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**INSTITUTE OF DIPLOMACY AND INTERNATIONAL
STUDIES**

**ECONOMIC DIPLOMACY AND ECONOMIC INTEGRATION: THE
ROLE OF KENYAN DIPLOMATIC MISSIONS**

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DECLARATION

This project is my original work and has not been presented for any other academic award in any other university.

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LIST OF ABBREVIATIONS

ACP-EU	African Caribbean and Pacific European Union
APSEA	Association of Professional Societies in East Africa
CET	Common External Tariff
COMESA	Common Markets for Eastern and Southern Africa
EABC	East Africa Business Council
EAC	East African Community
EASFCOM	Eastern Africa Standby Force Coordination Mechanism
EC	European Communities
EPC	Export Promotion Council
ERS	Economic Recovery Strategy
FDI-	Foreign Direct Investment
IGAD	Intergovernmental Authority for Development
KEPSA	Kenya Private Sector Alliance
KIA	Kenya Investments Authority
MEAC	Ministry of East Africa Community
MDG	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MoT	Ministry of Trade
NAFTA	North American Free Trade Agreement
NESC	National Economic and Social Council
NGO	Non-Governmental Organizations
NSAs	Non-State Actors

NTBs	Non-Tariff Barriers
NTP	National Trade Policy
PSED	Private Sector Economic Debt
RECs	Regional Economic Authorities
SMEs	Small and Medium Size Enterprises
UPR	Universal Periodic Review

TABLE OF CONTENTS

Declaration.....	ii
Acknowledgement	iii
List of Abbreviations	iv
Table of Contents.....	vi
Abstract.....	ix
CHAPTER ONE	1
1.1 Introduction.....	1
1.2 Statement of the Problem.....	4
1.3 Objectives of the Study.....	6
1.4 Literature Review.....	7
1.4.1 The Concept of Diplomacy and Economic Diplomacy	7
1.4.2 The Relationship between Diplomacy and International Business.....	10
1.5 Justification of the Study	13
1.6 Theoretical Framework.....	15
1.7 Hypothesis.....	17
1.8 Research Methodology	18
1.9 Chapter Outline.....	19
CHAPTER TWO: THE ROLE OF KENYAN DIPLOMATIC MISSIONS IN ECONOMIC DIPLOMACY AND ECONOMIC INTEGRATION.....	20
2.1 Introduction.....	20
2.2 Role of Foreign Office in Coordinating Embassies and High Commissions	21
2.3 Role of Embassies and Consulates in Economic Diplomacy	22

2.3.1 Trade Promotion.....	24
2.3.2 Technology Acquisition	27
2.4 Building Partnerships with Economic Diplomacy Actors	28
2.5 The Role of Foreign Policy in Advancing Kenya’s Commercial Interests	29
2.6 Other Actors.....	33
2.7 Kenya’s Enhancement of Economic Integration	36
2.7.1 Selected Cases of Kenya’s Involvement in Bilateral Economic Diplomacy	38
2.8 Kenya’s Diplomacy for Economic and the Management of Foreign Policy	41
2.9 Conclusion	43
CHAPTER THREE: THE OPPORTUNITIES AND CHALLENGES OF ECONOMIC DIPLOMACY AND ECONOMIC INTEGRATION.....	45
3.1 Introduction.....	45
3.2 Political Challenges	45
3.3 Kenya’s Challenges as a Regional Actor in Africa	47
3.4 Domestic Challenges	47
3.5 Opportunities for Kenya’s Economic Policy.....	54
3.6 Conclusion	58
CHAPTER FOUR: ENHANCING DIPLOMACY PERFORMANCE: A CASE OF THE EAC	59
4.1 Introduction.....	59
4.2 Importance of Professionalizing Diplomacy	60
4.3 Entailment of Professional Economic Diplomacy.....	61
4.4 Training in Economic Diplomacy for the Domestic and Foreign Offices.....	63
4.5 The Skills the Economic Diplomat Needs to Acquire Professionalism	64

4.5.1 Economic Analysis.....	64
4.5.2 Analysis of Public Policy and Regulatory Issues.....	65
4.5.3 Political Analysis.....	66
4.5.4 Legal Analysis.....	66
4.5.5 Developing a Plan of Action	66
4.5.6 Developing a Solution.....	67
4.5.7 Strategy Development	67
4.5.8 Policy Development	68
4.5.9 Other Skills.....	68
4.6 Knowledge Required by the Economic Diplomat	70
4.6.1 A Comprehensive Approach Training	71
4.7 Role of Foreign Offices in Economic Diplomacy Efforts, and Outcomes	73
4.8 Enhancing Kenya’s Commercial Diplomacy Performance	77
4.8.1 Enhancing Kenya’s Economic Diplomacy in EAC	81
4.9 Conclusion	86
CHAPTER FIVE: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	87
5.1 Summary.....	87
5.2 Findings.....	89
5.3 Recommendations.....	90
5.3.1 Area for Further Study	92
REFERENCES.....	93
APPENDICES	99
Appendix 1: Letter of Introduction	99
Appendix 2: Interview Guide.....	100

ABSTRACT

This research project was carried out to establish the role of Kenya's diplomatic missions of commercial diplomacy in facilitating international business at the Kenya High Commissions abroad. Commercial diplomacy is a newer avenue for countries to promote international trade with friendly states. The study was therefore guided by three objectives: to examine the roles of diplomatic missions in effective economic diplomacy and economic integration; to analyze the challenges faced by diplomatic missions in facilitating commercial business; and to, apply the importance of professionalizing economic diplomacy and economic integration for maximum trade benefits. To realize the objectives of the research, the study used the theory of comparative advantage which proposes that all countries will benefit from trading with each other regardless of how well-endowed they are in labor, capital and land, and regardless of how efficiently they can produce any particular good. Data was collected by use of personal interviews with open-ended questions administered as well as review of academic literature and policies. The findings of the study showed that the Kenya High Commissions have facilitated international business through a number of ways such as export promotion, import promotion, international relations, advisory and consular services as well as tourism promotion. The study recommends that the Kenyan government through the Kenya High Commissions abroad should encourage professionalism, as well as reviewing current trade and economic diplomacy policies, and vie investment opportunities available in Kenya and sourcing markets for the Kenyan products both regionally and internationally.

CHAPTER ONE

1.1 INTRODUCTION

The purpose of diplomacy, throughout the ages and at different levels of societal evolution, whether at interpersonal, inter-communal, or at international level, has always been to promote national interest abroad. That endeavour has led to a steady development of international relationships aimed at fostering understanding and promoting tolerance, albeit with limited success.¹ Since then, new factors have emerged, including an ever increasing number of varied players in current complex international relations, coupled with the power of modern media and the speed with which news travel in our times.² With these two significant developments, the very concept of state representation is being gradually transformed and the traditional role, which until now was assigned to diplomatic envoys, as sole representatives of the interests of a sending state in a receiving state or in an international forum, is being effectively eroded.³

It is important to note that many of these new players are beyond state control and not hesitant about making public what diplomatic envoys would rather carry confidentially, to the authorities of their respective states. These challenges call for deep reflection on how to handle diplomacy in this new environment - how to practice diplomacy in an era of transparency. Whilst new international actors and the information revolution necessarily alter the diplomat's old monopoly on knowledge and conduct of international relations, some arrangements need to be put in place to preserve a good measure of the aura that surrounds the all important persona of the 'Excellencies'. This is imperative against the backdrop of timeless reality of need for secrecy

¹ UNCTAD. 2013. Key Trends in International Merchandise Trade

² Abbink, G.J.M. et al., Involvement of Ambassadors in Commercial Diplomacy. Enschede/Zwolle: *University of Twente/Windesheim University of Applied Sciences*. 2014

³ Ibid

or real transparency behind closed doors, for the reality that diplomacy sometimes is a ‘dirty’ business because the alternative is war, cannot and should not be overlooked.

What matters most then, for a professional diplomat, is the ability to process available information with a view to securing the interest of the sending country and by extension its citizens.⁴ It is pertinent to note the emphasis placed nowadays on the need for diplomatic endeavours to impact more directly on the lives of individuals. The power of global media, coupled with intertwined international socio-economic interests has greatly contributed to the prominence of public diplomacy, which directly targets the people.⁵ Modern diplomacy therefore requires practitioners who constantly update their capacity for strategic analysis and negotiations. Knowledge is thus important in effective diplomatic practice.⁶ It is indeed imperative in a world where political and socio-economic problems bring in their wake unfortunate developments such as political instability, food insecurity, conflicts of significant proportions, harrowing violation of human rights and the resultant displacement of considerable numbers of affected persons, not to mention growing inequalities within and between nations.⁷

It is in this aspect that, for sustainable growth and development, Kenya needs to avoid earlier pitfalls and professionalize its economic integration and economic diplomacy activities in order to match the skillful business and government representatives from competitive neighbors abroad and within such as Asia, the United States (US) and Europe and broker deals and agreements that benefit it in the long term.

⁴ Stadman, A., Ruel, H.J.M., Competitors or Collaborators: A Comparison of Commercial Diplomacy Policies and Practices of EU Member States. *Emerald Advanced Series in Management*, 9(2012)183-225.

⁵ Ibid: 185

⁶ Lee, D., and Ruel, H., Introduction: Commercial Diplomacy and International Business: Merging International Business and International Relations. *Advanced Series in Management*, 9, (2012) xiii-xix.

⁷ Stadman, A., Ruel, H.J.M.. Competitors or Collaborators: A Comparison of Commercial Diplomacy Policies and Practices of EU Member States. *Emerald Advanced Series in Management*, 9, (2012) 202

In the recent decades the international business environment has undergone major changes, leading to a new dimension of international trade and relations. Shifting boundaries, developments in trading systems and technological change demand for an increasingly active attitude of governments to attract Foreign Direct Investment (FDI) and encourage companies to enter foreign markets. Business corporations as well as governments face enormous challenges arising from the diminishing importance of the traditional national borders due to the inevitable aspect of globalization, technological change and developments in trading systems.⁸

In a more globalized world, trade patterns and the variety of trade partners change. Trade barriers on the other hand often remain in place or even increase. An increasingly important means to overcome these barriers and to support businesses in the internationalization process is the use of diplomatic relations. Governments have a major interest in supporting business abroad as it often leads to domestic job creation, tax revenue increase, and a stable economy.⁹ As a consequence, a change in the current practice of diplomacy towards more commercial activities can be observed. According to Lee and Hudson¹⁰, commercial activities of diplomatic services have been centralized, extended. They also note that business interests have been formally integrated within diplomatic systems. Economic diplomacy has thereby become a foreign policy priority of many governments. More notably, activities within the field of economic diplomacy aim to encourage business development.¹¹ The development of socially beneficial international business ventures as well as national economic development is a key interest in the economic

⁸ Hessels, S. J. A. *International Entrepreneurship: Value Creation Across National Borders*. (Erasmus University Rotterdam, 2008)

⁹ Naray, O., What a Good Commercial Diplomat has to Know and be Capable of. *Exchange The Magazine for International Business and Diplomacy*, 2(December 2010), 8-9Naray, O. (2010a). Commercial Diplomats in the context of International Business. *The Hague Journal of Diplomacy*, 6, (2010b)121-148

¹⁰ Lee, D., and Hudson, L. The Old and the New Significance of Political Economy in Diplomacy. *Review of International Studies*, 30, (2004): 343-360.

¹¹ Naray, O.. Commercial Diplomats in the context of International Business. *The Hague Journal of Diplomacy*, 6, (2010a)121-148:122

diplomacy of foreign offices. In this regard and for the purpose of this study, such activities are termed as 'economic diplomacy'. Thus the study will examine the role of diplomatic missions in promoting economic diplomacy, particularly the role played by the Kenyan Diplomatic missions abroad.

1.2 Statement of the Problem

Kenya's foreign policy has changed through the four transitions the country has been through, that is under presidents Kenyatta, Moi, and Kibaki, and finally Uhuru. In President Kibaki's reign, the economic pillar of Kenya's foreign policy has been central to Kenya's foreign relations, with focus being on diversifying sources of development funding to include new economic partners, notably the adoption of the "Look East" policy in foreign relations.¹² This has led to China increasing in significance as a development partner, and a source of funding for large scale infrastructural development projects in Kenya. An analysis of trade and aid figures between Kenya, China, United Kingdom, United States, Britain and Japan will conclude that China has gained significance as a trade partner for Kenya as evidenced by the fact that China is now the largest source of imports in Kenya. By contrast, the United Kingdom is the largest export market for Kenya, followed by the United States while Kenya's shares of exports to China are the least. Kenya's diplomatic paradigm shift started quietly soon after President Kibaki came to power and changed gears. The recent development in Kenya's foreign policy is the announced adoption of a new trade-centered diplomatic stance that has seen the country deploy foreign nationals to head commercial departments of its missions across the globe.¹³ This was announced

¹² AEO (African Economic Outlook), Kenya. Tunis: African Development Bank, 2011, p.3, http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/Country_Notes/2011/Full/Kenya.pdf

¹³ Juma V. —Foreigners to Drive Country's New Trade-Centered Diplomacy □ 12th July 2011

on 11th July 2011 at the Panfrican Hotel, when the former Kenyan acting Minister for Foreign Affairs Professor George Saitoti and the Kenya Private Sector Alliance (KEPSA) unveiled a partnership to improve Economic and Commercial diplomacy for Trade and Investment.

In the last two presidential regimes, there has been clear shift of Kenya's shift from the political to economic diplomacy. Despite the efforts by the government to entrench the economic aspect of diplomacy the concept has not yet been well articulated and fully realized. The government has merged the Ministry of Foreign Affairs and Trade and has also entrenched the pillars of economic diplomacy in its foreign policy. In spite of these changes the country remains in dire need of a centralized foreign policy approach and especially as far as the pursuit and promotion of external trade is concerned.

Thus, professionalizing and innovating economic diplomacy is very important in this study and should be considered as an investment rather than as a cost for the Kenyan diplomatic missions all over the world. A well functioning foreign service with a business focus is of great value to its sending state. Several studies have shown that the resources spent on economic and economic diplomacy are well spent in terms of returns on investment.¹⁴ In the case of Kenya, there is low economic diplomacy activities, and though on the rise in the past two regimes, economic opportunities have not been fully realized. The study embarks on finding out if the Kenyan diplomatic missions are professionalized and if economic diplomacy competences and structures are compete enough to match with those of their counterparts from Africa, Europe, US and Asia.

The study notes that several trade engagements between Kenya and other states tend to bring the balance of trade not in favor of Kenya but its partners. Thus the study will examine if

¹⁴ Africa and the Chinese way. New York Times, December 16, 2013.

the roles Kenyan diplomatic missions play in economic diplomacy are competent and professional enough to comprehensively bring more trade agreements, investments and international business which are the basis for sustainable growth and development.

The research project analyses existing research and develops a framework, which integrates the topics examined so far and provides the reader with a future research agenda on economic diplomacy. While the economic aspect seems to be increasingly important in diplomatic practice, the body of literature on the subject is still rather limited. The purpose of this paper is therefore to systematically review the existing literature and identify future research opportunities that will enhance our understanding of the topic. Out of the findings, the study will recommend foreign policies with economic diplomacy high on the agenda and with economic diplomacy competences and structures that can compete with a competitive world.

1.3 Objectives of the Study

The overall objective of the study is to examine the roles of Kenyan Diplomatic missions in economic diplomacy and economic integration.

More specifically, the study aims to:

1. Examine the roles of diplomatic missions in effective economic diplomacy and economic integration
2. Analyze the challenges faced by diplomatic missions in facilitating commercial business
3. The importance of professionalizing economic diplomacy and economic integration for maximum trade benefits:

1.4 Literature Review

1.4.1 The Concept of Diplomacy and Economic Diplomacy

Diplomacy as a term is alien to the international business literature. It has been used by only a few scholars. The term diplomacy stems from the field of international relations and political science and more specifically from the field of diplomatic studies. Pigman¹⁵ explains that “early modern usages of diplomacy were largely concerned with a process: the art of negotiation and how to use negotiation effectively to achieve objectives of state”. Later on, it became clear that the actors doing the negotiations, nation-states and their representatives, needed to be included as objects of the study of diplomacy.¹⁶

Until the 1980s diplomacy was most often viewed as a dialogue or the formal communication between states, a very general view and one that only recognizes states as diplomatic actors. That changed after the end of the Cold War, when the ‘global economy’ in started to take off. Goods, technology, services, capital, labour, knowledge and culture flow across national borders in an unprecedented way and amount. New actors appeared on the ‘diplomatic stage’, such as supranational organizations (European Union), or multilateral organizations (United Nations, World Trade Organization, International Monetary Fund, World Bank), non-governmental organizations (Amnesty International, Human Right Watch, The Red Cross) and international business such as oil firms (Shell), financial firms (Barclays, Chase Bank), automobile firms (Toyota, General Motors), technology firms (Microsoft, Samsung) and many others. Their sheer international size, impact (Google) or public support (Red Cross) turns them into diplomatic actors in their own right. Even sub-national actors such as provinces, municipalities and cities have now become diplomatic actors, representing themselves and

¹⁵ Pigman, G. (2012). *Contemporary Diplomacy. Polity.*

¹⁶ *Ibid*

communicating with the international system, a phenomenon also referred to as ‘paradiplomacy’.¹⁷

Economic diplomacy is often considered to be the same as economic diplomacy or trade diplomacy or financial diplomacy.¹⁸ However, economic diplomacy is concerned with general economic policy issues and trade agreements and thus broader, while commercial diplomacy is much more specific, even though both have an overarching economic objective. Economic diplomacy is a relatively new term that is often used in a nebulous manner. The term ‘economic diplomacy’ as described by Bayne and Woolcock, 2007 is ‘broad and elastic’ enough to accommodate a scope and content that is much broader than diplomacy in its traditional sense. Bayne and Woolcock define the scope of economic diplomacy to include the following: a) Scope: International and Domestic economic issues – this includes the rules for economic relations between states that have been pursued since the World War II. And owing to the increased globalization and the resultant interdependence among state during the 1990s obliges “economic diplomacy to go deep into domestic decision making” as well. This covers policies relating to production, movement or exchange of goods, services, instruments (including official development assistance), and money information and their regulation¹⁹ and, b. Players: State and non-state actors – As all government agencies that have economic mandates operate internationally and are players in economic diplomacy though they do not describe them as such.

¹⁷ Keating, M. Regions and International Affairs: motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1) (1999), 1-16

¹⁸ Oliver, C., Holzinger, I., The Effectiveness of Strategic Political Management: A Dynamic Capabilities Framework. *The Academy of Management Review*, 33(2) (2008), 496-520.

¹⁹ Bayne, N. and Woolcock, S, (eds). (2007). *The new economic diplomacy*, Ashgate Publishing, Hampshire, England, p. 4)

Further, non-state actors such as NGOs that are engaged in economic activities internationally are also players in economic diplomacy²⁰.

