THE IMPACT OF THE SHIFT FROM WESTERN TO EASTERN TRADE PARTNERS ON KENYA'S BALANCE OF PAYMENTS

MBITI J. NTALIWA

RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, THE UNIVERSITY OF NAIROBI

NOVEMBER, 2014

DECLARATION

This research project is my original work and has not been submitted for an award of degree, diploma or certificate at any university or college.

Signature: ______________________________ Date: ____________________

Name: Mbiti Joyce Ntaliwa

Reg. No.: D61/63221/2011

Supervisor's Approval

This proposal has been submitted with my approval as the University Supervisor.

Signature: ______________________________ Date: ____________________

Mr. Victor Monayo

Department of Business Administration

School of Business

The University of Nairobi

ACKNOWLEDGEMENTS

First, I would like to thank my project's supervisor Mr. Victor Monayo, Department of Business Administration for his endless patience, dedication and able guidance while undertaking this research to its completion. My sincere gratitude also goes to the data department of the Kenya National Bureau of Statistics for availing such immense and detailed data. I also wish to acknowledge all the authors that I have cited. This research would be of no scientific worth without their papers.

Second, I would like to thank my class mate Audrey Mudeheli for her tireless support and encouragement before and during the research process; my colleague Violet Murunga, African Institute for Development Policy, for taking time off her busy schedule to help with formatting the document; and my former supervisor Dr. Sam Thenya, Nairobi Women's Hospital, for his sincere encouragement and understanding of my need to take time off to attend class and to work on the research project. I am grateful also to my friends from my social group for their support and encouragement. I cannot thank you all enough.

Above all sincere gratitude to the almighty God for His divine intervention that gave me the strength and will power to soldier on and complete this project.

DEDICATION

This research paper is dedicated to my husband Paul Kizito Ogeno for his immeasurable support before and when carrying out this research project; and to my son Nathaniel Eli Ogeno for giving me the purpose and drive to complete this research paper.

I also wish like to dedicate this research paper to my parents Jennifer Nkoyai Mbiti and the late Cosmas Mbiti M'Mingaine; and my uncle, the late Joseph Kiuru for the sacrifices they made to ensure that I got the right start in education that has gotten me to this moment.

ABSTRACT

A country's Balance of Payments, a reflection of the state of its economic transactions (positive or negative) with the rest of the world, is heavily impacted by its trade partners. Research on the impact of choice of trade partners are relatively few. This research study investigated the effect of changing trade partners (from West to East) on Kenya's Balance of Payments as measured by Balance of Trade (imports and exports) and Balance of Payments. The study used a sample of seven countries from the West and seven from the East. Using annual time series trade data for the period 1997 to 2011 the study evaluated trade volume trends with a view to ascertain if first, Kenya had changed trade partners; and two, if this change had had any impact on its Balance of Payments; and if yes, to ascertain if that impact was positive or negative. Primary data was collected through questionnaires. Secondary data was collected from Kenya National Bureau of Statistics (KNBS). Regression analysis, correlation analysis and descriptive statistics were used to analyze the data collected using statistical package for social sciences (SPSS) and Microsoft Excel. The research found that the Balance of Trade with Eastern trading partners is worse that the Balance of Trade with Western partners. In addition, the research clearly demonstrated that there has been a shift from Western trading partners to Eastern trading partners mainly for imports and that this has resulted in a corresponding worsening of Kenya's Balance of Payments.

ACRONYMS AND ABBREVIATIONS

AD:	Anno Domini (Before Christ)
BOP:	Balance of Payments
CBK:	Central Bank of Kenya
CBS:	Central Bureau of Statistics
EEC:	European Economic Community
GDP:	Gross Domestic Product
IFC:	International Finance Corporation
IMF:	International Monetary Fund
JBIC:	Japan Bank for International Cooperation
JETRO:	Japan External Trade Organization
JICA:	Japan International Cooperation Agency
KNBS:	Kenya National Bureau of Standards
MABOP:	Monetary Approach to the Balance of Payment
NTMs:	Non-Tariff Measures
SPPS:	SPSS Statistical Package for Social Science
UAE:	United Arab Emirates
UK:	United Kingdom
UNCTAD:	United Nations Conference on Trade and Development
USA:	United States of America
USD:	United States Dollars

TABLE OF CONTENTS

CHAPTER ONE: INTRODUCTION

1. 1 Background of study

The world economy has progressively become interdependent leading to more focus on international trade and trading partners. Due to its global positioning and abundance in natural resources Sub-Saharan Africa has increasingly become an import part of this web. In the last 15 years Asia has come out as one of Africa's fastest growing export/import market mainly because Asian countries are much more open to trade than Europe or America (Subramanian & Matthijs, 2007). On the other hand, trade between Africa and Europe has been affected by stringent requirements for cost, quality, delivery, product variety, innovation, safety and quality systems set by European countries (Dolan & Humphrey, 2010). This is attributed to the fact that developing nations have experienced successive financial crises due to rapid globalization exposing their citizenship to possible fatal destruction of economic, ecological and social resources key for their survival. This has led to developed countries only agreeing to liberalise trade only after environmental and social consequences have been assessed and mitigated against (Kirton & Trebilcock, 2004).

A country's balance of payments status is determined by its trade partners which are often affected by world trade demand. Kenya's balance of payment is deteriorating with its exports position stagnating mainly due to low demand from its trading partners and increased competition from emerging markets (The World Bank website, 2014). The Kenya National Bureau of Statistics (2012) statistics show that although Kenya has always been a net exporter of agricultural goods, when all imports and exports are considered, the country has been an overall net importer since independence. In 2008 its current account balance was Kshs.-136,598m and Kshs.-187,677m in 2010. Kenya Economic Update (2013) reports that in 2012 net exports contributed a negative of 4.1 percent thereby negatively impacting the country's GDP growth and widening the gap between exports and imports. In 2012 exports growth dropped to 4.7 percent from 6.6 percent in 2011 and imports growth dropped from 15.6 percent to 12.5 percent in the same period.

Osoro (2013) found that despite Kenya's rapid economic growth its balance of payments position from 1963 and 1970 remained in deficit except in 1963, 1964, 1965, 1977, 1993, 2003, 2009 and 2010. This he found out was due to trade deficit and growing indebtedness caused by fluctuations in the country's main primary exports commodities. He hypothesized that this could be as a result of serious mismanagement of macroeconomic policies as well as challenges of governance of international resources with development policies that were not keen on the critical contribution of foreign trade, private sector and foreign investment.

1.1.1 The concept of International Trade

Trade in firms is driven by the search for economies of scale which make markets imperfectly competitive. It is this imperfectness that encourages trade between countries with similar needs (Krugman, 1979). The rivalry of oligopolistic firms serves as an independent cause of international trade (Brander & Krugman, 1983). In the end international trade should be a tool for countries to achieve mutual gain (Broadman, 2007). Over the centuries various theories have been proffered to explain international trade. Ricardo’s and Smith’s classical trade theories dictates how a country exports and imports compare to its trading pattern with other nations. It describes a situation where a country devotes its resources to the production of goods and services that it has competitive advantage in, consumes them and exports any surplus (Ricardo, 1817; Smith, 1776). In Hecksher- Ohlin’s Factor proportion theory countries focus on the production and export of products and services from their most abundant production factors and import products and services that require huge amounts of scarce production resources (Learmer, 1995). This theory when compared to the classical theory explains the differences in advantage shown by different countries.

However these two theories are deficient in that they cannot explain current trends in international trade. The international product life theory, which looks at technological innovation and market expansion, is more successful at explaining patterns of international trade. The Internalization theory proposes the expansion, control and merging of the direct operations of a company’s activities to markets that link the firm to customers (Vernon, 1979; Buckley, 1988).

1.1.2 The concept of Balance of Payments

Balance of payments is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of an economy with the rest of the world. It is in essence a summary of international transactions between countries which indicates whether a country’s balance of payments overall net balance is zero or in deficit. The balance of payments accounting is important for finding out how well a country’s economy is doing. It at the same time is useful for foreign creditors who it may warn or indicate deep-seated economic crises or a thriving economy (Hylleberg, 1989). In the event that the balance of payments is not zero then it becomes a crisis. This disequilibrium distorts the workings (that is, supply and demand for money) of the entire economy.

The IMF website (2000) argues that balance of payments problems are due to the disequilibrium in the physical flows, namely exports and imports of goods and services. The immediate danger of an imbalance in balance of payments is when the trade relationships moves from complementary to competitive displacing young local/domestic industries and resulting in falling prices of goods and services. Nigeria suffered from balance of payments challenges due to overdependence on a one primary export but managed to recover after oil discovery in 1960s as did Kenya in 1970–1971 a situation made worse by the first oil shock two years later. The Asian financial crisis of 1997 as well as the United Kingdom's stop-go 1950-1973 policies were also as a result of balance of payments crisis.

There are three models that explain balance of payments. The Absorption model, which is the original Keynesian balance of payments theory, looks at the balance of payments, on current account as a macroeconomic phenomenon in the economy where the (current account) balance of payments equal the difference between aggregate domestic output and income (O) and aggregate domestic expenditure (E), that is, O=E (Alexander, 1952). There is a surplus when O is larger that E and a deficit if vice versa.

The Elasticities approach to the balance of trade looks at how changes in a country's relative prices of both domestic goods and foreign goods resulting from a change in the exchange rate will affect its balance of trade. It basically looks at the behavior of the economic system (Magee, 1975).

The Monetary Approach to the Balance of Payment (MABOP) is based on the premise that, balance of payments, in this case, the sum of the balance of trade, current account, and the service account, is determined by the net excess supply or demand for money. MABOP incorporates both the current account (trade in goods and services) and trade in financial assets unlike the Absorption and Elasticities approaches. According to this approach a balance of payments flow is one of the mechanisms by which actual money balances are adjusted to their desired levels using an adjustment mechanism (Kouri & Porter, 1974).

1.1.3 International Trade in Kenya

Kenya's first involvement in international trade was in pre-independence, 1900-1920, Yabs (2007) when Kenya, then a colony of The United Kingdom saw its first businesses spring up. Kenya has traditionally traded with countries from Europe and America and has enjoyed long-standing cordial political and trade relations with the European Union, under the framework of the successive Lomé Conventions and the Cotonou Partnership Agreement. In 1994 Kenya's economy with the help of the World Bank and IMF became completely liberised and made it possible to reduce tariffs and thereby enhancing a vibrant international trade (Aullo, 2014). In the 1980s and 1990s Kenya was liberalizing its economy and was one of the first countries to sign a Structural Adjustment Loan with the World Bank (Gertz, 2008). Its reform program included significant changes in trade policy as it replaced post-colonial import substitution policies with export promotion program. Despite all these efforts the policy did not produce sustained growth as anticipated.

