbers living on \$2 per day have increased from 2.55 billion to 2.8 billion. This suggests that policies of liberalisation are failing the poor.

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Economic policymaking is defined as *negotiations between two parties on the economic path of the country. The main players are the state, Bretton Woods institutions and the World Trade Organisation.*

## 1.6 JUSTIFICATION

Globalisation is not a vague, warm feeling about the future. The way it's loosely used does not sufficiently relay its importance.

The impact of globalisation on less developed countries has not been given adequate attention. This study sought to emphasis the importance of globalisation and its impact on economic growth, and how best a developing economy like Kenya can use globalisation to its advantage.

Globalisation in itself has been perpetuated by the western, capitalistic system. It dominates elements of power, politics, economy socio-culture and the military. Everywhere you look, there is evidence of this influence. From what we read, eat, watch and hear. The developing world is not in equal footing to participate in the globalisation race. The technology is too expensive and rapid for the third world. Satellite, computers in mass scale will only benefit a few individuals. The majority of the population in less developed countries cannot afford to utilise this technology. It is a case where the more you have the more you get. The globalisation process greatly benefits the developed world. The economy of the US has been steadily growing from the beginning of the 1990s. At the current state of affairs the

industrialisation and technological advancement in the developed world will continue to flourish while the Third World will continue to be a dependent market.

In today's world, the political survival of a country depends on its economic capabilities. A state has to embrace new norms and values such as liberal democracy, free global trade, human rights and environmental protection. There is need for urgent address on globalisation and its effects if the states in less developed countries are not to be completely marginalized.

The study also hoped to provide findings that policy formulation may use in economic development plans. It is also hoped that the study will contribute to better understanding of the relationship between Globalisation and economic growth.

This research aimed at developing knowledge and problem solving capacities that are directly applicable in managing globalisation in less developed countries- especially Kenya.

Globalisation is likely to cause instability in the less established countries. The Asian Financial Crisis (1997) is a good example. The liberalisation of international capital flow looked like a good and beneficial idea. The collapse of banking institutions in one Asian country saw a domino effect to all the main Asian countries. The economies of South Korea, Indonesia, Malaysia, Thailand, Philippines and others in the region were hit by a financial crisis that escalated to a regional depression.

## **1.7 Methodology**

This research followed a case study approach in the investigations of how global issues have affected the economies and economics of the LDCs in general, and Kenya in particular; in terms of policy responses it worked within the framework of qualitative research methodology to analyse data and the findings.

### **1.7.1 The Study Sample.**

The study targeted the yet-to industrialise and less developed countries; mostly located in Africa, Caribbean and Pacific regions. Comparatives were also looked at, between them and the heavily industrialized countries (also

known as the First World) as well as the countries hanging in between these otherwise arbitrary groupings.

In Kenya, the institutions directly involved in economics and economy were selected out for interviews. These were the ministries of Trade and Industry; Agriculture, Tourism and Information, Finance, Planning and National Development. These were the representatives of the Government. The Planning Ministry was found to be all encompassing and therefore would articulate the issues of other ministries notably, Transport and Communications; Roads, Public Works and Housing; Health; and Co-operatives, Fisheries & Livestock (covered under Agriculture).

The representatives of International Institutions are the World Bank, the IMF and the EU. These are multilateral and they cover all the regions of the globe.

The Kenya Association of Manufacturers (KAM), the Kenya Airways (KQ) and the British American Tobacco (BAT) were sampled for the interests of the private and local institutions. KAM is over three decades old and is a body whose brief is to promote and protect industrialists and manufacturers in Kenya. It advises the government on measures it considers essential for

the establishment and support of industrial growth in Kenya. KQ is one of the most successful privatisation story ever achieved not only in Kenya but Africa as a whole. It would best articulate the interests of the private sector. BAT (K) is among the MNCs with a threatened future, and who are accused of dodging stringent conditions at home (on tobacco consumption) to come to seek refuge in the LDCs where the laws and their enforcements on tobacco consumptions and promotions are still wanting).

The rationale for this sampling is that these distinct groups would yield representative views of what is taking place.

### **1.7.2 Research Instruments, Data Collection and Analysis**

Questionnaires were designed and sent out. The questionnaire method is relatively cheap and convenient compared to oral, recorded or Tran scripted interviews, which would require much time, which the respondents may not avail. The questionnaires were sent out to the respondents.

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The rationale for this sampling is that these distinct groups would yield representative views of what is taking place.

## **1.7.2 Research Instruments, Data Collection and Analysis**

Questionnaires were designed and sent out. The questionnaire method is relatively cheap and convenient compared to oral, recorded or Tran scripted interviews, which would require much time, which the respondents may not avail. The questionnaires were sent out to the respondents.

These were developed after scrutiny of relevant primary and exhaustive secondary data to ensure thorough questionnaire design. During this period too, rapport was developed with the respondents. This resulted into serious and insightful discussions and interviews. Some respondents were enthused by the study and were very cooperative all through.

## **1.8 Limitations of The Study**

First, a limitation was in Government institutions where 'not too much' information would be given out, despite authoritative assurances that this was strictly for academic purposes only. Secondly, most respondents complained of an 'ambush', that questionnaires 'interrupted' their normal schedules and consequently they needed all the time.

## **CHAPTER TWO**

### **Globalisation, The State And Economic Development: An Overview**

#### **2.1 The Concept of Globalisation**

Globalisation as a concept can be seen as the rapidly increasing complex interaction between societies, cultures, institutions and individuals' world-wide. This general awareness of global activities brings opportunities for development as well as risks and new challenges.

Because of globalisation's multifaceted nature, it is essential to grasp the different motivating forces that are impelling these developments.

Globalisation can come "from above" through agents such as of multinational corporations, international capital flows and world markets.

This form of globalisation is characterised by growing legal and institutional framework within which the regimes of contemporary international trade finance and investments are being conducted. The legal dimensions are captured within the context of international economic law, while the Bretton

Woods, Multi-lateral institutions and WTO are the specific institutional mechanisms within which it is organised (Streeten, 1999).

Another form of globalisation is seen to come from below which deals with universal issues such as the environment, gender rights, anti-nuclear movements and human rights. ( Keohane & Nye 2001)

Globalisation is a trend of increasing integration of economies in terms not only of goods and services but also of institutions, culture and society as a whole which takes place in the increasingly defined international framework created by WTO, IMF, World Bank, & G8 summits (Pearce, 1996)

Globalisation from an economic cultural and political perspective has been defined in many ways. Globalisation can be perceived as having two interrelated dimensions, scope or "stretching" and intensity or "deepening". It can also be defined as a universal process or as a set of processes, which generates a multiplicity of process, which generates multiplicity of linkages, and interconnectedness, which transcends the state, and societies, which make up the modern world system. It also implies intensification in the level of interaction, interconnectedness or interdependence between states and

societies, which constitutes the modern world community. ( Mc Grew & Held 1993)

Globalisation also refers to global economic interaction of formal national economies into one global economy, mainly by free trade and free capital mobility, but also by easy or uncontrolled migration. It is the effective erasure of national boundaries for economic purposes (Daly 1989).

Globalisation reflects a long process of historical development characterised by intense political, trade competition and reflecting the exercise of power in a variety of forms (Smith 1992). In contrast, Ronald Robertson (1990) argues that globalisation is a relatively recent phenomenon that can be applied to a particular series of development concerning the concrete structuralisation of the world as a whole.

All in all most authors look at globalisation in terms of integration. It can be understood as a series of universal, economic and information flows that should create a global economy or a world global market (Johnson 1991).

Likewise Joseph Camilleri and Jim Falk employ the concept of globalisation as integration of various units of the world in opposition to the process of regional fragmentation and decentralisation. (Camilleri & Falk 1992)

Communication is credited as being the corner stone of globalisation. Globalisation is seen as eliminating distance in human relations. (Havey 1995). In this day and age however the development of computer and communication technology over the past 20 years have greatly improved the speed, quality and sophistication of global communication.

The Internet has made geography and place relatively unimportant. Some scholars now believe that 'virtual nations' are being formed within the context of the Internet

## **2.2 Globalisation and the State.**

The very essence of globalisation is seen to diminish the importance of the state. A radical view says that globalisation means the onset of a borderless world. (Ohmae 1992) He goes further to say that globalisation is the end of the nation-state.

"The era of the nation-state is over. We are entering a New World of economic giants and superpowers, of multinationals and military blocs, of vast communication networks and international division of labour". In such a world there is no room for medium or small-scale states let alone submerged ethnic communities and their competing and divisive nationalism.

Nations may have been functional for a world of competing industrial states but they are obsolete in the 'service society' of an interdependent world based upon technical knowledge (Smith 1992).

However, according to the authors Boyer and Drache (1996) and Mann (1997) states do not lose their use but instead become more active and in some areas assume more responsibility.

After the Westphalia agreement the nation-state took the dominant role in international relations. However from the 1960s we have seen the increase in regionalisation as is evident with the coming of the European Community, African Union, COMESA and others. These developments have led to the reduction of state authority. This process is referred to as the 'internationalisation of states', which is the blurring of boundaries between international and domestic politics thus producing 'intermestic politics' (Robertson 1992; Featherstone 1990).

The main political effect from globalisation is the erosion of boundaries and the growth of cross-border activities, economic and otherwise. The leading form of globalisation interchanges between nation-state and regionalisation.

Regionalisation takes the form of free market zones like NAFTA, APEC, COMESA and many others. It also can be seen in the form of regional security alliance such as the ASEAN, NATO and also unions like the European Union. (Oman 1994)

### **2.3 Globalisation and Economic Growth in the LDCs.**

It has generally been assumed that globalisation has helped spur economic growth throughout the world. However as was evident with the riots in Seattle U.S.A, over the WTO meetings in November 1999 and the protest in Prague Czech republic during the annual meeting of the World Bank and IMF on September 2000 such assumptions are wrong. The protesters were pressing on the moral, political and economic issues that touch on the third world as a result of globalisation.

International financial market now determine the economic policies of national governments, governments' conformity to the demands of free market, deregulation of the economic sector, dismantling of welfare state systems and disengagement of government from provisions of goods and services as being essential for the economic survival of nations. (Dierks 1997)

The Washington Post gave a paragraph in which it explains what a nation-state must adopt to the currency crisis of 1998:

“...the solution [to the currency crisis] is not mysterious. They need sounder currencies linked to the dollar, less public spending, lower taxes and less regulatory red tape, borders that are more open to trade and capital, and governments that are more candid, less corrupt and less apt to meddle in the private sector. [...] Markets enforce a more efficient discipline. A country that complies with conditions hospitable to capital will get capital, which is continually scoring the globe, seeking the best returns [...] capital does not flee sound economies”. (Washington Post, 1998)

Politics has become inseparable from the economy, as assessment must take into account the political system, social stability, decision making process and any factors likely to impact upon the repayment of loans, including domestic economic policies. National governments are therefore bound to implement economic and social policies that conform to the demands of capital. (Dierks 1997).

According to the CEPR, economic growth has slowed dramatically, especially in the less developed countries as compared with the previous two decades (1960 -1980). For example:

- From 1960 - 1980, output per person grew by an average of 83% in developing countries. From 1980 - 2000, the average growth of output was 33% per person.
- A survey of 89 developing countries shows that 77% of these countries saw their per capita rate of growth fell by at least five percentage points from the period of (1960 - 1980) to the period (1980 -2000). Only 14 countries - 13%- saw their per capita rate grow by that much during this period.
- In Latin America, GDP per Capita grew by 75% from 1960 - 1980 whereas from 1980 - 1998 it has risen by 6%.
- In sub - Sahara Africa GDP per Capita grew by 36% from 1960 - 1980 and has since fallen by 15 %.

It is important to note that globalisation is a process, like any other process. It cannot take place in all regions of the world at the same time in the same form or with the same strength. In other words it does not have the same

impact everywhere. There are variations, differences, gaps and tensions. Why then does globalisation seem to economically favour the developed countries?

Dessouki (2000) tries to explain the differences in spheres. In the first sphere the state has matured, it has a great deal of self-assurance and self-confidence. The state rests on long traditions of political existence and stable record of economic prosperity. Such a state is more disposed to respond positively and adapt well to globalisation. In the other sphere, the state is often itself a source of instability. Often those in power equate their regimes stability with national security and state survival. The impact of globalisation to this sphere is seen as a new form of dependency and colonisation. In many cases these states face a lot of challenges. Communication, transport, ethnic revivalism, growing membership of supranational organisations and the increasing influence of international financial institutions such as the World Bank and the IMF are forces working to undermine them.

This form of thought is further emphasised by Ugandan President Yoweri Museveni who said, in the Southern African International Dialogue (SAID) Summit Aug, 2000 that globalisation was merely the same old oppression of

the developing nations by the west and urged his fellow leaders to resist globalisation " we must realise that the old inequalities are still there. It is the same old order with new means of control, new means of oppression, new means of marginalisation.

The Nigerian President Olusegun Obasanjo stated in June 2000 at a meeting in Egypt of 15 Developing countries that " our societies are overwhelmed by the strident consequences of globalisation and the phenomenon of trade liberalisation. The options opened to us have narrowed as the increasingly shrinking world imposes on our countries a choice of integration or the severe conditions of marginalisation and stagnation. We are convinced that the promised high living standards will not materialise until the International community redresses the asymmetries and imbalances in the global economy". (<http://dawn.com/2000/06/19>)

Developing countries, especially, in Africa have always had an unfair trade relationship with the developed world. These countries mostly import manufactured goods and export raw material mainly agricultural and mineral products. The value of imports has been increasing while prices in export decrease. This problem has been made worse by the fact that most of the

developed countries have opened up the markets and regional trade but relying on tariffs and non - tariffs barriers to their advantages.