According to Berridge and James, state economic diplomacy is concerned with economic policy questions, including the work of delegations to conferences sponsored by bodies such as the WTO and include diplomacy which employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective” also as a part of the definition.²¹ Rana defines economic diplomacy as the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage.; it has bilateral, regional and multilateral dimensions, each of which is important.²²

Today’s international political and economic stage presents and recognizes new diplomatic actors such as multilateral organizations, NGOs, international businesses and international interest groups. Additionally, Lee and Ruel²³ state that public actors like nation-states and private actors like businesses operating in domestic, regional and systemic environments to satisfy both public and private needs. Collaboration between public and private actors using diplomatic means for commercial public and private objectives is not new. Trade and aspects of diplomacy have helped to turn civilizations into great economic powers. They have been closely related, from the time of the Mesopotamians employing trade as an aspect of diplomacy and the Romans using trade to spread their culture beyond the borders of the Roman Empire to medieval times when English trade with the German Hanseatic League was supported

²⁰ Ibid: 3-4

²¹ Berridge, G.R. and James, A.. A dictionary of diplomacy, Palgrave Macmillan, (2003), 91

²² Rana, S. K. (2007). Economic diplomacy: the experience of developing states, In: Bayne, N. and Woolcock, S, (eds). (2007).The new economic diplomacy, Ashgate Publishing, Hampshire, England, p. .201

²³ Lee, D., and Ruel, H., Introduction: Commercial Diplomacy and International Business: Merging International Business and International Relations. Advanced Series in Management, 9, (2012)xiii-xix.

by continuous diplomatic bargaining. More recently, the Dutch established an embassy in China in 1655 with the specific purpose to improve trade. In summary, economic diplomacy as a phenomenon has been around for some time, and the concept as such is not new.²⁴

Successful economic diplomacy gains access to new markets and serves the home country economy, and the idea that successful international business is just a matter of a clear business strategy and good business management is naive and outdated. International business is conducted together with governments and international and societal organizations.²⁵ As the work of a network of public and private actors who manage commercial relations using diplomatic channels and processes, economic diplomacy combines the interests of both government and business by highlighting new markets and investment opportunities. In addition, it focuses on business support and promotion rather than economic issues, and as such, it entails more than trade and export promotion.

1.4.2 The Relationship between Diplomacy and International Business

Diplomacy as such is not new of course, but bringing diplomacy as a concept to the field of international business is. It is high time for international business scholars and practitioners to fully recognize diplomacy as a concept, although the latter may have used the term diplomacy already colloquially. Diplomacy to gain foreign market access and expansion, diplomacy to get foreign firms investing in your home country, and last but not least, diplomacy executed by businesses and business leaders to deal with foreign market environments, something that is

²⁴ Ruël, H.J.M., Visser, R.. An exploration of commercial diplomacy as a set of facilities to support international business to and from emergent markets. *European International Business Academy* 2013, December 12-14. Bremen (2013)

²⁵ Muldoon, J. P. J. The Diplomacy of Business. *Diplomacy and Statecraft*, 16(2005), 341–359

crucial for survival in today's global business environment.²⁶ Diplomacy may be a key word and the additional explanation for international business success or failure.

However, as more countries around the world are 'getting their acts together' regarding their economic diplomacy, and as the international business environment is highly dynamic and rapidly evolving, it is high time to professionalize commercial and business diplomacy and keep on innovating policies, practices, its organization, and instruments at the international, national, and sub-national.²⁷ International business needs diplomacy and diplomatic capabilities in order to operate successfully, provided either by 'classical' diplomatic actors such as governments or by international businesses themselves that are starting more and more to claim a position as diplomatic actors.²⁸ For example: government representatives collaborating with national business leaders to gain access to or expand in new foreign markets and international business leaders working on their diplomatic capabilities to build relationships with foreign governments and NGOs and other stakeholders.

Economic diplomacy represents predominantly a government-driven approach to use the network of government and business representatives to promote home country business abroad using diplomatic channels and processes. Business diplomacy, a relatively new term, can be defined as an international business-driven approach to build and maintain positive relationships with foreign government representatives and non-government stakeholders.²⁹ The study will concentrate on 'economic diplomacy' and discuss in details in the next chapters the importance

²⁶ Freixanet, J.. Export Promotion Programs: Their Impact on Companies' Internationalization Performance and Competitiveness. *International Business Review*, 21(6) (2012), 1065-1086.

²⁷ Ibid: 1064

²⁸ Lee, D., and Ruel, H., Introduction: Commercial Diplomacy and International Business: Merging International Business and International Relations. *Advanced Series in Management*, 9, (2012), xiii-xix

²⁹ Richardson, C., Yamin, M., and Sinkovics, R.R Policy-Driven Clusters, Interfirm Interactions and Firm Internationalisation: Some Insights from Malaysia's Multimedia Super Corridor. *International Business Review*, 21(5) (2012): 794-805.

of doing international business in the global economy particularly in understanding and being able to deal with the interwoven nature of the international economy and international relations, and thus of international business and diplomacy.

There are a number of reasons why public and private actors together can and should lead economic diplomacy in new and unfamiliar markets and use diplomatic means and channels for commercial reasons. First, diplomatic networks generate economic intelligence that would have otherwise been unavailable. Second, diplomatic activities are usually more visible in the media and may thus draw attention (marketing) at a relatively low cost. Third, diplomatic networks usually have easier and influential access to high-level contacts than most businesses do individually, especially small and medium-sized firms. Fourth, diplomatic networks have a high ‘trust factor’ and that makes it easier to attract foreign direct investment. Fifth, intelligence gathered by foreign missions and diplomatic networks is centralized, and this creates efficiencies for the sector; it keeps businesses from reinventing the wheel³⁰.

As the international business environment is becoming increasingly complex and global due to the rise of emerging economies, businesses are faced with many challenges in international trade and barriers in benefitting from the potential foreign markets have to offer. As a response, many governments have created a set of services, though differing significantly in professionalism and involving business actors, aimed at supporting businesses in internationalization that have seen a steady increase in use.³¹

³⁰ Ruel, H.J.M., and Visser, R.. Commercial Diplomats as Corporate Entrepreneurs: Explaining Role Behavior from an Institutional Perspective. *International Journal of Diplomacy and Economy*, 1(1) (2012): 42-79.

³¹ Richardson, C., Yamin, M.,and Sinkovics, R.R. Policy-driven clusters, Interfirm Interactions and Firm Internationalisation: Some Insights from Malaysia’s Multimedia Super Corridor. *International Business Review*, 21(5) (2012): 794-805

The ‘need to expand and develop economic diplomacy is all the more important’ for four reasons.³² First, advanced economies’ future prosperity depends to a significant extent on how successful advanced economies internationalize further. Second, emerging markets drive businesses from Western countries to venture into unknown territories where high-tech exports and innovations need to be marketed to maintain the advantage that Western businesses have. Third, many emerging markets are controlled to a considerable extent by their governments. Fourth, emerging market enterprises enter developed economies as well as other emerging markets. Governments and businesses in developed economies are observing this with mixed feelings.

1.5 Justification of the Study

In most emerging economies governments play a dominant economic role and are more often owners of businesses than in advanced economies. State-owned enterprises (SOEs) are a common phenomenon in emerging economies. Doing business with emerging economy multinationals and in emerging economies means dealing with governments in many cases. This type of capitalism is often referred to as ‘state capitalism’, as an alternative to liberal capitalism³³. Furthermore, emerging economy multinationals do have intangible assets that traditional multinationals (read: advanced economy multinationals) do not possess. These new multinationals seem to apply an accelerated internationalization speed, have strong capabilities for dealing with unstable political environments, follow a so-called dual expansion path (which means simultaneously entering into developed and developing countries), and have a high organizational adaptability.³⁴

³² Lee and Ruel, (2012) Introduction: Commercial Diplomacy and International Business, op cit, : xiv

³³ Economist, The (2012). The rise of state capitalism. Special Report, January 2012

³⁴ Guillon, M. F., and Garcia-Canal, E. The American Model of the Multinational Firm and the “New” Multinationals from Emerging Economies. *The Academy of Management Perspectives*, 23(2) (2009), 23-35

In order to successfully adjust and benefit from this global economic power shift, it is crucial to realize that in the coming decade, doing international business in the global economy will be more a matter of understanding and being able to deal with the interwoven nature of the international economy and international relations, and thus of international business and diplomacy. Economic diplomacy and its activities thereof can only thrive in diplomatic capabilities that enhance these activities. Thus diplomatic missions and their representatives need to work in partnership with the national business executives to gain access to or inflate in new foreign markets as well as the leaders in the international business arena working on their diplomatic capabilities so as to build relationships with foreign governments and other stakeholders.

In this regard the study seeks to explore the roles/activities that diplomatic offices and the representatives have in carrying the economic diplomacy activities and examining the challenges and opportunities given the rapid globalization aspects and interests in economic integration. Economic diplomacy is therefore key and the additional explanation for international business success or failure is as well important. However, as more countries around the world are 'getting their acts together' regarding their economic diplomacy, and as the international business environment is highly dynamic and rapidly evolving, it is high time to further professionalize commercial and business diplomacy and keep on innovating its policies, practices, its organization, and instruments, as will be recommended in later chapters of the study, for the Kenyan case.

1.6 Theoretical Framework

The theories of international business: mercantilism, absolute advantage, comparative and factor proportions theory, seem to best fit in the understanding of the phenomena of economic diplomacy. The theory of mercantilism states that the wealth of a nation depends on its reserve of precious metals such as gold and silver. It further states that nation should accumulate financial wealth by encouraging exports and discouraging imports.³⁵ This is achieved through trade surpluses, government intervention and colonization. Trade surplus is achieved through maximizing exports through subsidies and minimizing imports through tariffs and quotas. Economic diplomacy helps propagate this theory through co-operation with friendly countries to promote trade between them.

The theory of absolute advantage suggests that a country with absolute advantage is able to produce a product more efficiently than any other nation using the fewer amount of resources. A country should therefore engage in production of and export of goods that it has absolute advantage to produce and import the goods it cannot produce economically thereby encouraging international trade between countries which is promoted by economic diplomacy.³⁶ Comparative advantage theory suggests that a country should specialize in producing those products that it can produce most efficiently while importing products it can produce relatively less efficiently from other nations.³⁷ Economic diplomacy highlights the government's responsibility of expansion of socially beneficial international trade ventures by working with diplomatic missions to support home country's business through promotion of investments.

³⁵ Hill, C., *International Business: Competing in the Global Marketplace*. (8th ed.). (Mc-Graw-Hill Companies: New York, 2010)

³⁶ Hill, C., *International Business: Competing in the Global Marketplace* (3rd ed.). (McGraw-Hill Companies: New York, 2001)

³⁷ Ibid

For the theory of factor proportions, a nation should export products to a nation where resources to produce them are in short supply and import products from where resources are abundant.³⁸ The factors of production include land, labor, capital and entrepreneurship. Countries exporting different items will engage in business so as to acquire the required items therefore diplomacy helps promote international business. The theories of international business provide ways in which missions around the world can use to help promote international trade.

Missions can also increase exports by offering subsidies to exporters. Missions can also discourage imports by charging quotas and tariffs; this will increase the cost of doing business for the importers thereby discouraging imports from other countries. The theory of absolute advantage calls for commercial diplomats to encourage export of products that use relatively less resources and importation of goods to home countries that are produced more cheaply abroad.³⁹ Finally, through the factor proportions theory commercial diplomats can seek foreign investors who are willing to invest in the home country where labor may be cheap and afterwards export the goods to other countries where labor may be costly. The research therefore uses the theory of comparative advantage over the other two (mercantilism and theory of factor proportions).

The implication of the theory of comparative advantage is that all countries will benefit from trading with each other regardless of how well-endowed they are in labor, capital and land, and regardless of how efficiently they can produce any particular good. The key to securing these mutual gains from trade is for all countries to specialize as much as possible in the production of those products in which their efficiency and cost advantages are greatest. The idea, then, is that countries should devote as much of their national endowments (labor, capital, land) as they can

³⁸ Obstfeld, M. and Krugman, P. (2009), *International Economics: Theory and Policy*. 8th Ed., Pearson International: London.

³⁹ Workneh, A., African Commercial Diplomacy and its Challenges in the Context of Globalization. *International Journal of Diplomacy and Economy*, Vol.1, No.2(2012), pp.177-192

to those things they do best. All countries should specialize in the thing they make the best, and then we can all buy one another's best product. The study will use the theory of comparative advantage, to encourage diplomats to export home country products produced more efficiently locally by sourcing markets for them and importation of products produced more efficiently abroad. The theory proposes free trade which brings about increased world production by opening up a nation to unrestricted free trade hence stimulating economic growth which leads to all-round gains from trade, thus becoming the most preferable than the other two. Though through the theory of mercantilism and factors of production , commercial diplomats can source markets for products from their home country hence encouraging exports, however they do not exploit the opportunities of free trade which as key in economic integration (for this study). Without this trade benefits are bound to be limited than all rounded.

1.7 Hypothesis

The study will test the following research hypothesis:

1. Examine the roles of diplomatic missions in effective economic diplomacy and economic integration
2. Analyze the challenges faced by diplomatic missions in facilitating commercial business
3. The importance of professionalizing economic diplomacy and economic integration for maximum trade benefits

H01 Diplomatic missions play important roles in achieving effective economic diplomacy and economic integration.

H02 Incompetent diplomatic missions hinder successful foreign policy coordination and projection that promote economic diplomacy and economic integration

H03 Professionalizing economic diplomacy in diplomatic missions maximizes trade benefits

1.8 Research Methodology

In order to explore the research objectives, the study will conduct an analytical study in the form of a single-case study. Conducting a case study of Kenya enables the study to look at a large number of variables and identify causal mechanisms, for in-depth understanding of the case and its contextual variables, which statistical studies fail to capture. In this study, the geographical entity known as Kenya is thus the unit of analysis. This study will rely on both secondary sources of data – books, journals, internet sources, and other written material on the roles of Kenyan diplomatic missions, as well as primary data.

The study will explore the research methodology that is aimed at addressing the research objectives and questions. The study sample and instruments for the study will draw data from both primary and secondary sources of information. Primary data will be derived from interactive interviews with the personnel from Ministry of Foreign Affairs located in Kenya and administration of electronic questionnaires to staff in Kenyan diplomatic missions abroad.

This study will therefore draw from both primary and secondary data sourced from a collection and review of published and unpublished material, journals, academic papers and periodicals, interviews and questionnaires. These will be taken through intensive and critical

analysis of the study of role of Kenyan Diplomatic missions abroad in effecting economic diplomacy and economic integration.

1.9 Chapter Outline

This study will consist of five chapters outlined below.

Chapter 1: Introduction to the Study

Chapter 2: The Role of Kenyan Diplomatic missions in Economic diplomacy and Economic Integration

Chapter 3: Analysis of the Opportunities and Challenges Economic diplomacy and Economic Integration

Chapter 4: Enhancing performance of Kenya's diplomatic missions: A case of EAC

Chapter 5: Conclusion

CHAPTER TWO

THE ROLE OF KENYAN DIPLOMATIC MISSIONS IN ECONOMIC DIPLOMACY AND ECONOMIC INTEGRATION

2.1 INTRODUCTION

In the contemporary world, many foreign ministries are confronted with a wide variety of subject matters beyond their conventional span of control. This is, among others, due to the increasing economic and political globalization processes now taking place in the world that have a profound impact on the organizational aspects of the foreign ministry of a country. Currently, many foreign ministries have adapted to these rapid changes by organizing themselves on both geographical and functional lines, also in conformity with their respective countries' needs. For example, the Kenyan foreign ministry has reorganized the international and regional directorates, in alignment to the Kenyan foreign policy of projecting and pursuing its national interests, be it economic or even cultural. The foreign offices and the sending ministry have undergone reforms in their organization to cope with the new political and economical challenges. As discussed in the prior chapter, many developing and developed countries are generally keen that a foreign ministry needs both area specialists and experts in functional issues like economics, energy and the environment, particularly tailored to their own national development. This chapter discusses the role of the foreign offices in projecting and pursuing Kenya's economic interests both internationally and regionally.

2.2 Role of Foreign Office in Coordinating Embassies and High Commissions

Economic diplomacy as an instrument of foreign policies demands a comprehensive approach when conducted by the Ministry of Foreign Affairs (MFA). In doing so, it should be clearly understood that foreign policy making as a process is about shaping the implicit or explicit definition of a country's interest; thus economic diplomacy is all about promoting the economic interests of a country.⁴⁰ Although the basic orientation of a country's foreign policy is not discussed in this project, it is worthwhile to understand the values, attitudes and perceptions from a historical perspective and circumstances. This will help in explaining the current structure of the state and the system of the governance of the country concerned and its defined domestic politics.

The origin of establishing an office to coordinate and monitor the work of embassies abroad stems from the 15th Century when the French Ministry of External Affairs was known as Quai d'Orsay. Every MFA is categorized into two main sections: the territorial divisions handling bilateral affairs and the functional divisions capturing specific tasks, such as administration, multilateral affairs, protocol, consular affairs.⁴¹ Over time, foreign ministries have gained new responsibilities and have shared the domain of international relations with other agencies. In this respect, foreign ministries all over the world are constantly involved in the complexities of change and reform processes to an unpredictable and volatile international environment.⁴² As described by Rana, the foreign ministry together with its working arms, such as the embassies, permanent missions and consulates, is in charge of handling external relations,

⁴⁰ Naseer Mohamed, Ali, *The diplomacy of Micro-states. Discussion Papers in Diplomacy*, Netherlands Institute of International Relations, Clingendael

⁴¹ Rana, Kishan S., *Foreign Ministries: Change and Reform. Working Paper: November 2005; Challenges for Foreign Ministries: Managing Diplomatic Networks and Optimising Value; International Conference, Geneva, May 31- June 1, 2006.*

⁴² Summary of discussion: 'Challenges for Foreign Ministries', Geneva, 2006

but as Hocking notes, the MFA is no longer the ‘gatekeeper of external affairs; it cannot ask other agencies to use it as exclusive foreign contact channel.’⁴³

Although, the important assumption still is that the MFA is the primary actor in world politics. During a conference held in Geneva in 2006, it was mentioned that the 18 Summary of discussion: ‘Challenges for Foreign Ministries’, Geneva, 2006 XXIII nature of the MFA as an organization should be recognized in the distinctive environments where it is located; a critical factor remains the changing nature of the international systemic agenda. In relation to its closeness with the state sovereignty and the international environment it should be noted that the impact on the foreign policy of a state is tremendous, at least in the way it should cope with the processes of globalization and regionalization.⁴⁴ The organizational structure of the MFA is challenged by these phenomena and demands change and reform of each foreign ministry; it has to keep in touch with all aspects of foreign policy and be up-to-date with all significant global events.