The intergral part of Kenya's trade policy consists of the agreements with the other members of the East African Community (EAC), the EU and the U.S and this relationship has developed significant over the years (Bigsten, Arne, Kimuyu & Söderbom, 2010). Kenya's economy is the anchor of the EAC and the region's economic performance to a large extent depends on it (Kibe & Kimenyi, 2013). A KNBS (2013) economic survey found that Kenya's top export countries in order are Uganda, Tanzania, UK, Netherlands, UAE, USA, Pakistan, Egypt, Rwanda, Germany; and imports are India, China, UAE, Saudi Arabia, USA, Japan, South Africa, Indonesia, UK and Germany.

1.1.4 Kenya's Eastern and Western trade partners

According to the World Bank website from 2001 Sub-Saharan Africa became Asia's fastest growing export market. In 2004 for example 2 percent of China's trade was with Sub-Saharan Africa. Between 1999 and 2002 China-Africa trade grew by 700 percent. This increase was after the first China-Africa Forum in Beijing in 2000. Kaplinsky et al (2007) say that there is a risk of overestimating China's historic and present impact as well as underestimating its potential future impact. China invests, trades and gives aid to Africa and is heavily involved in infrastructure developments. Njagi (2008) found that the changes in economies of Asia especially China and India provide new opportunities for Kenya and other African countries to develop new Asia - Africa ties and provide an opportunity to negotiate for increased market access, trade facilitation and promotion of foreign direct investment. Kenya has been trading with China since A.D 618 (Sung Dynasty) and host its embassy and Confucius centres. Chinese companies also have tenders to construct roads and buildings. Trade between Kenya and China more than doubled from 2000 to 2007. According to IMF, Direction of Trade Statistics Yearbook between 1963 and 1999 Kenya's trade with China was skewed. While the imports trend was on an upward trend beginning the early 19990's the exports trend was flat during the period.

In 2008 Japan organized a summit with African leaders in Tokyo and promised aid and low interest loans. India had earlier that year made similar promises. The Kenya – Japan balance of trade has always favoured Japan. Kenya – Japan bilateral trade relations go way back before 1952 when Japan established a consulate in Nairobi. After Kenya's independence in 1963 these relations became stronger and were solidified in 1964 when Japan upgraded the consulate to an embassy in Nairobi which was followed by Kenya's embassy in Tokyo. The two countries enjoy good diplomatic relations and Kenya is the regional headquarters for all Japan's major trading companies and agencies, JICA, JETRO and JBIC.

Kenya and Germany have been traditional trading partners since the attainment of Kenya's independence in 1963. Germany and the United Kingdom are some of Kenya's most important export destinations. In 1984, within the then European Economic

Community (EEC), EEC accounted for 45 percent of all Kenya's exports and 29 percent of imports. In 1988 EEC accounted for 48 percent of Kenya's exports and 48 percent of its imports. West Germany and The United Kingdom accounted for more than 2/3 of those exports and imports (Nyangito, Ndii & Nyoro, 2001). Germany – Kenya bilateral trade relations are reinforced by constant contact in promotion programmes to trade, with Germany importing about 8 percent of Kenya's commodities.

1.2 Research problem

For most developing countries bilateral trade imbalance is increasing and their state of a net importer worsening attributable mainly to the fact that more than half the population in developing countries live in rural areas, a population that relies heavily on agriculture (Aksoy & Beghin, 2005). This notwithstanding, there are some developing countries who are experiencing large surpluses (Gruber & Kamin, 2006). Bilateral trade relationships must not always be balanced but consistent and wide gaps in trade deficits can be construed to be evidence of underlying trade constraints. Persistent trade imbalances affect a government's ability to achieve economic growth and social development. Globally and even regionally studies on balance of payments exist. In Kenya however, though the topic has been studied widely few researchers have focused on the impact of Kenya's shifting bilateral trade partners.

Thirlwall (1979) found that balance of payments issues can constrain growth. Berger and Nitsch (2010) examined patterns of trade between a sample of 18 European countries over the period 1948 to 2008 and found that trade deficit had widened substantially between the European countries after the introduction of the euro. Thirlwall and Santos-Pauline (2014) analysed the effect of trade liberalisation on export growth, import growth, the balance of trade and the balance of payments for a sample of 22 developing countries that have adopted trade liberalisation policies since the mid-1970s. They found that liberalisation raised import growth more than it stimulated export growth and consequently worsen the balance of trade and payments. Perraton (2003) studied balance of payments constrained growth and developing countries.

Umo and Fakiyesi (1995) analysed the profiles and determinants of Nigeria's balance of payments for the period 1950 to 1988 current account component. Osoro (2013) studied the long-run determinants of balance of payment dynamics in Kenya between 1963 and 2012. He found that there is not enough theoretical literature on balance of payments in Kenya. Mambo (2012) analysed the relevance of the monetary approach to Kenya's balance of payments for the period 1969 to 2002. Ntara (2011) studied factors influencing bilateral trade between Kenya and India and found that the trade imbalance between the two countries is widening. Kipngetich (2002) analysed the relationship between fiscal deficits and the current account balance in Kenya for the period 1964 to 2000. Ng'eno (2000) researched on external debt and capital flight in Sub-Saharan Africa where he highlighted out how the effect of withholding of aid by donors in 1991 contributed to the worst balance of payments crisis in Kenya. This study seeks to answer the question: What is the impact of shifting trade partners from Western to the Eastern on Kenya's Balance of Payments?

1.3 Research objective

By analyzing Balance of Payments and trade statistics the research will aim to examine if Kenya has shifted trade partners from West to East and if yes, to ascertain the impact this shift has had on her Balance of Payments.

1.4 Value of the study

The research findings will be useful for proactive national and international policy formulation a process key in economic and policy planning; to point out where the healthy international trade relationships are and therefore enable the government formulate relevant policies to sustain if not improve those relationships in order to ensure a viable growth strategy for the nation.

It is expected that the results of the study will be useful to international money lenders, private investors as well social investors as they do their due diligence in the process of making the decision whether to invest in a Kenya or not. The study is also useful for potential bilateral trade partners.

The study's research findings will reveal the relationship between trade partners and balance of payments and reduce the knowledge gap in those areas. These findings will therefore benefit other researchers as they will add to already existing pool of knowledge and will open up other possible areas of study.

.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section reviews theoretical foundations and literature of the study and covers; theoretical foundations, international business transactions and balance of payments.

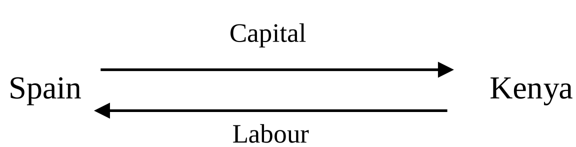
2.2 Theoretical foundations of the study

There exists a considerable amount of academic research in the field of balance of payments. Following the seminal papers by (Alexander, 1952) of the IMF, (Salant & Henderson, 1978) which gave rise to more works by (Krugman, 1979) and (Obstfeld, 1984) many other researchers have come up with different models to explain balance of payments, balance of payments crises and international trade.

2.2.1 The Heckscher-Ohlin model

Developed by Eli Heckscher (1919) and Bertil Ohlin (1933) the Heckscher-Ohlin model links countries export-import patterns to factor endowments and methods of production. In brief the pattern of international trade is determined by differences in factor endowments. The Heckscher-Ohlin theorem states that: A country exports those commodities it produces with relatively large quantities of its relatively abundant factor. For example, if Spain was Capital abundant and Kenya Labour abundant their trade pattern would be as below:

Figure 1: Example of Heckscher-Ohlin theorem



Source: Researcher (2014)

The Heckscher Ohlin model was instrumental in laying the ground for substantial development of the theory of international trade. Heckscher Ohlin was able to satisfactorily provide an analysis that could integrate the factor market into international trade theory (Lancaster, 1957). The model is useful to understand important aspect of patterns of international trade (Romer, 1986). The findings of the Leontif paradox (Leontif, 1953) which disputed Heckscher Ohlin theory as the predictor of the direction of trade are the only ones that changed economists view of causes of international trade (Learner, 1992).

2.2.2 The theories of Absolute Advantage and Comparative Advantage

The first formulation of the international trade theory was politically motivated. Adam Smith (1776) unhappy with the government intervention and control over both domestic and foreign trade published a paper on the wealth of nations. In his publication he tried to destroy the mercantilism philosophy which evolved in Europe between the 16th and 18th centuries, and is traditionally interpreted as the belief that the activity of accumulating precious metals is essential to a nation's welfare (Ball et al, 2008). These metals were seen by mercantilists as the only source of wealth and because England had no mines it looked to international trade to supply gold and silver. Subsequently the government developed economic policies that promoted exports and stifled imports resulting in a trade surplus to be paid for in gold and silver. Import restrictions such as import duties reduced imports while government subsidies to exporters increased exports

.

Adam Smith in the Theory of absolute advantage argued against mercantilism and put forward that market forces not government controls should determine the direction, volume, and composition of international trade. He proposed that under free trade, each nation should specialise in producing those goods it could produce most efficiently, that is, for which it had an absolute advantage (either natural or acquired). Some of these goods would be exported to pay for imports of goods that can be produced more efficiently elsewhere. In this case both countries will gain from trade. In 1817 David Ricardo, augmenting Smith's work argued that even though one nation held an absolute advantage over another in the production of each of the two different goods, international trade could still create benefit for each country (thus presenting a positive-sum game, a "win-win" situation for both countries engaged in trade).

2.2.3 The Absorption Model and Elasticities Approach of Balance of payments

Alexander (1952) of the IMF developed the original Keynesian balance of payments theory, the absorption model which stated that the current account (balance of payments) will equal the difference between aggregate domestic output and aggregate domestic expenditure (with a surplus if output is larger and vice versa). Alexander's model take is that instead of looking to explain the balance of payments directly one should rather look at the determinants of output and total domestic expenditure and the balance of payments will be automatically defined as a residual.