## **2.4 Challenges and Opportunities of Globalisation**

At the turn of the millennium, there has been a new phenomenon in the international arena called 'globalisation'. This word has become commonly used in everyday language. It is a term that is used in different ways by people ranging from bureaucrats, political analysts, consultants, journalists, and other professionals across the board. This is surprising considering that a decade ago; the word did not exist in any dictionary. Today globalisation has become a major topic of discussion especially in economic terms. It is spoken of in reverent terms as being a positive and desirable trend in trade and economic matters. It is today common to hear propaganda stating that to progress and be economically viable, we have to embrace globalisation. (Stiglitz, 2002)

Globalisation refers to the intensification of consciousness of the World and the compression of the World as a whole. The noun 'Globalisation' was rarely used in the early and mid 20<sup>th</sup> century. The second half of the 1980s saw the use of the concept increase enormously. Globalisation is a term

often used loosely and sometimes in contradictory ways but it has in itself become part of 'Global Consciousness'. Global consciousness is defined by the Oxford Dictionary of New Words (1991) as receptiveness to and understanding of cultures other than one's own, often as part of an appreciation of World Socio - economic and ecological issues.

Marshall McLuhan first introduced the idea of the global village in the 1960s. He notes that the compression and shrinking of the world can be traced to the media, particularly television. In addition, around this time the expressive revolution of the 1960s was occurring. It was a revolution in consciousness among young people centred upon such themes as liberation and love in both individual and collective terms. The current focus on global consciousness can be traced from the consciousness rising in the sixties. (McLuhan, 1988)

It is true that globalisation is a fundamental change in the international system, however the implications of these changes have not been fully analysed. Despite the frequency of use of the term, there has not been a clear-cut explanation of what globalisation actually is? Is it a process? What are its roots? Is it a reality or a myth?

## 2.5 Globalisation: An Overview.

The phenomenon of globalisation is global in that it is all encompassing. It has significance, economically, socially, culturally and spiritually. In the last decade, a lot has been written on globalisation. In 1998 alone over two thousand papers were written and about six hundred books published on the subject. This large number of writings has produced varied definitions of globalisation. The socialist, Anthony Giddens (1999) defines it as a decoupling of space and time, whereby there is instantaneous communication; knowledge and culture can that be shared around the world. Ruud Lubbers (2001) a Dutch academic defines it as a process in which geographic distance becomes a factor of diminishing importance in the establishment and maintenance of cross border economic, political and socio-cultural relations. Many other authors see it primarily as a economic phenomenon in that it is a process that involve the increasing interaction/integration of national economic systems through the growth in international trade, investment and capital flows. It can also be seen as the rapid increase in cross-border economic, social, technological exchange under conditions of capitalism

Globalisation can be looked at through three aspects; economics, politics and culture.

## **2.6 Economic aspects of Globalisation**

Globalisation is mainly seen in *economic terms*. This is because economic consequences are easy to recognise. This phenomenon has affected the marketplace, which is the primary area in human economic activity. The national economy has traditionally been the main player in minds of economists. National markets are no longer the only players to consider, because the international market is now increasingly swallowing them. They are being 'denationalised'. This new market place is multifaceted. It markets unlimited range of goods and services, capital and finance and to some extent labour. If we focus on capital, it is clear that it is no longer restricted to domestic markets. It can now be channelled anywhere in the world that attracts higher profits and lower operating costs. This is evident in the numerous multinational and transnational companies. Companies like Coca-Cola, IBM, and Microsoft have taken advantage of the unrestricted access and the results speak for themselves. Financial and currency markets have also become global. (Slater, 1993)

A global economy comes about when capital markets are interconnected worldwide. This makes the savings and investments of individual countries even those not directly tied to the global markets dependent on the performance of the global financial markets. Multinationals in manufacturing, service and finance constitute the core of the world economy.

The best research centres are found in places like the US, Western Europe and Japan. This has contributed to 'brain drain'. Countries like India and China, which have highly trained researchers, can only reach their full potential if they move to these centres. Making them highly skilled labour globally. However the majority of the jobs are local but they rely heavily on globalized sector of the local economy that is the multinational companies.

The main challenge of the global economy especially to less developed countries is that though the economy encompasses the entire planet not every place is included. The target of this global economy is directed to the dominant values and interests. It is profit driven in that it picks the markets that it gets maximum benefits. This excludes most developing countries and it is peoples.

Individual country central banks no longer have control of their financial markets. The role of the nation-states has definitely been redefined in order to maintain some control of the global flows of capital. National governments have had no options but to band together and form regional unions to which they have had to surrender much of their sovereignty. This creates a state where there are interaction between supranationals, nation states, regional and local governments and even Non Governmental Organizations. Economic globalisation can then be seen as a process of capitalist restructuring innovation and competition enacted through the powerful medium of new informational communication technologies.

(Castells, 1993)

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The global economy has its flaws as was evident in the Asian financial crisis of 1997 or the Mexican crisis of 1994-95 in which the currencies collapsed and spilled over to the neighbouring countries. However, according to Professor Madison these economies were not truly global in that they were not sufficiently 'capitalist' i.e. free markets oriented. The blame for this crisis should be attributed to the structural defects of the economic systems of the individual countries. " South East Asia's challenge

is not to protect itself from global finance but to deal with its insolvent banks, shaky domestic markets and over estimate economies. The regions politicians with their crony-isms, corruption and reluctance to take awkward decisions, are far more to blame for the currency market turmoil than international speculators.”

## **2.7 Cultural aspects of Globalisation**

A model has been created by authors Horseman and Marshall to understand and analyse show Globality in cultural terms and how it affects our perception of the primary ‘objects’ which appear to exist in the world. The model is conceived as an attempt to make analytical and interpretative sense of how actors collective or individual go about the business of conceiving the world; including attempt to deny that the world is one. The model takes strongly into account changes in each of the four major components (societies, individuals, international relations and humankind) in tandem with shifts in the relations between them. Globalisation as a process is closely bound up with this perspective. It is clear that the model of the Global circumstances is both multidimensional and much more global than is usually meant by Socio-Scientists. Multidimensionality in this context

refers to a mode of grasping the basics of the Global - Human condition i.e. the general features of life.

Simply considering an outcome of western modernity cannot accurately capture globalisation. In an increasingly globalized world, there is a heightening of civilization, societies, ethnic regional and individual, self-consciousness.

The global field, which can also be known as the global human condition, is explained below.

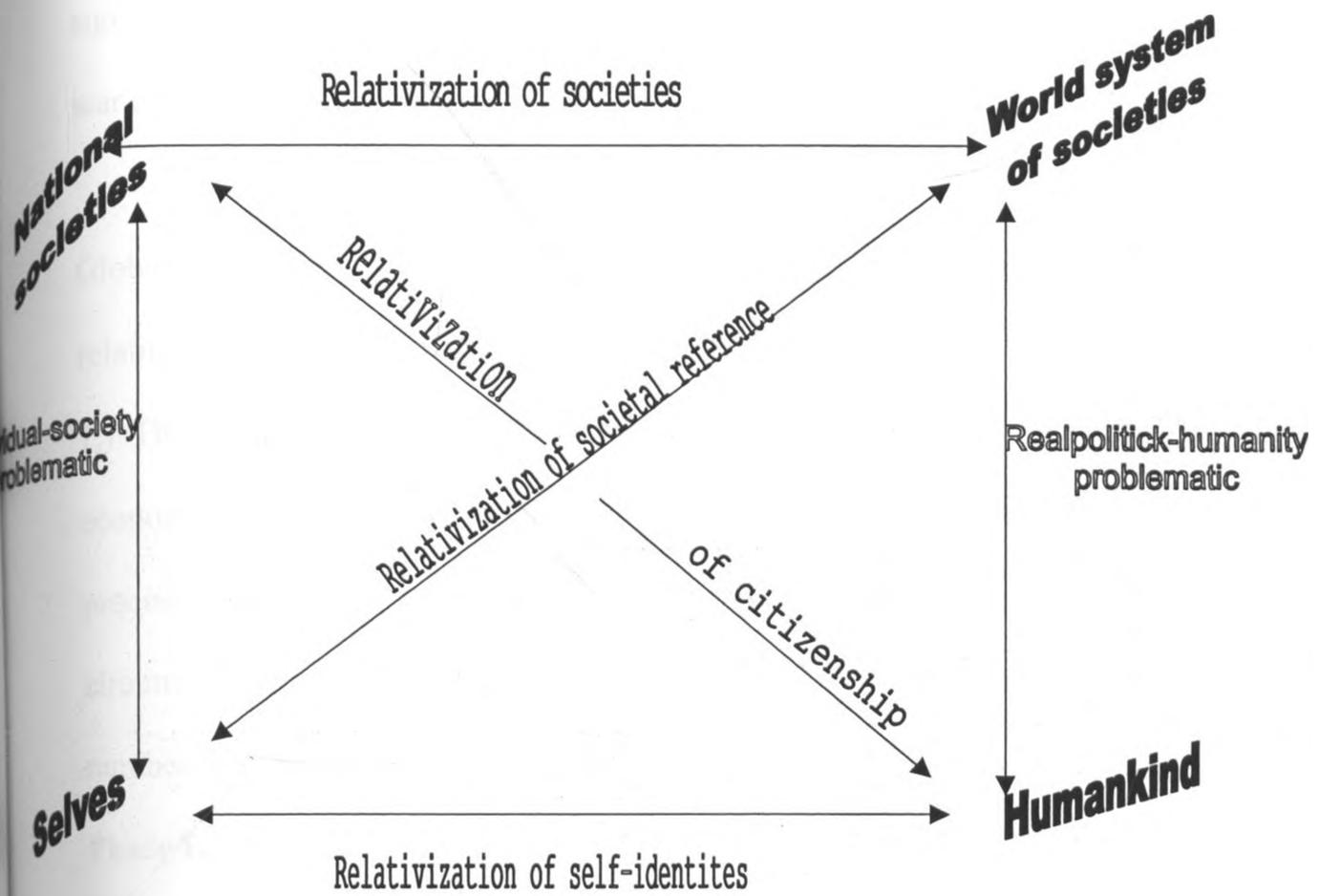
Firstly, to tackle the issues of globalisation and globality. One needs a realistic view of the world as a whole. In contemporary circumstances over emphasis on one component at the expense of the other three in a form of fundamentalism. In other words each of the components is one way or the other constrained by the three. This approach can be seen in moral and critical dimensions.

Secondly is the process that brings about globalisation, the 'driving forces'. The dynamics of capitalism and forces of imperialism have played a large part in bringing the world into the contemporary global economy. Horseman

and Marshall emphasis more on the disputed terms in which Globalisation has occurred and is occurring. In other words, the focus is cultural in the sense that it tries to demonstrate the impact Globalisation has on the human way of life.

Thirdly, in the representation of the global field there is an emphasis on the process of relativization. The term indicates ways in which globalisation proceeds, the challenges it faces the collective and individual participation to the overall globalisation process.

The global field as a whole is a socio-cultural 'system', which was resulted from the compression of civilization cultures, national societies, ethnic groups, intra-society quasi-groups and individuals. The more globalisation proceeds the more constraints are felt on such entities. However, globalisation cannot be accounted for in terms of entities. In principle a multidimensional theory ranges across levels of analysis, precisely to examine new global constraints and involvement of the entity sociology has traditional dealt with.



*Figure 1. The Global Field (horseman 1994)*

Globalisation does not only simply refer to the objectiveness of increasingly interconnectedness. It also refers to cultural and subjective matters. (See FIG. 1) Each component becomes a more definite aspect of the global field during each phase in history, although the process does not occur evenly. Humankind component lagged behind the other three and become a constraining element in the early take-off phase of globalisation. When civilization was at it's highest the humankind component become more

significant as expressed in the creation of convention concerning conduct of war and the establishment of the International Court of Justice.

Globalisation has occurred in recent centuries in terms of shifting relationships between the four major components of globalisation. (See FIG 1.) This pattern has been greatly affected by and subject to all sorts of economic, political and social processes and actions. To legitimize the processes there is need for an overall comprehension of the global circumstances. The historicities of Globalisation can be delineated by a number of phases. (Horseman, 1994)

**Phase I: The Germinal Phase:** This lasted in Europe from the early fifteenth until the mid-eighteenth century. It was characterised by an evident growth of national communities, the expanding scope of the Catholic Church and emerging concepts of humanity and individuality were accentuated. This phase also saw the beginning of modern geography and the spread of the Gregorian calendar.

**Phase II: The Incipient Phase:** Lasted mainly in Europe from mid-eighteenth century to 1870s. There was an emphasis on homogenous, unitary states. Concepts of formalized international relations emerge, and we see

individuals becoming citizens of a country. A more concrete conception of humankind is evident. Finally there is a sharp increase in legal conventions and agencies concerned with international regulations.

**Phase III: The Take-off Phase:** Lasted from the 1870s until the mid-1920s. The increasing manifestations of globalized tendencies give this era a take-off period. These tendencies gave way to a single form centred upon the four reference points (see figure, 1) and thus constraints of national societies, generic individuals, single 'international society' and an increasingly unified conception of humankind. Lastly, evidence of a sharp increase in the number and speed of global forms of communication.

**Phase IV: The Struggle-for-Hegemony Phase:** Lasted from the mid-1920s until the late 1960's. This phase is characterized by disputes and wars. We also see the establishment of the League of Nations and then the United Nations. Principle of national independence reinforced as was evident with the number of countries that became independent. Finally we see conflicting concepts of modernity (Allies Vs Axis), the cold war.

**Phase V: The Uncertainty Phase;** Beginning in the 1960s to the mid-1990s. Heightening of global consciousness in late 1960s through the moon landing. There is an increase of the number of global institutions and movements. There is a sharp acceleration in global communication through telecommunication, transport, satellite Internet to name a few. Societies begin facing problems of multiculturalism and polyethnicity. Our understanding and Conceptions of the individual are more complex due to gender, sexual, ethnic and racial considerations. Civil rights become a global issue. Finally the end of polarity has created a fluid International system.

It is equally important to avoid reductionism in dealing with the analytical dimensions of the process of globalisation. The world system theory (Wallenstein, 1974) deals mostly with models of a 'World Economy' and global culture. In fact the conception of the world systems theory, including symbolic responses to interpretations of globalisation are themselves determinant of the very process.

The world systems theory was initially centred on modernization in the more conventional sense. Wallenstein's work in the 1970s and early 1980s contributed significantly to the global shift in sociological theory. In his

approach the action of collective units on the global scene are generally explained in terms of their knowledge capacities seizing varying opportunities, indeed a utilitarian approach. The world system analysis is concerned with the ways in which cultural conception of World-system per se have acted as empirical or analytical barrier to the rapid development of anti-systemic movements (which have sought to speed the magnification of world-systems).