2.3 Role of Embassies and Consulates in Economic Diplomacy

All countries now treat economic promotion as a high priority. Many entrust this work to the diplomatic service, while others handle it exclusively through specialist commercial services, or ‘trade commissioners’.⁴⁵ We believe that detachment of commercial from other diplomatic work sometimes reduces attention to investment mobilization, and country promotion; one also misses the cross-connections of integrated diplomacy. Countries that do not practice ‘integrated

⁴³ Rana, Kishan S., Foreign Ministries: Change and Reform. Working Paper: November 2005; Challenges for Foreign Ministries: Managing Diplomatic Networks and Optimising Value; International Conference, Geneva, May 31- June 1 , 2006.

⁴⁴ Challenges for Foreign Ministries: Managing Diplomatic Networks and Optimising Value; International Conference, Geneva, May 31- June 1 2006.

⁴⁵ Ibid

diplomacy’, nevertheless link economic and political work at the apex, giving the ambassador overall charge. No one has analyzed if entrusting political, economic and all other diplomatic tasks to one single set of officials, who rotate between these jobs, works better than having specialists for each work area. For one thing, in small establishments this separation just isn’t workable. Similarly, in small embassies, where an ambassador may have only one or two diplomats assisting him, everyone pitches in to handle the full range activities, including consular, cultural, information, and diaspora outreach tasks, besides political and economic work. The US diplomatic service has five specialized ‘cones’ within which officials work, and two of these are political and economic affairs – and it has a separate commercial service. The US is virtually unique in operating such sub-sections among state department officials; Australia has a separate commercial cadre and a consular service.⁴⁶

Until about 30 years ago, a majority of countries had separate commercial services for external economic work, but the trend has been for integration with other diplomatic tasks. A major exception is the US, which has a separate Commercial Service that operates under the US Commerce Department, but at the level of the ambassador the work is fully integrated.⁴⁷ Many European diplomatic services ran such sub-cadres up to about the 1950s, but thereafter shifted to a single service handling the full range of tasks, except that some such as the Germans have specialists from their Economics Ministry to handle economic work.⁴⁸

⁴⁶ Rana, Kishan S., Foreign Ministries: Change and Reform. Working Paper: November 2005; Challenges for Foreign Ministries: Managing Diplomatic Networks and Optimising Value; International Conference, Geneva, May 31- June 1 , 2006

⁴⁷ Barston, R.P., Modern Diplomacy. Second Edition. Longman, London and New York, 1997.

⁴⁸ Ibid

2.3.1 Trade Promotion

A high economic priority for virtually every country is export promotion. While facilitating the expansion of existing export product lines is an obvious concentration area, it is in the promotion of new export products and the exploitation of new markets that embassies can provide special help to home enterprises. For developing countries like Kenya, external markets pose several kinds of problems. First, home exporters do not know the basic environment in foreign states, and do not have the capacity to invest in exploration, much less pay consultants to advise them on entry strategies.

Associations of exporters at home confront a like problem, though on paper they should be able to carry out market surveys and the like. Second, foreign regulations on safety and environmental standards, and other norms laid down by potential markets are little understood by home exporters, and pose real nontariff barriers (NTBs) to entry. Third, home exporters lack credibility with potential foreign customers, and this becomes a chicken-and-egg syndrome, making it difficult to break this cycle of unfamiliarity. In such situations, the diplomatic mission engaged with commercial promotion has its work cut out. The simple kind of things it needs to do include informing home business associations and individual enterprises on the basic economic conditions in the target country.⁴⁹

This is a useful first step, and connects with producing sector-specific guides for home exporters; commercial officials are seldom well trained in such tasks – and clearly this should be a priority in training programmes – but it is possible to learn on the job, and the very act of undertaking such tasks becomes a learning process. This involves: Consular work which is often

⁴⁹ Rana, Kishan S., Foreign Ministries: Change and Reform. Working Paper: November 2005; Challenges for Foreign Ministries: Managing Diplomatic Networks and Optimising Value; International Conference, Geneva, May 31- June 1, 2006

seen as routine, also throws up business opportunities analyzing the potential markets for the home country – A simple method is to match the export basket of one’s country with the import basket of the target country; this identifies the potential, more so when it is matched with actual exports from home to that market.⁵⁰ Next, one needs to identify the potential competitors and analyze their products that reach that market. That provides clear indication of the areas where one might concentrate, provided the price and other conditions are suitable. The consular office is in parallel, contact has to be established with the importers of the selected products or services, and sensitize them on what the home country might offer – Often, this involves persuading them to visit the home country; it also helps to put potential importers in contact with existing local importers of other products, to overcome potential hesitation and other obstacles.

Visits by business delegations are a key method for export promotion and for FDI mobilization such visits can transform the perception of key decision-makers. The embassy’s professionalism is visible in the way such visits are planned; the effort to create a broad catchment of potential business partners eventually narrows down to a handful, for first business contacts and trial orders. It is the one-to-one meetings that lead to business, and this hinges on effective ‘matchmaking’ between the buyer and seller. On the other hand, when the exporter from home has built up business contacts, and aims at expanding business, the task is in many ways easier, in that the home exporter has already a good handle on his prospects, and needs little more than marginal or incremental help from the embassy.⁵¹

In a bilateral relationship, each country takes care of its own export promotion. While this cannot be a high priority, it is useful to remember that there exists a duality in commerce, the fact

⁵⁰ Ibid

⁵¹ Parreira, Pedro Conceição, Some considerations about the state of the art of the “new economic diplomacy”. Challenges for Foreign Ministries: Managing Diplomatic Networks and Optimising Value; International Conference, Geneva, May 31- June 1 2006. <http://w.w.w.dipomacy.edu/Conferences/MFA/papers/parreira.pdf>; downloaded on 19 August 2006.

that countries are both exporters and importers. Thus helping with trade on a total basis makes good sense. That applies particularly to problem-solving, that is, in relation to helping business partners to resolve trade disputes.⁵² Economic relations cannot advance if businessmen do not have confidence in one another's capacity to overcome problems as they come up, in the normal process of trade.

Embassy tasks include cultivating business chambers and industry associations on a permanent, ongoing basis is essential, especially when local companies are unfamiliar with the partner in an investor role. Embassies can facilitate visits by business and eco-political delegations from the target country. The latter especially includes visits of delegations led by ministers and local or provincial leaders, who very frequently now take with them business delegations. It is not sufficient to say that the embassy of the counterpart country will take care of such visits; the embassy's contacts and credibility hinge on how effectively it supports such visits and smoothens their path. Even more than in the case of trade, investors are attracted by 'success stories' the more when they are narrated in honest terms by other foreign investors. Everyone expects the country seeking FDI, be it at an investment-promotion seminar or at a large business conference, to say good things about their home country. It is the narratives from other investors that are listened to with special attention.⁵³ The embassy should invest effort into searching out such exemplars, and bringing them on board in their investment mobilization efforts.

Embassies can also play a key role in improving the 'conversion rate' between investments that are approved by home authorities, and those that are typically implemented.

⁵² Ibid

⁵³ Naseer Mohamed, Ali, *The diplomacy of Micro-states. Discussion Papers in Diplomacy*, Netherlands Institute of International Relations, Clingendael

Part of the reason for this gap between the two is that even after approval, some foreign companies take time to move forward with the investment project; some projects are abandoned if business plans change. India has found that at times the actual conversion or implementation rate has been as low as 30 percent. The essential element is for the embassy to be in the information loop from the outset, when projects of a certain size are approved at home. In many countries, this simply does not happen, and it is part of the hiatus between the MFA's system and the other branches of government.⁵⁴ As economic development moves forward, countries that were primarily recipients of FDI slowly morph into exporters of capital, venturing out to external markets with their own FDI. To start with, developing countries tend to focus on countries less developed than their own.

2.3.2 Technology Acquisition

This is an understated area of promotional activity, not because it is unimportant, but rather due to the fact that it is usually the principals, i.e. the enterprises seeking or selling their technology that are in the best position to know their external market, and diplomatic missions are usually not in a position to do more than setting up an enabling environment, or to help resolve problems. Usually, technology comes in with FDI flows, but in some cases a foreign partner prefers a lower form of collaboration, the technology or licensing agreement. This can be a major vehicle of partnership, and sometimes serves as a prelude to financial investments.⁵⁵

⁵⁴ Parreira, Pedro Conceição, Some considerations about the state of the art of the “new economic diplomacy”. Challenges for Foreign Ministries: Managing Diplomatic Networks and Optimising Value; International Conference, Geneva, May 31- June 1 2006.<http://w.w.w.dipomacy.edu/Conferences/MFA/papers/parreira.pdf>; downloaded on 19 August 2006.

⁵⁵ Ibid

2.4 Building Partnerships with Economic Diplomacy Actors

According to Bayne there are three major drivers of today's commercial and economic diplomacy.⁵⁶ These are between: political and economic issues; state and non-state actors (NSAs); and public and private entities. These are among the connections that drive the manner in which economic diplomacy is practiced on the ground. Most of the activities sketched above entail extensive interactions between the official diplomatic establishment and non-state actors, both abroad and at home. Abroad, the non-state partners include: business associations, plus enterprises that are engaged in economic interactions; think tanks, universities, and institutes, not to forget business schools; media institutions; local associations that have connections with the home country, including groups of returned students and friendship associations; members of eminent-person groups and other friends, and in effect any organization that has the will and capacity to help. At home, the same spectrum of agents is available. Furthermore, the very act of engaging such actors opens up prospects for the embassy to widen its connections, and work with them as much for economic as for other activities. All too often, it is the cross-connections between actors helping outside their main action areas that produce that synergy on which building bilateral relationships today hinges.⁵⁷

The Diaspora can be a key associate in economic diplomacy, as some of the essays, and the personal experience of most diplomats bears out. In the countries where they are present in large numbers, this is self-evident. Even in foreign capitals where only a handful of local resident compatriots are to be found, they are partners of choice, for the local knowledge they possess,

⁵⁶ Nicholas Bayne, and Stephen Woolcock, *The New Economic Diplomacy: Decision Making and Negotiation in International Economic Relations*, 2nd edition (Ashgate, London, 2007)

⁵⁷ Parreira, Pedro Conceição, Some considerations about the state of the art of the "new economic diplomacy". *Challenges for Foreign Ministries: Managing Diplomatic Networks and Optimising Value*; International Conference, Geneva, May 31- June 1 2006. <http://w.w.w.dipomacy.edu/Conferences/MFA/papers/parreira.pdf>; downloaded on 19 August 2006

and the leads they can provide in relation to opportunities, be it in the economic, cultural, or even the political arena. Economic diplomacy connects closely with the country brand, because a country's trade and investment destination profile both contributes to, and is influenced by the reputation that the country enjoys internationally.⁵⁸ Foreign ministries and their agents, the network of embassies, are directly concerned with this. It is another matter that in many developing countries a 'whole of government' approach either does not exist, or is under evolution. Image-building takes many forms, and works especially well when it takes the shape of 'PPPs'.

2.5 The Role of Foreign Policy in Advancing Kenya's Commercial Interests

The Republic of Kenya is the regional hub for trade and finance in East Africa. Its economy, however, is constrained by effects of corruption and an overdependence on low-priced primary agricultural goods in world markets.⁵⁹ Its foreign policy is actively directed toward the region through economic diplomacy in pursuit of its domestic development goals. As set out in Kenya Vision 2030: a Globally Competitive and Prosperous Country ('Vision 2030'), the country seeks to achieve those targets within the next 18 years.⁶⁰ Through a comprehensive analysis of its global competitiveness, Kenya has identified six important sectors to deliver the 10% annual economic growth rate regarded as a central to its economic development policy. This has necessitated co-operation with neighboring states to mould regional organizations into more

⁵⁸ *ibid*

⁵⁹ CIA (Central Intelligence Agency), 'Kenya', in *The World Factbook*. Washington: CIA, 2011. <https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html>.

⁶⁰ Kenya, Ministry of Planning and National Development, *Vision 2030: A Globally Competitive and Prosperous Country, Popular Version*. Nairobi, 2007, <http://www.vision2030.go.ke/Popular%20Version.pdf>.

viable economic blocs in an increasingly liberal economic environment.⁶¹ The country's susceptibility to political shocks, exemplified by post-election violence in late 2007 and early 2008, is its main challenge. Kenya is headed for a general election in 2013 under a new constitution that is being implemented by the current 'grand coalition' government.

Regional integration forms a major component of its foreign policy and is pursued through various regional initiatives, such as the East African Community (EAC); Common Market for Eastern and Southern Africa (COMESA), African Caribbean and Pacific European Union (ACP-EU), Intergovernmental Authority on Development (IGAD) and Indian Ocean Rim-Association for Regional Cooperation.⁶² This position reflects realization that Kenya's development is tied to that of its regional neighbours, as well as that of the global economic system. Its regional initiatives are critical to Kenya's economic diplomacy.⁶³ As pointed out by former secretary general of the EAC, Ambassador Juma Mwapachu, Regional Economic Communities (RECs) have become an increasingly desirable developmental path. Liberalized trade is a major component of RECs and a key driver of investment because an economic region becomes attractive to investors only if its economy allows free movement of goods and services; the real motivation for trade, therefore, are large markets, which is why regional integration is of such importance to Kenya.⁶⁴

RECs such as the EAC are working towards opening large internal markets governed by free trade. It is only by generating such large internal markets that a country such as Kenya can attract the right kind of investments and attain sizeable markets for its products. The shared

⁶¹ Kenya, Ministry for Information and Communication, Kenya Year Book 2010: A New Dawn for Kenya. Nairobi: Kenya Year Book Editorial Board, 2010

⁶² Kenya, Ministry of Planning and National Development, Vision 2030: A Globally Competitive and Prosperous Country, Popular Version. Nairobi, 2007, <http://www.vision2030.go.ke/Popular%20Version.pdf>.

⁶³ Ibid

⁶⁴ Zarro A, 'Back to the Future: SID President Ambassador Juma V. Mwapachu interviewed', <http://www.sidint.net/content/back-future-sid-president-amb-juma-v-mwapachu-interviewed>

frontiers of states in the region, their cultural affinity; common colonial history; interdependence; and a potential market of close to 130 million people, together make the EAC a feasible scheme.⁶⁵ More recent developments aside, East African countries are also committed to integration through their agreements under the 1982 Lagos Plan of Action for the Economic Development of Africa 1980–2000. Other drivers include the example of integration by the EU and the re-emergence of South Africa as a possible continental economic hegemony, against the background of the declining fortunes of East African economies, particularly that of Kenya.⁶⁶

Compared with its neighbours, Kenya enjoyed a good deal of political stability prior to the violence that followed the 2007 elections, and nationals from the region came to view Kenya as a safe haven from different forms or degrees of instability in their own countries.⁶⁷ Kenya has participated in prominent regional diplomatic initiatives and provided leadership in solving regional conflicts, as it did during the Sudan peace process that culminated in the formation of the new state of South Sudan and the establishment of a transitional national government – later the transitional federal government – in Somalia. The country also has high diplomatic standing arising from its hosting some of the largest diplomatic missions and international agencies in sub-Saharan Africa,¹⁴ while maintaining a moderate profile in international politics by adopting a posture of ‘silent diplomacy’. In most international controversies or crises, Kenya employs a ‘wait and see’ posture in accordance with its principles of non-interference in the internal affairs of other states.⁶⁸ Although the need for it to assume an overtly hegemonic position in the region is routine speculation in media and academic circles, the government instead opts for friendly

⁶⁵ Akech J, ‘The East African Community: Miracle or Mirage?’ in East African Scenarios Project, Research Compendium and its Discontents’, *Journal of Modern African Studies* 43, 3, pp. 367–392

⁶⁶ Ibid

⁶⁷ Society for International Development (SID), Nairobi, 2007, pp. 86–87. Akech cites Alden C & M Soko, ‘South Africa’s Economic Relations With Africa: Hegemony

⁶⁸ Ibid

relations to promote the expansion of its business interests across the region;¹⁶ a stance taken especially since the increased involvement of the private sector under the national economic recovery strategy (ERS) reforms for Employment and Wealth Creation of 2003–2007. This friendly posture has been aimed mainly at assuaging persistent fears attending negative sentiments – particularly from Tanzania – towards Kenya following the collapse of the original EAC in 1977.

EAC stakeholders remain anxious over the failure of previous regional initiatives during the early post- independence period, as a result of an underlying pessimism widespread at that time. According to Mugomba noted that previous integration initiatives took place at the height of the Cold War; hence the collapse of 1977 can be attributed mainly to ideological differences:⁶⁹ the right- and left-wing ideological positions taken at the time by Kenya and Tanzania respectively and the ideological somersaults performed by Uganda, that undermined unity of purpose needed for the EAC to work. Mugomba also points to a number of other factors that led to the collapse: long harboured fears of one or the other partner; resentment by Kenya of the need to ‘carry’ poorer members; longstanding strained relations between Uganda and Tanzania resulting from Tanzanian president Julius Nyerere’s refusal to recognise Idi Amin’s regime; markedly different foreign policy concerns and approaches; and the concentration of foreign capital in Kenya, the industrial and commercial ‘core’, which threatened to turn the two ‘peripheral’ states of Tanzania and Uganda into economic satellites and principle victims of Kenyan ‘sub-imperialism’.⁷⁰

⁶⁹ Mugomba AT, *Regional Organisations and African Underdevelopment: The Collapse of the East African Community*, *Journal of Modern African Studies*, 16, 2, pp. 261–272.

⁷⁰ *Ibid*

2.6 Other Actors

The 1963 constitution established foreign policy as an executive function under the office of the president;⁷¹ the incumbent president thus bears overall responsibility for the function.⁷² In August 2010, however, Kenya adopted a new constitution which maintains the presidential system but establishes additional checks and balances on executive power: their implementation, along with other changes, will take place progressively through the passage of further legislative measures over coming years.⁷³

It is anticipated that the conduct of foreign relations will evolve as the constitutional changes are implemented; nevertheless, during the transitional period the authority established through the old constitution remains in force. Since 2003, however, parliament has made positive strides in its own oversight role – a function entrenched in the new constitution – and the national assembly will now review executive budgets, appointments and decisions relating to foreign policy.⁷⁴ Traditionally, Kenya's presidents have cultivated personal relationships with individual African leaders that helped advance the nation's interests by enhancing Kenya's prestige while achieving legitimacy for its actions. The current president, Mwai Kibaki, is firm in his emphasis on foreign policy as an essential aspect of the nation's economic diplomacy, made evident through his promotion of government projects in the construction of developmental infrastructure at local and regional level. For instance, President Kibaki's close working relationship with the late Ethiopian premier Meles Zenawi and President Salva Kiir of Southern Sudan greatly advanced the \$25 billion Lamu Port, South Sudan, Ethiopia Transport (Lapsset)

⁷¹ MFA, at http://www.mfa.go.ke/index.php?option=com_content&view=article&id=55&Itemid=57, accessed 24 October 2011.