The absorption model complements the elasticities approach as it takes into consideration the supply side and income effects. The absorption approach only considers these two effects therefore the two approaches can be combined. A country's balance of payments can only be improved if there is deflation, a fact that may be regarded as a fundamental contribution of the absorption approach most authors seem to have ignored (Frenkel & Johnson, 1970). It is often the case that after devaluation the trade balance deteriorates for a while initially before improving. This is because the initial demands tend to be inelastic. This is known as the J Curve Effect. Devaluation causes import prices to rise in the home country and export prices to fall in foreign countries. The Internalization theory, an extension of the market imperfect theory proposes the expansion, control and merging of the direct operations of a company's activities to markets that link the firm to customers to obtain a higher return on investment (Wilson, 1996).

2.3 Trade policy – Tariffs and developing countries

A UNCTAD (2013) report on Non-tariff measures to trade: Economic and Policy Issues for Developing Countries state that in practice, NTMs are measures that have the potential to substantially distort international trade, whether their trade effects are protectionist or not. For example, measures such as quality standards, although generally imposed without protectionist intent, may be of particular concern to poor countries whose producers are often ill-equipped to comply with them. The scarcity of data on trade policy measures has been the main problem behind the study of the effect of NTMs. The fact that they are increasingly used to regulate international trade makes the need to update data even more compelling. The reason behind the scarcity of databases on them is largely related to the difficulty of collecting the data and assembling consistent databases.

Using gravity to establish causality (Cavallo & Frankel, 2007) found that openness to trade is one factor that has been identified as determining whether a country is prone to sudden stops in capital inflows. They used the gravity instrument for trade openness, which is constructed from geographical determinants of bilateral trade. They found that openness indeed makes countries less vulnerable to crises and that the relationship is even stronger when correcting the endoeneity of trade. In studying the impact of trade restrictiveness on growth, poverty or unemployment **(**Kee, Nicita & Ola, 2002) found that poor countries tend to have more restrictive trade policies but they also face higher trade barriers on their exports. Yanikkaya (2003) in an investigation on trade openness and economic growth using a large number of openness measures for a cross section of countries over the last three decades demonstrated that trade liberalization does not have a simple and straightforward relationship with growth. An estimation of the results showed that trade barriers are positively and, in most specifications, significantly associated with growth, especially for developing countries and they are consistent with the findings of theoretical growth and development literature. Harrison (1996) tested the association between openness and growth and found that although the correlation across different types of openness is not always strong, there is generally a positive association between growth and different measures of openness.

2.4 Foreign exchange and trade

Barasa (2013) in a study to determine the relationship between exchange rate volatility and BOP found that the exchange rate affects the prices at which a country trades with the rest of the world and is important for economic analysis and policy formulation. Exchange rates are significantly affected by political factor, balance of payment, average annual interest rate and inflation rates found (Jattani, 2013). Mwau (1984) in an attempt to analyze the impact of foreign capital inflows on the economy results showed that although foreign capital inflows have some stimulatory effects on domestic investment, their effects on economic growth are small. Ramolise (2002) found that the major cause of balance of payments disequilibrium in the LDCs was the adverse developments in the international economy which included the deterioration in the terms of trade associated with OPEC oil price hikes and high interest rates, increased protectionism and recession in the developed world.

2.5 Foreign Direct Investments

While reassessing the relationship between economic growth and FDI (Carkovic, & Levine, 2002) found that the exogenous component of FDI does not exert a robust, independent influence on growth. Borensztein, De Gregorio and Lee, (1998) studied how foreign direct investment (FDI) affects economic growth by testing the effect of FDI on economic growth in a cross-country regression framework, utilizing data on FDI flows from industrial countries to 69 developing countries over the last two decades. Their results suggest that FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. They however, noted that FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy.

Nguku (2013) studied the relationship between foreign direct investment and balance of payments. Using correlation design and secondary data from the global and local databases for a 20 year period from 1993 to 2012 he found that the relative price of imports had a positive and significant impact on imports at the 1% level of significance while GDP and FDI were not significant in the model.

2.6 Politics and economic growth

Economic growth within countries varies sharply across decades found (B. F. Jones and B. A. Olken, 2005) as they sought to analyse sustained shifts in growth vis-à-vis changes in the national leadership. Using deaths of leaders while in office as a source of exogenous variation in leadership, they found robust evidence that leaders matter for growth. The study identified that this is strongest in autocratic settings where there are fewer constraints on a leader's power. Leaders also appear to affect policy outcomes, particularly monetary policy. The results suggest that individual leaders can play crucial roles in shaping the growth of nations.

Dollar and Krayy (2002) found that countries with better institutions and countries that trade more grow faster. Countries with better institutions also tend to trade more. Anderson and Marcouiller (2002) found that corruption and imperfect contract enforcement dramatically reduce international trade. Inadequate institutions constrain trade as much as tariffs do and the omission of indices of institutional quality biases the estimates of typical gravity models, obscuring a negative relationship between per capita income and the share of total expenditure devoted to traded goods. Sachs and Warner

(1997) offer some econometric evidence on the sources of slow growth in the region. They found that poor economic policies have played an especially important role in the slow growth, most importantly the region's lack of openness to international markets.

2.7 Trade and income

Bourguignon and Morrison (1990) while analyzing across-sectional evidence on income inequality in developing countries found that endowments in mineral resources, land concentration in agricultural exports, trade protection and secondary schooling are significant determinants of differences in income inequality across developing countries. There is significant convergence between countries comprising of major trade partners (Ben-David, 1996) found. Meschi and Vivarelli (2008) found that trade with high income countries worsen income distribution in DCs, through both imports and exports. Feyrer (2009) while trying to establish the causal relationship between trade and income found that trade has a significant effect on income with an elasticity of roughly one half. Ben-David and Kimhi (2010) found that an increase in trade between major trade partners - and, in particular, increased exports by poorer countries to their wealthier partners - is shown to be related to an increase in the rate of convergence between the countries.

2.8 International trade and balance of payments

Danby (2009) defines balance of payments as a bookkeeping system that records all payments that directly affect the movement of funds between a nation (private sector and government) and foreign countries. The system has a “Receipts” and a “Payments” column where Receipts include exports (foreign purchases of local products), services (purchases from foreign tourists), investment income (income earned from local country investment abroad), unilateral transfers (foreign gifts and pensions paid to local citizens) and capital inflows (foreign payments for local assets). Payments include imports (purchases of foreign products), services (international travel by locals), investment income, unilateral transfers (foreign aid and gifts and pensions paid to foreigners) and capital outflows (payments for purchase of foreign assets). Transaction payments from foreign countries are entered in the "Receipts" column with a plus sign (+) to reflect that they are credits and all payments are entered in the "Payments" column with a minus sign (-) to reflect that they are debits because they result in flows of funds to other countries, (Tsoukalas, 2003). The sum of Receipts and Payments is equal to balance of payments. A country's balance of payments is in surplus when the sum is positive in deficit when the sum is negative (Aziza, 2010).

IMF working paper (1997) found that the exchange rate as one of the main determinants of business profitability and a country's balance of payments, (Kim, 2003). This is because of the continuing increases in the world trade and capital volatility that has affected exchange rate changes which directly influence the international competitiveness of firms (Joseph, 2002). Cheung, Furceri and Rusticelli (2013) found that global external imbalances have widened persistently over the last several years and have narrowed abruptly over the course of the financial crisis. Araujo (2007) derived a balance-of-payments equilibrium growth rate analogous to Thirlwall´s Law from a Pasinettian multi-sector macrodynamic framework. This resulted into a formula called Multi-Sectoral Thirlwall´s Law, which states that the growth rate of per capita income is directly proportional to the growth rate of exports, such a proportionality being inversely (directly) related to sectoral income elasticities of imports (exports).

Osakwe (2007) found that many countries in the region run a current account deficit, with a number of economies maintaining high deficits above 5% for many years. This raises concerns about the sustainability of these deficits and the subsequent debts accumulated to finance them suggesting that these economies are maintaining deficits which are not beneficial for the economy over a longer horizon. He found that less democratic governments also have a higher probability of running a deficit. Nyongesa, Mukras and Momanyi (2013) in examining the sustainability of the current account deficits in the country that exports and imports are cointegrated with the cointegrating coefficient of 0.21989 which is significantly not equal to one, but equal to zero, implying that the current account is not on the sustainable path indicating a weak form of sustainability. The however concluded that current account deficit may not be sustainable in the long-run.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines of how the research will be carried out. It focuses on the research design, population of the study, sample and sampling techniques, data collection methods and data analysis.

3.2 Research Design

The study used survey research design. It used qualitative and quantitative. Quantitative research design is a more logical approach that has a high degree of standardization in data collection as it allows for use of data to measure findings from a statistical and numerical point of view (Flick, Kardoff & Steinke, 2004). The period 1997 to 2011 was selected as it is during this period that Kenya experienced a new, more democratic political dispensation change that was perceived to be more inclined to look East. Lynch and Crawford (2012) call this period the 'third wave' of democratization seen across sub-Saharan Africa that began in the early 1990s.

3.3 Population and Sampling Design

The study sampled Kenya's top 14 key trade partners from the East and West. These are as follows: Belgium, France, Germany, Italy, the Netherlands, United Kingdom, United States of America, Saudi Arabia, United Arabs Emirates, China, India, Indonesia, Japan and Pakistan. This is based on the assumption that these countries partners contribute to more than half of her trade and are therefore a good representation of Western and Eastern partners.

3.4 Data Collection

Both secondary and primary data were used. Secondary data on all the variables under review was collected from Central Bank of Kenya (CBK) and the Kenya National Bureau of Statistics (KNBS). The annual time series data for Balance of Payments, Imports and Exports for a 15 year period from 1997 to 2011 was collected. Balance of Trade for Kenya with the sample countries blocks under study was calculated. Primary was data collected using questionnaires with the respondents being officials from embassies and organisations that deal with international trade.

3.5 Data Analysis

The data collected from the questionnaires was analysed using Microsoft Excel spreadsheets and presented in graphs that clearly presented the findings. Secondary data collected was tested using correlation analysis and multiple regression analysis facilitated by use of SPSS.

CHAPTER FOUR: DATA FINDINGS, ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the study and their interpretation. The chapter is arranged as follows. The first section presents the qualitative and quantitative results and trends, followed by regression and correlation analysis results.