Globalisation theory partly rests on a pre-theoretical commitment to global heterogeneity and that, in any case, the theory itself leads, via its empirical investigations, to an emphasis on civilization and societal variety. The pre-theoretical commitment arises from the view that a vastly homogenized world would have little vitality, while the theory itself argues that the globalisation process itself which means the rendering of the world as a single place, constraints civilization, societies and assertive national -ethical solidarity's. It can also be known as global callings, which mean their unique geocultural or geomoral contributions to world history. In other words, globalisation involves the universalisation of particularism not just the particularism of universalism.

Universalism and particularism are complimentary not conflicting. Mankind is really and naturally divided into distinct nations. Each nation has its peculiar contribution to make the family of nations. The idea of nationalism or particularism develops only in tandem with internationalism.

The position of individuals in the process of globalisation must be taken seriously. As earlier mentioned four elemental components are essential for discussion of contemporary globalisation, national societies, individual selves, the world system of societies and human kind. The world political culture has led to global wide institutionalisation of the life-course which has maintained two dimensions; aspects of the person that enter into the rationalized social organization and the public celebration of the private or subjective individual. The promotion of individualism has mostly been mediated by state structures but increasingly international non-governmental organizations have mediated and promoted individualism in the areas of education, human rights, rights of women, health and so on. The globe wide encouragement of individualism in association with increasingly polyethnicity and multiculturalism, themselves encouraged by large migrations and diasporations that have been crucial in the move towards the circumstances of foreignness. (Horseman, 1994)

## 2.8 Political aspects of Globalisation

Globalisation in political terms is very complex. There are two opposite ways at looking at globalisation. There those who look at globalisation as the end of the nation-state, the lose of sovereignty and the internationalisation of politics. Nation-states have been reduced to minimal roles where they helplessly watch as global markets determine the direction of the local market. (Le Mond Diplomatic, April 2000)

However, Pro-globalists adherents say that these arguments are not valid. Philosophers Jean Bodin and Thomas Hobbes first elaborated the notion of sovereignty in the 16<sup>th</sup> and 17<sup>th</sup> century. This came about due to the chaos and tyranny that characterized the domestic scene. Bodin had almost been killed in religious riots in France in 1652 while Hobbes had published his seminal work the leviathan a few years after parliament had executed Charles I, in a civil war that had tried to remove power from the monarch. These philosophers were trying to establish a legitimate single hierarchy of governance in the domestic authority. They were concerned with supreme

power that would curtail the strife predominant during this period. However supreme power was impractical. By the end of the 17<sup>th</sup> century, Britain's political authority was divided between the King and the parliament. (Rabkin 1998).

In the contemporary, World sovereignty is linked with the idea that states are autonomous and independent from each other. One state does not have a right to intervene in internal affairs of another that is the principle of non-intervention. Sovereignty is also associated with control over transborder movements. Sovereignty also gives governments political authority to enter international agreements. Pro-globalists argue that all principles of sovereignty were never as strong as observers claim. A few states, for example, the United States have had some autonomy and control but these are the exception more than the norm. Most states especially the weak ones have consistently compromised their sovereignty. However sovereignty still remains attractive for it provides international recognition, which guarantees access to international organizations and finances (Kransner, 1999)

The main argument is that the nation-states have altered its role but it is very relevant. The power on nation-state will largely consist of whether or not to

power that would curtail the strife predominant during this period. However supreme power was impractical. By the end of the 17<sup>th</sup> century, Britain's political authority was divided between the King and the parliament. (Rabkin 1998).

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The main argument is that the nation-states have altered its role but it is very relevant. The power on nation-state will largely consist of whether or not to

embrace the emerging global economy. It can for instance block it by putting protectionist measures.

There is a belief that globalisation is one of the greatest force in promoting democracy. The theory centres around the fact that globalisation is the spread of free-market economics which in itself is a major force in the development of civil society. When countries adopt free-market practices, this results in emergence of civil, pluralist societies, the emergence of societies, therefore the necessary structural condition for the creation of democracy. Democracy that is sustained which has been built from the ground up by permitting the autonomous formation of civil societies (Daly1989)

The relationship between globalisation and democracy best explains the results of Asian financial crisis of 1998. Martin Lee, leader of Hong Kong's Democratic Party stated that, " the countries that have weathered the Asian financial storm best are democracies – Taiwan, the Philippines and Japan. Moreover, those nations that are in the process of recovering, including South Korea and Thailand, have done so only after jettisoning their corrupt former regimes through a democratic process. The first lesson from the

Asian crisis is that a government that is not answerable to its people will not be likely to open markets or the institutions required to impose discipline to overcome a financial crisis. A second lesson is the *quanxi* or connections are never a substitute for the rule of law.... A failure to diagnose the need for democratic and accountable government will bring only more economic misery” (Dauvergne, 2000).

Vincent Siew, Prime Minister of the Republic of China (Taiwan) “ our experience on the other side of Taiwan strait is that economic success can be an excellent foundation for democratization but that a democratic form of government is essential for sustaining prosperity” (The Economist 1998.)

As earlier mentioned Globalisation is not new phenomenon. It has been in existence since evolution. There actually is no agreed starting point, however what is in consensus is that there have been major driving forces. The most dominant force is the explosion of technology especially in the telecommunication sector. Major players have fuelled the quick spread of Globalisation.

The World Trade Organization (WTO) was established in 1995 to administer the rules of international trade agreed to by its 123 member

countries. All these rules have been ratified by the parliaments of all members. This international organization replaced the General Agreement on Tariffs and Trade (GATT). The main difference is that WTO is a permanent organization with the judicial powers to rule on international trade disputes. The WTO rules make it hard for a country to favour their own industries over imports from other countries. Its main argument is that the growth of trade between countries increases the wealth of everyone and the growth of trade is helped by the lowering of barriers, such as tariffs and import quotas, which is the object of WTO agreements ([www.wto.org](http://www.wto.org))

The International Monetary Fund (IMF) was established at the end of the Second World War. It's main objectives was to promote international cooperation on finance, encourage stability in exchange rates and orderly systems for exchanging money between countries, and providing temporary assistance for countries suffering balance of payments problems. The IMF is a leader in breaching national sovereignty for it seeks institutional reform in exchange for financial assistance. The IMF has 182 member countries. ([www.imf.org](http://www.imf.org))

The World Bank provides loans to poor countries for development projects. The bank provides loans for projects such as water and sanitation, natural resource management, education and health. ([www.worldbank.org](http://www.worldbank.org))

The United Nations was also established at the end of the Second World War. This organization has become a promoter of globalisation as it argues that individual states have a dual role with responsibilities to both their own citizens and to the world society as a whole. The UN says the broader global responsibly needs international institutions. The UN has sponsored a global compact to establish and promote a shared set of core values in areas of labour standards, human rights and environmental practices. (<http://www.unglobalcompact.org>)

## **2.9 Summary and Conclusion**

The challenges and opportunities of globalisation are very subjective. For some, globalisation is a threatening word. It represents greed and inequality. This is evident by the riots and protests that crop up wherever there is a meeting involving major players in the globalisation scene. A recent study by Sachs and Warner found that developing countries with open economies

grew by 4.5 % a year in the 1970's and 1980's while those with closed economies grew by just 0.7% a year. (Sachs and Warner 1997)

The expansion of the media and communication especially the development of Global television and of other new technologies like the internet or rapid communication and travel has made people all over the world more conscious of other places and of the world as a whole. Apart from economic and political manipulation the environmental concerns have enhanced the sense of shared fate. The shadow of nuclear disaster has also heightened the sense of the world as one.

Globalisation, from the developmental perspective, can be judged by its effects on economic development and the eradication of poverty. Indeed, in developing countries the litmus test for any international order remains whether it facilitates economic development, which entails both economic growth and structural transformation. In the case of less developed countries this promise has yet to be realized. The policies designed to "integrate" these countries into the global economy have thus far failed because they have completely sidestepped their developmental needs. They consequently have thus far not led to higher rates of growth and, their labeling notwithstanding,

have not induced structural transformation. Indeed the combined effect of internal political disarray, the weakening of domestic capacities, deflationary policies and slow world economic growth have placed economies of less developed countries on a “low equilibrium growth path” from which the anaemic growth rates of 3-4 per cent appear as “successful” performance.

The impact of globalisation will vary from country to country and within countries. In order to maximise the benefits of globalisation, the state must have the capability to manage its integration into the global economy, and to provide social and economic opportunity and security. Efforts to resist the powerful technological and economic forces behind globalisation by appealing to protectionism are misguided and in the long run, futile. To be able to meet the challenges of this phenomenon we need to redouble our efforts at international economic corporation. We must strengthen the architecture of global and regional institutions to promote open trade, investment, and prosperity for all. This is the best way to ensure that the benefits of globalisation will spread to all corners of the world and all sectors of society.

## **CHAPTER THREE**

### **The Effects of Globalisation on the Economy of Less Developed Countries: Case study of Kenya.**

#### **3.1 Introduction**

The Central ideology in globalisation is that removal of barriers to trade will increase the collective wealth of humanity. It is seen as a good thing and it benefits all countries no matter whether they are rich or poor. Globalisation is defined as the integration of state through increasing contact, communication and trade to create a holistic, single global system in which the process of change increasingly binds people together in a common fate (Kegley 2001). In such a world states affect each other and depend on each other to accomplish their goals and aspirations. Interdependence in world economy refers to situations characterised by reciprocal effects among countries or agents in different countries. These effects usually come about from international transactions – flows of money, goods, people, messages, across international borders (Keohane & Nye 2001). Globalisation can have

adverse effects to the national economy depending on what some of the countries are willing to sacrifice.

Globalisation creates a social space where interdependence is intensified through transnational networks, international actors and political institution interplay and collides in the process of advancing the agenda. (Zurn 2002)

Hobsbawm (1996) outlines the differences between international and transnational ways of operating in the world economy. During what he calls the "Golden Age" (between the end of World War 2 and the late 1960s), Hobsbawm argues that although countries traded with each other to a growing extent, most of their economic activities "remained home-centred" and the basic way in which the world economy operated was international. But from the late 1960s on, an increasingly "transnational economy began to emerge." This transnational economy was characterised by "a system of economic complicating factors." And from the early 1970s, this transnational economy became a global force and grew more rapidly. It is this transition from an international economy to a transnational world economy that defines the present phase of globalisation (Hobsbawm 1996).

To deal with all these complex problems that arise through globalisation and internationalisation, institutions or regimes have emerged. These institutions are networks of rules, norms and procedures that require behaviour and control effects. They have been created to govern complex multilateral relationships (Keohane & Nye 2001).

The power of the UN, depth of WTO membership, the increase of political leverage of the IMF provides evidence of the increase in the prominence of international regimes. Participants in the new world systems of globalisation include: NGOs, domestic interest groups, T/MNCs, economic organisations such as WTO, regional integration and states themselves. "as the scope of domestic activities have broadened and as corporations, banks and trade unions have made decisions that transcend national boundaries, the domestic policies of different countries impinge on one another more and more... blurring the line between domestic and foreign policy and increasing the number of issues relevant to foreign policies"(Keohane & Nye 2001, p. 22)

A country's reaction to globalisation and interdependence depends on the structural costs and potential benefit to the country. It is common to see the increase in interdependence in economic areas where cooperating with

external actors can bring potential benefits without directly affecting national security and the distribution of political power. Globalisation is not just about the deepening of financial markets, but includes a whole range of social, political, economic, and cultural phenomena as well. The process is simultaneously driven and facilitated by radical new developments in information and communications technologies (ICTs).

The distinctive features of the current phase of globalisation are new markets in which foreign exchange and capital markets are integrated and operate round the clock. New tools, such as, Internet connections, cellular phones, media networks. New actors like the WTO which has authority over governments or multinational corporations which are more powerful than states, and finally new rules that include multilateral agreements on trade, services and intellectual property, with strong enforcement mechanisms and more binding for governments, reducing the space for national policy (UNDP, 1999).

The UNDP has, however, also says that globalisation is "prescriptive". "The prescription", according. to the UNDP, "is to liberalize national and global markets in the belief that free flows of trade, finance and information will

produce the best outcome for growth and human welfare ". (UNDP, 1997, p 82). Is globalisation for all? Do less developed countries benefit? Do less developed countries prescribe to it?

## **3.2 Globalisation and the Economy in Less Developed**

### **Countries**

Globalisation theory maintains that all must benefit from recent changes in trade and world economy. The economist, a house magazine of the global free marketers, maintains that the world system now delivers 'more for all' and that vigorous growth will be seen in the less developed countries meaning that 'it is the world's poor who will benefit most'. (The Economist 1997)

Every index of economic and social advance, however, suggests otherwise. Among most of the 4.4 billion people living in Africa, Asia and Latin America life has become a more desperate struggle for survival. The United Nations Development Program (UNDP) estimates that 840 million people are malnourished, the great mass of them living in countries of the Third World (UNDP 1998)

Following the collapse of communism, globalisation is largely presented to developing countries as a *fait accompli*, something they cannot avoid. It is often argued developing countries do not have much room for maneuver, what they should do is integrate themselves as quickly as possible into the global economy. In his address to the ILO's International Labor Conference in June 1999, the USA President, Bill Clinton stated that: "Globalisation is not a proposal or a policy choice, it is a fact, but how we respond to it will make all the difference. We cannot dam up the tides of economic change any more than King Canute could still the waters" (ILO, 1999 p.5).

Its benefits derive from a simplistic assumption that economic integration will result in improved economic performance. As countries reduce protective barriers to free trade and open their economies to international capital flows, growth will follow, and in the process poverty is reduced as the standard of living improves for all. In the same address, President Clinton remarked, "Competition and integration lead to stronger growth, more and better jobs, more widely shared gains....moreover, a failure to expand trade further could choke off innovation and diminish the very possibilities of the information economy. No, we need more trade, not less" (ILO, 1999 p. 6).