⁷² Personal interview, MFA, Nairobi, 27 July 2015.

⁷³ Ibid

⁷⁴ Hanson S, 'Understanding Kenya's Politics', CFR (Council on Foreign Relations), New York, 2008, http://www.cfr.org/publication/15322/understanding_kenyas_politics.html.

corridor project. The country's biggest post-independence development scheme, Lapsset is a combined highway, railway, oil pipeline and airports corridor stretching from Manda Bay, Lamu on the Kenyan coast north of Mombasa, to Nakodok on the South Sudan border. When completed, it will have the potential to directly affect the livelihoods of 166 million people in Kenya, Ethiopia and South Sudan.⁷⁵ The ministry of foreign affairs (MFA), co-ordinates foreign policy under the direction of the president, in consultation with other government ministries and agencies in an advisory capacity, as complementary participants in the co-ordinated implementation of foreign policy. Economic diplomacy involves public and private sectors. Government ministries, primarily the MFA; the Ministry of East African Community (MEAC); and the Ministry of Trade (MoT), endeavour to harmonise the conduct of economic diplomacy.⁷⁶

The MEAC was formed in 2006 following an EAC summit recommendation for the establishment of fully fledged ministries responsible for EAC affairs.⁷⁷ Before that, however, in 1998 the earnest of Kenya's intentions in the region had been demonstrated through the establishment of the Ministry of East African and Regional Cooperation, charged with co-ordinating the affairs of the EAC, Comesa and IGAD. In 1999, that ministry's functions were relegated to a department within the ministry of tourism, trade and industry. Following the election of President Kibaki in December 2002, under Presidential Circular No. 1/2003 (on the 'organisation of government'), these functions were transferred to the MFA. In July 2004, the Kibaki administration initiated the return of East African affairs to full ministerial status and established MEAC in 2006. The MFA provides overall foreign policy direction and orientation while the MEAC is responsible for official diplomatic engagement and co-ordination within the

⁷⁵ Abdullahi H, 'Lamu Port Project', Kenya News Agency, http://www.information.go.ke/index.php?option=com_content&task=view&id=591..

⁷⁶ The MFA functions as the key office regarding foreign policy. 46 Kenya, MEAC, Strategic Plan 2008–2012, <http://www.meac.go.ke>, accessed 24 August 2012

⁷⁷ Ibid

EAC.⁷⁸ The MoT implements national trade policy at regional and international level.⁴⁸ Its mandate is executed through state agencies such as the EPC; Kenya Institute of Business Training; the Business Premises Rent Tribunal; the Kenya National Trading Corporation; Kenya Wine Agencies Limited; the Industrial and Commercial Development Corporation; the Export Processing Zones Authority; and the Kenya Investment Authority (KIA). Lastly, a government think tank, the National Economic and Social Council (NESC), is charged with providing timely, accurate and independent socio-economic advice to improve management of the economy.⁷⁹

Private sector interests can be classified as either domestic or regional. The main domestic organizations include the Kenya Private Sector Alliance, the Federation of Kenya Employers and the Kenya Association of Manufacturers. Others include the Kenya National Chamber of Commerce and Industry, the Fresh Produce Exporters Association of Kenya and the Kenya Flower Council. Regionally the main private sector organizations include the Eastern African Association, the East African Business Council (EABC) and the Association of Professional Societies in East Africa (APSEA).⁸⁰ Traditionally, Kenyan economic diplomacy has mostly centred on export promotion. In this regard, the government assists the private sector by providing information about opportunities in world markets and giving specialized assistance in the design and implementation of market programmes and sales campaigns abroad. The EPC is the major agency in promoting Kenya's exports. Its mandate is to co-ordinate and harmonizes export development and promotion activities by providing leadership to all national export available in the country, promote trade and providing consular services to Kenyan nationals abroad and citizens from the host country wishing to visit Kenya.

⁷⁸Personal interview, MEAC Kenya, Nairobi, 21 July 2015.

⁷⁹ A New Dawn for Kenya, op. cit., p. 763. 50 Kenya, MoT op. cit., p. 11; see also Kenya, MoT, Draft National Trade Policy, 2010, http://www.trade.go.ke/images/stories/national_trade_policy_draft.pdf.

⁸⁰ Kenya, MoT, Draft National Trade Policy, 2010, http://www.trade.go.ke/images/stories/national_trade_policy_draft.pdf.

2.7 Kenya's Enhancement of Economic Integration

The new constitution that seeks to improve the rule of law, an increase in investment in infrastructure through public finance, and government policies fostering private sector development, are set to improve the domestic business environment. On the other hand, deepening integration through the East African common market has consolidated a single trading and investment environment in which Kenyan firms have access to a large integrated market.⁸¹ Studies such as the analysis of trade policies and trends carried out by scholars such as Were acknowledge that the high cost of trade has reduced Kenya's competitiveness in domestic and international markets.⁸²

The trade policy therefore has been identified as the main instrument of economic diplomacy because a deepening in regional integration and bilateral trade agreements has increased opportunities for Kenyan business.⁸³ The country is therefore keen to tap potential in agriculture, manufacturing and the emerging service industry, in order to become more competitive in the region and the world. It seeks to address factors that hamper its progress, such as poor policy co-ordination and implementation, in essence laying out strategies that will contribute to the pursuit of Vision 2030. Clearly, trade is a major driver of growth and development by creating markets for goods and services; it is also critical in poverty reduction through employment creation in informal, retail, and wholesale trade; and in providing opportunities for access to favourable prices in international markets to promote equitable income distribution. In 2000, recognition of these factors resulted in a broad, draft National Trade Policy (NTP) to address these needs and spur investment. Previously, trade policy

⁸¹ Ibid

⁸² Were et al., op. cit., p. 130

⁸³ Personal interview, MFA, Nairobi, 14 July 2015

instruments were contained in different documents and laws administered by various institutions. Among the new instruments were those affecting import and export management; taxation; trade facilitation and promotion; licensing and registration; production and productivity; skills development and labour laws affecting trade, investment and privatization incentives, government procurement, intellectual property rights, competition and consumer protection, financial services, ICT, trade in services, and governance that included areas such as arbitration and bankruptcy.

Key legislation that established these policy instruments include: the Local Government Act and by-law; the Companies Act, the Customs and Excise Act, the EAC Customs Management Act, the Weights and Measures Act, the Trade Descriptions Act, the Hotels and Restaurant Licensing Act, the Investments Act, the Standards Act, the Environment Act, the Industrial Property Act, the Liquor Licensing Act, and various consumer protection acts among many other trading laws.⁸⁴ The result of this diversity was ineffective policy co-ordination and harmony in decision-making that in turn led to conflicting rules, regulations and practices. The NTP was adopted in 2009 to create a consolidated policy framework and an environment conducive to facilitation of trade; analysing trade constraints; honouring multilateral and bilateral trade commitments; and keeping up with international best practices in trading activities.⁸⁵

Despite the pursuit of an open trade policy, Kenya's trade structure remains concentrated in primary products and traditional markets, due to limited capacity for adding value in manufacturing and relatively underdeveloped intermediate and capital goods industries. Horticulture, tea, coffee, apparel and clothing accessories are Kenya's leading exports, together

⁸⁴ Kenya, MoT op. cit., p. 11; see also Kenya, MoT, Draft National Trade Policy, 2010, http://www.trade.go.ke/images/stories/national_trade_policy_draft.pdf.

⁸⁵ Ibid

accounting for 49.7% of domestic earnings.⁸⁶ Nevertheless, the country's trade in non-traditional and manufactured goods is growing thanks to increased intra-EAC transactions. Africa is the largest destination for Kenyan exports, in part as a result of EAC and COMESA. Though the most developed and open by regional standards, Kenya's manufacturing output is nevertheless inward-orientated, although those parts of it targeting regional markets show the most marked increase in exports. Over the past five years the volume of exports to African countries has increased by \$640 million from 2006 to 2011. The sum of exports to EAC countries was greater than all exports to Egypt, South Africa and the rest of the continent combined.

2.7.1 Selected Cases of Kenya's Involvement in Bilateral Economic Diplomacy

In the current Uhuru Kenyatta's era, foreign relations with China have continued from the pace set by the previous government. In 2013, Kenya and China advanced their relations to a comprehensive partnership and signed eight documents to boost up the cooperation, as both leaders met for the first time since they came into office. The agreements covered several sectors such as economic cooperation, the infrastructure, people-to-people exchanges, the finance, environmental protection and the new energy.

Kenyatta clearly stated that Kenya is dedicated to realizing industrialization as well as improving people's livelihood. A key aspect is to learn from China's development, since the two countries have similar historical experiences plus future visions. China became Kenya's largest source of FDI and second largest economic partner. In June 2013, China's cumulative direct investment in Kenya already had reached \$474 million worth. Kenya, has indeed made an important bond between China and the entire Africa, and seeks to be to strengthen its friendship

⁸⁶ Moscow, Embassy of the Republic of Kenya, 'Economy', <http://www.en.kenemb.ru/economics.html>, accessed 02 August 2015.

with China. This will play a major role in promoting Africa's security, peace as well as prosperity.⁸⁷

Kenyatta's choice of Beijing, which has become his country's biggest economic engine, speaks volumes about China's growing existence in Kenya. The potential of Kenya-China cooperation, which is equally beneficial, is massive. Kenya is one of the fastest developing states in Africa and has strong growth in many sectors, mostly in industry and agriculture. This then provides a good stage to developing further cooperation for the two states. For China, the location in Kenya is very important in the African region, with Kenya having one of the best airline companies in the African region. Cooperating with Kenya can facilitate Chinese investors into entering a much bigger market in East Africa.⁸⁸

As Kenya continues to implement a “Look East” policy underlined largely by economic considerations, the shift in policy is built on the strengthening of the existing ties with traditional partners like Japan. Japan is indeed Kenya’s valued development partner, and has been a major source of investment and the largest donor of assistance to Kenya. Owing to its strategic significance in Japan’s diplomatic relations in the Eastern Africa as an entryway to the region, Kenya has remained the largest recipient in Africa of Official Development Assistance (ODA) from Japan since 1986.⁸⁹

Kenya relations with America have many aspects ranging from political, strategic to economic. There are a number of events and policies that have been an outcome to the gradual development of a special kind of relationship between the US and Kenya. First, this can be attributed to the remarkable granting of student visas by the U.S. government to Kenyans to go to

⁸⁷ Interview: Ministry Foreign Affairs, 2015

⁸⁸ Interview Ministry of Finance, 2015

⁸⁹ Interview: Ministry Foreign Affairs, 2015

colleges and universities in the United States of America. The welcoming nature of the 'Kenyan children' by the US government to study abroad has for a long time worn the hearts of the Kenyan community. For example in the year 2001/2002, a number of 37,724 African students enrolled in universities and colleges in the United States, with the Kenyan students comprising 7,097.⁹⁰

For the US, Kenya, which shares common borders with states in the southern Horn of African such as Sudan, Ethiopia, and Somalia, comes out as a rather stable state in a volatile and violent African sub-region. The new current global context thus adds a aspect to the U.S.-Kenya bilateral relationship in that the United States almost definitely look to Kenya for improved cooperation and assistance in its countering terrorism, and therefore the Kenyan government turns to the United States for financial support as well as referral by the US to the international financial institutions.

After independence, Kenyan foreign policy was aimed at reducing British influence and settler control of the government and economy. The new government continued Africanization of sectors. The Trade Licensing Act of 1967 allowed only Kenyan citizens to trade in non-urban areas. However, the process of Africanization was slower in the government. Outside of the economy, Britain was more proactive about protecting its interests, namely in terms of its military. Continued military cooperation in the form of training and joint exercises was guaranteed in 1964 agreements.⁹¹ Kenya also allowed Great Britain to maintain air force and naval facilities. In return, the Kenyan air force was stocked with British and Canadian aircraft. East African governments also called on British troops to protect their regimes against army

⁹⁰ Okoth, K 2003. 'Kenya: What Role for Diaspora in Development?' Migration Information Source. Published by the Migration Policy Institute, Washington, D.C., U.S.A

⁹¹ Gitelson, SA 1977. 'Policy Options for Small States: Kenya and Tanzania Reconsidered.' Studies in Comparative International Development 12, no. 2, pp. 29-57.

mutinies in Tanganyika, Uganda, and Kenya in 1964.⁹² This mutually beneficial military cooperation was only possible with continued good will between the governments.

2.8 Kenya's Diplomacy for Economic and the Management of Foreign Policy

The extension of economic diplomacy on the whole has had a positive effect on FDI flows over the past few years. The Kenya Bureau of Statistics Foreign Investment Survey for 2010 shows an increase in Kenya's foreign liabilities from about \$4 million in 2007 to \$5 million in 2008. FDI increased by 21.5%, from roughly \$2.5 to \$3 billion, while FDI inflows fell to \$500 million.⁹³ In the same period the total stock of Kenya's investments abroad declined by 35%, from \$7.2 billion to \$4.7 billion. Europe accounted for 69.7% of this and the EU, 67.1%. Asia, America and Africa made up 18.5%, 6.2%, and 5.6% respectively. In 2008 Europe was the source of 59.6% of FDI inflows (the EU accounting for 56.6%) and East Asian countries 30.3%. The manufacturing sector had the highest stock of FDI liabilities (28.4% of total). Private sector external debt (PSED) increased by 39.4%, from \$1.8 billion at end-2007 to \$2.3 billion by the end of 2008. In 2008 the EAC region was the destination for 86.2% of Kenya's total stock of FDI abroad.⁹⁴

In support of export market development, the EPC has organized and facilitated participation by Kenya's exhibitors in international trade fairs and exhibitions in Zambia, Malawi, Tanzania, Uganda, Egypt, Rwanda, Sudan, Democratic Republic of Congo, Zimbabwe, Mozambique, China and the US. Such events consolidate and expand business in existing markets while helping product diversification for improved access into emerging markets.

⁹² Meredith, M. *The Fate of Africa: A History of Fifty Years of Independence*. New York: PublicAffairs, 2005.

⁹³ KNBS (Kenya National Bureau of Statistics), *Economic Survey 2012*. Nairobi: Government Printer, p. 115.

⁹⁴ KNBS (Kenya National Bureau of Statistics), *Economic Survey 2011*. Nairobi: Government Printer, p. 277.

Kenyan exhibitors could use the events to gauge the competitiveness of their products, appoint agents and distributors, study consumer trends and identify joint venture opportunities.⁹⁵

Tourism has continued to perform well despite various problems. The government has committed itself to an enabling environment including promotions aimed at attracting tourists from emerging economies. In 2011 earnings from tourism reached \$1.1 billion, from \$820 million in 2010. Despite security threats and travel advisories by foreign governments in 2011, international visitor arrivals increased by 13.3%, from 1.6 million in 2010 to 1.8 million in 2011. Over the same period the number of international conferences rose from 254 to 309 and the number of delegates attending local and international conferences grew by 6.6% and 9.9 % respectively. Overall conference occupancy rose from 11.6% in 2010 to 12.6% in 2011, partly due to the increase in local conferences in the latter year. Nevertheless, the country's diplomatic resources require further change. Mbirimi points out that, African countries must embrace the basic tenets of economic diplomacy when embarking on major economic development.

For Kenya this involves setting targets; consulting stakeholders; exploring the boundaries of difficult issues in order to define ultimate state objectives; researching agendas of negotiating parties; and identifying future world economic scenarios to assess their effect on its own economy.⁹⁶ This in turn requires review of the roles, initiatives and conduct of diplomacy; by officers and government agencies, in the negotiation and advancement of the state's interests. To do this Mwangi notes the importance in understanding that there is a clear distinction between the management of diplomatic services on the one hand and foreign policy on the other. Both are mainly administrative functions, but the former entails dealing with the resources necessary for

⁹⁵ Ibid., p. 148

⁹⁶ Mbirimi I, 'Economic Diplomacy for Developing Countries', in Bayne N & S Woolcock (eds), *The New Economic Diplomacy – Decision making and Negotiations in International Economic Relations*. Farnham (UK): Ashgate Publishing, 2003.

ensuring efficient implementation of foreign policy, whereas the latter is concerned with effective implementation of a strategy that facilitates external relations. The latter aspect requires astute co-ordination of consultations and negotiation with different, interested parties such as elected representatives, ministries, academia, NGOs, the media and the public.

Kenya's constitutional changes are in part aimed at eliminating partisan political considerations from the creation of ministries by forcing the amalgamation of ministries. Nonetheless, comprehensive reforms are still necessary to deal with problems such as those arising from 'secondment' of officers to other ministries, which can cause friction and hamper harmonious working relationships. The reforms should be revised to recognize the interdependency of issues.⁹⁷ Any restructuring should instigate the recruitment of personnel familiar not only with questions of international economics but also with international developments – diplomacy in the modern world requires versatile actors capable of dealing with a wide variety of issues. This knowledge should be deployed to attract inward investment through growth-orientated external relations.

2.9 Conclusion

The development of an economic and commercial diplomacy agenda presents an opportunity for creative imagination: to look to integration beyond the Western formula; and seek solutions to prevailing challenges within the region. The general aim of Kenya's foreign policy is to maintain peaceful co-existence with other nations; while promoting regionalism. Kenya seeks integration and co-operation as a way to advance its own economic prosperity within the framework of

⁹⁷ Saner R & Y Lichia, 'International Economic Diplomacy: Mutations in Post Modern Times', Discussion Papers in Diplomacy, Netherlands Institute of International Relations, The Hague, http://www.clingendael.nl/publications/2003/20030100_cli_paper_dip_issue84.pdf.

international co-operation and multilateralism. Economic development through increased market access and enhanced technology has become a high priority. As seen in this chapter, Kenya is increasingly investing in renewable energy to improve power generation, so as to give small and medium size enterprises (SMEs) greater access to electricity. It is also investing heavily in the information, communication and technology sector. The consequent chapter addresses the opportunities and challenges of Kenya's economic diplomacy and economic

CHAPTER THREE

THE OPPORTUNITIES AND CHALLENGES OF ECONOMIC DIPLOMACY AND ECONOMIC INTEGRATION

3.1 INTRODUCTION

Increasing attractiveness of the African and East African region as a ‘frontier market’ has put Kenya in the spotlight as a gateway to the region. This part of the study discusses the different opportunities and challenges that Kenya faces in its efforts on economic diplomacy and integration.

3.2 Political Challenges

Economic growth is extremely sensitive to perceptions of political and macroeconomic risk because uncertainty undermines private investment.¹⁰⁵ Perceived political risk in Kenya can be reduced only through proper conduct of the 2013 general election and the implementation of the new constitution. The violence that followed the last election caused a slowdown in the economy, and heightened political risk;⁹⁸ the likelihood of a repetition of this in the next election constitutes a major concern, especially given the increased number of seats to be filled under a complex new electoral system.⁹⁹ Despite persistent squabbles between partners in the ruling coalition that hold up the pace of implementing new laws, there is need to develop credible institutions before the next election; election cycles tend to slow down government as officials turn their attention towards election campaigns. Since 30 November 2011 Kenya has held the

⁹⁸ Collier P & SN Ndungu, ‘Strategies for growth’, in Adam et al., op. cit. See also Mutiga M, ‘How Nation Can Avoid Economic Ruin in 2012’, Sunday Nation, 16 October 2011

⁹⁹ Kenya, IEBC (Independent Electoral and Boundaries Commission), ‘Home’, <http://www.iebc.or.ke/index.php/Page-4.html>, accessed 24 August 2012.

chair of the EAC, but as it collectively focuses on the quest for peaceful and credible elections, the country's interest in EAC activities is bound to wane. Kenyan members of the East African Legislative Assembly have already voiced concern over the lack of direction from their government; two months after having been sworn in they were yet to meet the president for briefing on their responsibilities, during which time their counterparts from other EAC member countries had already completed the same procedures. Blame is being directed at the EAC minister, Musa Sirma, who has shown little interest in the matter.¹⁰⁰

The new constitution is expected to put an end to such clashes between administrative and political interests, with the appointment by the president of technocrats or professionals – who will then be vetted by parliament – rather than politicians to head up ministries. During the violence of 2007–2008 Kenya's collapse was somewhat abated through a national dialogue and reconciliation initiative led by former UN secretary-general Kofi Annan. It set out a programme of reforms that led to the formation of a coalition government that facilitated the passage of a new constitution. The constitution will harmonise foreign policy with trade policy, and reduce the number of ministries when the constitution is fully implemented. President Kibaki has already stated that under the new dispensation international trade issues will fall under foreign affairs, so diplomats can now give even more prominence to the promotion of foreign trade. Implementation of the new constitution, however, involves its own complexities. Debates over the supremacy of the Kenyan constitution over the EAC treaty have been played out in public, as they were in the budget announcement of July 2011.

¹⁰⁰ Mutua M, 'Kenyan EALA members say State not involved in their affairs', The Standard, 12 August 2012

3.3 Kenya's Challenges as a Regional Actor in Africa

In regional integration and regional stability, Kenya is a significant actor in the Horn of Africa and its geographical location provides many opportunities. Kenya is a regional commercial hub and an important partner for increased regional integration through the East African Community (EAC) which has the potential to create a larger and more attractive market for regional and international investors. Ensuring regional stability continues to be a significant challenge for the region's and Kenya's development. Piracy off the coast of Somalia is decreasing, but remains a concern and will continue to need close attention in the coming years. Kenya is an active partner in promoting peace and stability in the Horn of Africa providing troops into Somalia, piracy judicial mechanism and hosting more than half a million refugees from Somalia, Sudan, Ethiopia and the Great Lakes region. The situation in the region will remain volatile in the foreseeable future, and Kenya's challenge is to continue to be a stabilizing factor in the region while also addressing issues of radicalization and potential conflicts at home. To work towards a regional collective response to both internal and external threats, Kenya hosts the Eastern Africa Standby Force Coordination Mechanism (EASFCOM) that performs as the planning element of the Eastern Africa Standby Force (EASF).¹⁰¹

3.4 Domestic Challenges

Kenya has maintained a stable macroeconomic environment and has, at the same time, been developing key infrastructure facilities and public works nationwide to stimulate growth. Its economic growth however is below potential. The GDP growth rates appear to have stabilized and to be improving following the disruption caused by post-election violence in 2008. The

¹⁰¹ Collier P & SN Ndungu, 'Strategies for growth', in Adam et al., op. cit. See also Mutiga M, 'How Nation Can Avoid Economic Ruin in 2012', Sunday Nation, 16 October 2011

economy achieved a 4.6% growth rate in 2012, up from the 1.5% experienced in 2008. The short-term projection is positive, expected to reach 5.6% in 2013 and 6.0% in 2014, driven by private sector investments and lower interest rates¹⁰². The agricultural sector continues to be the largest contributor to GDP at 28.5%, followed by the industrial sector at 17.6% in 2011. The most important export earners are tourism, horticulture and tea. Kenya had a GDP per capita of 862 USD in 2012 compared to 523 USD in 2005. Kenya's tax revenue to GDP ratio stands at over 20%, which compared with its neighbouring countries, places Kenyans as amongst the highest taxed in the region. The latest household survey from Kenya's National Bureau of Statistics from 2009 found that 45% of the population lives below the national poverty line.¹⁰³ Poverty levels are much higher in the Northern rural areas marked by marginalization, lower level of education and high population growth rates. The coastal region is challenged by the greatest inequality levels. With its high levels of inequality, Kenya remains the most unequal in the East African Community.

This results in marginalized communities as well as substantial challenges in equal access and quality of social services, such as water and sanitation, health and education. The population of more than 40 million is expected to reach 80 million in 2050. Each year it is estimated that around 800.000 people enter the job market in Kenya and only 6 % are able to find a job in the formal sector. Unemployment is estimated at 40 %. Job creation is therefore essential in order to sustain economic, social and political stability. Good opportunities for economic growth – and serious obstacles Kenya has a growing middle class of an estimated 5 million citizens, a large well-educated young population and a vibrant business sector mainly comprised of micro, small

¹⁰² Ibid

¹⁰³ Collier P & SN Ndungu, 'Strategies for growth', in Adam et al., op. cit. See also Mutiga M, 'How Nation Can Avoid Economic Ruin in 2012', Sunday Nation, 16 October 2011

and medium sized enterprises. These are important ingredients to push growth upwards. Adding to this, the discovery of significant oil resources in Kenya has the potential, if managed properly, to eliminate the current account deficit.

Kenya was ranked 121 of 185 countries in the 2013 World Bank Ease of Doing Business Index. Weaknesses in infrastructure and pervasive corruption are barriers for business sector development, access to services, job creation and foreign direct investments. Furthermore, whereas the financial and ICT sectors are doing well, the agricultural, manufacturing and transport sectors, which are drivers of employment and export led growth, are underperforming thus contributing to a large current account deficit. Kenya scores 2.7 (on a scale of 0 – 10 where 10 is zero corruption) in the Transparency International's Corruption Perception Index 2012.

Democracy, stability and polarised political situation Kenya has traditionally had a strong centralised government. Multiparty democracy introduced in 1992 has gradually consolidated democratic elections, but has also seen elections in especially 1992 and 2007 marred by intercommunity violence along ethnic fault lines related to a continued polarised political situation. The contested results of the 2007 general elections brought the country to the brink of civil war, starkly illustrating its economic and political fragility.¹⁰⁴ The cases at the International Criminal Court concerning alleged involvement in the post-election violence has divided the country along the same polarised political situation that dominated the 2013 March elections won with a narrow margin by the current Government Jubilee coalition. The cases at the International Criminal Court against the President and the Deputy President put government under pressure to live up to its international obligations, while at the same time there is an

¹⁰⁴ AEO (African Economic Outlook), Kenya. Tunis: African Development Bank, 2011, p. 3, http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/Country_Notes/2011/Full/Kenya.pdf

initiative by Jubilee MP's in parliament to recommend the Government to withdraw from the ICC.

The Government has strengthened relations with China and Russia while relations with traditional Western partners have been limited at the top level due to the on-going ICC cases. The Government of Kenya's plan for reaching middle income status by 2030 .A government, headed by President Uhuru Kenyatta and Deputy President William Ruto took office in April 2013. The Government has in October 2013 presented its 5 year Medium Term Plan 2013-2017 that is the second of consecutive MTPs aimed at leading to implementation of Kenya Vision 2030 launched in 2008 as a national long-term development blue-print. It was supported by development partners at the Development Partner Forum in November 2013 and is considered equivalent to Poverty Reduction Strategy Paper.¹⁰⁵ It emphasizes implementing devolution, national cohesion & unity; and accelerating economic growth. County governments are expected to align their respective County Integrated Development Plans to the MTP II; while national government will be expected to develop strategic plans to implement key priorities Governance reforms. The new Constitution promulgated in 2010 seeks to address inequalities and bring decisions closer to the citizens. It has the potential to change the political, social and economic landscape in the coming decades¹⁰⁶.

The Constitution promises equal rights for all Kenyans and promises improved delivery of services such as health care, housing, water and a clean environment. The Constitution holds the government accountable to the people on leadership and integrity, gender and regional balance, access to information and access to justice. With a comprehensive Bill of Rights the

¹⁰⁵ Ibid

¹⁰⁶ Zarro A, 'Back to the Future: SID President Ambassador Juma V. Mwapachu interviewed', <http://www.sidint.net/content/back-future-sid-president-amb-juma-v-mwapachu-interviewed>.

Kenyan people have an ambitious legal foundation to perform their role as rights holders and hold the national authorities accountable as duty bearers. The Constitution introduces with effect from June 2013 a system of devolved governance in Kenya both politically and administratively which now consists of a national government and 47 county governments. The county governments are responsible for county legislation, executive functions and functions transferred from national government such as agriculture, health, preprimary education, county public works and services.¹⁰⁷ If properly implemented and managed, the devolved system can become a strong vehicle for addressing the challenges of inequality and poverty and enhancing national cohesion and bring democratic decision making closer to the grassroots. Conflicts of interest between the national and the county governments have clearly indicated that implementation will take time. Given the magnitude of the structural reforms, the transition to a devolved system is expected to be cumbersome, lengthy and challenging.

The transition process itself will thus also require safeguarding and support including in capacity building, Human rights and rule of law. The implementation of the Constitution has led to a large amount of structural, legal and institutional reforms needed to be implemented by 2015. The judiciary is undergoing progressive reforms including vetting of judges to re-establish the credibility of the legal system and improve the access to justice for the average Kenyan. Impunity at all level of government is a serious problem and a report from May 2013 by the Truth, Justice and Reconciliation Commission which recommends prosecution of several hundred senior government officials and politicians has seen no follow up.¹⁰⁸

¹⁰⁷ Ibid

¹⁰⁸ Mugomba AT, Regional Organisations and African Underdevelopment: The Collapse of the East African Community, *Journal of Modern African Studies*, 16, 2, pp. 261–272

Human rights violations continue to be a challenge as documented in Kenya's most recent Universal Periodic Review (UPR) from September 2010. The most serious issues related to the state being abuses by the security forces, including unlawful killings, torture, rape, and use of excessive force, arbitrary arrest and detention and police corruption. Kenya is also facing severe problems with common criminality. Gender equality – impressive legislative progress - challenge now on implementation The Constitution's provisions on gender equity are amongst the most advanced by international standards, and represent a huge normative leap forward for Kenya.

Despite significant progress, women are still marginalized in political, social and economic life. Women's employment in the formal sector is far less than that of men, and women's representation in the national parliament is only around 20%. Cultural beliefs, traditions and practices in many communities remain a hindrance for women's access to land, employment and women's right to self-determination. As recently pointed out by the World Bank, the women represent a lot of potential for trade and growth in Kenya¹⁰⁹. They make a major contribution to trade, often in the informal sector, and if properly empowered, can be essential for job creation and poverty eradication. The access to quality health care is very limited for around 45% of the Kenyan population who live below the poverty line. Kenya continues to score very poorly on indicators like maternal health as majority of pregnant women cannot access skilled delivery or maternal health services.

Kenya will not attain MDG on improving maternal health but is likely to meet with a narrow margin MDG 4 on reducing child mortality. Factors contributing to poor health indicators include inadequate overall health financing, insufficient health services infrastructure, a shortage

¹⁰⁹ Amolo T, Some Thoughts on Economic Diplomacy and Its impact on Economic Relations, 27 May 2009, <http://www.titiic.co.za/HE%20Tom%20Amolo%20-%20ECONOMIC%20DIPLOMACY.pdf>.

of human resources for health and essential medical supplies including medicine, and limited administrative and management capacity – all of which restricts health service delivery and coverage. The new Constitution has provided an opportunity to address most of the above issues by enshrining the right to the highest attainable standard of health to every Kenyan.¹¹⁰ In the area of sexual and reproductive health and rights the Constitution includes a right to safe abortion. The definition of safe abortion remains a contentious issue and almost derailed the constitutional making process.

The Constitution assigns the County Governments the responsibility for delivering essential health services functions, while the National Government has the function of stewardship for health policy and oversight of national referral health facilities. Natural resources management and transition towards green economy The Kenyan economy relies heavily on natural resources to support people's livelihoods and to generate national income. Roughly 42% of the national income is derived from the natural resource sectors (agriculture, mining, forestry, fishing, water supply and energy – tourism closely related to Kenya's nature and wildlife also falls within the earning figure related to this area).¹¹¹ Less than 15% of Kenya's land is arable, and supports about 80% of the population; the rest of the land is made up of fragile arid and semi-arid ecosystem, and land-use is largely pastoral. Majority of the population live in rural areas and rely predominantly on an ever degrading environment and scarce natural resources for their livelihoods.

Unsustainable traditional policies and exploitation of natural resources are with an increasing impact from climate change underlying factors for this negative development. Further, linkages between development and natural resources in the Kenyan context are profound. As

¹¹⁰ Personal interview, MFA (Ministry of Foreign Affairs), Nairobi, 14 July 2015

¹¹¹ Interview at Ministry of Foreign Affairs and Trade, July 2015

demonstrated by the country's energy model, the bulk of energy is derived from hydro-power, which in turn depends on rivers emanating from the main water towers whose ecosystem services highly depend on proper land use management and protection of forests¹¹². Kenya has in the last years encountered an unprecedented challenge of climate change impacts and corresponding socioeconomic losses. This stems from heavy reliance on climate sensitive economic sectors coupled with the absence of preparedness and mitigation strategies.

3.5 Opportunities for Kenya's Economic Policy

The thrust of Kenya's international politics has changed substantially, from the survival of the state and its leadership towards greater attention to trade and investment issues. According to the Kenyan High Commissioner to South Africa, Ambassador Tom Amolo, a process of greater democratisation helped shift the priorities of foreign engagement towards economic diplomacy, which became an important instrument in pursuing growth; hence its description by government officials as a principal pillar on which the country's foreign policy is grounded in pursuit of its development objective of becoming a middle income and industrialised economy by 2030. Economic diplomacy, in the Kenyan context, is not a notion that describes distinctions of policy and practice, but rather a reaction to changes in the global environment.¹¹³ The main motivation for conducting foreign policy in this way is the search for increased capital flows into the country – and the region, given Kenya's commitment to integration initiatives – through exploring alternative sources of development assistance and by promoting itself as a favourable destination for foreign direct investment (FDI), tourism and conferencing.

¹¹² World Bank report; 'Women and Trade in Africa: Realizing the Potential', November 2013

¹¹³ Interview at Ministry of Foreign Affairs and Trade, July 2015

Secondly, the necessity to support Kenyan investment within the region and beyond is motivated by a need to expand access to established markets worldwide. Economic diplomacy is therefore an avenue through which to promote impartial rules of international trade while strengthening RECs, especially the EAC and COMESA, to serve as competitive springboards to emerging and global markets. Lastly, it is a mechanism that supports the search for traditional and renewable sources of energy through enhanced technology, and by seeking sources of finance for associated projects such as the extraction of geo-thermal resources.¹¹⁴ Sound economic policies and a record of pragmatism in foreign policy and regional affairs have brought Kenya to a position of relative leadership that makes it highly adaptable to global changes. Since independence in 1964 this pragmatism has taken the form of ‘positive neutrality’ in foreign relations. Initially, this was seen as a means to safeguard Kenya’s national integrity in a world where great power domination of weaker states was the main characteristic of international affairs. Subsequently, it became a position through which Kenya seeks to preserve that character in an environment in which global events have significant national and regional repercussions.¹¹⁵

In following this policy the country has eschewed ideological and geopolitical alliances; pursuing peaceful non-aligned co-operation without regard for other nations’ political or economic inclinations, while avoiding open military confrontation. This posture expresses itself particularly in Kenya’s economic dealings. At independence, it acknowledged the difficulty of separating itself from the economic and political ties arising out of its colonial past. Now, however, it must recognize shifts in the global economic power structure. Hence despite dependence on foreign markets for its primary exports, sources of imports or aid, and the rapid

¹¹⁴ World Bank report; ‘Women and Trade in Africa: Realizing the Potential’, November 2013

¹¹⁵ Mboya T, ‘Some Reflections on the Development of a Foreign Policy for an African State’, *The Challenges of Nationhood: A Collection of Speeches and Writings*, Westport (Connecticut): Praeger Publishers, 1970, pp. 234–236.

changes taking place in the international arena, Kenya always avoids any form of external pressure from any one country or group of nations. It has traded with former members of the USSR, with Asia; and with European and North American countries, in order to create an economy not wholly reliant on any one bloc.¹¹⁶ In this way Kenya maintains its objective of preserving the structure it built to its own design, based on the precepts of African socialism and drawing on whatever influences it considered appropriate to its particular circumstances.¹¹⁷

This is especially true of its assumption of free market policies. Ultimately, Kenya has not experienced any kind of paradigm shift; its emphasis on economic diplomacy seems rather to be a consequence of domestic political interests that are keen to ensure their continued survival and standing sound economic policy. Since independence, Kenya has achieved regional leadership thanks to resilient policies and an emphasis on economic considerations when tackling national challenges. This pragmatic mindset helped to create a mixed economy that enabled the country to evolve a ‘managed capitalism’ system that improved agricultural productivity, developed the manufacturing sector to serve the EAC, and led to increased growth in the service sector.¹¹⁸ Its success facilitated rapid growth in manufactured exports to Tanzania and Uganda – reflecting industrial imbalances stemming from the first REC initiative – and unlike neighbouring states that went through more serious economic trials as well as periods of political instability, enabled Kenya to survive the oil crisis of 1973 and the collapse of the first EAC.¹¹⁹

In the 1980s and 1990s, the emphasis in economic policy moved from import substitution to export promotion, on the realisation that a more interdependent world of increasing trade barriers would require more diversity in its export products and markets. Under structural

¹¹⁶ A New Dawn for Kenya, op. cit., pp. 695–696.

¹¹⁷ Mboya T, op. cit., p. 234

¹¹⁸ Eyakuze A & MJ Gitau, ‘Economic Policy and Performance in East Africa: A survey of Tanzania, Kenya, Uganda and Rwanda’, in East African Scenarios Project, Research Compendium, SID, Nairobi 2007; pp. 177–223

¹¹⁹ Kenyoru AN, Kenya’s Foreign Service and Export Trade Promotion. Milton Keynes: Author House, 2009, p. 20.

adjustment programmes from 1986 to the early 1990s Kenya embarked on liberalising trade and expanding its markets in Africa.¹²⁰ A 2005 economic survey by the ministry of planning and national development, and Kenya Vision 2030, published in 2008, both noted that by 1995 more than 50% of Kenya's exports went to Comesa countries, the bulk to Tanzania and Uganda; which explains why half of Kenya's 14 commercial offices have been established within the Comesa region. In addition, the second half of the 1980s was characterised by the development of export incentives such as manufacturing under bond in 1988, export processing zones in 1990, and value added tax exemptions. Furthermore, institutions such as the Export Promotion Council (EPC) facilitated support for manufactured exports. Nevertheless, as Were states, such initiatives have continually been hindered by poor implementation and co-ordination of promotional schemes.¹²¹

Comprehensive trade reforms followed rapidly in the early 1990s, but Jeffrey Sachs and Andrew Warner point out that it was only in 1993 that Kenya opened itself up in earnest. By 1995 economic growth had restarted but progress towards a more liberal and outwardly orientated economic regime was inconsistent. With the advent of a new government in 2003 the economy began to recover, its outward orientation exemplified by the adoption of the EAC common external tariff (CET) in 2005 that harmonised the tariff structure and reduced its dispersion. Kenya implemented the ERS from 2003 to 2007. Its main aim was to develop an investment strategy in which the private sector became the main channel for generating

¹²⁰ Rono JK, 'The impact of the structural adjustment programmes on Kenyan society', *Journal of Social Development in Africa*, 17, 1, pp. 81–98, <http://archive.lib.msu.edu/DMC/African%20Journals/pdfs/social%20development/vol17no1/jsda017001007.pdf>.

¹²¹ Were M et al., 'Trade Policy in Kenya', in Adam et al. (eds), *Kenya Policies for Prosperity*. Oxford: Oxford University Press, 2010.

employment and wealth, putting the country on a firm development path. The success of the ERS led to the formulation of Vision 2030, the first goal of which is economic prosperity.¹²²

It seeks to revitalise the stagnant levels of private investment that are the principal cause of Kenya's disappointing economic performance. In considering structural changes in the economy, Eyakuze and Gitau observe that the manufacturing sector has demonstrated good growth only from 2004 onwards.¹²³ Collectively, economic policies since independence have positioned Kenya as a prosperous regional economy.

3.6 Conclusion

The development of an economic diplomacy agenda presents an opportunity for creative imagination: to look to integration beyond the European formula; and seek solutions to prevailing challenges within the African region and also exploring the effects of continued dependency as it's of utmost importance. Kenya is expected to take advantage of the opportunities better than its neighbours because compared with many African economies it is less directly affected by risks in mature economies, due to the relatively small share of the developed economies in Kenya's total trade and its higher regional trade, which together make it slightly more resilient than other Sub-Saharan countries. Considering the previous failure of East African integration initiatives and the lack of a common regional political framework; might it be possible that there would be a repeat of doubts, suspicions, antipathy and stressed relations that could result in a second collapse? Such questions will continue to emerge and can be best discussed in Kenya under the prism of an economic diplomacy framework that makes plans for regional interactions in the promotion of its growth.

¹²² Ibid

¹²³ Eyakuze A & MJ Gitau, 'Economic Policy and Performance in East Africa: A survey of Tanzania, Kenya, Uganda and Rwanda', in East African Scenarios Project, Research Compendium, SID, Nairobi 2007; pp. 177–223

CHAPTER FOUR

ENHANCING DIPLOMACY PERFORMANCE: A CASE OF THE EAC

4.1 INTRODUCTION

This chapter focuses on the importance of professionalizing diplomacy. The expansion of trade brought about by the reduction of trade barriers and the globalization of production has created a shortage of professionals trained in economic diplomacy. Economic diplomacy encompasses all the activities related to analyzing, developing, negotiating and implementing trade agreements. Professionals with the unique set of skills associated with economic diplomacy are in demand not only in trade ministries, but also in many other government departments, in private corporations, in industry associations, in other non-governmental organizations and in international economic institutions.¹²⁴ The shortage of well-trained professionals is particularly acute in developing countries such as Kenya and their transitioning economies, which face a severe shortage of experienced professionals in the field and lack the institutional capacity to train them.

Training professionals in the skills of economic diplomacy is thus a new challenge for the global trading system that needs to be addressed. Negotiating and managing a country's participation in trade agreements has become an increasingly important task, since trade agreements have emerged as the key driver of the global organization of production, investment and trade,¹²⁵ and consequently of the economic success and economic welfare of nations. Negotiating and managing Kenya's participation in trade agreements has increasingly

¹²⁴ Hocking, Brian (1999), 'Catalytic Diplomacy: Beyond Newness and Decline,' in Jan Mellissen (ed), *Innovation in diplomatic practice* (New York: Macmillan), pp. 21–42.

¹²⁵ Ruël, H.J.M., Visser, R. (2012). Commercial diplomats as corporate entrepreneurs: Explaining role behavior from an institutional perspective. *International Journal of Diplomacy and Economy*, 1(1): 42-79.

presented great opportunities for the country, its citizens and economy. However the opportunities may not be utilized well if the key players in economic negotiations are not professionals. Professionals in the diplomacy field must be able to analyze complex economic, political, legal, economic, institutional and substantive policy issues. They have to be skilled communicators and negotiators, able to formulate, negotiate and implement trade agreements. This chapter of the study thus places the opportunities of training economic/economic diplomats into the context Africa and developing world.

4.2 Importance of Professionalizing Diplomacy

Diplomacy is the art and science of international politics. It has also acquired a domestic political thrust. Possessing in modern times the dimension of organization; it faces the serious problem of how personal and creative political skills in foreign affairs can be married to bureaucratic procedures. If diplomacy is to be dynamic, capable of providing an effective alternative to war, organization must become its servant rather than its master.¹²⁶ While generally viewed as the means of carrying out foreign policies, diplomacy generates resources needed for the formulation of sound policy, and its practitioners should therefore be fully utilized in the policy-forming process.

Simultaneously, the resources of diplomacy must be considerably amplified in all its dimensions: intellectual and cultural, political, research and analysis, planning, education and training, and others which space limitations deny treatment.¹²⁷ There is need to develop and use the total human resources of Kenya's diplomatic establishment, including those of consular and junior personnel, in the pursuit of our international objectives, providing officers with an

¹²⁶ Karl W. Schweizer and M. Keens-Soper, eds., *The Art of Diplomacy*, (Lanham, MD, 1994).

¹²⁷ K. Hamilton and R. Langhorne, *The Practice of Diplomacy* (London, 1994).

education and training commensurate to the demands placed upon them by modern diplomacy.¹²⁸ For this purpose, the possibilities of a Foreign Service (Foreign Affairs) Academy deserve further consideration.

Diplomacy may be described as the process by which foreign policies are converted from rhetoric to realities, from pronouncements of principles to the everyday promotion of the national interest.¹²⁹ It is a quest, essentially, for influence or power. Gathering and dispensing information, reporting, and negotiating, along with other techniques, serve as means to this end.

4.3 Entailment of Professional Economic Diplomacy

Economic diplomacy is diplomacy with an economic twist - diplomacy designed to influence foreign government policy and regulatory decisions that affect global trade and investment. In the past economic diplomacy concerned itself largely with negotiations on tariffs and quotas on imports. In today's more interdependent world, trade negotiations cover a far wider range of government regulations and actions affecting international commerce - including standards in health, safety, environment, and consumer protection; regulations in banking, telecommunications and accounting; competition policy and laws concerning bribery and corruption; agricultural support programs, and industrial subsidies. Economic diplomacy encompasses the whole analysis, advocacy, coalition-building and negotiation chain that leads to international agreements on these trade-related issues.¹³⁰

An economic diplomat must learn how to analyze all the factors that have a bearing on the policy decision-making process at home and abroad, including an in-depth analysis of the

¹²⁸ G.R. Berridge et al. *Diplomatic Theory from Machiavelli to Kissinger* (London, 2001).

¹²⁹ Wilkinson, T. J., Brouters, L. E., Salazar, D., & McNally, M. (2009). The strategic impact of international trade shows and trade missions for entrepreneurial firms. *Journal for Global Business Advancement*, 2(3), 207-220.

¹³⁰ *Ibid*: 213

economic/economic interests at stake, the macro-economic impact of alternative policy options, the political influence of all the stakeholders with economic, policy-oriented or institutional interests, the domestic policy issues that may be entwined with the foreign trade issue, the applicable domestic and international legal provisions, and the state of public opinion, including the impact of media coverage (public diplomacy).

Most issues addressed by economic diplomacy today are political in that they affect the interests of many stakeholders. A stakeholder is anyone who has a stake in the outcome of decisions and who can exercise political influence of one kind or another to shape the outcome. Stakeholders in trade policy decisions can include (a) officials of any government department or regulatory agency with a policy interest or bureaucratic stake; (b) any firm, union, or industry association with an economic stake; (c) any non-governmental organization with a policy or organizational stake in the outcome; (d) individual citizens as voters.¹³¹ The increased focus in trade negotiations on domestic regulatory issues has substantially increased the potential pool of stakeholders, and thus increased the domestic political dimension of economic diplomacy.

Economic diplomacy increasingly requires the use of a wide range of advocacy and coalition-building tools for favorable decisions at home and abroad. To obtain the support of the home government in trade disputes with other countries, or to gain favorable decisions from the home government in on trade-related issues, the economic diplomat must use a range of advocacy tools. Advocacy tools include letters, testimony, white papers, speeches, op-ed pieces in newspapers, phone calls and personal visits to key stakeholders and decision-makers. The economic diplomat must also build coalitions - within the government, industry or interest group -- to exert political influence in support of desired outcomes among stakeholders with political

¹³¹ Wilkinson, T. J., & Brouthers, L. E. (2000b). Trade shows, trade missions and state governments: Increasing FDI and high-tech exports. *Journal of International Business Studies*, 31(4), 725-734.

influence.¹³² Internationally, economic diplomats must apply the same advocacy and coalition building tools to stakeholders in all other countries involved in the resolution of an international trade or investment issue.

Once a domestic decision has been reached on a trade negotiating issue, a trade dispute, or on a broader scale, on a national trade policy, economic diplomacy moves to the international negotiation and/or dispute settlement phase of the process. The negotiation of politically sensitive issues, however, may well require further interactions with domestic stakeholders as part of a continuing consensus building process. Once an agreement is negotiated or a decision is rendered in a trade dispute, trade officials usually have to persuade domestic decision-makers to effectively implement the agreed outcome.¹³³

4.4 Training in Economic Diplomacy for the Domestic and Foreign Offices

The most obvious candidates for training in economic diplomacy are the officials responsible for developing their country's international trade and investment policies and for negotiating international trade and investment agreements with other countries. What is less obvious is that all other stakeholders involved in the trade policy development and advocacy processes need the same training. Trade officials are only the most visible economic diplomats.¹³⁴ They usually are outnumbered by officials with trade-related responsibilities in many other government departments and ministries - officials from departments or ministries responsible for foreign affairs, finance, agriculture, industry, labor, health, the environment, and the regulation of banks, telecommunications, air transportation, or the licensing of professionals.

¹³² Wolters, T. (2012). Business diplomacy in MNCs: an exploratory study. Master thesis. University of Twente (the Netherlands).

¹³³ Wilkinson, T. J., Brouthers, L. E., Salazar, D., & McNally, M. (2009). The strategic impact of international trade shows and trade missions for entrepreneurial firms. *Journal for Global Business Advancement*, 2(3), 207-220.

¹³⁴

Others who need instruction in economic diplomacy include managers in the international departments of industry associations, corporations, unions and non-governmental organizations that have a stake in the outcome of trade policy decisions. In order to play an effective role in the domestic and global political advocacy and coalition-building process that precedes negotiations, these stakeholders need most of the same economic diplomacy skills as government trade negotiators. Skills in economic diplomacy are also required of corporate managers posted in foreign countries, who often must interact with the host government on a broad range of regulatory issues.¹³⁵ Another group that requires training in economic diplomacy is the secretariat staff of international organizations that deal with global trade, investment and trade-related regulatory issues. While such officials as a rule play less of a direct role in the political management of trade issues, they can most effectively do their job if they understand the politics of trade.

4.5 The Skills the Economic Diplomat Needs to Acquire Professionalism

The economic diplomat requires all the finesse and knowledge of foreign cultures required by a traditional diplomat. In addition, the economic diplomat must acquire a wide range of analytical, advocacy, public relations and negotiating skills. This is outlined below:

4.5.1 Economic Analysis

Economic diplomacy is all about economic interests and the economic diplomat must have the ability to analyze and understand the economic interest that underlies most issues in trade negotiations. The economic diplomat must be able to read a company's balance sheet and

¹³⁵ Gesink, T. (2012). Embassy websites and international business support: a comparative online services analysis!. Master thesis. University of Twente (the Netherlands).

income statement, and understand how a trade issue impacts the costs, revenues, market share and growth prospects of a firm or industry.¹³⁶ Economic diplomacy touches not only the economic interests of individual firms and industries, but also on the economic interests of the country as a whole. The economic diplomat therefore must be sufficiently conversant with economic analysis to be able to analyze and discuss the impact of trade policy decisions on overall national economic output, growth, jobs, wages, consumer prices, industry profits, and income distribution.

4.5.2 Analysis of Public Policy and Regulatory Issues

Since economic diplomacy is increasingly embedded in domestic policies and regulations, the economic diplomat must be able to analyze and understand a broad range of domestic policy issues, ranging from the habitats of plant pests and the health effects of various toxic chemicals to the testing required to assure the professional competence of accountants, from the capital adequacy ratios of banks to the competitive safeguards in telecommunications¹³⁷. Some of these issues require a rudimentary understanding of science, and they all require an ability to analyze the relationship between a stated public policy objective and the regulations designed to implement them. They require an understanding of best practices and the analysis of empirical evidence.

¹³⁶ Coolsaet, R. (2004). Trade and Diplomacy: The Belgian Case. *International Studies Perspectives*. 5(1), 61-65.

¹³⁷ Berridge, G., James, A. (2001). *A dictionary of diplomacy*. Basingstoke: Palgrave. Betlem, F. (2012). *Business Diplomacy in international firms: An extensive literature review and results from a survey*. Master thesis. University of Twente, (the Netherlands).

4.5.3 Political Analysis

Since economic diplomacy takes place against the backdrop of a domestic political process, the economic diplomat must be able to analyze the politics of any particular issue. This requires an ability to identify stakeholders, their interests, and their means of political influence.¹³⁸ The economic diplomat must understand the similarities and differences of the political process in different countries, and how the domestic politics of each country impacts trade policy decisions. He or she also must understand the institutional process that underlies trade decisions and how bureaucratic rivalries can influence such decisions. Economic diplomacy also requires an appreciation of the role of public opinion in influencing policy outcomes, and the role of the press in shaping public opinion.¹³⁹

4.5.4 Legal Analysis

Both domestic laws and international trade rules influence government policy on trade and foreign investment. Economic diplomacy thus requires an understanding and a rudimentary ability to analyze the domestic and international legal issues that underlie a negotiation or trade dispute. The Economic diplomat must be able to analyze the stated and implied objectives of domestic laws and the legislative history that influences their implementation.

4.5.5 Developing a Plan of Action

A professional diplomat must be both a keen observer and a participant in the political process leading to a desired policy decision and/or negotiating outcome. In order to assure that the

¹³⁸ Wolters, T. (2012). Business diplomacy in MNCs: an exploratory study. Master thesis. University of Twente (the Netherlands).

¹³⁹ Ibid

actions are well targeted, the economic diplomat must translate the analysis of the issue into possible solutions, and into strategies and policies for implementing desired outcomes.

4.5.6 Developing a Solution

Successful economic diplomacy requires creativity in the development of solutions to trade problems or avenues for pursuing trade opportunities. This requires an ability to integrate all the elements of the analysis into a holistic view of the issue, and developing an approach that builds on the opportunities and addresses the problems identified in the course of the analysis. The solution must be politically feasible, that is, meet the needs of the most interested stakeholders, while also serving the broader public interest, that is, constitute good public policy.

4.5.7 Strategy Development

In order to translate a desired policy or negotiating outcome into reality, the diplomat must develop a strategy. A strategy moves the economic diplomat from the role of keen observer to an actor in the process. The mistake that most practitioners make is to think that a list of actions per se constitutes a strategy. Aspiring economic/economic diplomats have to be taught that good strategy flows from good analysis, and that a well-implemented strategy should provide a coherent blueprint on how the problems identified in the analysis can be addressed or how potential allies can be mobilized.¹⁴⁰

¹⁴⁰ Yiu, L., & Saner, R. (2003). International economic diplomacy: Mutations in post-modern times. Discussion Papers in Diplomacy, No. 84. Netherlands Institute of International Relations 'Clingendael', The Hague.

4.5.8 Policy Development

Since economic/economic diplomacy is all about government actions, the diplomat must understand the nature and role of policymaking in government, and how policy is developed and implemented. In the author's experience, many otherwise highly qualified individuals never grasp the essential role of policymaking in government. An economic diplomat who wants to influence government behavior, either as a government official or as a private stakeholder, often must seek to build a consensus around an abstract principle or concept that will lend legitimacy to the desired outcome.¹⁴¹ The successful economic diplomat must learn when and how to frame an issue as a matter of policy rather than just as a grubby little problem that affects the mercantile interest of a particular stakeholder.

4.5.9 Other Skills

In addition to analytical skills, the economic diplomat must possess effective advocacy, coalition building and negotiating skills. In order to advance the interest of the organization he or she represents, the economic diplomat must build a consensus among private sector allies and government decision-makers on the desired outcome to a trade problem or trade opportunity. To build consensus, the economic diplomat needs good public relations skills. The economic diplomat must also acquire sufficient political skills to influence and/or manage the political decision making process.¹⁴² Finally, the economic diplomat must be a good negotiator, both internally with other domestic stakeholders and externally with representatives of other countries. To accomplish these tasks, the economic diplomat must learn how to listen and to

¹⁴¹ The Institute for Trade & Commercial Diplomacy, Inc., www.commercialdiplomacy.org, and the affiliated website in China, <http://www.commercialdiplomacy.org.cn/>.

¹⁴² Wolters, T. (2012). Business diplomacy in MNCs: an exploratory study. Master thesis. University of Twente (the Netherlands).

productively interact with people of different personalities, languages, cultures, and ethnic backgrounds.

In order to persuade relevant stakeholders of the desirability of a proposed course of action, the economic diplomat must use a wide range of advocacy tools. The basic advocacy tools of the trade include briefing memos, advocacy letters, white papers, press releases, op-ed articles, public testimony and speeches. These operational documents are the essential tool kit of an economic diplomat, and learning how to write them in a short and succinct manner is key to success in the field.¹⁴³ Equally important is an ability to make effective oral presentations to other stakeholders engaged in the decision-making process.

An economic diplomat must learn how to build coalitions. Successful coalition building is critical to the effective representation of less powerful stakeholders or countries, and to the successful pursuit of issues that lack popular appeal. Coalitions bring together different organizations and countries in support of a common goal. Coalition building involves identifying other stakeholder groups or countries with common interests, and developing a common plan of action in support of a desired governmental action, policy goal or negotiating objective.¹⁴⁴

Ultimately, the economic diplomat must be an effective negotiator. Effective negotiations start with a thorough identification of the interests of all parties, the constraints that limit possible outcomes, and the alternatives to a negotiated outcome available to each of the parties. Effective negotiation also is a process issue - a process of building relationships, of building momentum through the identification of common interests and the resolution of less difficult issues, and of

¹⁴³ The Institute for Trade & Commercial Diplomacy, Inc., www.commercialdiplomacy.org, and the affiliated website in China, <http://www.commercialdiplomacy.org.cn/>.

¹⁴⁴ Saner, R., Yiu, L., Søndergaard, M. (2000). Business diplomacy management: A core competency for global companies. *The Academy of Management Executive* (1993-2005), 80-92.

building up the information necessary for a negotiated solution. Good negotiators know how to avoid certain pitfalls and how to deal with them when they cannot be avoided.¹⁴⁵

Being an effective negotiator requires a great deal more than being effective in bargaining. Trade negotiations in many ways are quite different from bargaining in the bazaar or market place.¹⁴⁶ The difference is a result of differences in the number of stakeholders represented, in the degree of authority exercised by the negotiator, by the extent to which the negotiation is part of an ongoing relationship, and the extent to which other issues are at stake between the parties.

4.6 Knowledge Required by the Economic Diplomat

Along with the skills outlined above, the Kenyan economic diplomat must acquire knowledge in a diverse number of fields. These fields include trade laws and institutions, current trade issues, foreign languages and cultures, major areas of domestic policy, and a combination of economic history and the history of economic thought.¹⁴⁷ The economic diplomat must know the basic rules that govern global trade. These include the rules of the World Trade Organization, the rules of key regional trade agreements like the, East African Community (EAC), the European Communities (EC) and the North American Free Trade Agreement (NAFTA), and the laws governing trade within the home country and within trading partner countries.¹⁴⁸ An economic diplomat must understand the institutions established for managing trade issues at the national,

¹⁴⁵ Ruël, H.J.M., Wolters, T., Loohuis, R. (2013d). Business diplomacy in MNCs: an exploratory study. Paper presented at the Academy of International Business Meeting 2013, Istanbul (Turkey). Temple/AIB Best Paper Nomination.

¹⁴⁶ The Institute for Trade & Commercial Diplomacy, Inc., www.commercialdiplomacy.org, and the affiliated website in China, <http://www.commercialdiplomacy.org.cn/>.

¹⁴⁷ The Institute for Trade & Commercial Diplomacy, Inc., www.commercialdiplomacy.org, and the affiliated website in China, <http://www.commercialdiplomacy.org.cn/>.

¹⁴⁸ Ibid

regional and global level. He or she also must understand the domestic procedures established for negotiating international agreements and addressing and resolving trade conflicts.

A trade professional needs to acquire a full familiarity with all of the current issues on the proposed trade policy and negotiating agenda. No matter what organization or particular issue a trade professional represents, he or she must be sufficiently familiar with all the issues on the current negotiating agenda to understand potential linkages and trade-offs. To some extent, the economic diplomat operates within a global culture defined by the rules and practices of the World Trade Organization and by the English language, which has become the lingua franca in the current era.¹⁴⁹ Nevertheless, to be fully effective when working in a foreign country, the economic diplomat must be able to speak the language of that country and be conversant with local cultural norms. The economic diplomats have to be able to discern and address the cultural dimension of international interactions.

Trade policy and negotiations cover an increasingly wide range of domestic regulatory issues. Health, safety, and environmental standards; domestic regulations in banking and telecommunications; domestic agricultural support programs, and a myriad of other issues are covered by trade negotiations. An effective economic diplomat must therefore acquire enough knowledge of the underlying regulatory issues to ask experts in the field the right questions.

4.6.1 A Comprehensive Approach Training

The economic diplomat must be part economic expert, part economist, part public policy analyst, part politician, part lawyer, part negotiator, and part public relations and media expert. In most universities, a different department teaches each of these subjects. Few graduates of traditional

¹⁴⁹ Ruël, H.J.M., Boer, S. de, Haaf, W. ten (2013c). Commercial diplomacy in practice: experiences of international business executives and representatives in Malaysia. *International Journal of Diplomacy and Economy*.2(3/4).

universities or graduate schools emerge with a rudimentary knowledge of all of these fields.¹⁵⁰ More importantly they usually lack an ability to integrate the various fields into a coherent analysis and an integrated strategy. In most cases they also do not know how to apply their academic knowledge to real world situations.

A comprehensive training program in economic diplomacy calls for courses in many different disciplines - economics, business, politics, law, media and public relations, international relations, negotiation and dispute settlement, area studies, foreign languages, and culture.¹⁵¹ Students should not be expected to become experts in all of these areas, but should be expected to develop a sufficient knowledge to ask the right questions and to translate the answers into an intelligent layman's interpretation of the issue. Students should be expected to understand linkages among the various dimensions of an issue and to rank-order the issue for any stakeholder.

A comprehensive training program in the field would also help students acquire effective written and oral communication skills, as well as good consensus building and public relations skills. The program should include instruction on the techniques of effective negotiation. An economic diplomat must learn how to assemble information on the interests, constraints, and alternatives that influence the negotiating positions of negotiating partners, and how to distinguish between interests, beliefs, positions and arguments mobilized in support of a position.¹⁵² An effective negotiator also must understand that the successful negotiation of trade agreements requires more than a process of bargaining within a zero sum game framework, and that success often hinges on the ability of negotiators to establish a positive sum game.

¹⁵⁰ Kostecki, M., & Naray, O. (2007). Commercial diplomacy and international business. Netherlands Institute of International Relations' Clingendael'.

¹⁵¹ Ruël, H.J.M., Visser, R. (2012). Commercial diplomats as corporate entrepreneurs: Explaining role behavior from an institutional perspective. *International Journal of Diplomacy and Economy*, 1(1): 42-79.

¹⁵² Ibid

Ideally, the instructional plan would require students to practice their analytical and writing skills by having them draft such operational documents as briefing memos, white papers, advocacy letters, press releases, articles, speeches, public testimony, and negotiating instructions on real world issues. Students should learn how to write an operational document that integrates the many dimensions of a trade issue – the economic, political, economic, legal, regulatory, and institutional dimensions - into a coherent analysis, and lays out a course of action that advances the interests of the organization they represent.¹⁵³

4.7 Role of Foreign Offices in Economic Diplomacy Efforts, and Outcomes

The focus of the essays in this publication is on the role that embassies and consulates can play, as the public service overseas outposts of the country, to help the real actors of economic diplomacy, the home enterprises and businessmen. In particular, is there a special role that they might play when they represent developing countries, to the extent that this is different from the role played by the diplomatic and commercial missions of rich states? The response provided by the authors of this collection is based on India's experience, but it is also of relevance to many other countries, since the operational conditions for all states seeking market entry and expansion in their engagement are essentially similar. As many of these essays show, it is the initiative taken by embassies and consulates that often provides the initial impetus, be it in relation to trade or investments. Equally, it is not difficult, for the great part, to motivate home agencies, be it the promotion bodies, such as export councils, or trade associations, and of course the business enterprises.¹⁵⁴ Often it is the mission official on the spot, who identifies an opportunity and flags

¹⁵³ London, M. (1999). Principled leadership and Business Diplomacy A practical, values-based direction for management development. *Journal of Management Development*, 18(2), 170-192.

¹⁵⁴ Ibid

it for action. This is especially true of the initial phase of the external economic action cycle, described above.

All countries now treat economic promotion as a high priority. Many entrust this work to the diplomatic service, while others handle it exclusively through specialist commercial services, or ‘trade commissioners’.¹⁵⁵ We believe that detachment of commercial from other diplomatic work sometimes reduces attention to investment mobilization, and country promotion; one also misses the cross-connections of integrated diplomacy.¹⁵⁶ Countries that do not practise ‘integrated diplomacy’, nevertheless link economic and political work at the apex, giving the ambassador overall charge. No one has analyzed if entrusting political, economic and all other diplomatic tasks to one single set of officials, who rotate between these jobs, works better than having specialists for each work area. For one thing, in small establishments this separation just isn’t workable.

Similarly, in small embassies, where an ambassador may have only one or two diplomats assisting him, everyone pitches in to handle the full range activities, including consular, cultural, information, and diaspora outreach tasks, besides political and economic work. For instance, the US diplomatic service has five specialised ‘cones’ within which officials work, and two of these are political and economic affairs – and it has a separate commercial service. The US is virtually unique in operating such sub-sections among state department officials; Australia has a separate commercial cadre and a consular service.¹⁵⁷

¹⁵⁵ Ruël, H.J.M., Boer, S. de, Haaf, W. ten (2013c). Commercial diplomacy in practice: experiences of international business executives and representatives in Malaysia. *International Journal of Diplomacy and Economy*.2(3/4).

¹⁵⁶ Richardson, C., Yamin, M., Sinkovics, R.R. (2012). Policy-driven clusters, interfirm interactions and firm internationalisation: Some insights from Malaysia’s Multimedia Super Corridor. *International Business Review*, 21(5): 794-805.

¹⁵⁷ Ibid

In such situations, the diplomatic mission engaged with commercial promotion has its work cut out. The simple kind of things it needs to do include the following: Informing home business associations and individual enterprises on the basic economic conditions in the target country – Such ‘country notes’ are available on the websites of the bigger countries and one needs to simply adapt these to one’s needs. This is a useful first step, and connects with producing sector-specific guides for home exporters; commercial officials are seldom well trained in such tasks – and clearly this should be a priority in training programmes – but it is possible to learn on the job, and the very act of undertaking such tasks becomes a learning process.

Analyzing the potential markets for the home country – A simple method is to match the export basket of one’s country with the import basket of the target country; this identifies the potential, the more so when it is matched with actual exports from home to that market.¹⁵⁸ Next, one needs to identify the potential competitors and analyze their products that reach that market. That provides clear indication of the areas where one might concentrate, provided the price and other conditions are suitable. In parallel, contact has to be established with the importers of the selected products or services, and sensitize them on what the home country might offer – Often, this involves persuading them to visit the home country; it also helps to put potential importers in contact with existing local importers of other products, to overcome potential hesitation and other obstacles.¹⁵⁹

Credibility is also built when home exporters and manufactures take part in trade shows in the target country – There is a whole set of craft skills pertaining to successful trade-show

¹⁵⁸ Ruël, H. J., Lee, D., Visser, R. (2013a). Commercial Diplomacy and International Business: Inseparable Twins?. AIB Insights, 13(1), 14-17.

¹⁵⁹ Ruël, H.J.M., Visser, R. (2013). An exploration of commercial diplomacy as a set of facilities to support international business to and from emergent markets. Paper accepted for the European International Business Academy 2013, December 12-14. Bremen (Ger).

participation overseas. Some like the Indo-German Chamber of Commerce have built considerable expertise in this, and it pays a first-time exhibitor to read the available literature on the subject; the International Trade Centre at Geneva also has considerable material on this. It is often best to join an established trade show, rather than hold a single-country special event; in attempting the latter in an advanced market the key problem is always to get the right clients to come to one's event. In countries where a trade show culture is yet to be built up, or when one has a politico-economic compulsion to make a splash, it may also pay to hold one's own 'Made in India' type of special fair.

One option, not often tried out, is to permit an exporter to hold a small buyer-seller show on the premises of the embassy or consulate, if necessary, charging the exporter for any additional direct expense for this purpose – The larger embassies now have their own small trade centers that can host such events. This adds to the credibility of the exporter and also incidentally builds the embassy's contacts with the home enterprises. All too often, government agencies miss out on the perspective of their domestic customers.¹⁶⁰

Visits by business delegations are a key method for export promotion and for FDI mobilization. Such visits can transform the perception of key decision-makers (she narrates the way business connections were developed with the French fashion industry). The embassy's professionalism is visible in the way such visits are planned; the effort to create a broad catchment of potential business partners eventually narrows down to a handful, for first business contacts and trial orders. It is the one-to-one meetings that lead to business, and this hinges on effective 'matchmaking' between the buyer and seller.¹⁶¹ On the other hand, when the exporter

¹⁶⁰ Reuvers, S., & Ruël, H. (2012). Research on Commercial Diplomacy: A Review and Implications. *Advanced Series in Management*, 9, 1-27.

¹⁶¹ Meyer, K. (2013). What Is, and to What Purpose Do We Study, International Business? *AIB Insights*, 13 (1), 10-13.

from home has built up business contacts, and aims at expanding business, the task is in many ways easier, in that the home exporter has already a good handle on his prospects, and needs little more than marginal or incremental help from the embassy.

In a bilateral relationship, each country takes care of its own export promotion – Does this mean that one should do nothing in relation to the exports of the other country? While this cannot be a high priority, it is useful to remember that there exists a duality in commerce, the fact that countries are both exporters and importers. Thus helping with trade on a total basis makes good sense. That applies particularly to problem-solving, that is, in relation to helping business partners to resolve trade disputes. The old prescription might have been that official agencies might mainly act as facilitators, urging the disputants to work for solutions. This becomes essential when local businessmen marshal support from the local authorities, to the point of misusing the legal process. Economic relations cannot advance if businessmen do not have confidence in one another's capacity to overcome problems as they come up, in the normal process of trade.¹⁶²

4.8 Enhancing Kenya's Commercial Diplomacy Performance

Kenya's regional diplomacy has been characterized by a strong logic of conservatism and morality. The diplomacies of Kenya's diverse heads of state vary more in terms of structure than substance. Thus the overriding concern has been to develop as well as to maintain friendly relations with other regional entities, in addition to fostering co-operation with the rest of the global community. Whilst this has ensured that the state form beneficial regional relations, to the

¹⁶² London, M. (1999). Principled leadership and Business Diplomacy A practical, values-based direction for management development. *Journal of Management Development*, 18(2), 170-192.

critics it has not assisted in developing the country's political as well as military leverage along the lines of its economic abilities. Kenya therefore needs to respond to the ever changing regional dynamics through the adaptation of new approaches which will strengthen bilateral relations, and foster regional integration as well as supporting strategic partnerships.

The current government and its leadership are faced with critical foreign policy challenges in a fast changing world. Unlike before, the influence of technology on communications has made the conduct of diplomacy complex and unpredictable coupled with the inevitable globalization. The need for a pro-active foreign policy will be critical to Kenya's ability to engage effectively

Kenya is still facing many domestic challenges such as poverty, ignorance, disease, unemployment, corruption, governance, and lack of sound macro-economic management that have affected international relations with other states in order to play an effective role and secure a place on the international stage. Investment is critical in key sectors such as agriculture, infrastructure, education, health, environment, manufacturing, and tourism for the development of the country. These sectors require well thought out policies to attract investment.¹⁶³

Kenya's desire to maintain a strategic position at the regional and international levels will depend on how it responds to issues beyond its borders. External factors such as liberalization, attainment of Millennium Development Goals, technological developments, declining capital inflow, regional peace and security, international terrorism, piracy and human and drug trafficking, will require well thought out strategies if Kenya is to advance our interests abroad. How well the fourth President responds to them will be critical to the implementation of a coherent foreign policy. This calls for the need to develop strategies, in close cooperation with

¹⁶³ Interview: Ministry of Finance, 2015

her partners in IGAD, EAC and the AU, to secure peace for sustainable economic development in the sub-region.¹⁶⁴ This will help contain proliferation of small arms and light weapons, refugees and internally displaced persons, human trafficking, piracy, drought and famine and political instability.

The government must also ensure that Kenya's borders are secure to guarantee personal security of residents as well as the territorial integrity and economic security for the country. Kenya enjoys a commanding geo-political position in East Africa. It is the gateway to Eastern and Central Africa and also links the Horn of Africa and the Great Lakes Region. She shares common borders with five countries with complicated mix of communities who share the same ancestral heritage and which straddle the common land borders.

Along the common borders are to be found shared resources such as water and pasture, and minerals. Kenya needs to work with her neighbours to deal with cross-border issues like, livestock rustling, religious and ethnic differences so as to bring in the aspect of peaceful co-existence amongst the countries so as to exploit the resources. This then may provide an opportunity for Kenya to actually benefit from the regional cooperation. This commitment and integration can be used to launch Kenya's pursuit of a robust of foreign policy. Globalization and more so the lack of preparedness to it, for example, economic globalization is indeed a major concern in Kenya's foreign relations. The world is now, global village and developments in one region seem to have dramatic immediate effect on the other nations of the world, due to advancement in technology. Modern communication systems also face challenges to conventional diplomacy as the major events are caught live on media channels. Kenya therefore

¹⁶⁴ Interview: Ministry of Foreign Affairs, 2015

has to adapt to these changes by crafting a foreign policy that is responsive as well as flexible.¹⁶⁵ The government will therefore have to strengthen Kenya's commitment to multi-lateral kind of diplomacy by influencing key decision making organs of the regional and international organizations to which Kenya is a member to so as to achieve wider foreign policy objectives.

Diplomacy across the world currently emphasizes on building trade and economic partnerships amongst nations. Additionally, Kenya is involved in other international initiatives such as regional cooperation and integration arrangements intended to consolidate its economic and trade relations. The 2010 Constitution is clear on matters of the Kenyan Diaspora. The diaspora is a significant national resource. Thus they make invaluable contribution to the Kenyan economy through the repatriation of funds to support their families or for further investment. They are as well an important source of technology transfer to Kenya from abroad. Earlier on the adoption of a new constitution, Kenyan Diaspora have been relentlessly campaigning for dual citizenship to help them maintain strong ancestral connections with their state of origin and to also benefit from rights as citizens of their adopted states. There is need to therefore offer incentives to attract more Kenyans in the Diaspora to invest in their country of origin.¹⁶⁶

The present constitution recognizes the Diaspora's right to dual citizenship which grants them security to invest both at home as well as in their adopted countries with confidence. The need to identify Kenyans in the Diaspora, and mobilize them to contribute in economic development of the country has become vital.

¹⁶⁵ Interview: Ministry of Finance, 2015

¹⁶⁶ Interview: Ministry of Foreign Affairs, 2015

4.8.1 Enhancing Kenya's Economic Diplomacy in EAC

East Africa's institutional framework for regional and international trade is evolving rapidly. If Kenya is to achieve the aim of Vision 2030, it will require an international trading environment that encourages the expansion of manufactured and non-traditional goods or services. In pursuing this end, there are a number of trade policy challenges to deal with. First, the country has to design and implement a trade strategy and other, related domestic policies that facilitate growth and diversification in its export capacity. Secondly, it must formulate and negotiate effective trade strategies, at a regional and international level, that bring about deeper integration and improve market access for its exports, while gaining access to globally competitive inputs. Lastly, it has to increase the capacity of its economy to meet the challenges and opportunities arising from globalization. Kenya has therefore developed a National Trade Policy (NTP) that recognizes existing policies and the need to develop a coherent growth path, with a view to creating a policy environment that facilitates development of the private sector.¹⁶⁷

The NTP highlights constraints and challenges in international and domestic trade within the context of existing trade policies, while identifying strategies and programmes to sustain the economy within the parameters of Vision 2030.¹⁶⁸ While the conduct of its economic planning, development and diplomacy is bound to change with the recent discovery of oil in Turkana, Kenya presently suffers from a lack of revenues from high-value natural resources; and a scarcity of land.¹⁶⁹ Njuguna Ndung'u (of Central Bank of Kenya), and Paul Collier (of Oxford University), among others, have pointed out that economic growth is widely accepted as a necessary condition for social peace, in the aftermath of the violence that followed the elections

¹⁶⁷ Interview, MFA Ministry of Foreign Affairs and Trade, Nairobi, November 2015

¹⁶⁸ Kenya, MoT, Draft National Trade Policy, 2010,

http://www.Trade.go.ke/images/stories/national_trade_policy_draft.pdf.

¹⁶⁹ Ibid

in 2007. Kenya aims to achieve sustained, rapid economic growth by attracting higher levels of investment: to do so, it must mobilise extra resources and reduce the cost of business to promote its integration into global and regional investment markets. This perspective informs the kind of continuity in policy making, from the ERS through to Vision 2030, which also prompted the formation of the NTP. By redefining the role of government and increasing participation from the private sector, the ERS fostered growth of up to 7% a year until the 2008 violence. Included in the strategy were an update of company law and improvements to the customs and tax administration to enhance its regional competitiveness.

In the EAC, High expectations have been placed on the formation of a common market to open up the region. The key institutions for its establishment are already in place; including the East African Legislative Assembly (EALA) and the East African Court of Justice. There is continued co-operation over a wide field and progression into a monetary union that is under way involving private sector participants, especially the banking sector.¹⁷⁰ In addition, the threat of terror and the rise of regional crime rings have led to increased co-operation in defence and security matters.¹⁷¹ The transition towards a common market is expected to be relatively smooth given that most of the required institutions are already in place. The challenge is to strengthen them sufficiently to effectively support market integration. For Kenya and its EAC counterparts, regional prosperity involves proper implementation of the common market protocol. This is a major challenge, bearing in mind the problematic decision-making that arises from sensitive social issues tied to the protocol. These issues may lead to restrictive interpretations of some of the principles of free trade nominally espoused; for example, there are fears of Kenyan domination in the region through skills displacement effects on other members, such as

¹⁷⁰ Interview, Ministry of Foreign Affairs and Trade, Nairobi, November 2015

¹⁷¹ Interview, Ministry of East African Affairs, Commerce and Tourism, Nairobi, October 2015

Tanzania.¹⁷² Secondly, different national laws may hinder the harmonization of policies between states that fear a loss of sovereignty to partner countries in the process of regional integration. Nevertheless, using their observer status within the EAC, business groups such as APSEA and EABC are nurturing political goodwill.

These two organizations have developed strong partnerships with government and non governmental institutions. Their status at the EAC enables them to attend and participate in all relevant EAC activities and deliberations, not only at the secretariat but also in other organs and institutions. This provides a much-needed link between government and professionals especially in cross cutting issues through the public-private sector partnership programmes and in promoting the case for professionalism in the region. The private sector, comprising multinationals, local companies and organizations that operate within the EAC, is increasing its cross border ventures. Although most of them are engaged solely in the pursuit of business, a few have become involved in policy advocacy. They provide technical knowledge in sectoral councils relating to business interests and development; in the process becoming legitimate participants in governance.¹⁷³ Notably, under the EAC, member states have developed and are articulating shared policy objectives in order to make the region attractive for investment. This is demonstrated by the enactment in 2006 of the Competition Policy and Law; and the Standardization, Quality Assurance, Metrology and Testing Act Law. Initiatives to formulate and implement a policy to curb infringement of intellectual property rights and production of counterfeit goods in the region are under way, given that those two issues have proved major investment disincentives. A further significant step is the formulation of an investment code to

¹⁷² Odhiambo W, 'The distribution of Costs and Benefits in Trade in the Context of the East African Regional Integration Process', in East African Integration, Dynamics of Equity in Trade, Education and Media. Nairobi: SID, 2011

¹⁷³ Interview, Ministry of East African Affairs, Commerce and Tourism, Nairobi, October 2015

guide member states in developing their national investment law. Unfortunately, as Odhiambo highlights, in its current form the investment code is not binding and the development of an EAC investment policy and strategy is continuing.¹⁷⁴ Despite efforts to harmonise investment policies, EAC members at the moment retain their own institutions and regulatory mechanisms to deal with foreign investments,¹⁷⁵ including responsibility for investment legislation, entry and exit requirements, investment protection and incentives. This autonomy has resulted in disparate national investment environments: hence the need for a uniform investment code. Implementation of gains such as the management of established institutions; and co-operation in the development of a monetary union, and in defence and security, may be slowed because of funding challenges facing the EAC in consequence of current global economic difficulties. To make its treaty fully operational the EAC needs about \$70 million a year. Member states provide \$25 million of this and the rest comes from donors. Countries such as Burundi have had trouble paying their subscriptions. Against the backdrop of inflation, currency fluctuations and reduced aid it is difficult to mobilise resources for regional integration and it is therefore unlikely that members will increase funding for EAC activities. Kenya had contemplated increasing its contribution in return for greater influence in the REC, but other members are willing to accept such assistance only on the basis that it is unconditional, because they already perceive Kenya as the biggest beneficiary of the integration initiative. In any case, currently such an initiative is impossible because Kenya has a particular need to finance new governance structures under its

¹⁷⁴ Odhiambo W, *op. cit.*, p. 10.

¹⁷⁵ *Ibid*

revised constitution. An ‘equality of burden’ is therefore preferred, to obviate one country’s carrying the bulk of the funding.¹⁷⁶

After the UK, Kenya is the second largest investor in Tanzania.¹⁷⁷ In Uganda, Kenya maintains pole position as the country’s largest investor.¹⁷⁸ This has made neighbouring countries such as South Sudan eye Kenya as a potential source of their own FDI. As various regional blocs begin to take shape, a number of leading Kenyan companies are positioning themselves to take advantage of emerging markets. Strategies range from setting up distributorships, agencies or subsidiaries to establishing entire processing plants. The firms are seeking access to raw materials and markets in the EAC and Comesa region, while building a platform to gain a position within SADC. Notable Kenya-based companies that already have a regional presence include Bidco Oil Refineries, Fina Bank and East African Cables. Also in this league are East African Breweries, Kenya Commercial Bank, Jubilee, Athi River Mining, East African Portland Cement, Steadman Group, Kenol Kobil, Mabati Rolling Mills and UAP insurance. Bidco Oil Refineries set up a palm oil farm and plant in Uganda; other companies have moved into regions previously affected by conflict, including Rwanda, Burundi and Southern Sudan, all of which are undertaking substantial reconstruction programmes, including rebuilding infrastructure.

In consequence there is heavy demand for goods and services ranging from consumables to commercial, financial and industrial goods – demand that is prompting Kenyan enterprises to move into other countries in the region. Another company seeking to use the EAC as a

¹⁷⁶ Braude W, *Regional Integration in Africa: Lessons from The East African Community*. Johannesburg: South African Institute of International Affairs, 2008.

¹⁷⁷ Kumba S, ‘Kenya’s home grown multinationals’, *Financial Post*, Nairobi, <http://www.financialpost.co.ke/Pdfs/FP%20ISSUE%20141.pdf>, accessed 24 August 2015

¹⁷⁸ UIA (Uganda Investment Authority), *Quarterly Report: July – September 2011 Performance*, accessed 27 October 2012, http://www.ugandainvest.go.ug/index.php?searchword=quarterly+report&ordering=newest&searchphrase=any&option=com_search

springboard into wider regional blocs on the African continent is Fina Bank, which is a specialised SME commercial bank, that is focusing on regional markets; Kenya is overbanked, with more than 42 banks, of which only six control 80% of the business, hence Fina is looking elsewhere in the region to attract more customer revenues and set itself apart from its competitors.¹⁷⁹

4.9 Conclusion

Globalization increases the demand for professionals with skills in economic diplomacy. The traditional approach of training new professionals through an apprenticeship cannot keep up with the demand. The lack of trained professionals, which is particularly acute in developing countries and transition economies, limits the ability of these countries to take advantage of trade opportunities created by trade liberalization. The training of competent professionals in the field requires a comprehensive approach to training that combines the learning of substantive content with the development of analytical, writing, oral communication and negotiating skills. To train the number of professionals required to develop, negotiate and implement trade agreements, technical assistance programs should help build a local institutional training capacity in the disadvantaged countries. This will require an increased focus on training trainers' development of good training materials, and assistance to local or regional institutions that could provide the training.

¹⁷⁹ Kumba S, 'Kenya's home grown multinationals', Financial Post, Nairobi, <http://www.financialpost.co.ke/Pdfs/FP%20ISSUE%20141.pdf>, accessed 24 August 2015

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Economic diplomacy is one of the pillars of Kenya's foreign policy that predominantly focuses on trade and trade apposite matters. The pillar ostensibly applies the theories of Adam Smith and David Ricardo in advocating for Kenya's competitive advantage in production of certain products such as horticultural goods and the robust tourism sector. Among the other pillars, this one is the most integrated to vision 2030. The latter is the blue-print of catapulting Kenya into a middle-income state by the year 2030. That trade is a big component of this growth and development is trite knowledge. Economic diplomacy is a good example of how foreign policy is used to meet domestic policy objectives.

The document that encapsulates the Kenya's foreign policy puts this as one of the pillars of Kenya's foreign relations. From the study, economic diplomacy has arguably been the leading principle since Kibaki's foreign policy. Since 2002, the Kibaki administration had been keen on expanding the pool of international partners. With China's policy of not conflating human rights with other foreign policy considerations makes it an ideal 'partner'. Thus the traditional western allies were either being jettisoned or their influence on the internal running of the government curbed. This point poignantly connects Kenya's foreign policy decision to the evolving nature and structure of the international system.

Professionalizing economic diplomacy agenda and activities is very important since economic diplomacy has evolved to being diplomacy with an economic twist - diplomacy designed to influence foreign government policy and regulatory decisions that affect global trade and investment. In the past, economic diplomacy concerned itself largely with negotiations on

tariffs and quotas on imports. In today's more interdependent world, trade negotiations cover a far wider range of government regulations and actions affecting international. Economic diplomacy encompasses the whole analysis, advocacy, coalition-building and negotiation chain that leads to international agreements on these trade-related issues. Thus the actors in economic diplomacy require being equipped with the right knowledge and skills to adequately negotiate economic opportunities and project and pursue economic interests of Kenya both internationally and regionally. Kenya's foreign policy on economic diplomacy has become a priority over the last two regimes.

The study found out that, commercial activity was always the important area of diplomatic service while its means, methods and the purposes were defined by the actual moment of history. Governments around the world are increasingly involved in economic diplomacy and this study tried to establish if the use of this instrument makes sense empirically. Indeed from the study, it is clear that economic diplomacy has a significant effect on trade and investment flows and what the sign of that relationship is. However, the study notes that the research on the influence of economic diplomacy of FDI is very limited. It would be useful to see more material on this topic especially given the fact that numerous governments do see a role for economic diplomacy in stimulating FDI.

Furthermore there is a clear cut case for improving the availability for data and increasing the country coverage of economic diplomacy data. This makes comparison between studies a lot more transparent. Also the specification of instruments of diplomacy deserves more rigorous attention. We encountered various studies that, to our opinion, used rather crude grouping of instruments. A number of studies treated embassies and consulates as instrument of diplomacy. However, the study shows and concludes that embassies produce more significant coefficients

for their effect on trade and investment flows as compared to consulates and other foreign representations of lower order.

5.2 Findings

The study found out that, in regard to regional economic integration, Kenya faces challenges to effective regional integration which include prevalence of non-tariff barriers, trade facilitation limitations, and a weak and inefficient institutional infrastructure. This together with inadequate enforcement machinery - economic diplomacy and sanction mechanisms, has made the process slow in its realization thus minimising the outcome of the opportunities at hand. There is dire need for the regional economic communities though they have different integration timelines, disjointed national institutional frameworks, inadequate supply capacity, inefficient trade logistics, and inadequate, to work together in achieving their goals at their ends and focus on the larger African economic growth.

Based on the findings of this study, the following can be deduced. First and foremost, that economic diplomacy is an engine that any developing country should employ to drive its economy. Kenya is maximizing on the availability of the regional market for trade and through this, the country has become a regional hub. Economic diplomacy has become the centre stage of its African affairs and by this move, the country is expected to grow drastically in the next five years. It can be argued that taking an economic front and keeping it low on political affairs will help the country advance its economic interests in the region. It can also be concluded from the study that there is a rising need for Kenya to expand its manufacturing industry to continue having an upper hand in the region.. In this case, Kenya ought to be on the forefront in improving and increasing its manufactured products and improve the quality of its products that

circulate in East Africa. Lastly, the researcher also concluded that the involvement of other stakeholders in Kenya's pursuance of economic diplomacy is an effective strategy adopted by the government in promoting its economic diplomacy. Economic diplomacy in itself cannot be conducted by the government alone. For its full effectiveness, involving third parties ensures that the country is achieving its full potential in the regional and global market. The researcher therefore observed that the ministries of Foreign Affairs and that of East African Affairs, Commerce and Tourism, as well as all high commissions abroad are working hard and need to work even harder, in coordinating with the private sector to enhance strong economic relations in the region.

5.3 Recommendations

Kenya's balancing of export and investment promotion, in trade or foreign policy that facilitates new growth, can be efficiently managed only with the application of precise standards:

1. Reviewing current trade and economic diplomacy policies

First, a model of this nature must be clear on meeting the challenges arising from the global financial crisis. For African countries, this situation is not simply one of 'market failure' that merely needs the intervention of strong state to regulate the bazaar and control the provision or acquisition of development finance. It also concerns developing countries inasmuch as, increasingly, they are under pressure to open their markets although they do not yet have stable and democratic institutions.

This example offers an ideal avenue for interdisciplinary engagement in the development of sound economic policies and practices for future external relations, particularly given the changing nature of the Kenyan state. While the constitution now guarantees checks and balances

in the practice of government, it is evident that there is resistance to the reality of the new order among the executive, legislature and judiciary. There is concern over the perpetuation of information asymmetry by the state in the management of public resources, and over the blocking of civic debate and participation in policy and practice.

2. Improving Bureaucratic Accountability

This mindset stems from a previous environment of lacking accountability, and the prevalence of bureaucratic elitism accustomed to patronage and insularity within diplomacy; it can be broken only by observing basic principles of economic diplomacy that prize broad consultation between stakeholders at different levels. The development of an economic and commercial diplomacy agenda presents an opportunity for creative imagination: to look to integration beyond the European formula; and seek solutions to prevailing challenges within the EAC.

3. Evaluating the Economic Relations between Kenya and Developed States

This is particularly important for balance of trade that is in favor of Kenya. Exploring the effects of continued dependency on the Western world, which is in a state of crisis, is of utmost importance. Considering the previous failure of East African integration initiatives and the lack of a common regional political framework; might it be possible that there would be a repeat of doubts, suspicions, antipathy and stressed relations that could result in a second collapse? Such questions will continue to emerge and can be best discussed in Kenya under the prism of an economic diplomacy framework that makes plans for regional interactions in the promotion of its growth.

4. Understanding domestic and external political economy in a multi-polar world

Effective economic diplomacy requires understanding of both the domestic political economy environment and the external negotiating environment, and the constraints of each. Economic

diplomacy matters to Kenya because the ‘rules of the game’ shape domestic economic policy in important ways, and in an increasingly multi-polar world international economic negotiations are growing in importance across a number of fronts. These may shape domestic and regional economic policies in ways that could be inimical to pursuing sustainable outcomes. Therefore it is necessary to ensure regional interests are articulated and understood very clearly. Such interests include, conducting high-level analytical work and making it publicly available in digestible forms to key Kenyan and their regional and international counterparts.

5.3.1 Area for Further Study

An area for further study suggested by this study is ‘professionalism’ in appointment of diplomatic staff as compared to political appointment. The study suggests further study in the influence of political diplomatic appointments in the effectiveness of economic diplomacy. Based on Kenya’s past appointments particularly, the head of missions are not diplomats by profession but are connected to the appointing authority. While some of these envoys proceed to carry out their diplomatic duties effectively, others do not. Thus further research is needed to ascertain the pros and cons of political diplomatic appointments and how it can influence the effective conduct of economic diplomacy. As discussed earlier in the study, professionalism will be very important particularly in economic diplomacy which requires tactical negotiation and knowledge in engagement with other states.

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APPENDICES

Appendix 1: Letter of Introduction

Anastasia Nzisa Musau

University of Nairobi,

P.O. Box 30197-00100, Nairobi.

Dear Respondent,

RE: INTERVIEW GUIDE

I am a graduate student at the University of Nairobi pursuing a Master in International Studies.

This research project is in partial fulfillment of the requirements for the award of a Masters Degree. This interview seeks to obtain information on the role of Kenyan diplomatic missions and the challenges it faces in economic diplomacy and economic integration. All information received will be treated with utmost confidentiality and the identity of the respondents is optional but where given will also be treated confidentially.

Thank you very much for your time and support.

Yours Sincerely,

Anastasia Nzisa Musau

Appendix 2: Interview Guide

Topic: The Role of Kenyan Diplomatic Missions and the Challenges it Faces in Economic Diplomacy and Economic Integration

Section I:

Respondents' Background

1. Position
2. Period in office

Section II: Background on the Kenyan Diplomatic Missions

3. How are the diplomats and the missions' personnel appointed in bid to professionalize economic diplomacy?
4. What are the challenges in professionalizing diplomacy?
5. What are the services offered by Kenyan Diplomatic Missions?

Section III: The Role of the Kenya Diplomatic Missions

6. What is the role played by the Kenya Diplomatic Missions facilitating economic diplomacy and economic integration in these areas:
 - (a) Export promotion
 - (b) Import promotion
 - (c) International relations

(d) Advisory and consular services

(e) Tourism promotion

Section IV: The Challenges faced by the Kenya Diplomatic Missions in facilitating Economic Diplomacy

7. What are the main challenges faced by the Kenya High Commission in Kampala in facilitating international trade in these areas:

(a) Export promotion

(b) Import promotion

(c) International relations

(d) Advisory and consular services

(e) Tourism promotion

8. How can the challenges faced by the Kenya Diplomatic Mission be overcome?

THANK YOU