4.2 Respondent rate

The total number of questionnaires administered was fourteen, ten to embassies and four to other organisations that deal with or in international trade. Nine questionnaires were returned, a response rate of 64 percent. The breakdown of responses is as summarized in the table below:

Table 1

Total Number of Questionnaires administered	14
Number of questionnaires returned by embassies	7
Number of questionnaires returned by other organisations	2
Total questionnaires returned	9

4.2.1 Demographic information

Of the sample interviewed fifty seven percent of the respondents have been employed for more between 5 and 10 years in the organisations they work for**.** Six out of nine of the embassies / organisation sampled have existing for more than 50 years in Kenya.

4.2.2 Respondents opinion on trade between Kenya and her partners

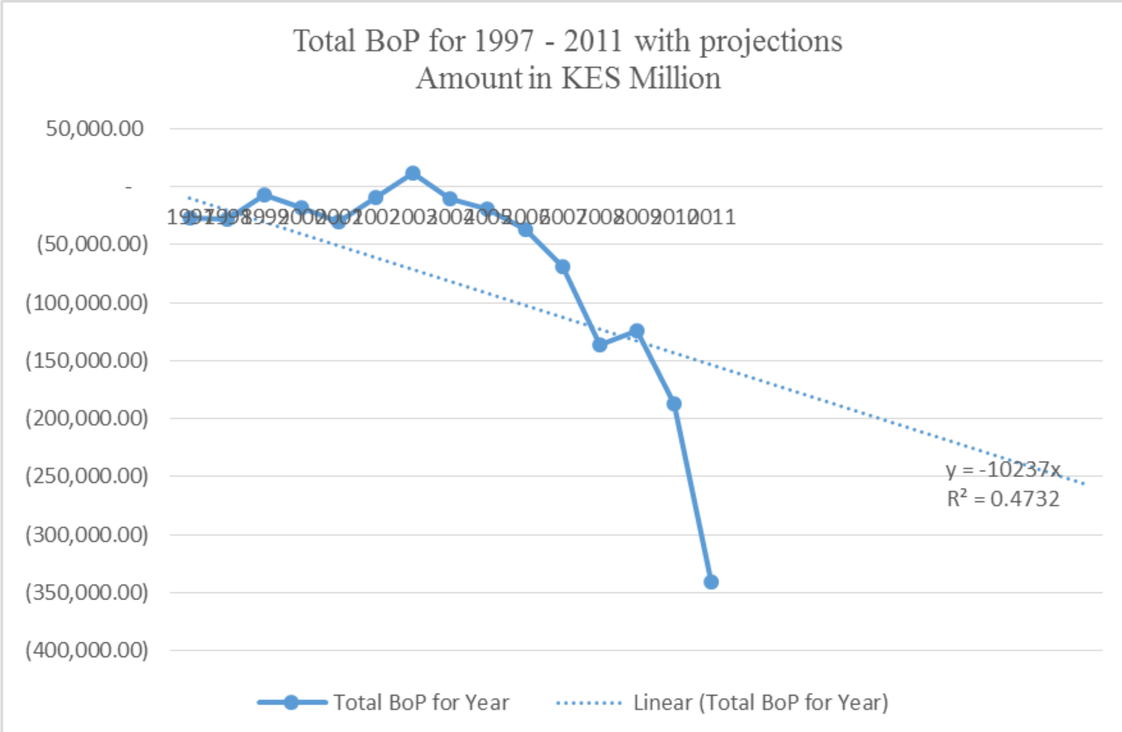
From the 9 respondents 5 disagreed that trade between Kenya and her trade partners is balanced, 1 strongly agreed, 2 agreed and one was neutral. On if trade between Kenya and her trade partners has had a positive impact on the country 4 respondents disagreed, 4 respondents agreed and 1 was neutral. When asked if Kenya's trade has majorly shifted trade partners from West to East 4 respondents agreed, 3 disagreed and 1 was neutral.

4.3 Quantitative analysis

4.3.1 Descriptive Results and trends

In this section the results on the trend of the series data used in the study are presented in charts and a descriptive summary presented in a table format. This analysis was done using Microsoft Excel 2013.

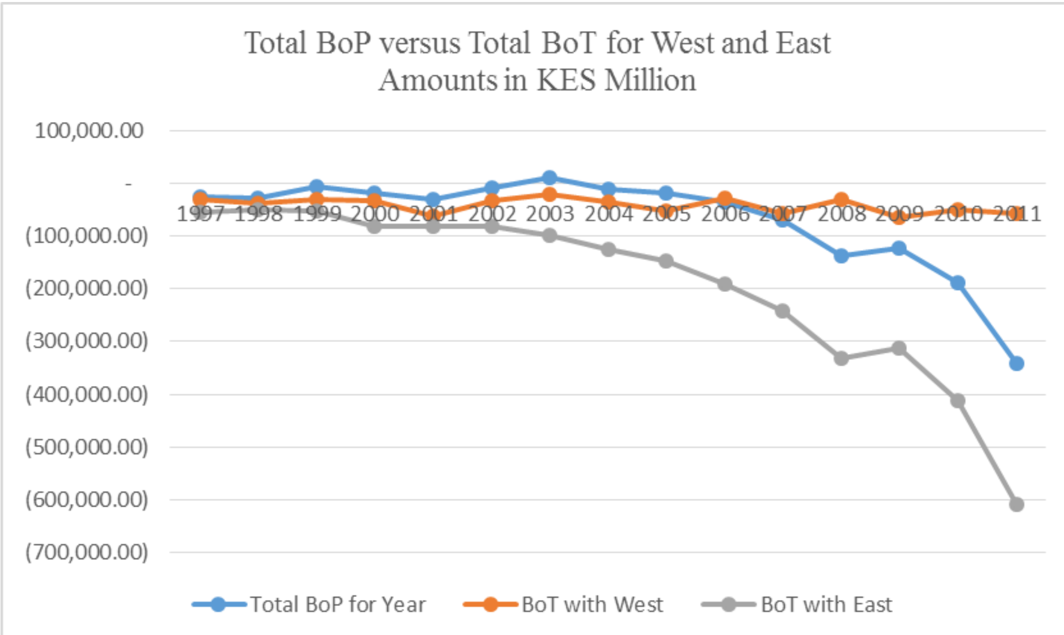
Figure 4.3.1: BoP trend 1997 – 2011



Source: Researcher (2014)

Figure 4.3.1 presents the trend of BoP over the period of study including a projection of it will look like if the same trend persists up to 2020. From the results Kenya's Balance of payments has been progressively deteriorating form the first year of study, 1997, worsened further in 2007 and is on a downward spiral ever since

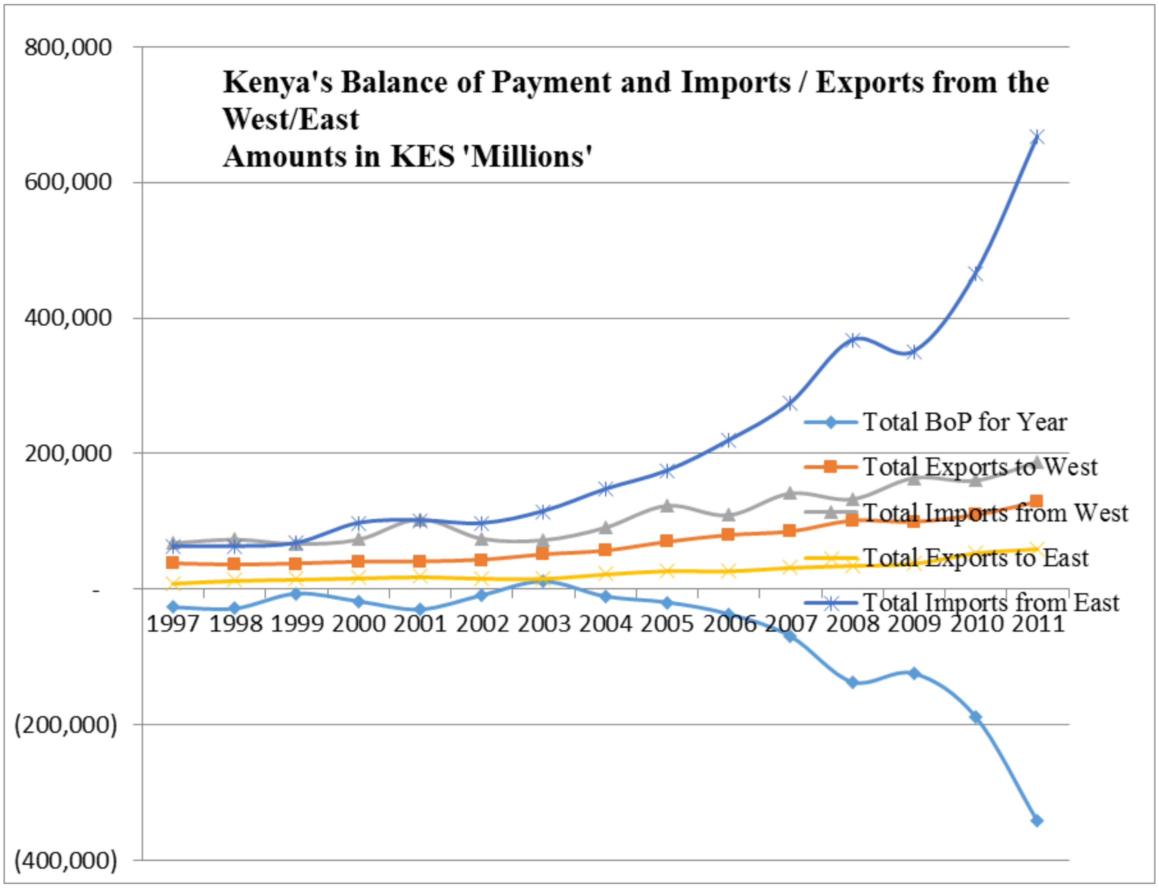
Figure 4.3.2: Total BoP versus West BoT and East BoT 1997 - 2011



Source: Researcher (2014)

Figure 4.3.2 shows the relationship between Total Balance of payments against Balance of Trade with West and East. East's Balance of Trade is below Balance of Payments depicting a situation where trade with the East is a burden on Kenya's Balance of Payments.