Contrary to pro-globalists theory, globalisation has turned out to be uneven and unfair in the world economy. Rather than exercising new powers as consumers, billions of people are being forced to the very margins of the world system where notions of taste, choice and assertion of status must be measured against the imperative of survival. Over the past 30 years there has been a very rapid increase in global inequality. This is crudely estimated by the United Nations, based on differences between homogenized 'developed' and 'developing' nations. As we shall see, this is an inappropriate means of understanding world inequality but it does give 'headline' figures that stand starkly against the globalisers' account. Between 1960 and 1994 the gap in per capita income between the richest fifth of the world's people (most in developed countries) and the poorest fifth (most in developing countries) more than doubled--from 30:1 to 78:1. By the mid-1990s this trend was becoming more marked: by 1995 the ratio was 82:1. (UNDP, 1997)

In 1997 the richest fifth of the world's people obtained 86 percent of world income; the poorest fifth received just 1.3 percent. Some 1.3 billion people subsisted on less than \$1 per day--a life-threatening decline in living

standards since the 1960s. The trend was also accelerating: by 1996 no less than 30 countries showed an annual decline in the Human Development Index (HDI), which measures literacy, life expectancy, and access to health services, safe water and adequate food. Among 147 countries defined as within the 'developing' world, 100 had experienced 'serious economic decline' over the past 30 years. (UNDP, 1997)

### Human Development Index trends

**FIG.2**

| <u>Country</u> | <u>1975</u> | <u>1985</u> | <u>1995</u> | <u>2000</u> | <u>2002</u> |
|----------------|-------------|-------------|-------------|-------------|-------------|
| Norway         | 0.866       | 0.897       | 0.935       | 0.954       | 0.956       |
| U.S            | 0.866       | 0.899       | 0.926       | 0.935       | 0.939       |
| Japan          | 0.854       | 0.894       | 0.924       | 0.934       | 0.938       |
| U.K            | 0.845       | 0.862       | 0.921       | 0.932       | 0.936       |
| Malaysia       | 0.614       | 0.693       | 0.759       | 0.789       | 0.793       |
| Mauritius      | ...         | 0.689       | 0.747       | 0.775       | 0.785       |
| S. Africa      | 0.655       | 0.697       | 0.735       | 0.690       | 0.666       |
| Egypt          | 0.438       | 0.539       | 0.608       | ...         | 0.653       |
| Ghana          | 0.439       | 0.481       | 0.532       | 0.560       | 0.568       |

|                 |              |              |              |              |              |
|-----------------|--------------|--------------|--------------|--------------|--------------|
| <b>Cameroon</b> | <b>0.415</b> | <b>0.504</b> | <b>0.508</b> | <b>....</b>  | <b>0.501</b> |
| <b>Congo</b>    | <b>0.451</b> | <b>0.541</b> | <b>0.530</b> | <b>0.487</b> | <b>0.494</b> |
| <b>Zimbabwe</b> | <b>0.547</b> | <b>0.629</b> | <b>0.571</b> | <b>0.511</b> | <b>0.491</b> |
| <b>Kenya</b>    | <b>0.445</b> | <b>0.515</b> | <b>0.524</b> | <b>0.496</b> | <b>0.482</b> |
| <b>Tanzania</b> | <b>...</b>   | <b>...</b>   | <b>0.406</b> | <b>0.403</b> | <b>0.407</b> |
| <b>Zambia</b>   | <b>0.466</b> | <b>0.485</b> | <b>0.418</b> | <b>0.389</b> | <b>0.389</b> |
| <b>Malawi</b>   | <b>0.315</b> | <b>0.360</b> | <b>0.408</b> | <b>0.395</b> | <b>0.388</b> |
| <b>Niger</b>    | <b>0.237</b> | <b>0.250</b> | <b>0.265</b> | <b>0.279</b> | <b>0.292</b> |

\*HDI is calculated on the basis of data on life expectancy from UN 2003; data on adult literacy rates from UNESCO Institute for Statistics 2003a; data on combined gross enrolment ratios from UNESCO

1999 and UNESCO Institute for Statistics 2004c; and data on GDP per capita

(1995 PPP US\$) and GDP per capita (current PPP US\$) from World Bank 2004f;

[UNDP, Human Development Report 2004]

Some regions of the world, says the UNDP, have become 'economic wastelands'. Most countries of sub-Saharan Africa are far behind the base growth level of 3 percent over a generation, which is identified, as necessary to reverse current trends to greater mass poverty. By 2030, the UNDP estimates, world GDP will more than double but Africa will experience a

further sharp decline in its share of the world total: from 1.2 percent in 1997 to 0.4 percent. The majority of Africans--some 500 million people--will be further marginalized within an increasingly productive world system. (UNDP 1997)

Countries defined by the World Bank as being 'middle income' or 'upper middle income', and by the UN as showing 'high human development', have also shown a steep decline in living standards. In Latin America, long regarded as a relatively advanced region, the number of people living in poverty increased between 1990 and 1995 from 183 million to 230 million, or 48 percent of the continent's population. In 1994 the UN's Food and Agriculture Organisation (FAO) estimated that 59 million Latin Americans were suffering chronic hunger. (Robinson 1996)

In Asia, 40 years of growth among the Tiger economies had made them models for mainstream development strategists. Even before the meltdown of 1997, however, the World Bank noted 'a consistent pattern of poverty throughout the region', pointing out that a billion people lived below the poverty line, including over one third of the population of China. It also

noted that inequality in a series of countries, especially in South East Asia, was becoming much more pronounced. (The guardian 1997)

All available evidence suggests that inequality is becoming much more pronounced. During the 1960s the poorest 50 percent of people in Brazil received some 18 percent of national income; by the mid-1990s the figure had fallen to 11.6 percent. (UNDP 1998). In Egypt, where the regime has been a Third World pioneer of neo-liberal economic strategies, 23 percent of the population was estimated to be below the poverty line in the late 1970s; by the early 1990s the figure had risen to over 40 percent. (El-Ghonemy 1998)

The human experience, far from being universalised by market forces, is more differentiated than ever. For billions of people the idea of choice, consumerism and 'value commitment' brought by a global era is fantasy. In fact, the recent phase of supposed global advance has brought increased suffering and uncertainty for far longer than the Great Depression of the 1920s and 1930s

It is ironical that Marx and Engels describe the inequalities evident today in the world economy in the communist manifesto, "*The need of a constantly*

*expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, and establish connections everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country... All old-established national industries have been destroyed or are being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations." (Marx &Engel's, 1962 p.34).*

Throughout the 20th century, change in Africa, Asia and Latin Africa has been marked by a similar pattern of combined and uneven development. No region is untouched by market relations but these have not propelled societies steadily towards growth. Rather there are patterns of extreme unevenness. The unevenness of the world system has also produced the contraction and collapse of local economies. All states are subject to problems of world crisis but those most distorted by the world system are especially fragile. Thus, where capital has penetrated a country or region in order to extract specific raw materials or to use local resources for processing, changes in the world market or in local conditions can produce very rapid decline. In the mid-1970s, two thirds of exports from Chad were

cotton; two thirds of Chile's exports were copper; and two thirds of Ghana's exports were coffee. In the same period, almost three quarters of Congo's exports were timber; a similar proportion of Cuba's exports were in sugar; and of Liberia's in iron ore. Like scores of other countries, they faced immense difficulties during the world economic crisis of the mid-1970s. In some cases, local revenues declined precipitately. In Zambia, where the state had obtained half its income from the copper industry, a fall in world prices meant that by 1977 its receipts from this source had declined to nil, with catastrophic consequences for a population soon deprived by the state of subsidised basic foods (Harrison 1993).

During periods of world recession, some vulnerable regions can be pushed to the margins of the system. Throughout the 1970s and 1980s countries of the Horn of Africa faced increased difficulties. They had not been exploited intensively for mineral or agricultural riches and were of little concern to the centers of world power. When wracked by repeated famines, mass movements of population and dislocation of economic and social structures, local states became highly unstable and by the early 1990s one state, Somalia, had collapsed. This produced a spectacle which might be a metaphor for world development: while millions starved in Somalia, in

nearby Saudi Arabia, long exploited for its oil resources, billions of dollars were being mobilized to safeguard Western interests. There have since been further collapses in West Africa, where a series of local economies have become increasingly fragile and where in the mid-1990s the Liberian state disintegrated. Worldwide, more and more regions face such prospects (Marfleet 1998)

Globalisation shows two faces one of prosperity and positive integration enjoyed by developed countries and another that is bleak and is characterized by unevenness, inequality and creates instability, conflict and human suffering.

In most less developed countries the economic focus has not been how to take advantage of globalisation but how to halt the economic decline as a result of globalisation. In 1991 the UN secretary general commented that Africa was heading for "an unrelenting crisis of tragic proportions" (Sandbrook 1993 p. 5). But for African states the solution has been the same as for aspiring industrializes--the implementation of 'adjustment' programs which aim to create conditions congenial to private capital accumulation. The outcome has been to intensify crisis: in agricultural production,

industrial output, increased deforestation and desertification, rising food imports, declining terms of trade and capital flight. (Sandbrook 1993)

The more compliant have been local regimes, the more seriously they have been affected. In 1990 Zimbabwe was ranked as a 'middle income' country by the World Bank, above Indonesia, the Philippines and other states aspiring to rapid advance. With mineral wealth and a relatively sophisticated agricultural sector it was expected to progress much faster than other African countries. While opposing IMF 'adjustment' programs rhetorically, the Mugabe regime had implemented them, fulfilling requirements for aid and development assistance (World Bank 1990). But during the mid-1990s world prices for Zimbabwe's main exports, tobacco and gold, fell sharply and investors began to withdraw. In November 1997 there was a run on the local currency and a collapse in the Harare stock market. Food prices soared and were given a further upward push when, under pressure from the World Bank and IMF, the Zimbabwean regime increased the cost of the main staple, maize, by 24 percent. Following strikes and demonstrations against the increases there was a further collapse as the Zimbabwean dollar--formerly regarded as one of the best speculative investments in Africa--halved in value against the US dollar. One report commented that in a few

months the country had gone from being one of Africa's top performers--  
'about to achieve sustained growth and prosperity'--to 'economic disaster'.  
(The Guardian 1998)

Debt has also become a stumbling block in the search for economic independence in less developed countries. . By the late 1980s the volume of debt was increasing massively: in 1990 the total stock of debt owed by developing countries was \$1.4 trillion; by 1997 it was \$2.17 trillion. In Africa by 1997 debt stood at \$370 for every person in the continent and dwarfed the annual production of many states. In 1994 Mozambique's debt amounted to 450 percent of its GNP that of Congo was 454 percent of GNP, and of the Ivory Coast 339 percent of GNP. Scores of countries were similarly entrapped. Despite the increase in FDI to some developing economies, Western banks and governments now receive more in interest on debt from the Third World than the MNCs extract in profit--a reversal of the situation in the 1970s. In 1998 Third World countries paid Western creditors \$717 million in debt service every day. (ICEM 1996), (World Bank 1996)

In 1998 the US stalled on its Highly Indebted Poor Countries initiative (HIPC). Countries such as Tanzania, which was told to wait until 2002 to

qualify for promised 'debt relief' under HIPC, face crushing burdens. According to one aid agency, the country's debt is rising so rapidly that development projects are hardly feasible. A Christian Aid official illustrates a problem which is causing anxiety to even the most conservative aid bodies: rigorous enforcement of repayments by the World Bank for borrowing on projects which the institution designed and which could never have achieved its own target results. According to Simms(1998), 'Tanzania is paying for the World Bank's own mistakes. The money is simply going round in circles.' He adds:

*There's one project in Tanzania for which we borrowed about \$9 million. In 1979, that was equal to about 149 million [Tanzanian] shillings. So far we have repaid about \$900,000 but that is now equivalent to 590 million shillings. In local currency terms we have already repaid the debt several times. But it just goes up and up.*  
*(Simms 1998)*

What seems incomprehensible to aid officials is that Tanzania has implemented IMF adjustment programs, as instructed, since the mid-1980s. Among its 'liberalization' measures, the government has repeatedly devalued

the local currency, so that by 1998 the shilling was at 1,500 percent less than its international value in 1985. The government now spends \$8 for every Tanzanian to service its external debt while it spends just \$3 annually per person on health. More than 50 percent of the population lives below the poverty line (Simms 1998)

The global theorist and the world economic system theorist would do better to turn to Marx, whose understanding of the dynamics of capitalism both anticipated world crisis and offered a means to super cede its barbarism. Trotsky, too, saw the character of a growing world system and the emergence of a political collective capable of changing it. In 1905, explaining the emergence of societies such as Russia, marked by the process of combined and uneven development, he argued: *Binding all countries together with its mode of production and its commerce, capitalism has converted the whole world into a single economic and political organism. Just as modern credit binds thousands of undertakings by invisible ties and gives to capital an incredible mobility which prevents many small bankruptcies but at the same time is the cause of the unprecedented sweep of general economic crisis, so the whole economic and political effort of capital, its world trade, its system of monstrous state debts, and the political*

*groupings of nations which draw all the forces of reaction into a kind of worldwide joint-stock company, has not only resisted all individual political crises, but also prepared the basis for a social crisis of unheard of dimensions (Trotsky 1969 pg 107-108).*

### **3.3 Globalisation and the Kenyan Economy**

#### **3.3.1 Overview**

Kenya has one of the most diverse economies in Sub-Saharan Africa. It is strategically located and is within easy reach of export markets in the African region, Middle East, Europe and Asia. It also has a common border with Ethiopia, Sudan, Somalia, Uganda and Tanzania. The population of Kenya was 28.7 million as per the 1999 census and has an annual population growth of 2.7 percent. The capital and the largest city is Nairobi. Other major cities and towns are Mombasa, Kisumu, Nakuru, Eldoret and Thika. (IPC 2001)

After independence, the country promoted rapid economic growth through public investments, encouragement of smallholder farm production and incentives for private industrial investment. Kenya's hard currency mainly

comes from agriculture and tourism. From 1963 to 1973 Kenya achieved an average annual GDP growth of 6.6 percent. (Simson 1980). However more recently Kenya's economic performance has faltered

### **3.3.2 History**

Before the turn of the century, different African ethnic groups mainly inhabited Kenya and its economy was entirely subsistence. Trade in those days was not carried out, as we know it today. i.e. in money terms. Trade was done through exchange of domestic products, better known as barter trade. The only modern type of trade, which can be identified, was at a small scale at the coastal region of Kenya. Arab and Asian traders mainly did this. The construction of the Kenya/Uganda railway from around 1898 to 1902 heralded the coming of the European/white settlers. This marked a major development of the Kenyan economy. The settlers introduced plantations or large-scale agriculture. The main crops introduced were coffee, tea, sisal, wheat, pyrethrum and livestock ranching. (Bennett, 1963)

The indigenous African people provided the labor force. This came about due to the introduction of the head tax, which forced all African household heads to seek wage employment, which was alien to them.