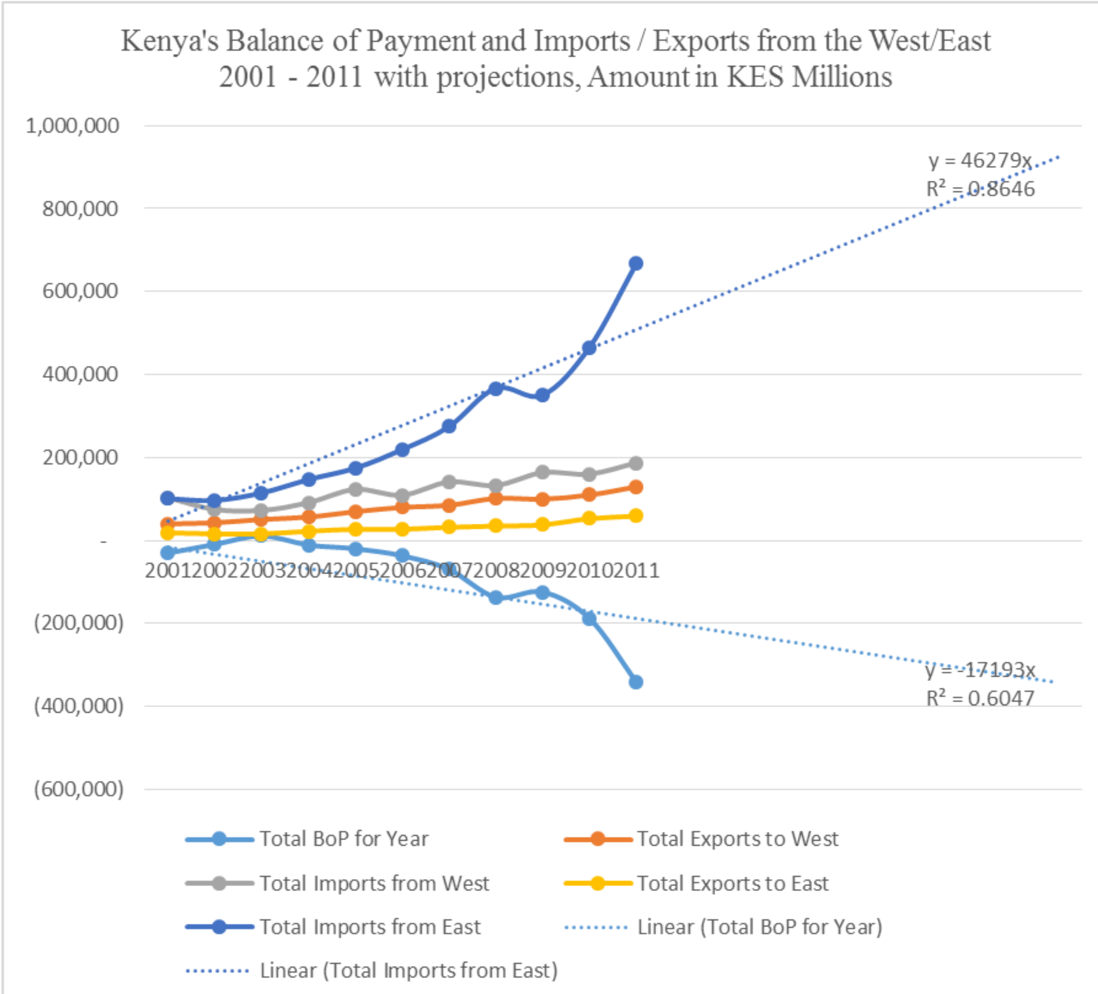
Figure 4.3.3: Trend of BoP, Total Imports from West, Total Imports from East (1997 – 2011)



Source: Research (2014)

Figure 4.3.3 is a representation of the trends of Balance of Payments vis a vis Total Exports and Imports from selected countries from the West and East. The trend depicts a rapidly declining Balance of Payments and rapidly rising imports from the East. Exports to the East are stagnating. Exports to the West and imports from the West are also stagnating.

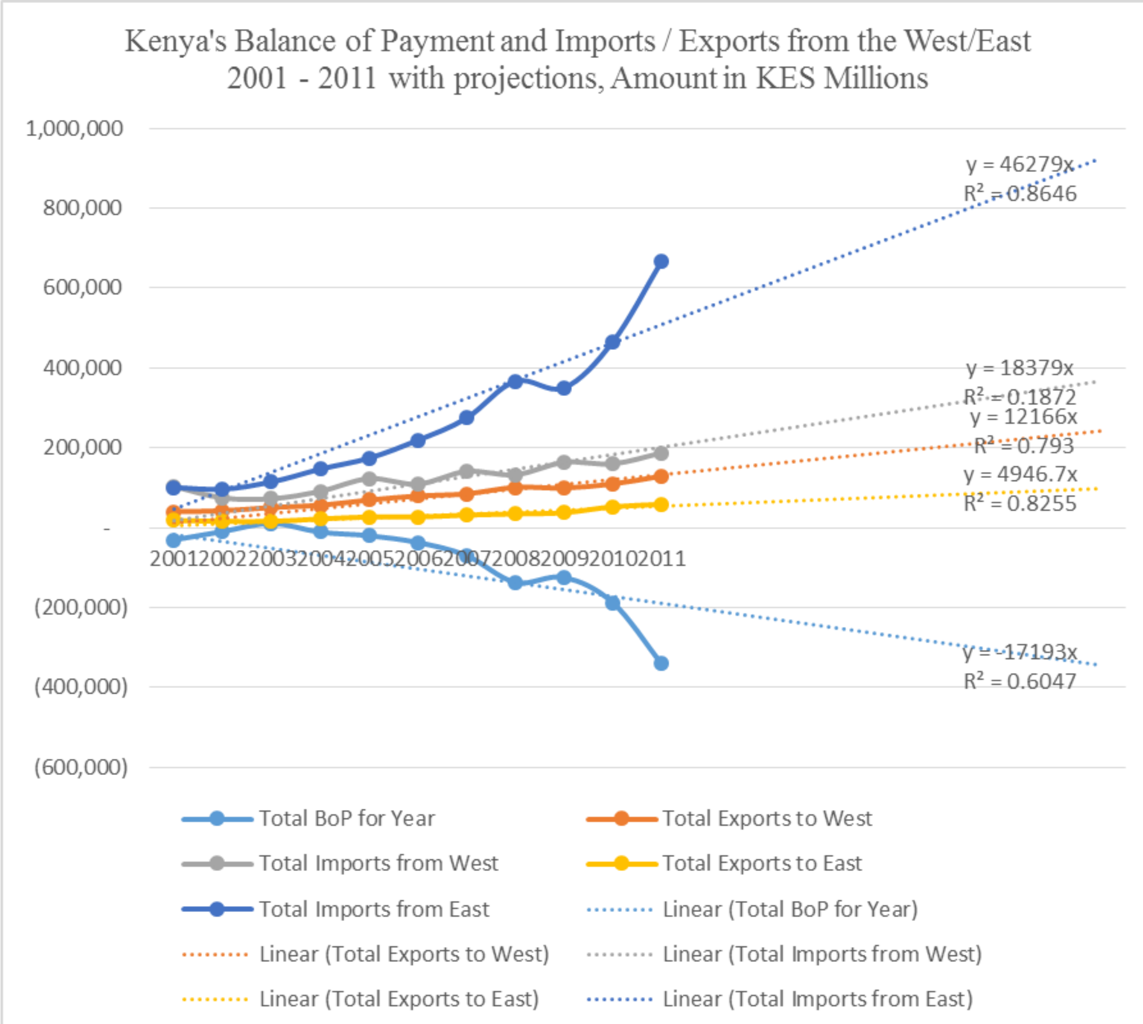
Figure 4.3.4



Source: Researcher (2014)

Figure 4.3.4 projects how the trend of Total BoP versus total Imports from the East is likely to look like six years from now (in 2020) ceteris paribus.

Figure 4.3.5



Source: Researcher (2014)

Figure 4.2.5 shows the likely scenario of Imports and Exports from both East and West in 2020 should the current trend persist. The gap between East's Exports and Imports will continue widening as the West's Exports and Imports though almost balanced they will continue being of much impact on Kenya's free falling Balance of Payments.

Table 4.3.6 Summary Descriptive Results

Descriptive Statistics

	Mean	Std. Deviation	N
Total BoP for Year	-68985.7467	94022.41709	15
BoT with East	-191414.8000	162454.76563	15
BoT with West	-41894.4667	14088.99517	15

Source: Research

Number of countries under study is 15. The mean for Total BoP, BOT with East and BoT with West is -68985.7467, -191414.8000 and -41894.4667 respectively. The standard deviation for the same is 94022.41709, 162454.76563 and 14088.99517.

4.4 Regression and Correlation Analysis Results

4.4.1 Multiple Linear Regressions Using BoP

Table 2. Regression Model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.963[a]	.928	.916	27286.72464

a. Predictors: (Constant), BoT with West , BoT with East

b. Dependent Variable: BoP

Table 2 indicates that the influence of West BoT and East BoT have an R square of 0.928 meaning that the correlation between BoP and BoT is very strong at 92 percent. This means that more than 92 percent of the variance can be explained by the model making this a strong model.

4.4.2 Correlation Analysis

Table 3. Pearson's Correlation Statistics

Correlations				
		Total BoP for Year	BoT with East	BoT with West
Pearson Correlation	Total BoP for Year	1.000	.963	.499
	BoT with East	.963	1.000	.490
	BoT with West	.499	.490	1.000
Sig. (1-tailed)	Total BoP for Year		.000	.029
	BoT with East	.000		.032
	BoT with West	.029	.032	
N	Total BoP for Year	15	15	15
	BoT with East	15	15	15
	BoT with West	15	15	15

Table 3 shows that the correlation between Balance of Payments and both East and West Balance of Trade is very significant at .000 for East and .029 for West.

4.4.3 Tests of significance results

Table 3 ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	114828224714.739	2	57414112357.369	77.111	.000[b]
	Residual	8934784100.199	12	744565341.683		
	Total	123763008814.937	14			

a. Dependent Variable: Total BoP for Year

b. Predictors: (Constant), BoT with West , BoT with East

The Anova statistics for regressions conducted with the control variables as represented on Table 3 indicate that the overall regression model is useful (can be used to explain the variance in the independent variable). The reported probabilities were less than the conventional 0.05 (5%). This shows that when all the independent variables (East BoT and West BoT) are analyzed against the control variable (BoP) they are good joint predictors of Balance of payments. The significance of .000[b] is below .05[b] and is therefore very significant and therefore the hypothesis is acceptable.

Table 4 Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	45812.458	22919.639		1.999	.069
	BoT with East	.547	.051	.945	10.622	.000
	BoT with West	.241	.594	.036	.406	.692

a. Dependent Variable: Total BoP for Year

Table 4 represents the coefficients for the linear regression. Using the findings on the table we can express BoP in a linear as follows:

BoP = 45812.458 + .945BoTE + .036BoTW

Where:

BoP = Balance of Payments

BoTW = Balance of Trade with West

BoTE = Balance of Trade with East

45812.458 = Constant

This means that a change in Balance of Trade with the East will impact Balance of Payments by 26.25 times more than the impact from BoT from the West.

4.5 Discussion and Interpretation of Findings

The results from the study indicate that balance of trade with the leading trade partners, has an effect on a country's balance of payments. There has been a shift of trading partners (from West to East) and the research shows that this has come with a corresponding worsening of the balance of payments position. The balance of trade from the East is seen to have a significant negative effect on the balance of payments. This indicate that it is not the volume of trade that matters but how balanced the imports and exports are. The increase in imports from the East have deviated the country's balance of payments further from the ideal state of 0 and could mean the draining of its foreign reserve, the death of local manufacturing industries and increased unemployment.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study examined the relationship between Balance of Payments and trade direction – from West (Belgium, France, Germany, Italy, the Netherlands, United Kingdom, United and States of America) to East (Saudi Arabia, United Arabs Emirates, China, India, Indonesia, Japan and Pakistan) as measured by imports and exports or Balance of Trade based on the annual reports of KNBS, CBS and CBK for the period 1997 to 2011. This chapter presents the conclusion of the study, highlights the contribution of the study and the recommendations for future research.

5.2 Summary Conclusions

The objective of this research was to examine if Kenya has shifted trade partners from West to East and if yes, to ascertain the impact this shift has had on her Balance of Payments. Linear regression and Pearson's correlation analysis were used to analyse Balance of Payments and Balance of Trade. The study found significant association between the BoP behavior as influenced by Balance of Trade from East and West. According to the study the above BOT trends influence a country's Balance of Payments performance significantly. This means that if the imports from the East keep rising and exports stagnating so will the Balance of Payments' deficit keep increasing.

5.3 Limitations of the Study

Balance of Payments is a result numerous other variables / factors that the study could not factor into the research such as foreign investments, foreign exchange among others. The study also focused on only top trade partners from the East and West and left out the contribution of African countries. The period of 15 years studied may not be adequate to establish long term trade trends and relationships. The study was also unable to administer adequate questionnaires to test and confirm the hypothesis that the country has shifted trade partners.

.

5.4. Recommendations for Further Research

The study recommends that trade policies be analyzed to fill gaps in forging mutually beneficial trade relations with trade partners. It also recommends that the relationship between Balance of Payments and Balance of Trade be examined over a longer period so as to have a clear view of this relationship. The focus of study gives conclusive results on the impact of imports and exports from the countries studied and highlights the need to focus on containing imports and increasing the volume exports to ensure that the Balance of Payments is not overburdened. The current state is gravely not only affecting the country's economic growth but is also impacting negatively on other macro and micro-factors.

The study suggests that a similar study is done for other African countries to establish if these findings hold true, that, Balance of payments deficit is as result of Balance of Trade with certain trade partners.

REFERENCES

Akara J.O.B. (1989). The impact of trade incentives on exports, Balance of Payments and economic growth: an empirical analysis. *Unpublished MBA Thesis, University of Nairobi*

Aksoy M. A and Beghin J. C. 2005. Global Agricultural Trade and Developing Countries. *The International Bank for Reconstruction and Development / The World Bank*

Anderson, J. E., & Marcouiller, D. (2002). Insecurity and the pattern of trade: an empirical investigation. *Review of Economics and statistics*, *84*(2), 342-352.

Anderson, J. E., & Marcouiller, D. (2002). Insecurity and the pattern of trade: an empirical investigation. *Review of Economics and statistics*, *84*(2), 342-352.

Anthony Philip Thirlwall A. P. 1979.The Balance of Payments Constraint as an Explanation of International Growth Rate Differences. *BNL Quarterly Review*.

Araujo R. A. & Lima G. T. ().A Structural Economic Dynamics Approach to Balance-of-Payments-constrained Growth. Catholic University of Brasilia, Brazil

Araujo R. A. & Lima G. T. ().A Structural Economic Dynamics Approach to Balance-of-Payments-constrained Growth. Catholic University of Brasilia, Brazil

Aullo E. A. (2013). Kenya – China Bilateral Foregn relations: 1963 – 2012. *Unpublished MBA Thesis,University of Nairobi*

Barbosa-Filho, N. H. (2012). The balance-of-payments constraint: from balanced trade to sustainable debt. *PSL Quarterly Review*, *54*(219).

Barbosa-Filho, N. H. (2012). The balance-of-payments constraint: from balanced trade to sustainable debt. *PSL Quarterly Review*, *54*(219).

Berger H. and Nitsch V. 2010. IMF The Euro's Effect on Trade Imbalances. *Working paper WP/10/226*

Bhagwati J. N. (2014). The world trading system at risk. *Paperback*

Bigsten, A. Kimuyu P. & Söderbom M. 2010. "Chapter 10: The Manufacturing Sector," forthcoming in (ed.) C. Adam, P. Collier and N. Ndung'u, Kenya: Policies for Prosperity. *Oxford University Press and Central Bank of Kenya*

Borenszteina E., De Gregoriob J. & LeecaJ-W. How does foreign direct investment affect economic growth?. *Journal of International Economics 45 (1998) 115–135*

Borenszteina E., De Gregoriob J. & LeecaJ-W. How does foreign direct investment affect economic growth?. *Journal of International Economics 45 (1998) 115–135. Boston: Pearson Addison-Wesley.*

Brander J. & Krugman P. 1983. A 'Reciprocal Dumping' Model of International Trade. *NBER Working Paper No. 1194*

Broadman H. G. Africa's Silk Road: China and India's New Economic Frontier. *Washington D.C. : World Bank, 2007*

Buckley, P. (1988) The Limits of Explanation: Testing the Internationalization Theory of the Multinational Enterprise. *Journal of International Business Studies, XIX(2), 181-193.*

Cavallo, E. A., & Frankel, J. A. (2008). Does openness to trade make countries more vulnerable to sudden stops, or less? Using gravity to establish causality. *Journal of International Money and Finance*, *27*(8), 1430-1452.

Davis R.D. (1995). Intra-industry trade: A Heckscher-Ohlin-Ricardo Approach". *Journal of International Economics* 39 (1995) 201-226

Dornbusch, R., Fischer, S., & Samuelson, P. A. (1977). Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods. *The American Economic Review*, 823-839.

Effects of a Devaluation on a Trade Balance Author(s): Sidney S. Alexander Source: Staff Papers - International Monetary Fund, Vol. 2, No. 2 (Apr., 1952), pp. 263-278 Published by: Palgrave Macmillan Journals on behalf of the International Monetary Fund

Frenkel, J. A., & Johnson, H. G. (Eds.). (2013). *The Monetary Approach to the Balance of Payments (Collected Works of Harry Johnson)* (Vol. 7). Routledge.

Gertz G. 2008. Kenya's Trade Liberalization of the 1980s and 1990s: Policies, Impacts, and Implications. *Background paper for the recent report The Impact of the Doha Round on Kenya. Carnegie Endowment for International Peace*

Gligorić, M. (2010). Exchange Rate and Trade Balance: J-curve Effect, *Panoeconomicus*, 1, pp. 23-41

Gligorić, M. (2010). Exchange Rate and Trade Balance: J-curve Effect, *Panoeconomicus*, pp. 23 - 41

Gruber J. W and Steven B. Kamin B. S .2006. Explaining the Global Pattern of Current Account Imbalances. *Paper Series at IDEAS*

Hussain, M. N. (1999). The Balance-of-Payments Constraint and Growth Rate Differences among African and East Asian Economies. *African Development Review*, *11*(1), 103-137

Hussain, M. N. (1999). The Balance-of-Payments Constraint and Growth Rate Differences Among African and East Asian Economies. *African Development Review*, *11*(1), 103-137

Hylleberg. S. and G.F.Mizan. Co integration and Error Correction Mechanism, The Economic Journal, 99, Pg.113-125. 1989.

J. Holton Wilson, J. R. Clark. Economics. 4th Edition 1996

Jakob B. Madsen (*2009*) Trade Barriers, Openness, and Economic Growth. Southern Economic Journal: October 2009, Vol. 76, No. 2, pp. 397-418.

Jebuni, C. D., Oduro, A. D., & Tutu, K. A. (1994). Trade, payments liberalization and economic performance in Ghana.

Kabubo-Mariara, J., & Kiriti, T. W. (2002). *Structural Adjustment, Poverty, and Economic Growth: An Analysis for Kenya* (No. RP_124). African Economic Research Consortium.

Kaplinsky R., McCormick D. & Morris M. 2007. The Impact of China on Sub-Saharan Africa. *IDS Working Paper 291*

Kariuki, G M, (2008). Determinants of current account balance in Kenya: The intertemporal Approach

Kirton, J. J., & Trebilcock, M. J. (2004). Introduction: Hard choices and soft law in sustainable global governance. *Hard choices, soft law: Voluntary standards in global trade, environment, and social governance*, 3-29.

Krugman, P. (1980). Scale economies, product differentiation, and the pattern of trade. *The American Economic Review*, 950-959.

Krugman, P. R. & Obstfeld, M. (2009). International economics: theory and policy.

Leamer E. E. (1995). The Heckscher–Ohlin Model in Theory and Practice. *Princeton Studies in International Finance 77. Princeton, NJ: Princeton University Press. ISBN 0-88165-249-0*

Looi Kee, H., Nicita, A., & Olarreaga, M. (2009). Estimating Trade Restrictiveness Indices. *The Economic Journal*, *119*(534), 172-199.

Lynch, G., & Crawford, G. (2011). Democratization in Africa 1990–2010: an assessment. *Democratization*, *18*(2), 275-310.

Madsen, J. B. (2009). Trade barriers, openness, and economic growth. *Southern Economic Journal*, *76*(2), 397-418.