This period also saw the establishment of trading and manufacturing industries. At a minimum scale also was the introduction of service industries. This included the introduction of money and banking. The main agricultural commodities produced at the time were mainly in raw material to industries in Europe. The colonial government however developed in a limited way postal, telephone and road networks to add to the railway line. They also established medical and educational facilities with the help of missionaries. However all this was aimed at providing service to the colonial government and white settlers. The education for the African community was low level directed for the use of the colonial government to sustain itself. In this regard little was done for overall economic development of the African people. Towards the end of the colonial era that is the late 50's and early 60's Africans were gradually allowed to grow cash crops like coffee and tea. By independence in 1963 95% of the African labour force was unskilled. The colonial government however had put in place an infrastructure though limited to which economic development could be accelerated from. (Simson, 1980)

Kenya, like many other developing nations, pursued total self-sufficiency through import substitution. This misconstrued policy, along with rising prices for imported oil, made the manufacturing sector uncompetitive. By early 1990s, misguided agricultural policies, inadequate credit, and unfavourable terms of trade had combined to impede the agriculture sector, where production actually shrank. The government's initial response to the downturn was an even greater intrusion into the private sector that exacerbated many economic problems. Lack of export incentives, tight import controls and foreign exchange controls made the domestic investment environment still less attractive. GDP essentially stagnated in the first half of the decade, with an outright decline in 1992. In 1993, the government acknowledged that its interventionist approach had been counterproductive. It has subsequently taken halting steps toward deregulation, privatisation and market-opening reforms (Himbara, 1994). A mild recovery in 1995-96 moved annual GDP growth into the four percent range. However, since 1997, Kenya's economy has mustered such weak absolute growth that GDP per capita has declined. As a new century began, prospects for improvement-for a range of reasons-did not appear bright

### **3.3.3 Macroeconomic performance**

Recent economic trends in Kenya have been disappointing, with GDP growth declining since the mid-1990s and falling substantially below the population growth rate, estimated at 2.4%. In 2000 real economic growth turned negative, dropping to -0.3%—its lowest level since independence—from 1.4% in 1999 and 1.8% in 1998. These rates are far below government targets of 2.7% for fiscal 2001, 3.5% for fiscal 2002, and 5.0% for fiscal 2003. Agriculture, which traditionally accounts for the largest share of GDP, shrank 2.4% in 2000, while real manufacturing output fell 1.5%. The balance of payments worsened, with current account and trade deficits increasing. Deteriorating economic and social conditions are also reflected in other key measures. Poverty has increased, and income inequality and social indicators show worrisome trend. (UNDP, 2003)

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## Kenya Economic Performance 1996-2001

**FIG. 3**

| Indicator      | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 1996-98 | 1999-01 |
|----------------|------|------|------|------|------|------|---------|---------|
| GDP            | 4.1  | 2.4  | 1.8  | 1.4  | -0.3 | 1.8  | 2.7     | 1.0     |
| GDP per capita | -0.3 | -0.6 | -1.1 | -1.5 | -2.6 | -0.6 | -0.7    | -1.6    |
| Agriculture    |      | 1.0  | 1.5  | 1.2  | -2.4 | 2.0  | 1.2     | 0.3     |
| Manufacture    |      | 1.9  | 1.4  | 1.0  | -1.5 | 1.2  | 1.7     | 0.2     |

*Kenya, Central Bureau of Statistics, 1996-2001*

**Agriculture.** Agriculture is crucial to Kenya's economy, making large contributions to output, employment, and exports. Thus its recent weak performance had major repercussions. Production of maize, a staple, dropped from 296,000 tones in 1996 to 201,000 tones in 2000. Wheat production was even more volatile, rising from 130,000 tones in 1996 to 177,000 tones in 1998—then plummeting to 53,000 tones in 1999 and recovering slightly to 71,000 tones in 2000. Dairy production displayed the same pattern. (Kenya Central Bureau of standards, 1998-2001)

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Such fluctuations have enormous financial implications. Because most Kenyans consume maize and wheat, large supply shortfalls lead to huge import bills for the government. In 2000, for example, the decline in maize production led to the import of 409,000 tones of maize valued at 4.7 billion Kenyan shillings (about \$62 million at the 2000 exchange rate). Similarly, that year 635,000 tones of wheat were imported at a cost of 7 billion Kenyan shillings (about \$92 million at the 2000 exchange rate) earner among all of Kenya's exports—fell 14% in 1997, rose 33% in 1998, and declined 15% in 1999 and 5% in 2000. Coffee production also fluctuated considerably. In the first seven months of 2001 tea production is estimated to have increased, while coffee production declined. (Kenya Central Bureau of standards, 1998-2001)

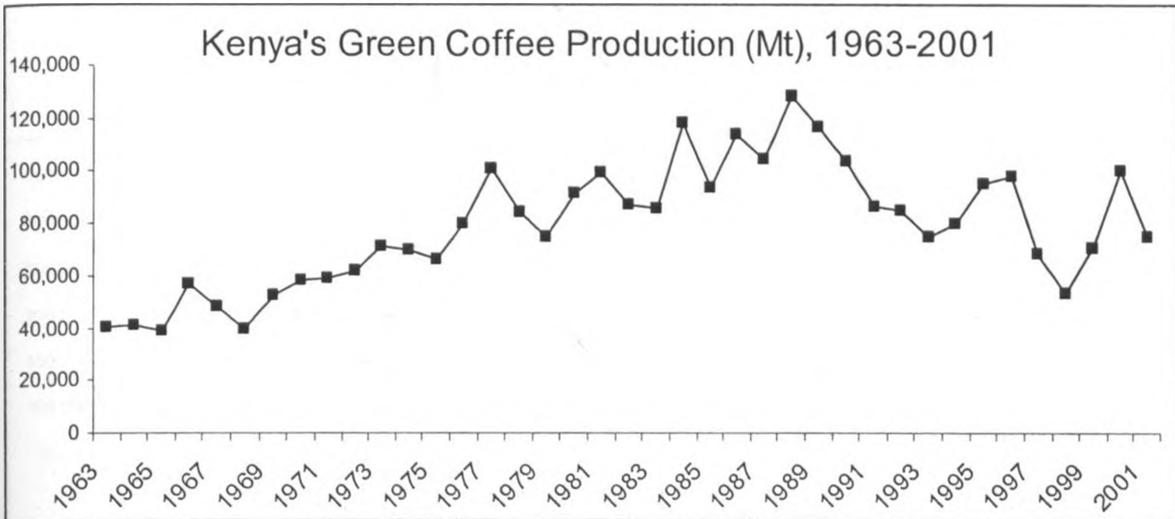
Because Kenya's agriculture is largely rain fed, it is extremely vulnerable to weather conditions—which is one reason output is so volatile. Agricultural production suffered from the drought that began in 1998 and continued through the first half of 2000. Better weather in 2001 led to increased production of most domestically consumed and export crops.

Factors other than weather also contribute to agriculture's poor performance. Poor infrastructure, especially roads, makes it difficult to market produce and expensive to distribute farm inputs, widespread corruption and an inconsistent rule of law. In addition, in 2000 higher power tariffs and fuel prices raised production costs considerably—yet the prices of many crops fell. All these factors likely dampened farmers' incentives for production. (Versey, 2001)

### *Export Crops*

Coffee, Kenya's most important crop in 1963 saw a steady growth in production throughout the 1960s and 1970s, from a 1963 production level of 40,000 tonnes to more than 80,000 tonnes in the late 1970s. With more variability, production continuing to grow through most of the 1980s. Production peaked in 1988 at 128,000 Mt, and since then it has been in decline, falling for five consecutive years. Production for 2000 and 2001 was between 75,000 and 100,000 tonnes, almost exactly the same as it had been 21 years before. In the same period, world coffee production had nearly doubled, Kenya's contribution remaining at between 1 and 2% of world production throughout the forty years.

**FIG. 4**



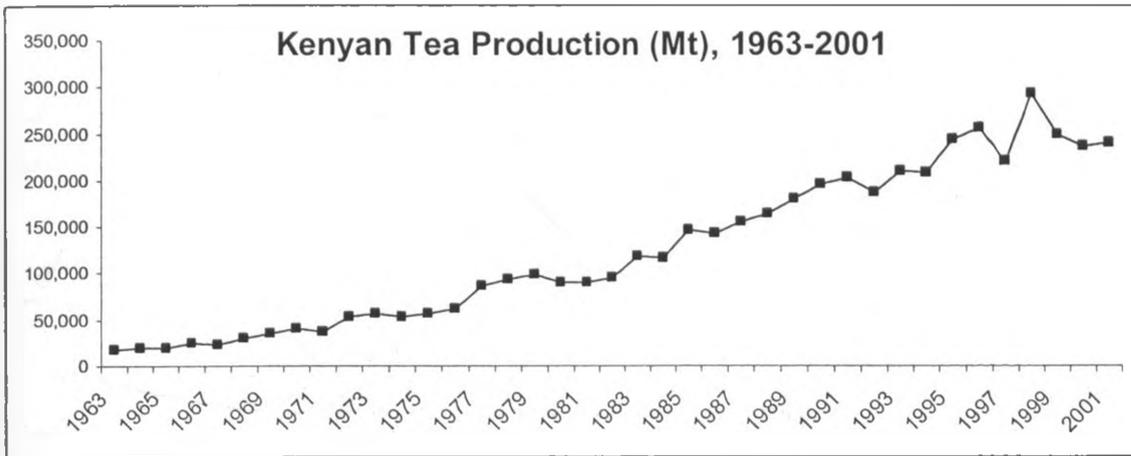
*Agricultural Production in Kenya 1963–2001*

*Charles Hornsby, 18 November 2002*

Tea production in contrast, has been a triumphant success. Production doubled in the 1960s, from 18,000 tonnes to 36,000 tonnes, then more than doubled in the 1970s, and continued to grow with remarkable consistency throughout the 1980s and 1990s. Production peaked in 1998 at 294,000 Mt,

16 times 1963's level. Kenya's share of world tea production had meanwhile increased from less than 2% to between 7 and 9%

**FIG. 5**



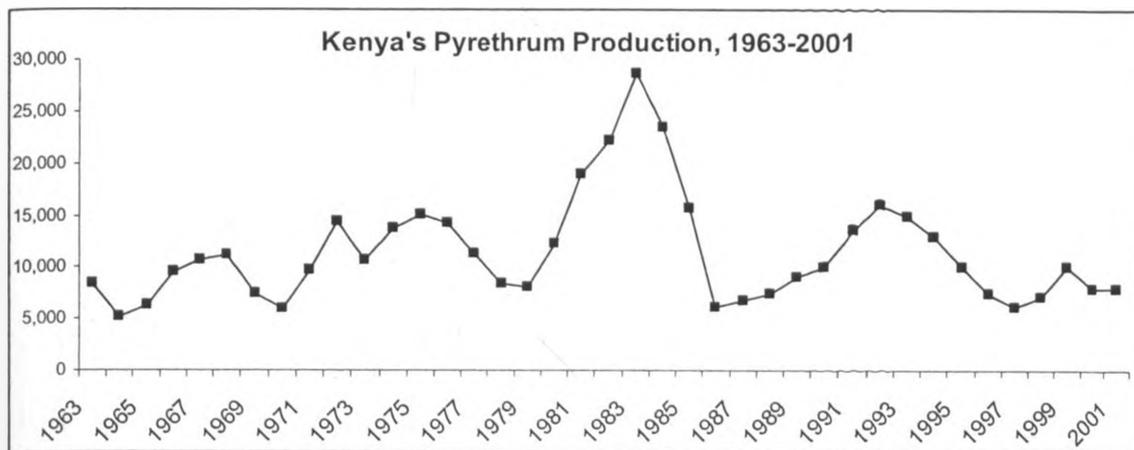
*Agricultural Production in Kenya 1963-2001*

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In 1963, Kenya was the world's largest producer of dried pyrethrum flowers, producing over half the world's supply. Production in the 1960s and 1970s oscillated periodically around the same production level, but accelerated dramatically in the 1980s, peaking in 1983 at nearly 30,000 metric tonnes. However, it was followed by a dramatic production crash that left output back at 6000 tonnes in 1986. Though production stabilised, and grew again

in the mid-1990s, by 2000, production was the same as it had been 40 years before.

**FIG. 6**



*Agricultural Production in Kenya 1963-2001*

*Charles Hornsby, 18 November 2002*

Kenya's PRSP, issued in 2001, indicates that agriculture needs to grow by 4-6% a year to make a meaningful contribution to poverty reduction. The paper argues that the sector could expand by more than 5% a year if the constraints facing it are addressed. Besides those noted above, the paper points to inadequate supplies of quality seeds, inappropriate production techniques, lack of access to credit for most small farmers, expensive farm inputs, poor rural infrastructure (especially feeder roads, power supplies, and market facilities), inconsistent policies, weak institutions and laws governing the sector, and an inability to control pests and diseases that affect crops and

livestock. Thus the government needs to implement policies that target these constraints (GOK, 2001).

**Manufacturing** Real manufacturing output has stagnated, growing by an average of just 0.2% a year in 1999–2001. Output actually fell 1.5% in 2000, then recovered slightly in 2001. Such growth rates are especially disappointing given the targets set in Kenya's industrialization program.

**Services** Services account for more than half of Kenya's GDP and two-thirds of formal employment. Key sub sectors are tourism and travel, financial services, communication services, and transport services. In recent years tourism alone has been the third largest contributor to GDP after agriculture and manufacturing. Tourism has also become the largest earner of foreign exchange after tea. The industry has been recovering, with a 10% increase in international arrivals in the first eight months of 2001. But the September 11 terrorist bombings in the United States and the subsequent travel advisories have affected the growth.

**Poverty & Wealth distribution** Poverty and the unequal distribution of wealth are major challenges for the Kenyan economy. Over half the population live on less than \$1 per day. The wealthiest 10% of the

population receive 47% of the income while the poorest 20% receive 3.4% of GDP. This means that the poorest 20% of the population receive just \$260 each year, or \$0.70 per day. (Chune, 2003)

Kenya's unemployment rate has hovered close to 50% in the past 5 years. One factor contributing to this problem is Kenya's high population growth rate. From 1975 through 2000, Kenya had an average population growth of 3.3%. It is forecasted that Kenya's population will increase by 10 million from 2000 to 2015. Half the population is living below the poverty line with 44% of the population under the age of 15. This already points to higher unemployment in the future. (UNDP, 2002)

### **3.4 Summary and Conclusion**

From the late 1990s less developed countries have recognized that globalisation does not have equal benefits for all and there is need to balance the equation. The pace of struggle has intensified, with an unprecedented wave of protests across Africa, notably in Zambia, Malawi, Nigeria, Kenya and Zimbabwe. These have often been linked specifically to IMF inspired adjustment programs and their outcomes.

While most other regions have derived significant benefits from growth in trade and investment fuelling their structural transformation, Sub-Saharan Africa -SSA has been bypassed, and further marginalized within the world economy. Its shares of world trade, investment and output have declined to negligible proportions, varying from 4.1% to 4.9% from 1960 to 1965, and maintaining the fluctuation level of around 4.4% during the 1970s, while the 1990s saw the trade share decline to 2.3%. By 1996, SSA's share of global trade had fallen to 1.5% of which approximately 0.6% represented South Africa's contribution. Shares of world exports had declined from 2.6% in 1980 to 1.5% in 1996. SSA's share of global manufactured output has been less than 5%. In contrast, the ratio of aid to GDP in SSA has declined, but in overall, it remains much higher than in any other region (UNDP 2003)

A study carried out by Easterly and Levine (1995) for the World Bank shows that the underdevelopment of infrastructure contributes much towards the significant negative impact on LDC's exports and the location of manufacturing activities. Such factors, as high transport costs and low rate of telephone completion that are prohibitively expensive compared to other regions do no good to the competitive advantage of the region's trade. For example, local telephone completion rate is under 30 percent in LDC's

compared to the 70 percent in OECD countries. In Chad with 15,000 telephones: over 90 percent of all are uncompleted

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## CHAPTER FOUR

# The Effects of Globalisation on Economic Policy Making: The Kenyan Experience

### 4.1 Introduction

The findings provided below are a result from combined analysis and comments of the research carried out using questionnaires and interviews of the following Kenyan companies and institutions. These were the ministries of Trade and Industry, Agriculture, Tourism and Information, Finance, Planning and National Development. These were the representatives of the Government. The Planning Ministry also articulates the issues of the ministries of Transport and Communications, Roads, Public Works and Housing, Health, and Co-operatives, Fisheries & Livestock (covered under Agriculture)

The Kenya Association of Manufacturers (KAM), the Kenya Airways (KC) and the British American Tobacco (BAT) were sampled for the interests of the private and local institutions

The representatives of International Institutions are the World Bank, the IMF and the EU based in Nairobi Kenya were also given questionnaires to fill

## 4.2 General Findings

Radical initiatives aimed at safeguarding and intensifying national economic performances in a more competitive world have been witnessed in the near past. Examples abound of programs contrived to stimulate productivity and engender a more enabling economic environment in national, regional and international contexts.

In Western Europe, a strategy for forming a larger and more dynamic economic bloc set the stage for strengthening the European Economic Community by attempting to transform it into a closer political alliance. A more surprising and less expected change was in the Eastern European countries and the former Soviet Union. There, state-run economies were discarded for private enterprise and competitive politics.

In the Americas, the US-Canada free trade agreement (NAFTA) became operative, and the call for forming a common market between Brazil and Argentina had been mooted and timed, with further intent of involving other South American countries. The Caribbean states have not been left behind.

By far, more spectacular changes have occurred in Asia where besides Japan, the newly industrialized countries (NICs) of South Korea, Taiwan, Singapore and Hong Kong graduated into the industrial league on the basis of high value added international exports. Below the NICs have been the so-called rapidly industrializing countries (RICs) - the ASEAN countries (especially Malaysia, Indonesia and Thailand) coastal China and India: large exports as well as their large internal markets have driven their transformations.

The Pacific states too received globalisation effects with the formation of their Pacific Island Member Countries (PMC) - a regional block to spur and exploit their vast fishery, forestry and trade opportunities. Other areas of interest have been higher education and the environment.

The African Continent too has not lagged behind in the economic integration. Presently there is SADC, COMESA and ECOWAS. Plans for the revival of the defunct East African Community are in top gear. These stem from the realization that these countries face a unique set of development challenges. Economic growth has been slow despite high levels of overall investment and foreign aid. There has been continued dependence

on a narrow range of export commodities - mostly agricultural- making them vulnerable to external shocks. But changes in the global economic environment continue to offer opportunities for economic diversification. Governments are therefore putting up new policies to dovetail the changes occurring so as to stimulate growth at home. Otherwise the trend before was worrying, especially for the sub-Saharan region.

However, Kenya appeared to be an exception to the wretched condition of the Sub Saharan Africa. It seemed to fit well in the emerging economic dispensation. Great changes in the economy continue to be observed. Systems of production and exchange have been subjected to a series of these external influences that have produced a number of far reaching alterations and innovations. In short Kenya found its place among the world capitalist states, and this process has been direct and complex, rapid and uneven.

The articulation of Kenya's pre-capitalist modes of production with capitalism was accompanied at times, by use of force and what can only be described as the theft of indigenous productive resources by the alien forces brought in the wake of colonialism. Though intrusive and forcefully initiated, the development of capitalism would be shaped by the local

resource base and initiative of Kenya's people. This is clear and when emphasized by glaring comparisons: the Kenyan economy has been under transformations. It is currently very different and it is bound to be even more different than it was in the 1980s, 1960s and even 1890.

From the above emanates the two themes of innovation and change. Scholars have always seen these as largely externally inspired. Foreigners especially the British and Americans' commercial capital has been responsible for the development of infrastructure and the commercialisation of production for export that made Kenya part of the world capitalist system. Like other parts of Africa, Kenya came to occupy a dependent position in that system. Kenya provided raw agricultural produce for the world market and was expected to be a consumer of finished goods imported from Europe and the US. By contrast, the influence of finance and industrial capital would be less profound in bringing about economic innovation. Since independence, however, European and American industrial capital has played a larger role in the Kenyan economy.

Agriculture predominates the Kenyan economy. This has often forced the government to act when prices of agricultural produce fall. That despite

industrialization, the expansion of transportation and the growth of tourism and its associated service sector, agriculture provides the largest share of GDP and the majority of the population reside in the rural areas and they obtain a substantial portion of their means of subsistence and reproduction from agriculture.

The backbone of this agricultural economy has been small-scale (holder) farmers. These numerous units, have throughout the present century, provided the nation with food and a substantial proportion of export earnings, generated employment and induced growth in other sectors of the economy, and in a very real sense, small scale farmer households subsidized as Kenya moved into the twenty first century.

This fact has not changed the ultimate goal of government policy: to make Kenya an industrial nation. Considerable resources have been directed towards this end since independence. Prior to the end of the 1980s, the government's industrial policy emphasized import substitution for consumer goods. Further industrialization, according to the 1989-93 Development Plan, 'will be directed towards the production of intermediate goods in the medium time, with an orientation towards the export market, while at the

same time establishing a base for the eventual production of capital goods'. Similarly the government had begun to undertake a structural adjustment process to focus development on the rural areas, reduce government role in commerce in favour of enhancing that of the private sector.

The visions above illustrate an important theme in Kenya's economy, though the role played by the state is greatly changing. In advanced economies the state merely plays a regulatory role. Not only has the state been setting guidelines for economic activities and establishing and controlling a monetary system in Kenya, the colonials built and operated railways and ports, took control of marketing agricultural produce among other developments. The state, now, though with diminishing effect continued to play pivotal role in the economy through, for instance direct or part ownership of commercial or industrial concerns, the establishment of parastatals, the extension of credit to farmers and the coordination of development planning.

Another aspect of glaring globalisation effects in Kenya is its (Kenya's) classification or placing among the developing (or least developed) nations of the world. In 1980s Kenya was in the low-income countries. The GDP has

been below US\$ 400. Agriculture continues to provide the greatest share of overall GDP. Total foreign debt has risen considerably over the past two decades.

Kenya has been popular with Western governments and international donor agencies such as the World Bank, the IMF and the USAID (except in the 1990s during multiparty democracy and after the collapse of the USSR). Apparently Kenya ceased being strategically valuable to the West after the fall of the Soviet Union. Probably more 'useful partners' were found. Corruption and bad governance have been named as the factors for the apparent fall from favour. This was besides human rights abuse and official red tapes and bureaucracies in opening up trade and investment opportunities. These combined to stagnate Kenya's economy – a clear indication of untapped and un-harnessed globalisation. International credits, grants and support dried up.

However now there is a new government in place. The donors are slowly coming back including both the multilaterals as well as the bilaterals. A lot of changes, new ideas and plans are being floated and being put in place. There is a lot of determination to place Kenya on the global economic map.

To respond to challenges in the murky and no-holds-barred game that is the globalisations field, several foundations and policies are being laid down more continue to be formulated; as policy and policy papers respectively for subsequent implementation. This has occurred in essential sectors of the economy as illustrated below.

### **4.3 Tourism**

The sector has suffered immensely from global issues, mainly travel advisories issued by the US and Britain as well as terrorist bombings at the coastal resort city of Mombasa and an obsolete 30-year old policy. Far-reaching changes have been formulated in marketing and management to revitalise this important sector

To counter international terrorism threats, security has been beefed up, both in personnel and equipment overseas and more advanced local courses are being mounted to counter terrorism and related threats. This is to prepare the law enforcement agents to effectively deal with this menace. Additionally, tourist police unit has been established to help secure tourist regions to reinforce security.

The Kenya Tourist Board has been revamped and funded to market the country further, including the non-core markets- mostly Asia–Singapore, south Korea, Thailand among others. This has already yielded fruits in China where Kenya has been accorded destination status by the Chinese authorities.

As a fall back incase of global threats, there is now much attention on domestic tourism; hitherto untapped field. This includes revised park entry fees, special hotel booking rates, incorporation of tourism education in the national curricula at primary and secondary levels to achieve early exposure to tourism. There are also new concepts like eco-tourism, which is environment-friendly.

Renewed fiscal measures mainly airport charges, park entry fees, visa fees and air passenger service changes among others to stimulate growth amid regional and international competitions, enhanced conservation effort especially for wildlife and finally improved infrastructure to tourist destinations. These are roads, airstrips among others.

#### 4.4 Agriculture, Livestock and Fisheries.

This large sector holds the key to Kenya's economy. Agriculture caters not only for raw material for export but also ensures food security in the country. It is the pivot of industrialization by providing not only output but also for related input industries such as agro-chemicals. Livestock is the mainstay of the arid and semi arid land (ASAL) regions, mostly inhabited by the pastoralists. It also forms an integral part of the Kenya's dairy industry. Fisheries are the mainstay of those around the lakes and the Indian Ocean water mass.

Kenya had been at the pole position or thereabout worldwide in the production of agricultural commodities, notably tea, pyrethrum, coffee and horticulture. With a lot of competition from other international producers, and owing to local neglect and mismanagement by the previous administration, a lot was lost.

However, the new administration has come up with new formulations not only to reclaim Kenya's long lost place, but also produce competitive goods in terms of standards as well as overall international acceptance.

The overall strategy is to strengthen the capacities and efficiency of all the producer institutions to world standards. To achieve this, modalities are been formulated to re-introduce the guaranteed minimum returns that will ensure farmers against crop failures.

Monetary provisions have also been put aside for investors to begin adding value to agricultural produce through processing before export. This is targeted for tea, coffee and pyrethrum. This is in order to retain for instance Kenya's principle tea markets-Egypt, Afghanistan, the UK, Pakistan and Sudan.

The ministry has directed itself towards aggressive and direct marketing-especially for coffee this will improve returns to the farmer. Indirect marketing involves a lot of red tape and stumbling blocks through local auctions and middlemen who then sell the coffee to lucrative markets (US and the rest of Europe) either as repackaged, blended or branded products. The profit does not trickle down to the farmer. This initiative is been done in collaboration with the Co-operative Ministry.

The rejuvenation and revamping of agricultural and farmer's bodies such as AFC, NCPB, KCC, KDB, KSB, KEMFRI, KPCU and KTDA among others through means like writing off their debts and allocation of funds (AFC) will enable these bodies to start lending to farmers. This, together with revision of all levies and power tariffs as well as improved infrastructure (by the relevant ministry) is meant to make Kenyan products cheaper and affordable on the international market and compete favourably with imports.

The ministry is now focused on ensuring consistent research to enable release of new varieties of crops-maize, wheat, cassava and bananas e.t.c. This program is in collaboration with the international bodies-IDRC, USAID. This research is also in line with the international accepted products and procedures.

Finally the ministry has endeavoured to ensure international hygienic standards of fishing- especially around Lake Victoria to enable renegotiation of the banned EU fish exports. These standards also extend to horticulture where only international acceptable chemicals have to be used.

#### 4.5 Trade and Industry

The government has realized the importance of global trade and industrial economy and is not wasting any opportunity in penetrating the globe. This is through reinvention of industrial development strategy and to creation of more conducive environments for trade and industrial development. This shall accelerate Kenya's integration in the global economy through effective industrialization and market access.

Kenya is now an active member of several trade and economic blocs both regional and global. These include the EAC, COMESA, the NEPAD initiative, ACP-EU partnership agreement. Beside it is also a beneficiary of several non-tariff negotiations such as the AGOA. The principle behind these integrations is to increase market size, optimise the use of scarce technical capacity to manage complex undertakings and above all reduce asymmetries in bargaining power between small states and larger economic entities.

There is caution, though in this integrations. This is evident in the recent successful renegotiation for extension to Kenya for some period to enable it to solve its problems in the sugar industry. During the same period the right

for Kenya to charge over 100% tariff on all sugar above the allowed deficit was also reviewed and renewed.