Maurice Obstfeld. (1984). Balance-of-Payments Crises and Devaluation." *Journal of Money, Credit and Banking,* Vol. 16, No. 2, pp. 208-217

McCombie, J., & Thirlwall, T. (Eds.). (2004). *Essays on balance of payments constrained growth: theory and evidence*. Routledge.

Morgan E. R. & Katsikeas C. S (1997). Theories of international trade, foreign direct investment and firm internationalization: a critique. Retrieved from: http://www.st-andrews.ac.uk/business/distance/Economics/Reading/Critique_trade_theories.pdf

Mshomba, R. E. (2000),Africa in the Global Economy. *Boulder, Colo: Lynne Rienner Publishers.*

Mugenda,O. M., & Mugenda, A. G. (2003). Research Methods: Quantitative and Qualitative Approaches. *Nairobi: African Centre for Technology Studies*

Mulwa B. N. (2013). The effect of exchange rate volatility and inflation rates in Kenya. An empirical analysis. *Unpublished MBA Thesis,University of Nairobi*

Mwega, F. M. (1993). Import demand elasticities and stability during trade liberalization: A case study of Kenya. *Journal of African Economies*, *2*(3), 381-416.

Nguku E.K. (2013). Relationship between Foreign Direct Investment and Balance of Payments in Kenya. *Unpublished MBA Thesis, University of Nairobi*

Njagi P. K, (2008). Kenya's Foreign Policy in a Changing World: Themes, Fora and Prospects. *Unpublished MBA Thesis,University of Nairobi*

Nyongesa N. D., Mukras S. M & Momanyi G. (2013). Is Kenya's current account sustainable? a stationarity and cointegration approach. European *Scientific Journal September 2013 edition vol.9, No.25 ISSN: 1857 – 7881*

Osoro K. (2013), *"Determinants of balance of payments in Kenya,"* European Scientific Journal June 2013 edition vol.9, No.16 ISSN: 1857 – 7881 (Print) e - ISSN 1857- 7431 112

Pentti J. K. Kouri and Michael G. Porter, "International Capital Flows and Portfolio Equilibrium," *Journal of Political Economy*, vol. 82 (May/June 1974), pp. 443-67

Polak J.J. (1997). The IMF Monetary Model at Forty. *International Monetary Fund working paper*

Retrieved from

www.knbs.or.ke/index.php?option=com_phocadownload&view=category&id=107&Itemid=1181

Retrieved from www.worldbank.org/en/news

Retrieved from:

http://www.imf.org/external/ns/search.aspx?NewQuery=Balance+of+Payments&submit.x=0&submit.y=0

Retrieved from: https://www.imf.org/external/np/exr/facts/crises.htm

Ricardo D. (1817). On the Principles of Political Economy and Taxation. *John Murray*

Rwegasira, D. G. (1987). Balance-of-payments adjustment in low-income developing countries: The experiences of Kenya and Tanzania in the 1970s. *World development*, *15*(10), 1321-1335.

Samuelson, P. A. (1964). Theoretical notes on trade problems. *The Review of Economics and Statistics*, 145-154.

Santos-Paulino, A. U. (2002). The effects of trade liberalization on imports in selected developing countries. *World Development*, *30*(6), 959-974.

Sen S. (2010). International Trade Theory and Policy: A Review of the Literature, Levy Economics Institute of Bard. Retrieved from: http://www.levyinstitute.org/pubs/wp_635.pdf

Siggel, E., & Ssemogerere, G. (2004). Uganda's policy reforms, industry competitiveness and regional integration: a comparison with Kenya. *The Journal of International Trade & Economic Development*, *13*(3), 325-357.

Smith A. (1776) Wealth of Nations. *Cannan edition*

Subramanian U. & Matthijs M. (2007). Can Sub-Saharan Africa Leap into Global Network Trade?. *World Bank Policy Research Working Paper 4112*

Toroitich S.K. (2011). Determinants of trade balance in Kenya: an empirical analysis. *Unpublished MBA Thesis, University of Nairobi*

Umo, J. U., & Fakiyesi, T. (1995). *Profiles and determinants of Nigeria's balance of payments: The current account component, 1950-88*. Nairobi: African Economic Research Consortium

Vernon, R. (1979) "The Product Life Cycle Hypothesis in a New International Environment", *Oxford Bulleting of Economics and Statistics*, 41, 255-267

Williams M. (1993). International trade and the environment: issues, perspectives and challenges. *Environmental Politics*, *2*(4), 80-97.

APPENDICES

Appendix 1: Letter of Introduction

Appendix 2: Questionnaire

Appendix 3: List of Countries under Study

Appendix 4: Data Collection Sheet

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 09/10/2014

TO WHOM IT MAY CONCERN

The bearer of this letter JOYCE NTALIWA MBITI

Registration No. D61/63221/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
09 OCT 2014
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX 2: QUESTIONNAIRE

Date of interview:

Name of organization:

Position of interviewee:

Part A: Background Information

1. How many years have you worked for the organization?	□ Less than five (5) □ Five (5) to ten (10) □ More than Ten (10)
2. How many years has your country traded with Kenya? (If applicable)	□ Less than 10 □ 10 to 20 □ 20 to 30 □ 30 to 40 □ Above 50

Part B: Interviewee's knowledge and opinion on trade between Kenya and her partners

	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
3. Trade between Kenya and your country is balanced *If not applicable please see 3a below*					
3a. Trade between Kenya and her trade partners is balanced					
4. The impact of trade between Kenya and your country has been positive on Kenya *If not applicable please see 4a below*					
4a. The impact of trade between Kenya and her trade partners has been positive on Kenya					
5. Kenya's trade has majorly shifted from Western partners (US and Europe) to Eastern partners (Asia) in the last 12 years					
6. Kenya now trades less with Europe and the United States and more with Asia (China, India, Pakistan, Japan etc)					

Conclusion

Given the focus of this interview, is there any other information that you think will be useful in the study, which you would like to share with me?

………………………………………………………………………………………………

………………………………………………………………………………………………

Thank you very much for your invaluable insights on this matter and for your time.

APPENDIX 3: LIST OF COUNTRIES UNDER STUDY

West

1. Belgium
2. France
3. Germany
4. Italy
5. The Netherlands
6. The United Kingdom
7. The United States of America

East

8. Saudi Arabia
9. United Arabs Emirates
10. China
11. India
12. Indonesia
13. Japan
14. Pakistan

APPENDIX 4: DATA COLLECTION SHEET

Kenya's Imports and Exports from the West & East (1990 - 2011)
(Amount in KES Millions)

Western Countries

Year	Country	Belgium	France	Germany	Italy	Netherlands	United Kingdom	United States of America	Total	BOP
	Export	1,874.00	2,571.00	7,651.00	2,254.00	5,693.00	13,884.00	3,401.00	37,328.00	
1997	Import	3,534.00	7,110.00	12,728.00	4,635.00	4,759.00	21,557.00	14,110.00	68,433.00	
	BOT	(1,660.00)	(4,539.00)	(5,077.00)	(2,381.00)	934.00	(7,673.00)	(10,709.00)	**(31,105.00)**	**(26,829.00)**
	Export	1,705.00	1,890.00	5,550.00	1,748.00	5,284.00	16,228.00	3,053.00	35,458.00	
1998	Import	3,110.00	8,032.00	11,139.00	5,103.00	5,396.00	24,355.00	16,509.00	73,644.00	
	BOT	(1,405.00)	(6,142.00)	(5,589.00)	(3,355.00)	(112.00)	(8,127.00)	(13,456.00)	**(38,186.00)**	**(28,688.00)**
	Export	1,570.00	2,290.00	5,773.00	1,650.00	6,152.00	17,014.00	2,761.00	37,210.00	
1999	Import	3,008.00	6,735.00	11,210.00	4,815.00	5,030.00	23,123.00	13,190.00	67,111.00	
	BOT	(1,438.00)	(4,445.00)	(5,437.00)	(3,165.00)	1,122.00	(6,109.00)	(10,429.00)	**(29,901.00)**	**(6,875.00)**
	Export	1,844.00	2,143.00	5,577.00	1,519.00	7,293.00	18,655.00	2,804.00	39,835.00	
2000	Import	5,433.00	8,297.00	8,714.00	7,206.00	8,674.00	25,136.00	10,084.00	73,544.00	
	BOT	(3,589.00)	(6,154.00)	(3,137.00)	(5,687.00)	(1,381.00)	(6,481.00)	(7,280.00)	**(33,709.00)**	**(18,090.00)**
	Export	1,999.00	2,311.00	5,137.00	1,111.00	9,912.00	16,382.00	3,414.00	40,266.00	
2001	Import	7,673.00	10,699.00	11,711.00	6,998.00	5,325.00	21,989.00	38,967.00	103,362.00	
	BOT	(5,674.00)	(8,388.00)	(6,574.00)	(5,887.00)	4,587.00	(5,607.00)	(35,553.00)	**(63,096.00)**	**(30,119.00)**
	Export	292.00	2,374.00	4,377.00	1,759.00	11,012.00	19,607.00	3,377.00	42,798.00	
2002	Import	6,944.00	9,712.00	12,942.00	4,146.00	5,409.00	21,138.00	14,648.00	74,939.00	
	BOT	(6,652.00)	(7,338.00)	(8,565.00)	(2,387.00)	5,603.00	(1,531.00)	(11,271.00)	**(32,141.00)**	**(9,266.00)**
	Export	2,332.00	3,100.00	5,330.00	1,671.00	14,139.00	21,525.00	2,796.00	50,893.00	
2003	Import	6,757.00	8,957.00	10,962.00	5,840.00	6,256.00	19,621.00	14,388.00	72,781.00	
	BOT	(4,425.00)	(5,857.00)	(5,632.00)	(4,169.00)	7,883.00	1,904.00	(11,592.00)	**(21,888.00)**	**11,100.00**

Eastern Countries

Year	Country	Saudi Arabia	UAE	China	India	Indonesia	Japan	Pakistan	Total	BOP
	Export	362.00	909.00	363.00	1,187.00	62.00	887.00	5,172.00	8,942.00	
1997	Import	10,216.00	19,012.00	3,717.00	8,209.00	6,317.00	14,360.00	1,008.00	62,839.00	
	BOT	(9,854.00)	(18,103.00)	(3,354.00)	(7,022.00)	(6,255.00)	(13,473.00)	4,164.00	**(53,897.00)**	**(26,829.00)**
	Export	488.00	1,346.00	78.00	1,825.00	80.00	941.00	8,276.00	13,034.00	
1998	Import	12,384.00	17,810.00	4,139.00	8,649.00	3,060.00	15,675.00	1,006.00	62,723.00	
	BOT	(11,896.00)	(16,464.00)	(4,061.00)	(6,824.00)	(2,980.00)	(14,734.00)	7,270.00	**(49,689.00)**	**(28,688.00)**
	Export	577.00	2,000.00	273.00	1,736.00	129.00	1,061.00	9,020.00	14,796.00	
1999	Import	10,873.00	25,529.00	4,786.00	8,995.00	1,651.00	15,336.00	609.00	67,779.00	
	BOT	(10,296.00)	(23,529.00)	(4,513.00)	(7,259.00)	(1,522.00)	(14,275.00)	8,411.00	**(52,983.00)**	**(6,875.00)**
	Export	690.00	2,657.00	323.00	1,361.00	108.00	1,450.00	9,986.00	16,575.00	
2000	Import	15,004.00	48,212.00	7,755.00	10,139.00	2,706.00	12,514.00	864.00	97,194.00	
	BOT	(14,314.00)	(45,555.00)	(7,432.00)	(8,778.00)	(2,598.00)	(11,064.00)	9,122.00	**(80,619.00)**	**(18,090.00)**
	Export	578.00	5,035.00	248.00	2,362.00	71.00	1,332.00	8,877.00	18,503.00	
2001	Import	15,773.00	41,465.00	6,792.00	12,830.00	7,680.00	14,436.00	2,086.00	101,062.00	
	BOT	(15,195.00)	(36,430.00)	(6,544.00)	(10,468.00)	(7,609.00)	(13,104.00)	6,791.00	**(82,559.00)**	**(30,119.00)**
	Export	451.00	2,468.00	375.00	2,543.00	191.00	1,753.00	8,341.00	16,122.00	
2002	Import	13,446.00	29,060.00	6,052.00	13,810.00	13,080.00	17,242.00	4,020.00	96,710.00	
	BOT	(12,995.00)	(26,592.00)	(5,677.00)	(11,267.00)	(12,889.00)	(15,489.00)	4,321.00	**(80,588.00)**	**(9,266.00)**
	Export	387.00	2,108.00	510.00	2,498.00	227.00	1,215.00	9,153.00	16,098.00	
2003	Import	24,305.00	31,918.00	8,023.00	14,811.00	12,497.00	18,611.00	4,456.00	114,621.00	
	BOT	(23,918.00)	(29,810.00)	(7,513.00)	(12,313.00)	(12,270.00)	(17,396.00)	4,697.00	**(98,523.00)**	**11,100.00**

Western Countries

Year	Country	Belgium	France	Germany	Italy	Netherlands	United Kingdom	United States of America	Total	BOP
	Export	2,474.00	3,592.00	4,574.00	1,764.00	17,094.00	22,404.00	4,502.00	56,404.00	
2004	Import	9,689.00	12,209.00	13,183.00	7,154.00	7,310.00	27,124.00	14,425.00	91,094.00	
	BOT	(7,215.00)	(8,617.00)	(8,609.00)	(5,390.00)	9,784.00	(4,720.00)	(9,923.00)	**(34,690.00)**	**(10,851.00)**
	Export	2,945.00	5,086.00	5,254.00	2,233.00	18,343.00	23,673.00	12,053.00	69,587.00	
2005	Import	8,063.00	13,948.00	15,834.00	7,878.00	9,687.00	25,372.00	42,558.00	123,340.00	
	BOT	(5,118.00)	(8,862.00)	(10,580.00)	(5,645.00)	8,656.00	(1,699.00)	(30,505.00)	**(53,753.00)**	**(19,687.00)**
	Export	2,126.00	3,837.00	4,633.00	1,986.00	19,656.00	27,237.00	20,326.00	79,801.00	
2006	Import	6,799.00	10,608.00	18,924.00	12,111.00	9,099.00	27,042.00	24,731.00	109,314.00	
	BOT	(4,673.00)	(6,771.00)	(14,291.00)	(10,125.00)	10,557.00	195.00	(4,405.00)	**(29,513.00)**	**(36,803.00)**
	Export	2,596.00	3,952.00	5,952.00	2,580.00	21,919.00	28,789.00	19,218.00	85,006.00	
2007	Import	6,230.00	16,491.00	22,166.00	13,223.00	9,304.00	29,419.00	44,523.00	141,356.00	
	BOT	(3,634.00)	(12,539.00)	(16,214.00)	(10,643.00)	12,615.00	(630.00)	(25,305.00)	**(56,350.00)**	**(69,476.00)**
	Export	2,814.00	4,829.00	6,114.00	2,987.00	26,167.00	37,912.00	20,512.00	101,335.00	
2008	Import	8,188.00	16,390.00	26,946.00	12,538.00	13,218.00	27,976.00	27,549.00	132,805.00	
	BOT	(5,374.00)	(11,561.00)	(20,832.00)	(9,551.00)	12,949.00	9,936.00	(7,037.00)	**(31,470.00)**	**(136,598.00)**
	Export	3,390.00	4,250.00	7,351.00	2,417.00	26,331.00	38,496.00	17,422.00	99,657.00	
2009	Import	7,044.00	15,885.00	22,729.00	13,889.00	17,444.00	36,885.00	50,056.00	163,932.00	
	BOT	(3,654.00)	(11,635.00)	(15,378.00)	(11,472.00)	8,887.00	1,611.00	(32,634.00)	**(64,275.00)**	**(124,139.90)**
	Export	4,159.00	5,093.00	7,715.00	3,253.00	26,868.00	40,211.00	22,522.00	109,821.00	
2010	Import	7,642.00	18,652.00	26,367.00	11,981.00	18,465.00	37,869.00	39,316.00	160,292.00	
	BOT	(3,483.00)	(13,559.00)	(18,652.00)	(8,728.00)	8,403.00	2,342.00	(16,794.00)	**(50,471.00)**	**(187,677.30)**
	Export	4,414.00	5,604.00	7,574.00	6,668.00	32,790.00	46,728.00	25,710.00	129,488.00	
2011	Import	10,716.00	19,872.00	31,981.00	14,514.00	22,500.00	43,208.00	44,566.00	187,357.00	
	BOT	(6,302.00)	(14,268.00)	(24,407.00)	(7,846.00)	10,290.00	3,520.00	(18,856.00)	**(57,869.00)**	**(340,787.00)**

Eastern Countries

Year	Country	Saudi Arabia	UAE	China	India	Indonesia	Japan	Pakistan	Total	BOP
	Export	1,492.00	2,396.00	903.00	4,147.00	475.00	1,593.00	11,359.00	22,365.00	
2004	Import	31,368.00	45,044.00	12,795.00	22,660.00	7,691.00	24,151.00	3,249.00	146,958.00	
	BOT	(29,876.00)	(42,648.00)	(11,892.00)	(18,513.00)	(7,216.00)	(22,558.00)	8,110.00	(124,593.00)	**(10,851.00)**
	Export	1,121.00	4,063.00	1,278.00	4,006.00	768.00	1,860.00	14,073.00	27,169.00	
2005	Import	27,710.00	62,791.00	22,967.00	24,621.00	9,922.00	23,067.00	3,316.00	174,394.00	
	BOT	(26,589.00)	(58,728.00)	(21,689.00)	(20,615.00)	(9,154.00)	(21,207.00)	10,757.00	**(147,225.00)**	**(19,687.00)**
	Export	657.00	4,968.00	1,555.00	3,749.00	318.00	1,255.00	14,547.00	27,049.00	
2006	Import	26,455.00	77,529.00	29,721.00	37,781.00	13,757.00	29,407.00	4,436.00	219,086.00	
	BOT	(25,798.00)	(72,561.00)	(28,166.00)	(34,032.00)	(13,439.00)	(28,152.00)	10,111.00	**(192,037.00)**	**(36,803.00)**
	Export	735.00	8,627.00	1,471.00	5,824.00	420.00	1,302.00	13,531.00	31,910.00	
2007	Import	17,597.00	89,466.00	45,672.00	56,817.00	18,764.00	41,129.00	5,006.00	274,451.00	
	BOT	(16,862.00)	(80,839.00)	(44,201.00)	(50,993.00)	(18,344.00)	(39,827.00)	8,525.00	**(242,541.00)**	**(69,476.00)**
	Export	1,423.00	7,560.00	2,030.00	6,769.00	672.00	2,340.00	13,935.00	34,729.00	
2008	Import	25,879.00	113,810.00	63,474.00	90,531.00	22,928.00	44,840.00	5,620.00	367,082.00	
	BOT	(24,456.00)	(106,250.00)	(61,444.00)	(83,762.00)	(22,256.00)	(42,500.00)	8,315.00	**(332,353.00)**	**(136,598.00)**
	Export	1,415.00	10,716.00	2,487.00	5,137.00	567.00	2,228.00	15,172.00	37,722.00	
2009	Import	27,522.00	89,709.00	74,524.00	83,243.00	18,774.00	48,857.00	7,753.00	350,382.00	
	BOT	(26,107.00)	(78,993.00)	(72,037.00)	(78,106.00)	(18,207.00)	(46,629.00)	7,419.00	**(312,660.00)**	**(124,139.90)**
	Export	1,843.00	18,856.00	2,512.00	8,478.00	989.00	2,091.00	18,069.00	52,838.00	
2010	Import	32,274.00	116,045.00	120,648.00	103,242.00	26,955.00	58,244.00	8,219.00	465,627.00	
	BOT	(30,431.00)	(97,189.00)	(118,136.00)	(94,764.00)	(25,966.00)	(56,153.00)	9,850.00	**(412,789.00)**	**(187,677.30)**
	Export	2,358.00	19,918.00	3,803.00	9,400.00	167.00	2,189.00	21,010.00	58,845.00	
2011	Import	53,713.00	199,390.00	144,050.00	148,567.00	45,350.00	58,684.00	17,257.00	667,011.00	
	BOT	(51,355.00)	(179,472.00)	(140,247.00)	(139,167.00)	(45,183.00)	(56,495.00)	3,753.00	**(608,166.00)**	**(340,787.00)**