Kenya is also sending its trade feelers to areas not previously fully tapped. This includes the vast People's Republic of China, which is slowly emerging as an alternative power to the West. It is out to greatly increase its trade to Africa to very significant amounts, and make globalisation work for the poor nations in the next three years. Through this, African countries, Kenya included, hope to otherwise overcome the trade imbalances with the rich nations which have been bullying and exploiting the LDCs, as evidenced by the WTO stand-offs whenever talks are held as well as the so-called Singapore Issues.

Contrary as it may appear though, Kenya is not reneging on its overall global pursuit. It is still committed to the UN Millennium Development Goals to fight poverty by being party to the global growth. For this, the Doha development agenda is still in its course.

Otherwise the trend may gravitate more towards bilateral and regional arrangements, locking out major markets besides leaving LDCs vulnerable

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to more powerful trading nations. So the onus now is on the developed countries to make serious commitments.

It has been realized that expanded trade by collective barrier reduction is more beneficial not only in poverty reduction and uplifting of living standards but also creation of better jobs. The key, especially for the latter is to manage the costs of trade adjustments. This is due to observation that when a country opens to trade, just as when new technologies are developed, some of its sectors may not be competitive. As a result, companies may go out of business and some jobs will be lost. Steps are in the right direction and the World Bank has pledged support in the private sector development.

The Ministry of Trade and Industry has realised some impressive development since 2002. A National Export Strategy, covering nine sectors and six cross sectors of the economy has been developed. This includes consensus been reached on common external tariff, elimination of internal tariffs, and rules of origin as well as dumping.

The resurgence of EAC has led to harmonization of investment policies and the EAC industrial development strategy as well as elimination of trade

barriers. This initiative is still ongoing but the results are already evident in the expansion of Kenyan companies to member countries of EAC.

Barriers have also been erected in some area to protect trade. The Safeguard measures to protect sugar and wheat sub-sectors within COMESA were extended till April 2007.

There also has been a deliberate strategy by the ministry to reduce bureaucracy and time for processing for trade applications from 12 to 3 months. This has been implemented to the satisfaction of traders

On the protection of consumers and regulation of import goods a draft bill to has been introduced to deal with the problems of counterfeiting and dumping of sub-standard goods. A concerted effort is been made to ensure domestic standard regulations are enhanced to be at par with the world standards to make Kenyan products competitive.

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increased from one to five to harmonize labour and industrial issues to international levels.

There has also been collaborative initiatives through the Conference of African Ministers of Industry (CAMI) designed to strengthen industrial production. This unique effort called the African Productive Capacity Initiative is a comprehensive program of developing sub-regional value chains based on existing strengths in infrastructure, human and physical capital.

The assessment of the performance of sectors such as agro-chemical, mineral, engineering and construction and small-scale industries by the Phase 1 Diagnostic Study countrywide will produce data that will make the trade development strategies have a concrete basis from the ground. This will be followed by phase 2, which involves the assessing of raw material base and developing potential industrial projects for investments. The Completion of industrial census exercise for an industrial information database link to major information networks worldwide including UNIDO will also be useful for industrial planning and further policy development.

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The improvement of efficient energy use by industries, governments in collaboration with KAM through energy efficiency project. More consultations are also going to lower energy tariffs as well as import more power to offset Kenya's shortfall.

Enhanced capacity building via staff training and retraining both locally and abroad to keep at par with the changing world. Institutional framework is also being strengthened in this context-WTO reference centres have been established at the Ministry of Trade and Industry Headquarters, Export Promotion Council, Investment Promotion Council and the Kenya Institute of Business Training. This shall serve as an interface between the private and the public sectors.

#### **4.6 Finance, Planning and National Development**

The brief of the national office in charge of this is to manage treasury, fiscal policy formulations, improve and sustain a stable and predictable micro-economic as well as macro-economic policies, investment advice and overall economic development. In addition it serves as a consultant to the

government, giving the necessary prescriptions. Some issues on health and education that have a strong impact on the economy shall be addressed here.

Kenya has embarked on serious strategy and policy formulation and implementation that is aimed at improving economic growth. The restoration of working relationship with the World Bank and the IMF, and other development partners and donors has already begun bearing fruits.

Laws targeting improved governance in public expenditure are to be effected. Micro-finance legislation is being finalized to enable credit provision to small-scale business and farmers who make significant portion of Kenya's export producers. Duty on capital goods, plant and equipments for investments has being waived

The implementation of better banking supervision, payment systems (for EAC, COMESA etc) have strengthened the financial sector. To put a check on inflation, an Anti-money laundering bill has been created and is awaiting final approval.

To halt further decline in economic growth the government has reduced interest rates on treasury bills in order to give opportunities to investors to access affordable loan facilities from commercial banks and other financial institutions.

A Bill on privatisation and further liberalization has been created so that the government remains solely with the responsibility of providing a conducive environment. This bill targets telkom, railways and other loss-making parastatals. Railway is already on its way to privatisation. This will reduce the strain on the exchequer and will free funds for economic development strategies.

On education and overall capacity building. There is provision of free basic education and review of curricula at all levels to ensure trained manpower.

The ministry of Finance in collaboration with the Ministry of Health, UNAIDS and in consultation with the Trade Ministry, has ensured provision of cheaper anti-retrovirals to fight HIV/AIDS which is taking away productive age groups. This follows negotiations on intellectual property rights.

On infrastructure the ministry is working with sister offices to improve roads as well as general transport and communication network all over the country. The Nairobi by-pass construction is set to start in early 2004 and is expected to reduce wastage of economic time through eased traffic congestion. Roads in tourism areas are also targeted for improvement. The great north road is also marked for reconstruction into a dual-carriage way. Roads diversity is also in place. Cheaper and durable concrete roads are expected soon following studies in Germany. Also the construction of roads is to be privatized so that the investors shall charge toll to recover their funds back. This shall speed up infrastructure repair.

Major Airports are also marked for expansions to march world standards. World Bank is funding the construction of a new international passenger terminal **unit 4** at Jomo Kenyatta International of floor area 16,000 square metres to increase overall passenger terminal building handling capacity from the current 2.5 million to approx. 5.0 million (by year 2010) in order to ease congestion and provide additional capacity to handle natural traffic growth

#### 4.6 Summary and conclusion

Globalisation is seen to bring faster growth, thus a decline in poverty and an increase in economic independence. In broad terms, trade is good for growth, and growth is generally good for the poor- because on average, increased growth raises the income of the poor in proportion to those of the population as a whole.

Looking at it more closely, Less Developed Countries have much to gain from globalisation, but only if sound state policies are implemented and institutions built to facilitate such policies. ICT has the chance to leapfrog these countries from various backlashes of globalisation. However, this will only be possible if the developed world allows for fair play. Actions that lead to double standards will need to be reduced to the minimum, stepping up transparency and equality. This would in turn create room for active participation of policy makers in decision making, on issues that concern economic growth. In Kenya liberalization of economic sectors are already showing economic growth. David Ongolo, a Kenyan, asserted the following about Kenya during a working group in a WTO conference on competition in France, 2000: *“Whereas in nineteen ninety-two (1992) there were a few activities: importation of petroleum, cement production and*

*telecommunications where there were public monopolies the situation has drastically changed by year two thousand (2000). Importation of petroleum is now firmly controlled by eight (8) firms of which four multinational petroleum companies control almost eighty percent (80%) of the market. A few multinational firms also control banking and it is estimated that the top four (4) banks control about sixty-five percent (65%) of the annual credit and asset of the banking sectors. ” (WTO, 2001)*

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## CHAPTER FIVE

### Conclusions and Recommendations

#### 5.1 Summary

Globalisation has the effect of rendering states more integrated and, therefore, interdependent. It has the effect of reducing the control of states. It weakens their relevance as political and economic entities as well as their degree of control. States also suffer a loss of authority, as there is a transfer of legitimacy from the state to another level. The United Nations is increasingly seen as an authoritative and respected body, often more so than individual states. In addition, people have lost faith in the state's ability to protect their security, due to nuclear weapons, and their future, as the environmental debate points out. Public opinion has a greater influence, because the state can no longer control people's access to information, and individuals, are more aware of what is going on in the world, and become more actively involved in formulating state policy.

States are not powerless in fighting the disabling effects of globalisation. By multiplying the levels of exchange and allegiance, globalisation and

regionalisation are revolutionary. They put individuals, corporations and associations in contact via other means than through or within the state. This explains the increasing integration and interdependence of state, and the principle reasons for the decline of state authority. States no longer maintain control over transactions with other states, nor their own policies, nor the loyalty of their citizens.

To compete in this new economic environment, companies, governments and countries need to be ever more efficient, ever more responsive to market signals and ever more innovative in order to keep up with the demands and opportunities offered by the market. Clearly, those countries most likely to succeed are those which, have political stability, most access to technology, are the innovators of technology, have the most highly educated labour force, have best access to risk capital, are most able to communicate with partners and consumers, and have the legal and regulatory framework to curb system abusers. The best-adapted countries to the new environment at present are the industrialised countries, who are unabashedly gaining most from the system. These gains are not marginal, as lead countries take a lions' share of the profits and leave a diminishing amount for the rest of the players.

The negative aspects associated with globalisation are becoming more apparent and many less developed countries, particularly the Heavily Indebted Poor Countries (HIPC) are suffering declining terms of trade due to their inability to adjust to changing market signals within the liberalised global economy. These countries do not have the alternative investment opportunities, or a skilled labour force to develop non-agricultural industries or services. They rely on cash crop production for export revenue no matter how low prices fall. A combination of debt and dependence on raw commodities means that several countries are entering into an accelerating downward spiral, in which production needs to be increased to raise revenue to pay off debt, but increasing supply is driving down prices.

Whilst there are many advocates of globalisation, there are also an increasing number of critics to the process. Is the balance right between winners and losers and is the rate of growth great enough, and equitable enough, for the majority of people to accept the terms and conditions and also tolerate the shocks that will lead us towards a richer, but culturally more homogenised world? Some of the least desirable aspects of globalisation that are relevant to less developed countries include the massive fall in terms of

The negative aspects associated with globalisation are becoming more apparent and many less developed countries, particularly the Heavily Indebted Poor Countries (HIPC) are suffering declining terms of trade due to their inability to adjust to changing market signals within the liberalised global economy. These countries do not have the alternative investment opportunities, or a skilled labour force to develop non-agricultural industries or services. They rely on cash crop production for export revenue no matter how low prices fall. A combination of debt and dependence on raw commodities means that several countries are entering into an accelerating downward spiral, in which production needs to be increased to raise revenue to pay off debt, but increasing supply is driving down prices.

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trade, dependence on donors. The alternative of opting out of the globalisation process brings the risk of being cut off. Friedman(2000) suggests there is evidence that those countries that are not making efforts to join the global marketplace are taking destiny into their own hands. As to the state itself and the challenges which globalisation poses for it, it would seem that the expectation that the state is no longer relevant in the formulation of policy is an overstated one which derives from a fundamental misunderstanding of the processes of globalisation.

It is ironic that in spite of the widespread recognition of the limitations of IMF-World Bank structural adjustment programmes, the quest for economic reform in less developed countries still continues essentially to be defined in strictly neo-liberal market terms. Indeed, conditionality and cross-conditionality clauses designed to compel adherence to neo-liberal macro-economic policies remain an important feature of the donor relationship with developing countries both at the bilateral and multilateral levels. The accelerated process of globalisation which has been witnessed over the last decade and which, like the structural adjustment policies is promoted by the

international financial institutions less developed countries, is underpinned by a strong emphasis on the liberalisation of markets, trade and investments

What is clear from this research is that in less developed countries effective and successful policy-making cannot be undertaken in the absence of a social contract, a developmental state with a clear socio-political and economic vision, and a willingness to address politics as an independent variable in the administrative and decision-making processes.

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## 5.2 Conclusions

Globalization, or the integration of economies and societies through trade, investment, finance, information and labor flows is, in the view of many, an inescapable feature of the world today. On the one hand, there is a considerable body of opinion arguing that globalization has led to substantial economic progress among rich and poor countries alike and, indeed, may be the principal mechanism for the international convergence of living standards. On the other, many point to the challenges that it poses for many countries as well as for the most vulnerable socio-economic groups within countries.

The purpose of this paper has been to determine if globalisation affects less developed countries in terms of the state, economic growth and independent policy making?

One point emerged from this research in that it has been difficult to draw clear-cut theoretical conclusions regarding the effect of globalization on economics and economic policy making. This is as a result of conflicting effects, processes, and policies implemented by different countries, both in the short and the long run. Different states approaches are what determined whether the net effects are positive or negative.

Globalisation is as a result of majorly free trade in the world, mainly advocated by the West and preached zealously by the then US President Ronald Reagan and the British Prime Minister Lady Margaret Thatcher in the 1980s. It is mainly governed by the global institutions such as the WB, IMF and EU. These are the key governors to the so-called free markets and liberalisation. The WB had its clear-cut goals since its inception. These include economic reconstruction and development while the IMF: a public institution financed by taxpayers throughout the world is charged with

ensuring global economic stability. As for the EU, it is a child of European metamorphosis; for economic and developmental issues in Europe.

For a long time, imperialism has dominated globalisation. Poor countries got a raw deal. Demonstrations have become the order of the day and civil society demand international justice, especially as regards trade. Tobacco manufacturers have been accused of running away from their homes in the developed world where anti-smoking (tobacco consumption) laws are strict to the letter to come and seek refuge in the developing world where the laws are lenient or 'can be bent'. This involves ruthlessness, defense, deceit, demagoguery and misinformation enabling them to slip through the corridors of power.

And when poor nations require cheap medicines, even for HIV/AIDS, they have to exert pressure that could catapult them to the moon, before getting a nod. This is the kind of treatment that ignites worldwide anger because the interests of the rich are protected at the expense of the poor. This is what led to the collapse of the WTO Cancun conference. Basically, it has now turned into the rich versus the poor countries conference. The rich did not and

would not budge on critical issues, and the poor would similarly not move a foot hence the stalemate and stillbirth at the conference.

So far, globalisation has had two sides: critics and proponents. The former blame it for promoting big, T/MNCs business interests- the so-called "Singapore issues". There has been flagrant breach of worker's rights that has led to the world monoculture. Kenya has not been spared from the issues stated above. It took concerted local and international calls and protests for working conditions to improve at Del Monte (K) Ltd in Thika, Kenya. Workers were ruthlessly subjected to dangerous farm chemicals and poor working conditions. Persistent calls for worldwide boycott of Del Monte products forced the situation to normalcy.

Another area in Kenya is the export processing zones (EPZ). These started in 2000 as (mostly) foreign facilities manufacturing strictly for export. But till October 2003 workers simply had no rights and performed under inhuman conditions. With the new NARC government in place, the workers organized themselves and paralyzed operations in January of 2003 to press for better working conditions, besides trade unions representation. Despite racking in the US \$ 300 million annually from the AGOA treaty markets

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alone, the workers conditions were previously at par with those of slaves. There has been other numerous cases locally.

Internationally the sports manufacturers –NIKE- had almost its products totally boycotted, over what was discovered to be slave-like working conditions in its factories in Asia. On April 22 and then again on April 25, 10,000 workers went on strike at a Nike factory in Indonesia. During the same week, 1,300 workers went on strike at a Nike factory in Vietnam.

The critics may be justified; judging from violent protests always witnessed at the G8, WTO and EU summits whenever and wherever they are held. Otherwise, how, for instance would one argue when the EU forces tobacco processors out of business in Europe through tough legislations, subsidies withdrawal among others. Their destination is the less developed countries or the Third World where they send millions of people to the grave.

The proponents of globalisation vehemently defend it as a means of creating wealth for all. This is why investors leave their countries to seek fortune in foreign lands. Here jobs are created and living standards improved. Also it promotes interdependence. Not every country is able to produce or

manufacture all its requirements especially oil and energy requirements. For instance, most LDCs still rely on primary agricultural products both for consumption and mostly for export to earn foreign exchange. Kenya is no exception as its economy is still agriculturally based. These comprise of coffee, tea, sugar and horticulture production, topping the chart. This necessitates global trade so that Kenya can get what it does not produce or manufacture nationally. These include vehicles, aircrafts, oil and computers, among others.

Alternatively, the above can be manufactured or assembled locally to reduce their importation cost besides creating jobs for the citizens. And policies have been and continue to be in place to promote local investments through processing of local farm produce-mainly coffee, tea, sugar and magadi soda.

Currently, there is massive government re-alignment and refocusing in what is referred to as Sustainable Development and Poverty Reduction Strategy Paper (SD&PRSP). This is what took the Asian Tigers to where they are currently. This requires concerted involvement of the private sector into day-to-day business running and privatisation of government corporations like



the Telkom and the Railways. The primary goals of the government may be summarised as follows:

To improve the investment climate; this involves better transport and communications infrastructure, and security; to improve the economic playing field by lower energy tariffs, lower bank interest rates, having consistent economic policies in place and above all to work on political stability.

Already the WB has pledged massive support for the above efforts of the SD&PRSP. It is increasing its operations in Nairobi by strengthening it for participation in the key sectors of the economy following recent aid and credit resumption to Kenya due to political stability and promising good governance. It has advertised for the position of the private sector development (PSD) expert who will be its partner with the government with implementing agreed work programs to support private sector and develop financial sector policy to ultimately lead to a productive private sector.

Elsewhere, plans of action are in place to improve the lives of farmers. The COMESA sugar concession tariffs have just been renegotiated. Coffee is on its way to direct and lucrative Asian and US markets through the AGOA

initiative. Policies are also in place to penetrate the hitherto untapped Asian tourism markets. This is evident in the opening of new route by Kenya Airways to Bangkok, Thailand and Hong Kong.

With the best and most successful privatization story in Africa involving Kenya Airways, Kenya has a lot to gain from globalisation. From an inefficient, loss- making national carrier from 1977-1994, KQ is now ranking among the best airlines in the world. A main advantage is it's global links with KLM and Air France. The sky is the limit for its shareholders. Plans are also underway to renovate and expand the Moi International Airport in Mombasa and Jomo Kenyatta International Airport to enable assured capacity to tap into the lucrative US markets. There is still even more opportunities ahead as the EU is in talks with the US for a free and open trans- Atlantic airway hitherto blocked by the US. The market is potentially rich with cargo as well as passengers.

This hopefully shall be done via direct flights from Nairobi/Mombasa to the US. This is expected to increase passenger and cargo freight. The Kisumu Airport is also marked for expansion to meet local and regional flight demands, which are on the increase.

Kenya has benefited and continues to benefit from globalisation. This does not mean that it has not been affected by the demerits of globalisation. However, on a wider perspective, there is more to accrue from globalisation than not. All that is needed are firm mechanisms and rules to be put in place.

Kenya stands to gain even more from regional and broader integrations, the East African Community (EAC), the broader and expansive COMESA and the NEPAD (which highlights and recognizes challenges of economic growth). On the global front ACP/EU partnership is geared towards preferential access of ACP goods to the EU market. This ACP/EU partnership agreement has been very important to the Kenyan sugar, which is now available on the EU market under ACP/EU sugar concession program

Environmental degradation is a global issue affecting each country and its economy. Goods have to be produced that conform to the environmental protection protocols. The government enacted Environmental Management and Coordination Act (EMCA) in 1999, to be implemented by the National Environmental Management Authority (NEMA).

On international conventions and protocols in environment, which have been already ratified, there are programs and projects for their implementation in 2000, the Kenya National Clean Production Centre (KNCPC) was established in collaboration with UNIDO and UNDP at the KIRDI headquarters to guide manufacturing industries on methods of reducing wastes thus improving on their profitability.

Regional integration, increase market size, optimize on the use of scarce technical capacity to manage complex undertakings and reduce asymmetries in the bargaining power between small states and the larger economic states due to diversification and variation. This integration comes in various sectors-trade, aviation, road and sea transportation, resource management and economic and social services, which comprises of higher education and environment. The latter also has a lot of support from the developed world whose members have invested a lot in capacity building in the LDCs. Kenya is no exception. Free basic education, has over 100 foreign organizations and nations involved in its implementation. The institutions of higher learning benefit from expertise and funding. Several exchange programs are in place in the country.

What emerges is that the World Bank and the IMF are profit driven institutions and must thereby be understood as such; they shall only lend where it is practically possible and financially viable. Countries where the funds shall end up lining a few people's pockets and burden the generations to come after with huge foreign debts to service if they pay back at all are and will be left out. These institutions are therefore justified in demanding good governance and eradication of corruption from governments they work with.

The division on how globalisation has affected less developed countries positively or negatively can be possibly explained in that for globalisation to work a certain threshold a greater degree of real and financial integration is needed. This begins with far-reaching domestic institutional reforms that improve the ability of the private sector to save and invest. This includes the strengthening of the financial systems and the regulation and supervision of financial institutions (example the ability to withstand financial shocks like the Asian crisis), and more generally improve the "social and legal infrastructure" that is conducive to greater risk taking. Regardless of the exact mechanism that may be at play, however, the striking implication of the globalization-economic growth chart is that, paradoxically, globalization

may hurt some less developed countries not because it went too far but rather because it did not go far enough.

Put differently, by focusing on different aspects of economic and economic policy strategies globalisation can be positive or negative. Countries like Botswana, Gabon and Mauritius are countries that through strong economic policies have benefited from globalisation. Unfortunately, most of Africa has lost ground in the fight for economic independence. Kenya in the 80's and 90's saw very low economic growth and in some instances experience negative growth. This can be attributed to corruption, poor economic strategies and a weak judicial system among other deficiencies.

Globalisation has the potential for good, provided our policies are right. We have the tendency to blame globalisation for some of the things that we are seeing around us. In Kenya, the rich have become richer, the poor poorer and there is an increase in insecurity and violence. However, what we should realise is that these conditions are not the result of globalisation as such, rather, the blame should be put where it belongs: on the lack of enlightened economic growth policies and the lack of policies that enable the poor to earn a decent living. This is evident when we compare Kenya with countries

like China and India. In the last two decades of the previous century, China and India decided to participate actively in the global economy, their poverty levels went down drastically, in China from an estimated 26 per cent to nine per cent and in India from over 50 per cent to 26 per cent.

### **5.3 Recommendations**

The Secretary-General of the UN in his report to the UN Millennium Summit –2000, said: "The central challenge we face today is to ensure that globalisation becomes a positive force for all the world's people instead of leaving billions in squalor." He goes on to say that "inclusive globalisation must be built on the enabling force of the market", but significantly, he mentions that "market forces alone will not achieve it, it requires a broader effort to create a shared future based on our common humanity in all its diversities". He identified six shared values: freedom, equity and solidarity, tolerance, non-violence, respect for nature and shared responsibility.

Globalisation is a phenomenon that has enabled countries to achieve what could never have realised if each country maintained itself as an island. The integration of trade, finance and information has made it possible for

developing nations to gain valuable mileage in its economic growth. However, this global market is not been fully utilised by less developed nations and in some cases the economic growth has declined. Ghana used to be self-sufficient in rice production. Now, the only rice available there is the polished white rice from America, and Ghanaian farmers, without a market either at home or abroad, are reduced to poverty.

Overseeing the globalisation process are three organisations: the World Bank, the International Monetary Fund (IMF) and the World Trade Organisation (WTO). They are all portrayed as neutral, impartial bodies with the very best intentions at heart. Whilst the principles with which they were created may be sound, the bodies we have today, and their actions, are far from sound, or sustainable. Regardless of what they are meant to do or be, this trinity are, in effect, unelected, accountable to no one, with unprecedented power over the lives and livelihoods of 6 billion individuals. Take an example of a WTO meeting, the dice are heavily loaded against the poorer nations from the start. Sure, every country has a vote. But the rich nations send in teams of lawyers, advisors and lobbyists to ensure they strike the best deal for their own ends, whilst the poorer nations are lucky if they can afford to send a single representative. Advisors and lawyers are way

beyond their means. Alternatively, consider this; the World Bank has a single majority shareholder, with a 51% controlling stake – the US Treasury Department! Calls into question the neutrality and impartiality.

There are obvious gains to participation in increased exchange with the rest of the world. The bone of contention is: what specific measures should individual countries adopt in order to reap the benefits of increased exchange with other nations. With perhaps a few cases, developing countries have always sought to gain from international trade. Attempts to diversify the export base have been a key aspect of policy since independence. There are no easy answers, but a substantial part of the answer lies in authenticity.

We all have hypocrisies going on within us, conflicts of ethical investing. In working towards authenticity, the conflicts get resolved. Those organisations, companies and governments and those that are supporting and driving globalisation must get to a point, and fast, where the very obvious imbalances are redressed. Imbalances, for example, which favour developed over developing nations, which favour profit over people, profit over the environment. The following recommendations were given to be able to maximise on globalisation;

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**5.3.1 National governance** through good political governance based on a democratic political system, respect for human rights, the rule of law and social equity, an effective state that ensures high and stable economic growth, provides public goods and social protection, raises the capabilities of people through universal access to education and other social services, and promotes gender equity, a vibrant civil society empowered by freedom of association and expression that reflects and voices the full diversity of views and interests, organisations representing public interests, the poor and other disadvantaged groups are also essential for ensuring participatory and socially just governance, and strong representative organisations of workers and employers are essential for fruitful social dialogue.

**5.3.2 Economic reforms** are a means to an end. Trade and investment reform should be seen as a means to the end of human development and the elimination of global poverty, reflected in the International Development Target of halving global poverty by 2015. Some of these reforms involve the *broadening of the debate on reform* of the global financial system to allow greater participation by developing countries and civil society organisations, and ensure that technical assistance enables appropriate diversity in policy making. *Improve regulation of capital markets* in industrialised countries in

order to curb volatility and reduce global poverty and inequality. *Establish an International Debt Standstill and Work-out Procedure* for dealing with financial crises. A new, independent body such as an International Debt Tribunal should administer the mechanism.

**5.3.3 Policy reforms** should be based on experience, evidence and data, and be guided by national poverty reduction strategies. Far greater attention should be given in *policy formulation* to issues of equity and redistribution, as well as to the nature of growth. The *International Monetary Fund* (IMF) and *World Bank* should make it apparent to governments and civil society organisations that sound policies will be acceptable to their boards, even when they depart from the economic policy prescriptions of traditional structural adjustment programmes.

**5.3.4 Technical assistance** and capacity building should be provided to both governments and civil society organisations to enable them to engage constructively in the new approach to debt relief based on national poverty reduction strategies

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# APPENDIX

## SAMPLE QUESTIONNAIRE

### THE KENYA ASSOCIATION OF MANUFACTURERS (KAM).

#### Global Entrepreneurship vis-à-vis Kenya's Global Economy

- 1) Briefly please give a brief background of KAM.
  
- 2) What is your brief? (in terms of vision and mission).
  
- 3) From the brief above, how would you rate in performance?  
Excellent    Very good    Good Fair    Poor
  
- 4) (a) How does one become a member?
  
- (b) How many members are currently on your roll?

(c) How members are (i) Local: (ii) Foreign:

5) (a) Are there Kenyans who have invested outside the country?

(b) If yes, how are they performing?

(c) If no, what would you attribute it to and how are you tackling it?

6) What do you think motivates your foreign members to prefer Kenya as opposed to other less developed countries (LDCs)?

7) (a) How'd you rate Kenya's overall performance in Global Entrepreneurship?

Excellent      Very good      Good      Fair      Poor

- 8) You are probably the most informed and organized body concerned with industrial development in Kenya. What are your challenges and how are you tackling them?
- 9) You've been for common markets and integration from beginning (vehemently advised against collapse of the East African Common Markets in 1969). Has your position changed? Please explain.
- 10) What do you consider to be the contribution of each of the following institutions/programs to economic integration?
- I. EAC
  - II. COMESA
  - III. NEPAD
  - IV. ACP
  - V. EU

a) Why did you protest at the exclusion or the withdrawal of export compensation scheme from the budget in 1982?

(b) Is the scheme still in operation?

Yes

No

(c) Please explain briefly your answer, with merits and demerits of the scheme as you view it.

11) What's Kenya's performance in terms of attracting new investments in the recent years? Please briefly explain your answer.

12) Which are the highly potential areas you're currently targeting?

- 13) What steps / initiatives do you wish to see in place to stimulate an immediate growth in industrial investments?
- 14) What more do you think needs to be done by the following to increase Kenya's participation in the global economy in form of long-term development?
- (a) Government:
  - (b) Corporates:
  - (c) NGOs and Foreign bodies: