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INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES (IDIS)

The Role of Economic Diplomacy in Advancing Kenya's Development Interests:

The Case of the 'Look East Policy' 1963-2013

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Studies (IDIS), University of Nairobi**

DECLARATION

I hereby declare that this research proposal is my original work and has not been submitted to this or any other institution.

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Date_____

DEDICATION

This thesis is dedicated to my late father, Mr. James Njuguna Gikonyo and my mother Margaret Wanjiru, who encouraged and never stopped believing in me.

I also dedicate this thesis to my loving husband Kihoro Cerere who has been a great source of motivation and inspiration.

Finally, I dedicate this thesis to my lovely children, Cerere, Joyce and Margaret. May my work be an inspiration to them to always be seekers of knowledge.

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ABBREVIATIONS

AU	African Union
CNN	Cable News Network
COMESA	Common Market for East and Southern Africa
ECOWAS	Economic Commission of West African States
EEC	European Economic Community
EPZ	Export Processing Zone
EU	European Union
FCO	Foreign and Commonwealth Office
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IAPD	Inter Agency Partnership for Development
IGAD	Inter Governmental Agency for Development
ILO	International Labour Organization
IMF	International Monetary Fund
ISO	International Standards Organization
KANU	Kenya Africa National Union
LAPSSET	Lamu-Southern Sudan-Ethiopia Transport Corridor
NAFTA	North American Free Trade Association
NIC	Newly Industrialized Country
NSA	Non State Actor
OAU	Organization of African Unity
ODA	Overseas Development Assistance
PTA	Preferential Trade Area
SALW	Small Arms and Light Weapons
SAP	Structural Adjustment Programme
UAE	United Arab Emirates
UK	United Kingdom (of Great Britain and Northern Ireland)
UN	United Nations
UNDP	United Nations Development Programme
USA	United States of America
USD	United States Dollar
WTO	World Trade Organization

ABSTRACT

The end of the cold war triggered a reversal in the political and commercial polarity of the world. There have been a series of shifts from the ideological East-West divide that defined states within an either capitalist or communist framework that relied principally on political structure to define economic inclinations to one defined largely by economic interests. In other words, economic considerations appear to define political decisions rather than the other way around. As a result, there has also been a change in the nature of diplomatic relations among states shifting from the conventional military-political concerns that characterized the cold-war years to economic interests dominating the post cold-war era. Nominally, it is observed that the current iteration of global polarization is North-South, pitting developed against developing economies. Amongst the developing countries, the Eastern and Southern Asian regions specifically China and India are registering unprecedented rates of growth. The awakening of these eastern ‘tiger’ and ‘dragon’ economies is one of the drivers of increased Afro-Asian commercial and diplomatic exchanges and is a testament to the new trends in South-South relations.

The thrust of this study centres on the increased importance of economic strategies as a path to pursuing national interests in Kenya’s foreign policy. It argues that the ascendancy of economic considerations represents a shift in appreciating foreign policy from a principally political perspective as shaped by ideological persuasions to a more economically driven approach. In all instances it shows how pragmatic considerations whether political or economic have consistently determined the direction of Kenya’s foreign policy. Specifically, it traces how Kenya’s relations with Asian countries have evolved over time as economic diplomacy has unshackled itself from ideological determinants and examines the effect on political and trade relations with western partners in the global north. Finally, it examines the immediate

and long-term choices that Kenya has to make to sustain the new policy direction that has opened up opportunities for eastern countries to exercise greater influence in Kenya's international relations.

CHAPTER ONE

INTRODUCTION TO THE STUDY

Introduction

2002 was a watershed year in many respects for Kenya. The turn of the millennium ushered in a new Kenyan administration in the post cold-war world. The departure of the Moi administration (in some aspects arguably a perpetuation of Kenyatta's *Ancien Régime*) triggered a tectonic shift in both domestic and foreign policy. From a foreign policy perspective, post-independence Kenya may have subscribed to the ideology of the non-aligned movement during the cold war decades of the 1960s and 1970s but it was patently pro-western in practice.¹ What was initially merely a policy inclination under Kenyatta evolved into a *de jure* policy position during the Moi years. This is true especially during the 1980s² and particularly over the second but abruptly terminated tenure of Kenya's foreign minister Dr. Robert Ouko. As the military and political considerations that dominated relations with western countries in the cold-war era begun to fade, new dynamics especially the economic considerations that influenced the recalibration of aid flows emerged to take their place. These were also manifested in the imposition of aid conditionalities and structural adjustment programmes (SAPs) on developing countries by the western dominated Bretton-Woods institutions. As a result, relations between many developing countries and their western partners began to cool considerably. At the same time the economic power and international influence of Asian states begun to rise. In seeking to exercise this new-found influence they also began to build alliances with developing countries not just as sources of raw material and markets for their

¹ Percox, David A. (2004) *Britain, Kenya and the Cold War: Imperial Defence, Colonial Security and Decolonization*. Macmillan, pp. 229-230

² Makinda, Samuel M. (1983) *From quiet diplomacy to cold war politics: Kenya's foreign policy*. Third World Quarterly [Revised 2007] Vol. 5, No. 2, pp. 300-319

manufactured goods but also as partners in challenging the dominance of the global north. One of the consequences of these changes has been a marked intensification of relations with East Asian countries such as Malaysia, Thailand, Singapore and China. A review of concurrent trends and events on the global stage reveals that this is no coincidence. Kenya's relations, especially in the economic arena have simultaneously escalated with the rise of the new Asian economic powerhouses.

One of the assumptions that this study hinges upon is that with end of the cold war, the world begun experiencing a transposition in political and commercial polarity. From the ideological East-West divide that shepherded states into either capitalist or communist camps, the divide is now dominated by a series of categorizations ranging from racial to religious to economic. Perhaps the most relatable is the North-South polarization, pitting developed against developing economies. Analysts observe that competition between India and China on one hand and emerging economies in the east and developed economies in the west are some of the drivers of increased Afro-Asian commercial and diplomatic exchanges and a testament to the new trends in South-South relations.³ Consequently, this study argues that Kenya's foreign policy under the regimes of Kenyatta, Moi and Kibaki administrations has concurrently shifted to respond to these changes in the global order.

The study is focused on the rising prominence of the economic dimension in Kenya's foreign relations in the face of the more conventional military-political concerns that characterized the cold-war years. It argues that the emerging dimension of economic diplomacy in Kenya represents a pragmatic shift in foreign policy concerns from an ideological focus to a more economic focus. Specifically, it traces the evolution of diplomatic relations with the rising Asian Tiger economies, particularly the People's Republic of China and juxtaposes these against relations

³ Broadman, Harry G *et al.* (2007) *Africa's Silk Road; China and India's new economic frontier*. World Bank pp. 41

with traditional western partners. It also analyses the perceived simultaneous shrinkage in relations with these traditional western partners and the ramifications of the alleged policy recalibration. Finally, it examines the immediate and long-term implications for Kenya resulting from this diversification in foreign policy that has presented eastern actors with the opportunity to play a more prominent role on the Kenyan stage.

1.1.STATEMENT OF THE RESEARCH PROBLEM

The proliferation of nuclear, biological, chemical and even conventional weapons technology amongst non-superpower states such as China, India and Pakistan, North Korea and Iran has allowed these countries to gain military capabilities that have accelerated their ascendancy within the international community. Consequently, these upcoming powers are capitalizing on their increased political, military and economic capabilities to mount a credible challenge to western hegemony that prevailed for the last 250 years. Free market economics have also fuelled competition between predominantly western states and rising eastern economies for natural and energy resources as well as consumer markets, particularly in Africa. A variation of the saying '*when the elephants fight, it is the grass that suffers*' is to be found in most if not all African oral traditions. Similarly, history is replete with instances in which conflict among the major powers has been conducted through proxies with the theatres of war and intrigue far removed from the homeland of the principal antagonists. If war is the continuation of politics by other means,⁴ this study will examine whether economics is the continuation of war by other means. It is therefore vital to examine the implications and impact on Kenya as a result of its elevated economic engagement with Eastern countries especially the People's Republic of

⁴ von Clausewitz, Carl in Howard, Michael, and Peter Paret, (Ed.) *Clausewitz and the State: The Man, His Theories and His Times* (Princeton University Press, 1985). pp. ix and 393

China. Overall, this study examines and analyses the trajectory of Kenya's economic relations with East Asian countries particularly China and assesses the impact it has had on its overall relations with traditional trading partners in the west, specifically the United Kingdom, the United States and European Union states such as Germany, the Netherlands and France and the Scandinavian countries, especially Sweden.

Research Question:

Is the adoption of economic diplomacy a more effective strategy in pursuing Kenya's national interests compared to the traditional approaches that prevailed between 1963 and 2002?

1.2.OBJECTIVES

1. To examine the emerging dimensions of economic diplomacy in international relations at the global level
2. To outline the progression of Kenya's foreign policy since independence with a view to outlining the internal and external variables that have influenced the direction favoured by different regimes
3. To trace the role of economic diplomacy within Kenya's foreign policy framework with a view of tracking its ascendancy over traditional forms of political and military diplomacy
4. To illustrate the contribution and effectiveness of Kenya's 'look east' policy as an approach to advancing Kenya's economic growth and development interests

1.3.LITERATURE REVIEW

This section examines the various continuing debates and narratives in academic literature regarding economic diplomacy as tool of foreign policy. It has

been split into units relating to the three areas outlined under the objectives of this thesis. It begins by reviewing what modern scholars have distilled from their surveillance of Kenya's relations with rising East Asian states. The review concludes with a recapitulation of the main themes in the literature reviewed and includes those aspects of Kenya's 'look east' policy that require further analysis.

The literature review begins with defining the concept of economic diplomacy. This is addressed by a number of scholars notably Bayne and Woodcock who shy away from providing a concrete definition of economic diplomacy and instead break down the definition of economic diplomacy into four distinct elements⁵. First are the actors. This concerns the external economic relations between state and non-state entities. Second is the management, coordination, regulation and arbitration of international economic issues. Third are the instruments through which the actors engage on the international economic issues and finally, the market environment in which all of these dynamics play out.

A more precise definition is supplied by actual practitioners of economic diplomacy such as Pavol Baranay who posits that economic diplomacy assumes the diplomatic official activities that are focused on increasing exports, attracting foreign investment and participating in the work of international economic organizations⁶. Baranay situates economic diplomacy to denote the activities that concentrate on the acknowledgement of economic interests of the country at the international level. Actions by states are usually guided by national interest, either in the form of security interests, economic interests or other forms of interest. There is increasing acknowledgement that the traditional realist concepts of interpreting the actions of states principally through the lens of conventional security is being overtaken by neo-realist appreciations that acknowledge other factors especially economic ones.

⁵ Bayne, N and Woolcock, S (2003) *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*, Ashgate Publishing

⁶ Baranay, P. (2009) *Modern Economic Diplomacy*, Diplomatic Economic Club, pp.1

Economic diplomacy is also the principal means through which international economic policy issues are addressed. This is mainly carried out through international institutions and organizations for instance the East African Community, (EAC), World Trade Organization (WTO), Economic Community for West African States, (ECOWAS), and the European Union, (EU). The rise of economic diplomacy has pushed trade attaches into the limelight as they seek means of promoting and protecting the national interests of their home states through trade.

Scholars such as Borchmeyer *et al* who contrast both public and economic diplomacy contend that the global economic downturn in the fall of 2009 triggered a shift in the security paradigm back towards economic diplomacy.⁷ Governments are now focusing on how to achieve economic security as a foreign policy objective. For instance, the U.S. has been pursuing a deliberate policy of ‘economic statecraft’ that seeks to harness the forces and tools of global economics to strengthen American diplomacy and presence abroad while at the same time strengthening the domestic economy.⁸ The intention of this approach is to go beyond mere wealth creation for the United States and advances into the creation of power. In other words, it is the use of economic means to pursue political objectives.⁹

Mavlanov contends that states are increasingly adopting a hybrid approach that combines economic and political diplomacy to advance their foreign policy objectives¹⁰. For instance, the United States applies economic diplomacy to penetrate new market territories as a means of extending its spheres of influence and to expand its domestic economy. Borchmeyer *et al* point to the different strategies applied by America’s State department in pursuit of national economic objectives that include; trade facilitation, commercial diplomacy; energy diplomacy; social innovation and

⁷ Borchmeyer *et al* (2012) *Exploring Public and Economic Diplomacy*, Columbia University, pp. 8, 37-59, 73-78, 119-135

⁸ Hillary Rodham Clinton. “*Economic Statecraft*.” Remarks. [Online] Available at: http://seoul.usembassy.gov/p_c_sk_101411.ht

⁹ Baldwin, D. A (1985) *Economic Statecraft*, Princeton University Press Pp. 40

¹⁰ Mavlanov, I.R (2008) *Economic Diplomacy at the beginning of the 21st century*, Kazakhstan in Global Processes (Journal article)

entrepreneurship and public-private partnerships between American firms and entities in the host countries.¹¹

Similarly, practitioners of British economic diplomacy such as former Foreign Secretary William Hague, focus on the global advancement of UK business interests to support domestic employment and economic growth¹². The UK pursues a strategy of building influence in new trading hubs and high-growth economies of the 21st century and important markets in Europe and the United States. The Foreign and Commonwealth office has reoriented its diplomatic corps from political to commercial duties that entail the establishment of mercantile contacts, engagement with captains of industry and building the profile of British companies to enable them to remain competitive in a global market.¹³ Bayne categorizes British commercial diplomacy into three broad clusters of activity; information, connections, and promotion.¹⁴

Bayne and Woolcock, provide a blow-by-blow analysis of the variety of strategies in economic diplomacy as applied by different countries.¹⁵ For instance in the UK, they contend that economic information revolves around the collection and dissemination of commercially relevant information and conducting market research through networks of economic and trade attaches in British foreign missions overseas. This manifests itself in initiatives such as the Export Marketing Research Scheme and Export Communications Review. Economic connections involve the establishment and development of commercial networks between state and non-state actors in the trade, finance and other economic sectors. The UK achieves this through institutions such as the Overseas Market Introduction Service. Economic promotion relates to the promotion of British goods and services for consumption by overseas markets. On

¹¹ Borchmeyer *et al* (2012) Op. Cit

¹² Hague, W. (2012) *Championing Britain through commercial and economic diplomacy*. Speech delivered to FCO Prosperity Forum <http://ukincanada.fco.gov.uk/en/news/?view=Speech&id=843455182> [Retrieved 10th February 2013]

¹³ *ibid*

¹⁴ Bayne, N. (2010) *Economic Diplomat*, Memoir Publishing

¹⁵ Bayne, N.; Woolcock, S. [Eds.] (2007): *The new economic diplomacy: decision-making and negotiation in international economic relations*. - 2nd ed. - Aldershot: Ashgate Pp. 41-59

the other hand, the authors argue that Germany does not have an official policy of economic diplomacy, although it maintains several programs to promote and facilitate exports as well as to increase inward and outward investment.¹⁶ According to them, Germany employs several nation-branding initiatives, and the German Foreign Service uses its diplomatic channels to support companies doing business abroad. The country has an extensive international network of Chambers of Commerce, which serves as the primary vehicle for public-private partnership between the government and the private sector. The network provides a large range of services, with particular focus on promoting small and medium-sized companies.

In the same publication, they posit that Turkey's foreign policy has undergone a radical shift over the last decade, focusing less on the European Union and more on the Middle East, Central Asia, and the Islamic world at large, ultimately diversifying its export market and tourist base.¹⁷ Furthermore, Turkey has taken a leadership role in building oil and gas pipelines across Central and South Asia, in an attempt to become a leader in the region and an energy hub for Europe, positioning itself to compete with Russia. Finally, Turkey has historically employed a "zero problems" strategy aimed at easing strife with its neighbours in order to further diversify its export and Foreign Direct Investment markets.¹⁸ However, this policy has been unofficially reversed over the last five years under the less secular and socially conservative Justice and Development Party, *Adalet ve Kalkınma Partisi* (AKP) potentially harming Turkish economic endeavours.¹⁹

Whilst observers of Turkey's foreign policy such as Keyman argue that its growth strategy is oriented in-ward, China relies heavily on world markets for

¹⁶ Ibid

¹⁷ Ibid pp. 56-57

¹⁸ Keyman, E.F and Gumuscu, S (2014) *Democracy, Identity and Foreign Policy in Turkey: Hegemony Through Transformation*, Palgrave Macmillan, Pp. 76-78

¹⁹ Aydin-Düzgit et al (ed.s) *Global Turkey in Europe: Political, Economic, and Foreign Policy Dimensions of Turkey's Evolving Relationship with the EU* (2013) in Istituto Affari Internazionali - Roma (IAI) research paper *Edizioni Nuova Cultura*, Pp. 32-33, 81 and 215-217

economic growth where exports and imports comprise over half (53%) of its Gross Domestic Product (GDP).²⁰ Besides the revenues gained from conventional trade, China is also heavily dependent on Foreign Direct Investment to finance its massive infrastructure development projects. These two facets of the Chinese economy have prompted it to engage in a more aggressive strain of economic diplomacy that is akin to the economic statecraft applied by the United States. China uses strategic aid projects as a tool of economic diplomacy not only to win future business deals, but also to secure political support for the “One China Policy” from major trading partners such as Australia.²¹ China uses its sovereign wealth fund to invest in global multinationals and sovereign debt instruments for non-commercial and strategically beneficial geopolitical purposes.²² Lastly, China allegedly manipulates its official GDP and economic figures to allow for a continued management of its undervalued currency, in order to maintain favourable export conditions.²³

Bayne and Woolcock contend that India has focused its economic diplomacy efforts on competing with its rising neighbour, China.²⁴ As a result, India has embarked on a tack of aggressive economic diplomacy as well, focusing its efforts on training diplomats to be financially and economically literate. Naendra Modi’s BJP government set a goal of double digit GDP growth for India between 2014 and 2024.²⁵ In order to meet this goal, India promotes Indian products abroad in strong import markets and, more importantly, tries to attract increasing levels of FDI.²⁶ India has set up its own aid agency, the Development Partnership Administration (DPA), which oversees USD 15 billion in funds to be dispersed over the next five years

²⁰ World Trade Organization (2013) *Trade Profiles 2013* available at http://www.wto.org/english/res_e/booksp_e/trade_profiles13_e.pdf [Retrieved 18 May 2014]

²¹ See the Taiwan brief from Australia’s Department of Foreign affairs and Trade available online at http://www.dfat.gov.au/geo/taiwan/taiwan_brief.html [Retrieved 12 May 2014]

²² Bayne, N.; Woolcock, S. op. cit. Pp. 183

²³ Sanford, J.E (2011) *Currency Manipulation: The IMF and WTO*, Congressional Research Service available at http://assets.opencrs.com/rpts/RS22658_20110128.pdf [Retrieved 06 August 2013]

²⁴ Ibid

²⁵ BJP official website (2014) <http://www.bjp.org/en/core-issues/vision-of-modi> [Retrieved 22 August 2014]

²⁶ ibid

between 2014 and 2019.²⁷ The Foreign policy handbook for Brazil reveals that the country views its economic diplomacy as an opportunity to use global economic forces to create a more equitable world.²⁸ It aims to become the premiere Latin American trading partner for nations around the globe. Key strategies include building a solid Brazil Brand, aggressively pursuing new markets abroad and marketing itself as an innovative leader in developing green technology.²⁹

Igor Ivanov Russia's foreign minister in his book 'The New Russian Diplomacy' states that Russia views economic diplomacy as an instrument of engagement with the EU and as mechanism of maintaining relations with the former soviet republics.³⁰ Critics of this policy such as Mikhail Khordokovsky contend that Russia's economic diplomacy is realpolitik in disguise.³¹ The school of public affairs, Columbia University observe that although Russia cannot reclaim the physical borders of the former Soviet Union, the country is attempting to recoup the economic space through customs unions and heavy persuasion.³²

Literature on Kenya's approach to economic diplomacy is scanty, more so in relation to engagements with Asian countries. However, in analysing the continuum of Kenya's relations with the east, Chege's work on Kenya-China relations is a good starting point. In it he demonstrates that the nature of interaction between the two states has been mercurial. From this it emerges that despite a warm start immediately after independence, relations between the two states deteriorated rapidly in the atmosphere of the cold war.³³ The genesis of the power-play between Kenya and China begun when the then Chinese premier Chou En-Lai alluded to the "excellent

²⁷ The Sunday Guardian (2012) <http://www.sunday-guardian.com/news/india-sets-up-global-aid-agency> [Retrieved 22 August 2014]

²⁸ Brazilian Foreign Policy Handbook http://funag.gov.br/loja/download/454-Brazilian_Foreign_Policy_Handbook.pdf [Retrieved 22 August 2014]

²⁹ *ibid*

³⁰ Ivanov, I (2002) *The New Russian Diplomacy*, Brookings Institution Press Pp. 141-159

³¹ Khordokovsky, M (2013) Interview with *Le echo Magazine* available at <http://www.khodorkovsky.com/writings-and-interviews/khodorkovsky-economic-diplomacy-is-a-new-name-for-realpolitik/> [Retrieved 22 August 2014]

³² School of International and Public Affairs, Columbia University. *Exploring Public and Economic Diplomacy*, Capstone Project Final Report – Spring 2012

³³ Chege, Michael (2008) *Economic Relations between Kenya and China, 1963–2007*, Centre for International and Strategic Studies.

revolutionary situation in Africa”³⁴ as part of a farewell speech delivered in socialist Mogadishu in 1964 following an African tour that included Kenya.³⁵ However, in the new millennium particularly during the administrations of Hu Jintao and Mwai Kibaki, economic statecraft has begun to take centre stage in shaping the relations between the two countries.

A more seminal work that critically examines the emerging economic dimension in foreign Kenya’s relations is Mwangi’s analysis. He concludes that the eastward focus of Kenya’s foreign relations is not a policy position, but an approach.³⁶ He goes further to summon a body of evidence that shows Kenya’s foreign policy is weak and therefore cannot be substantively used to conclude that a concrete, objective-driven policy regarding relations with emerging Far East economies exists. In support of this position are Okumu’s writings in which he asserts that economic diplomacy in Kenya’s foreign relations with China has been driven bilaterally through direct engagements on a needs basis rather than by a deliberate long-term engagement based on strategic interests. He states that bilateral and multilateral engagements with China through international bodies such as the WTO have not been prominent not only in Kenya, but a majority of Sub-Saharan countries.³⁷ Though China and Sub-Saharan Africa have staged a number of international fora, they were more *ad hoc* and exploratory in nature and used to articulate generic policy positions, which could then be customized for bilateral relations.

³⁴ (1964) “Chou En-lai on Safari,” *China Quarterly*, no. 18 (April- June), pp. 174-194.

³⁵ Patman, Robert G. (2009) *The Soviet Union in the Horn of Africa: The Diplomacy of Intervention and Disengagement* pp. 86

³⁶ Mwangi, M. (2006) *Foreign Policy, Economic diplomacy and Multilateral Relations; Framing the Issues in Kenya’s Emerging Asia-Pacific Policy*. Africa Review of Foreign Policy, USIU

³⁷ Okumu, John J. (1979) “Foreign Relations: Dilemmas of Independence and Development,” in *Politics and Public Policy in Kenya and Tanzania* by Joel D. Barkan and John J. Okumu (eds.). New York: Praeger, pp. 239-266

1.4. STUDY JUSTIFICATION

The end of the cold war has resulted in a shift in the nature of international relations as shaped by military and political ideology. This has necessitated a change in the skill sets and tools used by diplomats in international engagements. Kenya has not been left in this trend and it is for this reason that it also needs to groom its diplomatic corps in negotiating the commercial and economic aspects of its relationship with other countries. If Kenya is to engage effectively in international discourses, the majority of which are now anchored around economic interests and capitalize on the much-vaunted African renaissance, the country must rely on a cadre of proficient envoys who are adequately equipped to negotiate favorable commercial relationships. As such, Kenya's official representatives to foreign states and other international actors should broaden their scope of engagement beyond the conventional political sphere to encompass economic interests as well. This study will therefore contribute to enhancing existing knowledge on how to most effectively apply Kenya's 'look east' policy in advancing the country's national interests.

1.4.1. Academic Justification

The literature review shows that economic diplomacy is a fairly new area of study not just at the global level but particularly so in the case of Kenya. Subsequently, there is an understandable dearth of material on this subject upon which scholars, policymakers and practitioners can rely in making assessments of effectiveness and originating recommendations for improvement. This study therefore aims to fill the knowledge gap on the practice of applying economic diplomacy in pursuit of national interests. The findings, conclusions and recommendations contained in this study will serve as an invaluable resource and reference point for academics and policy professionals who are charged with the responsibility of

grooming current and next generations of diplomatic officials to become proficient in appreciating the economic dimensions of Kenya's national interests, commercial negotiations and the regulatory framework of international trade.

1.4.2. Policy Justification

Kenya's Ministry of Foreign Affairs has recently concluded the process of recalibrating and distilling Kenya's changing foreign policy direction within the context of a fluid economic world order. The outcome of this is the Kenya Foreign Policy Document (Published November 2014) and the diaspora policy document (Published June 2014). Consequently, the Ministry of Foreign Affairs and international Trade has embarked on a policy implementation path that sees the advent of regulatory and administrative initiatives designed to realize policy objectives. This study is therefore poised to make a momentous contribution to ongoing dialogues on implementation of Kenya's foreign policy objectives and possibly influence official interventions and documents for instance the draft international trade policy which are designed to capture and express the country's outlook with regard to external engagements.

1.5. THEORETICAL FRAMEWORK

This paper will rely on realism as the theoretical framework. Specifically it will gravitate toward structural realism (neo-realism) as a subset of realism³⁸. Within this subset the study will adapt Kenneth Waltz's appreciation of realism as the model within which to populate our research as rendered by Steven Lamy³⁹. In his book Lamy presents two arguments made by Waltz that dovetail perfectly with this thesis; One, that even though the international system is defined by anarchy, it is *structured anarchy* or to paraphrase, the international system is characterized by 'organized

³⁸Ferike, K.M. *International Relations: Theories, Discipline and Diversity* Dunne, Kurki and Smith, OUP, p.167 http://www.oup.com/uk/orc/bin/9780199298334/dunne_chap04.pdf [Retrieved September 11, 2012]

³⁹Lamy, Steven, *Contemporary Approaches: Neo-realism and neo-liberalism in "The Globalization of World Politics*, Baylis, Smith and Owens, OUP, 4th Ed, p127

chaos'. Waltz examines these 'organizing structures' and contends that the influence of structures must be taken into account in explaining state relations. Secondly, Waltz acknowledges that there is no such thing as *absolute power* and instead maintains that there are *degrees* of power resulting from a combination of a state's capabilities⁴⁰. Consequently, state capability is a function of several factors *inter alia* territorial coverage, geostrategic positioning, energy and natural resource reserves, technological advancement, population quality and size. Therefore, there is no single state that enjoys an absolute advantage in all these areas. This aspect of the model is what supports the arguments for cooperation in the presence of hegemony without according undue credit to international institutions as is to be found in the asymmetrical relationship between Kenya and China.

This framework supports the conceptual approach preferred by this project where it deviates from classical realism and insist on a broader definition of power beyond mere military capability. As a result, the appreciation of power-relations between Kenya and China will also be altered to accommodate both conventional 'hard' power that manifests itself in politico-military hegemony and 'soft' power that is visible in the economic and socio-cultural spheres. With this in mind it is imperative that other frameworks of understanding power-relations that are not accommodated within the realm of classical realism are called into play and provide an avenue for the examination of the economic dimension of Kenya's 'look east' policy within a realist framework.

1.6.HYPOTHESES

1. Globally, economic diplomacy has grown in significance at the expense of conventional political diplomacy

⁴⁰ Ibid pp.127-128

2. Kenya's foreign policy is reactive; having been variously influenced by the self-preservation instinct of successive regimes and a series of fundamental changes in the status and outlook of influential foreign partners.
3. Kenya's 'look east' policy is predicated primarily on economic rather than political interests
4. Kenya's 'look east' policy has resulted in higher levels of economic growth and development compared to the previous 'look west' policy

1.7.METHODOLOGY

The study will be guided by a qualitative research design in general with case studies of Kenya's relations with the People's Republic of China, India, Thailand, Malaysia and South Korea constituting the specific research design. The phenomenon under study in this instance will be the economic aspects of Kenya's diplomatic relations with these Asian economies. The multiple sources of primary evidence are expected to emanate from the various data sources in the public sector specifically the relevant line ministries in Kenya and the corresponding diplomatic and trade missions of the selected Asian countries. This is in line with the research questions guiding this study, which aims to analyze among other things why, and how Kenya has employed economic diplomacy to engage East Asian Countries. The enquiry will focus on determining what considerations guided Kenya's decision to engage in economic diplomacy, reasons behind the decision to upscale the engagement with East Asian states and how these decisions are being operationalized on the domestic and international arenas. Furthermore, it will look at the risk management measures the country has activated in response to the hazards of 'look east' and what is the impact of this risk exposure with its traditional regional and international partners in the west.

The study will employ non-probability purposive sampling. This type of sample is "hand-picked" for the research. This technique will be employed because it is only appropriate individuals in the selected institutions that have the capacity to provide correct answers to the research questions. The study will use structured questionnaires and discursive interviews to collect the qualitative data. Categorical and qualitative data, defined as data whose values cannot be measured numerically but can be classified into sets according to the elements in which it is placed is expected to be collected. The questionnaire will be tailored to accommodate both open ended and closed questions; this is meant to draw out more information from the respondents. The first part of the questionnaire will deal with introductory issues, the second part will tackle the research questions as stipulated in chapter one. The data collected will be presented in a narrative form capturing the general views of the respondents' opinions and qualitative responses to the study.

CHAPTER OUTLINE

The study is presented in the following six chapters:

Chapter 1: Introduction to the Study.

Chapter 2: Kenya's foreign policy 1963 - 2013

Chapter 3: Economic diplomacy globally

Chapter 4: Kenya's 'look east' policy

Chapter 5: Presentation of findings and data

Chapter 6: Conclusions and Recommendations

CHAPTER TWO

Kenya's Foreign Policy 1963 - 2013

Introduction

Between 1963 and 2006, Kenya did not have a recognizable, codified foreign policy document. This documentary lacuna triggered debate among scholars and policy practitioners on whether a country can have a credible foreign policy in the absence of a written document.¹ The result of the flexibility accruing from an unwritten foreign policy is that Kenya's foreign relations have been characterized by a constant re-adjustment to external realities. It is upon this basis of continuous change that some scholars, policymakers and practitioners have argued that the country has not had a coherent policy since independence.² However, this does not mean that the country was completely lacking in a framework to guide and govern its foreign relations. In the absence of a codified document that laid out the tenets of foreign policy, Kenya hinged the conduct of its international affairs on a set of clear principles as articulated in the KANU manifesto of 1963.³ The basic principles that have remained constant are; respect for sovereignty and territorial integrity of other states and preservation of national security, good neighbourliness and peaceful co-existence, peaceful settlement of disputes and non-interference in the internal affairs of other states, non-alignment and national self-interest and adherence to the Charters of the United Nations and the African Union (AU).⁴ It is the means towards achieving foreign policy objectives that has tended to evolve, expand and contract in response to

¹ Mwagiru, M (2006) *Issues, Problems, and Prospects in Managing the Diplomatic Services in Small States*, The Fletcher Forum of World Affairs Vol. 30:1 Winter 2006 Pp. 193-206

² Kenya National Assembly Official Record (Hansard) 12 Oct 2010 also Maina, A.T (2014) *Dependency Approach to Kenya's Foreign Policy and the Concept of Independence*, available at <https://theforeignpolicyanalyst.wordpress.com/tag/kenya-foreign-policy/> [Retrieved 30 April 2014]

³ Kenya African National Union and Kenyatta, J. *The KANU Manifesto for independence, democracy and social stability (E Book)*. Originally published by Patwa News Agency (1961, subsequently revised in 1963, 1969, 1983, 1988 and 1997)

⁴ *ibid*

geopolitical changes in the international system.⁵ Similarly, some of the changes in foreign policy approaches can be attributed to each of the four successive regimes that have been in office over the last 50 years. It is therefore in the animation of these principles, that there have been both subtle and stark differences among the different administrations.

Maxon argues that the first iteration of Kenya's foreign policy was crafted at the height of the cold war and carried with it the legacy of colonialism.⁶ Orwa lends credence to this position and further argues that in spite of Kenya being a newly independent country, it did not have the opportunity to establish an independent diplomatic tradition.⁷ As a result, the ideological polarization that prevailed at the time played a significant role in shaping the foreign policy choices that the country had to make. For instance, non-alignment meant that Kenya had to balance its commitment to principles of liberal economics whilst at the same time engaging with the ideologically opposed Eastern bloc. Although Sessional Paper No. 10 of 1965 firmly defined Kenya's economic model as capitalistic, the country nonetheless subscribed to the ideology of African socialism as a means to walking the 'middle path'.⁸ Furthermore, the country maintained friendly relations with the Soviet Union to the extent of receiving development funding that was used to construct Nyanza Provincial General Hospital.⁹ With over half of Kenya's foreign policy having been practiced against this backdrop, and the sudden changes presaged by the end of the cold war in 1990, the country has attempted to navigate the unstable terrain of a less structured, post cold war world over the past 23 years. The absence of a distinct

⁵ Orwa, K. D (1994) *Continuity and change; Kenya's foreign policy from Kenyatta to Moi*. In *Politics and Administration in East Africa*. Oyugi, W. (ed.) East African Educational Publishers, Nairobi Pp. 298

⁶ Maxon, R.M (1994) "The colonial Roots", In Oyugi, W. O., (Ed.), *Politics and Administration in East Africa*, East African Educational Publishers, Nairobi, Pp. 33

⁷ Orwa, K. D (1994) *Continuity and change; Kenya's foreign policy from Kenyatta to Moi*. In *Politics and Administration in East Africa*. Oyugi, W. (ed.) East African Educational Publishers, Nairobi Pp. 298

⁸ Kenya National Assembly (1965), *African socialism and its application to planning in Kenya*

[http://siteresources.worldbank.org/INTAFRICA/Resources/257994-1335471959878/Sessional-Paper-No-10-\(1965\).pdf](http://siteresources.worldbank.org/INTAFRICA/Resources/257994-1335471959878/Sessional-Paper-No-10-(1965).pdf)

⁹ Ochieng' W.R (1989) *A Modern History of Kenya: In honour of B.A. Ogot*, Evans Brothers (Kenya) Ltd. Pp. 229-238

foreign policy document has therefore had mixed results. On one hand, it granted the country unfettered flexibility in its external relations but on the other hand, it mitigates the risk of foreign policy formulation and practices that serve only the interests of the elite.¹⁰

2.1 Principles of Kenya's Foreign Policy

Kenya relied on generic principles to give the conduct of its foreign relations a level of predictability. These generic principles were distilled into the four main pillars of Kenya's pre-millennium foreign policy. These are respect for territorial integrity, economic development, non-alignment and good neighbourliness.¹¹

The first pillar was crafted to contain the immediate threat of Somali secessionists in the Northern Frontier District. Secessionism and annexation were the primary fears faced by many of the newly independent African countries.¹² The result was that respect for territorial integrity featured prominently in their foreign policies. Territorial integrity also formed one of the cornerstones of the foundational charter of the Organisation of African Unity in which respect for existing national boundaries and non-interference in the internal affairs of member states were emphasized.¹³ According to Okumu, the intents of the Somali secessionists in Kenya's North Eastern province elevated the importance of securing national frontiers as a principal consideration by the central government¹⁴. In the pursuit of this objective, Kenya presumed that a good neighbour policy based on mutual understanding and non-interference was

¹⁰ Mwagiru, M (2006) Op. cit. Pp. 196-197

¹¹ Orwa, K. D (1994) Op. cit. Pp. 302

¹² Bereketiab, R. (2012) *Self-Determination and Secession; A 21st Century Challenge to the Post-colonial State in Africa*, Nordic Africa Institute, available at <http://www.diva-portal.org/smash/get/diva2:567296/FULLTEXT01.pdf> [Retrieved 03 June 2014]

¹³ Keller, E. J, (2007) *Secessionism in Africa*, Journal of African Policy Studies, Vol.3 No.1 of 2007 also OAU, (1963) *OAU Charter, Article III (principles)* available at http://www.au.int/en/sites/default/files/OAU_Charter_1963_0.pdf [Retrieved 03 June 2014]

¹⁴ Okumu, J. (1973) 'Kenya's Foreign Policy' in *The Foreign Policy of African States*, Hodder & Stoughton, (1997) pp.136-137

essential to reducing the security dilemma inherent to the region.¹⁵ The aim was for Kenya to boost the security of both its people and territory from external aggression especially from actors in the region. The country sought to position itself as a militarily capable, yet non-aggressive state.¹⁶ To round off the ‘hard’ strategies applied in securing its frontiers, Kenya pursued a ‘soft’ strategy that entailed vigorous economic development through economic co-operation and cultural exchanges with its trading partners both regionally and internationally.¹⁷

Makinda argues that from the beginning, Kenya’s foreign policy was multi-faceted and it pursued several objectives that were equally important simultaneously.¹⁸ He states that Kenya’s foreign policy hinged on the need to attract more foreign investment, maintain commercial links with principal trading partners, ensure the stability of its neighbours and consolidate the domestic political power base. In pursuit of those goals, Makinda argues that Kenya applied two different strategies; the development of the wider East African market and the maintenance of friendly economic and military relations with the United Kingdom.¹⁹ Khapoya examines Kenya’s foreign policy through the lens of relations with the west particularly with the United States of America.²⁰ He tries to determine the extent to which this relationship mediated Kenya’s foreign policy behaviour. He concludes that Kenya’s motivation in engaging with powerful western nations was to protect its borders and to improve the state of its economy.²¹

¹⁵ Orwa, K. D (1994) Op. cit. Pp. 304-306

¹⁶ *ibid.*

¹⁷ Orwa, K. D (1994) Op. cit. Pp. 315

¹⁸ Makinda, S. (1983) *From Quiet Diplomacy to Cold War Politics: Kenya's Foreign Policy*, Third World Quarterly, Vol. 5 No. 2 April 1983 Pp. 300 - 319

¹⁹ *ibid.*

²⁰ Khapoya, V. (1981) *Political Economy and Foreign Policy of Kenya*, African Studies Association (ASA) Bloomington, Indiana.

²¹ *Ibid.*

Oyugi states that John Howell is possibly the first scholar to undertake a comprehensive look at Kenya's foreign policy post-independence.²² Howell argues that two distinct policies guided Kenya's actions in the international system. He argues that Kenya's foreign policy outside Africa reflected moralistic and idealistic thinking, while in East Africa Kenya's foreign policy was governed by conservative and legitimist thinking.²³ Howell observes that economic development and protection of national frontiers have always been the primary concerns of the country.²⁴ He notes that Kenya's conservatism regarding territorial boundaries first came to be reflected most forcibly in its display of determined nationalism towards Somalia. This is a position that is reinforced by Adar in his examination Kenya's attitude to territorial disputes with Somalia.²⁵

There have been two instances of conflict between Kenya and Somalia. The first instance was during the *Shifita* war in the late 1960s. This played out as a proxy war where Somalia acted through bandit actors, whilst the Kenya armed forces were formally deployed to respond to the security threat. The second instance was the launching of a unilateral intervention through the deployment Kenya Defence Force (KDF) in Southern Somalia in October 2011. This was in response to increasing threats from the *Al-Shabaab* terrorist organization that had begun making incursions into Kenyan territory. The KDF intervention was subsequently incorporated in the wider AU peace enforcement mission in Somalia (AMISOM). This was a strategy to reduce Kenya's political exposure in Somalia and tap into a more sustainable multilateral effort to stabilize the failed state. Territorial disputes have also emerged between Kenya and Uganda in the past. Initially these were between the Kenyatta and Amin administrations over

²² Oyugi, W. Ed. (1994) *Politics and Administration in East Africa*. East African Educational Publishers, Nairobi

²³ Howell, J. (1968) *An Analysis of Kenyan Foreign Policy*, *Journal of Modern African Studies* Vol. 6 No. 1, Cambridge University Press

²⁴ Ibid

²⁵ Adar, K. (1994) *Kenyan Foreign Policy Behaviour Towards Somalia, 1963-1983*, University Press of America

claims by Uganda to vast tracts of western Kenya in the 1970s. More recently in 2009, there was a flare up over Migingo Island in Lake Victoria that ruffled feathers in the Kibaki and Museveni administrations. However, these have never escalated to the level of armed engagement.²⁶

In order to study Kenya's foreign policy, there are four main variables that must be examined. First, an appreciation of the country's history is essential. This is because tracking the evolution of the country's external relations forms the crux of foreign policy analysis. It is imperative to isolate the factors that determine the tenor of interactions with those countries with whom Kenya has had a history of friendly, neutral or hostile relations. Secondly, an appreciation of the interests of each of the successive regimes is important. By examining how the leadership arrived at decisions on both domestic matters and foreign relations, it is possible to get an indicator of how national priorities were arrived at. It also explains the thinking that informed the principles that shaped Kenya's foreign policy. Factoring in the leadership is critical in the analysis of Kenya's foreign policy direction especially in the postmillennial era. Thirdly, an understanding of Kenya's political system is vital because it is essential to review how the national constitution and institutions influence the formulation and implementation of foreign policy. For instance frontier counties such as Turkana, Mandera, Lamu and Garissa where important resource deposits and infrastructure development projects are slated to take place will have a bearing on how future cross-border dynamics play out. Finally, the political tides at regional and continental levels tend to shape some elements of Kenya's foreign policy. For instance, Kenya's location in the conflict prone Horn of Africa and the Great Lakes Region has required that Kenya acts either in a neutral mediatory capacity as in the case of

²⁶ Wekesa, P.W (2010), *Old issues and new challenges: the Migingo Island controversy and the Kenya-Uganda borderland*, Journal of East African Studies, Vol.4 Issue 2, Pp. 331-340

South Sudan or in a more directly interventionist manner as in the case of Somalia.²⁷

2.2 Evolution of Kenya's Foreign Policy; from Kenyatta to Kibaki

2.2.1 Kenya's Foreign Policy under its Founding Father, 1963-1978

Kenya's foreign policy under Kenyatta can best be described as reactive. The Minister of State for Defence and Foreign Affairs, Dr. Njoroge Mungai once stated that Kenya's foreign policy attitude was one of "wait and see".²⁸ This was reflective of the conservatism and uncertainty that characterised Kenya's foreign policy in an ideologically polarized world. Kenya's foreign policy in the formative years was therefore one that tried to chart a middle path between capitalist and socialist leanings and adjusted itself to the rise and fall of the predominant ideological blocs. It lacked the independence necessary to adopting concrete positions and in actuality; the operational environment shaped it.²⁹ As a consequence, Kenya's foreign policy retained a measure of structure and rigidity insofar as regional issues were concerned but became more inexact and impermanent as it transcended into global spaces. As a consequence, it was impossible for Kenya to adopt strategic decisions in its relations with foreign countries outside the East African region.

The basic tenets that shaped Kenya's post-independence foreign policy during Jomo Kenyatta's administration are to be found in the KANU manifesto of 1961 and its revision in 1963.³⁰ These documents detailed the appreciation the founding fathers had of the issues that would shape the external relations of the

²⁷ Amar, P. (2014) *Global South to the Rescue*, Routledge, Pp. 132-134

²⁸ Orwa, K.D, (1994) op. cit. Pp. 314

²⁹ Mwangi, M (2006) Op. cit. Pp. 197

³⁰ Kenya African National Union and Kenyatta, J. *The KANU Manifesto for independence, democracy and social stability (E Book)*. Originally published by Patwa News Agency (1961, subsequently revised in 1963, 1969, 1983, 1988 and 1997)

state as it transitioned from colonialism to independence. During this period the coming together of the various ethnic nations into a unified independent nation-state called Kenya was attempted. The thinking of the authors of the KANU manifesto was shaped by two things. They were operating in a bipolar world that pitted eastern communist and western capitalist ideologies against each other. Also, Kenya neighboured other infant states that had also just shed the mantle of colonialism. Consequently, the elements of Kenya's foreign policy were structured to respond to these two elements of conflicting ideologies and states that were also defining their foreign policy.

Okumu argues that Kenya's early relations with the external world were handled with a great deal of caution that was uncharacteristic of many African governments.³¹ During the first years of independence, Okumu argues that Kenya adopted a moderate and cautious stance in the handling of its external affairs.³² During this period, Kenya effectively maintained a low profile on many contentious issues in Africa and elsewhere. It emulated a style of diplomacy that is best described as quiet diplomacy. It was a style that avoided radical and aggressive policy positions, which Kenya could not defend or promote. From the 1960s to the 1980s Kenya's foreign policy was reflective of the major themes of this era. It was vocal on issues concerning decolonization, non-alignment and liberation of African territories under the *apartheid* regime in southern Africa.

In contrast, Orwa's analysis of Kenya's foreign policy notes that radicalism and aggression were functions of both national and systemic variables³³. For instance, the main national variables that shaped the immediate foreign policy concerns of the first independent government under Jomo Kenyatta in 1963 were

³¹ Okumu, J. (1973) 'Kenya's Foreign Policy' in *The Foreign Policy of African States*, Hodder & Stoughton, (1997) pp.136-137

³² *ibid*

³³ Orwa, K. D (1994) *Continuity and change; Kenya's foreign policy from Kenyatta to Moi*. In *Politics and Administration in East Africa*. Oyugi, W. (ed.) East African Educational Publishers, Nairobi

national security and the defence of territorial integrity. This was in response to a growing threat from secessionist factions of the indigenous Somali community and expansionist rhetoric from Somalia. The preservation of existing national borders was a non-negotiable principle in Kenya's pre-independence negotiations with the British colonial government. Kenyatta's position was that 'the issue of the North Eastern Region would not be a subject of discussion at the London talks...' and that, as a Kenyan leader, he would not concede any territory to the Republic of Somalia.³⁴

Orwa observes that upon his return from London, Kenyatta declared that there was no room for autonomy or concession in respect to the Northern Frontier District.³⁵ This was in reference to both the external territorial claim by the Republic of Somalia and the irredentist push by indigenous Kenyan Somalis.³⁶ After independence, Kenya employed both military and diplomatic options to thwart Somali ambitions. Militarily, Kenya launched a war against Somali *Shifita* bandits whilst diplomatically it sought protection in a fundamental principle in the charter of the Organization of African Unity, which stated "All African states shall adhere to the boundaries inherited at independence".

The systemic variables that shaped foreign policy at the beginning were a reflection of the cold-war divide that prevailed at the time. Left-leaning factions in KANU were incensed by the apparent economic and military overdependence on the United Kingdom and demanded economic restructuring and a reduction of dependence on western capitalist states particularly Britain. Their right-wing conservative opponents quickly branded the left-wingers within the party as communist sympathizers. It was this ideological polarization that led to the

³⁴ *ibid*

³⁵ Orwa, K.D, (1994) *op. cit.* Pp. 305

³⁶ Adar, K. (1994) *Op. cit.* Pp. 75-80

publication of Sessional Paper No. 10 of 1965, which effectively placed Kenya in the capitalist camp in economic practice though it continued paying lip service to African Socialist ideals. In 1966, KANU was purged of the 'left-wing radicals' that would have subverted Kenyatta's desired foreign policy direction. This was reinforced with defence pacts with Ethiopia and the United Kingdom that were designed to assure the security of the Kenyatta regime both at home and abroad. It can be argued that as a consequence, it became virtually impossible to distinguish between regime security and national security.

Conversely, the principle of Non-alignment was a mechanism designed by the Kenyatta government for the survival of the state. However, it was not an expression of independent thought as was the case in India under Jawaharlal Nehru.³⁷ Kenyatta simply sought to prevent Kenya from falling victim to the power play between the United States and the Soviet Union. He did not want to mortgage Kenya's sovereignty to either power as a proxy, as was the fate of Zaire, Angola and Ethiopia. Orwa observes that the intent of non-alignment under Kenyatta therefore, was to secure Kenya from threats originating outside the African continent.³⁸ Rosenau's observation that heads of state shape foreign policy in small countries is aptly applied to the Kenyatta regime.³⁹ It was therefore easy to rationalize Kenya's military and economic ties to the west as critical to national interests and not in contradiction of the policy of non-alignment.

The economic aspects of Kenya's foreign policy were oriented westwards under Kenyatta. Kenya's diplomatic corps were stationed mainly in Western Europe and North America in a continuation of ties that were established during

³⁷ Miskovic *et al* (ed.s) 2014 *The Non-Aligned Movement and the Cold War*, Routledge Pp. 19-23

³⁸ Orwa, K.D, (1994) *op. cit.*

³⁹ Rosenau, J. N. (1987) *Toward single country Theories of Foreign Policy: The case of the USSR*, in Hermann, C. F., *et al*, (Ed.), *New Directions in the study of Foreign Policy*, Allen and Unwin, Boston pp. 1-3.

the colonial period.⁴⁰ Relations with these counties remained cordial and stable. In contrast, Kenya's relations with communist states were at best ambivalent and at worst cold. Kenyatta expelled the Chinese ambassador and broke relations with Czechoslovakia after the two countries stood accused of interfering in the domestic affairs of Kenya.⁴¹ Kenyatta also rejected Soviet military and economic assistance to the tune of £16 million in 1966.⁴² The rebuffing of communist advances was a calculated communication to western countries that Kenya preferred them as sources of investment. Kenya was also angling to improve access to debt instruments from the capitalist-dominated international financial institutions such as the World Bank and the IMF.⁴³

Orwa highlights the geopolitical considerations that shaped Kenya's foreign policy under Kenyatta and have consistently continued to do so with the subsequent administrations.⁴⁴ For instance, Kenya's possession of a deep water harbour at Mombasa and a connecting railway to the shores of lake Victoria endows it with a significant advantage over its landlocked neighbours, particularly Uganda and the other countries in the Great Lakes Region.⁴⁵ These countries have long been at the behest of Kenya in gaining access to the Indian Ocean and for the transit of their goods, passengers and services. This advantageous geopolitical position has benefited the Kenyan economy and allowed the country to establish a degree of economic dominance in the region.⁴⁶ Kenya therefore promoted the defunct East African Community because it was in its economic interests to do so and maintain dominance over its neighbours.

⁴⁰ Maxon, R.M (1994) Op cit. Pp. 33-35

⁴¹ Chege, Michael (2008) *Economic Relations between Kenya and China, 1963–2007*, Centre for International and Strategic Studies. Pp. 21-22

⁴² *Kenya National Assembly Official Record* (Hansard) Jan 25 - Mar 10, 1966

⁴³ *ibid*

⁴⁴ Orwa, K.D, (1994) op. cit. Pp. 314-318

⁴⁵ *ibid* Pp. 310

⁴⁶ Adar, K and Ngunyi, M (1992), *The Politics of Integration in East Africa in Politics and Administration in East Africa*. Oyugi, W. (ed.) East African Educational Publishers, Nairobi

In what was a precursor to Turkey's 'Zero-Problems' foreign policy, Kenya sought to safeguard its national security by establishing regional stability. Kenya settled existing border disputes with Ethiopia, Uganda and Sudan. However, this strategy came under threat from two quarters. First, Idi Amin's belligerence at the regional level brought Kenya and Uganda to the brink of war following Ugandan claims of large tracts of western Kenya.⁴⁷ Amin had made similar territorial claims over Tanzania and when Kenya failed to support the Tanzanian position, it further soured relations between the ideologically mismatched Kenyatta and Nyerere. It is to be understood that Kenya's initially muted response to Amin's bellicosity was in deference to its predominant economic interests because Uganda was its biggest trading partner.⁴⁸ However, political interests gradually overshadowed economic interests when Amin's soldiers began killing Kenyans in Uganda and his claims on Western Kenya became more strident. This is best illustrated when Kenya played a pivotal role in facilitating the Israeli raid on Entebbe that ended the hostage crisis of 1976.⁴⁹ Secondly, the increasing ideological rift between Kenya and Tanzania overshadowed their economic ties and contributed to the collapse of the EAC in 1977.⁵⁰

In summary, the Kenyatta regime chose to follow a pragmatic and flexible approach to foreign policy. Under Kenyatta, Kenya's foreign policy was radical and aggressive when the risk premium for the Kenya government was low i.e. when the likelihood of international and especially western support was high. On the other hand, Kenya's foreign policy was reactionary and conservative when the risk premium for the Kenya government was high i.e. when the likelihood of western support was low. The pursuit of an idealistic foreign policy trajectory

⁴⁷ Akoth, P.G (1994) *The Foreign Policy of Uganda In Politics and Administration in East Africa*. Oyugi, W. (ed.) East African Educational Publishers, Nairobi Pp. 369-372

⁴⁸ *ibid* Pp. 369-370

⁴⁹ *ibid* Pp. 371-372

⁵⁰ *ibid* Pp. 372-373

was discouraged in light of the realities of Kenya's domestic and international situation. For instance, a complete dissociation with either the capitalist or socialist blocs would have been unrealistic considering the adverse economic, political and social ramifications that would have accrued. Such a radical foreign policy would have required national self-sufficiency in economic and military resources. Considering that Kenyatta's age did not permit him to travel extensively, he could not engage in personal diplomacy that such an aggressive foreign policy approach demanded. The conclusion is that during Jomo Kenyatta's time, elite interests and national interests were perceived interchangeably. Consequently, Kenya's foreign policy was designed to achieve limited international goals that did not antagonize the western nations that Kenya's ruling elite relied on for political and economic support.

2.2.2 Foreign Policy in the Moi era, 1978 – 2002

When Kenyatta died in 1978, Kenya's foreign policy intentions displayed both continuity and change.⁵¹ Aspects such as the commitment to the principles of non-alignment and support to African liberation movements remained relatively unchanged under Daniel T. Arap Moi. This was a manifestation of the pledge to safeguard and continue Kenyatta's legacy under the *Nyayo* philosophy.⁵² However, there were also radical departures in foreign policy such as the increased interest in Kenya's backyard.⁵³ Kenya took a more active stance in conflict management amongst its neighbours especially in Sudan, Somalia and to a smaller extent Uganda. The logic that drove this approach was to mitigate the

⁵¹ Orwa, K. D (1994) *Continuity and change; Kenya's foreign policy from Kenyatta to Moi*. In *Politics and Administration in East Africa*. Oyugi, W. (ed.) East African Educational Publishers, Nairobi Pp. 318

⁵² Moi, Daniel T. Arap, (1986) *Kenya African Nationalism: Nyayo Philosophy and Principles*, London: Macmillan. See also, Godia, George, (1984) *Understanding Nyayo: Principles and Policies in Contemporary Kenya*. Transafrica.

⁵³ Makumi Mwangi, (2000) *The Elusive Quest: Conflict, Diplomacy and Foreign Policy in Kenya*, In P. Godfrey Okoth and Bethwell A. Ogot, (Ed.s), *Conflict in Contemporary Africa* Jomo Kenyatta Foundation, Pp. 177-189.

spill over effects of conflict in these countries, which posed a threat to national security.⁵⁴

In terms of foreign policy therefore, Moi's views were similar to Kenyatta's and this was reflected in the aversion to involvement in territorial disputes and the taking up of foreign policy positions that would result in the alteration of national boundaries.⁵⁵ For instance, Kenya remained non-committal on international territorial disputes such as the perennial Israeli-Palestinian conflict and the 1982 Falklands conflict between the United Kingdom and Argentina. Regionally, Kenya condemned the perceived aggressors in African conflicts that centred on territorial claims. Where the issues were intractable, Moi directly mediated in disputes for instance in Somalia, South Sudan, Uganda, Ethiopia and Mozambique. At the same time, Moi increased Kenya's support to African liberation movements for example the Sudan's People's Liberation Movement (SPLM).⁵⁶

Still under Moi, Kenya's posture of non-alignment remained unchanged though this could have been characterized as lip service because like Kenyatta, he simultaneously intensified relations with the west. Kenya's objectives in East Africa also remained relatively unchanged under Moi's regime. Emphasis continued to be made on the preservation of territorial integrity and the creation of a regional environment that would enhance national economic development and political stability.⁵⁷ However there were some minor changes. For instance Nairobi's support for African liberation movements was also intensified and moved from mainly rhetoric under Kenyatta to action under Moi. It expanded to

⁵⁴ Mwangi, M (2006) Op. cit. Pp. 197

⁵⁵ Musambayi, C.I (1995), *The politics of regime consolidation and entrenchment: Moi's foreign policy, 1978-1994*, French Institute for Research in Africa Pp. 7

⁵⁶ Guarak, M.A.M, (2011) *Integration and Fragmentation of the Sudan: An African Renaissance*, AuthorHouse Pp. 439-452

⁵⁷ Orwa, K. D (1994) Op. Cit. Pp. 321-322

include recognizing Kenya's own *Mau Mau* veterans and providing sanctuary to liberation movements fighting the *apartheid* regime in South Africa and the Islamic regime in Sudan.⁵⁸ Moi also increased Kenya's involvement in direct efforts to mediate internal conflicts such as those in Somalia and notably Sudan. The major element that differentiated Moi's approach to foreign policy from Kenyatta's was his higher levels of personal involvement. While as noted before, Kenyatta was constrained from extensive official foreign travel on account of his failing health, Moi was more active and visited many countries in his presidential capacity ostensibly to secure Kenya's national interests.⁵⁹ Moi also broke with the Kenyatta tradition when he re-established friendly relations with Russia and China through state visits at the very beginning of his administration. Out of the economic and cultural agreements that were signed, China extended economic aid to Kenya in excess of KES 300 million, the bulk of which went towards the development of the Kasarani Sports Complex and other facilities. The expenditure of these funds on the sporting complex and the 1988 All Africa Games was mired in controversy and allegations of corruption that tarnished the reputation Moi government and Kenya's image abroad.⁶⁰

Regionally, the first East African Community collapsed in 1977 just toward the end of the Kenyatta era. The impact of this collapse came to be keenly felt during Moi's administration in the early to mid 1980's when trade and non-trade barriers were reintroduced. Similarly the full-blown imposition of Structural Adjustment Programmes on Sub-Saharan countries occurred during Moi's tenure. Kenya was therefore among a host of African countries that suffered substantial decline in their GDP not only as a result of decades of economic mismanagement

⁵⁸ *ibid*

⁵⁹ Cooper, C. (Ed.) (1993), *Kenya: The National Epic*, East African Publishers Pp. 285

⁶⁰ Harden B, (1993) *Africa: Dispatches from a fragile continent*. Harper Collins Publishing Pp.

but also due to dwindling trade revenues and reduced Overseas Development Assistance⁶¹. The SAP's and linkage of foreign aid to democratic reforms in particular had a devastating effect on the tenor of Kenya's relations with its traditional western partners. Starved of foreign aid, hounded for corruption and under pressure to open up the democratic space, Moi began characterizing traditional western partners such as the US, the UK, France and Multilateral bodies such as the Bretton-Woods Institutions as 'foreign masters'. This was a tactic to gain domestic sympathy and shore up support for his administration.⁶² It is during this period of 'aid isolation' that Kenya seriously considered diversifying its foreign policy partners and begun making serious overtures to the emerging East Asian economies. In 1985 and 1986 a KANU delegation made state visits to the Soviet Union and the People's Republic of China. Soon thereafter, Soviet and Chinese party officials made reciprocal visits, which may have never happened under the Kenyatta administration. One has to bear in mind that Moi's forays to the east only came after the imposition of the Structural Adjustment Programmes, a decline of western military and economic aid and a souring of relations with traditional western partners. As a result, these changes in foreign policy could be construed as a survival response by a regime that was increasingly under pressure to institute economic and political reforms by its western partners.⁶³

2.2.3 Kenya's Foreign Policy under Mwai Kibaki, 2002-2013

The gradual implementation of constitutional reforms that facilitated a return to multi-party politics ushered in the Kibaki regime and with it, a revision in

⁶¹ Meredith, M (2013) *The State of Africa; A History of the Continent Since Independence*, Simon & Schuster Pp.. 368-378

⁶² Harden B, (1993) Op. Cit.

⁶³ Meredith, M (2013) Op. Cit. Pp.. 383-385

Kenya's foreign policy.⁶⁴ The traditional four pillars were revamped and expanded to incorporate a new, fifth pillar that responded to new concerns such as environmental management, cultural advantages such as sports and recognition of the potential of the Kenyan community in the diaspora.⁶⁵ Whilst traditional political diplomacy lost none of its appeal, the Kibaki administration fully embraced economic aspects of diplomacy. Kenya's foreign policy now rested on five interlinked pillars; economic diplomacy, peace diplomacy, environmental diplomacy, cultural diplomacy and diaspora diplomacy. The older pillar of Economic development was revised and domiciled principally within economic diplomacy. Within this revised pillar, the Kibaki government pursued various foreign policy strategies in the economic interests of the country *inter alia*, increased FDI and aid flows through engagement with alternative non-traditional partners as well as expansion into new markets for Kenya's goods and services especially in Latin America, the Middle East and most importantly Asia.⁶⁶ Critics argue that the eastern focus was in response to the disillusionment of the traditional western partners and the dim view they took of the allegations of rampant corruption that rocked the Kibaki government as early as 2004.⁶⁷ In this, a collection of questionable defence contracts worth USD 750 Million were revealed in a scandal dubbed "Anglo-leasing" that prompted sharp and coordinated criticism from both the UK and US envoys to Kenya.⁶⁸

However, the notion that Kibaki turned east just to spurn the west is an oversimplification. It is true that Kenya's relations with traditional western partners did not improve significantly during Kibaki's tenure and actually worsened in the shadow of the 2007 post election violence that presaged his

⁶⁴ Ministry of Foreign Affairs, Kenya (2009), *Foreign Policy Framework*, Republic of Kenya, Nairobi

⁶⁵ Ibid

⁶⁶ Ibid

⁶⁷ Meredith, M (2013) Op. Cit. Pp.. 701-704

⁶⁸ Ibid

second term of office. However, at the same time China and the other rising eastern economies were making significant inroads into Africa as part of a long-term foreign policy strategy they had initiated in the 1990s.⁶⁹ For instance, by 2000, trade volumes between Africa and China had grown to over USD 10 billion. By 2010, trade volumes had grown tenfold to over USD 115 billion and Foreign Direct Investment had multiplied from less than USD 0.5 billion in 2003 to over USD 9 billion in 2010.⁷⁰ This was occurring even as western nations grappled with an economic crisis that threatened to collapse their own financial systems. The lack of conditions on human rights, economic and political reforms by the eastern partners captivated embattled administrations across Africa including Kibaki's to embrace a 'look east' attitude in their foreign policy. Kibaki perceived an opportunity to secure Kenya's economic future by seeking alternative sources of affordable technology, many of which were to be found in Asian countries.⁷¹

Regionally, Kenya's foreign policy during Kibaki's tenure adopted a more robust stance in response to an evolving geo-strategic environment. The 9/11 attacks in the United States provoked it into declaring a 'war on terror'. This was in spite of similar attacks targeting American interests in Kenya and Tanzania in 1998. As a result, Kenya's threat awareness of terrorist formations on its borders was heightened. In 2011, Kenya for the first time launched a direct military intervention on a neighbouring country. The deployment of the KDF into Southern Somalia was foreshadowed by a series of events that convinced the Kibaki administration that Kenya's vital security interests were under threat. A number of recurrent raids by Ethiopian armed groups in Turkana, a standoff with Uganda over the Migingo Island in Lake Victoria, subsequent derision of

⁶⁹ Meredith, M (2013) Op. Cit. Pp.. 696-697

⁷⁰ Ibid

⁷¹ Ministry of Foreign Affairs, Kenya (2009), Op. Cit.

Kenya's military by Ugandan President Yoweri Museveni and finally, cross border abductions in Lamu and in Dadaab by the *Al Shabab* terrorist group triggered a robust military reaction by Kenya

In the wake of Kenya's intervention in Southern Somalia, it can be argued that Kenya took a more assertive approach to regional issues. More extreme interpretations hold that Kenya begun militarising its foreign policy.⁷² However, viewed historically through the lens of national security, the belligerence of Amin and Museveni amount to no more than sabre-rattling compared to the actual incursions and attacks by the *Al Shabab* in Kenyan territory. Consequently, a hard-power response was called for in these circumstances lest a dangerous precedent was set. Under Kenyatta and Moi, Kenya never faced a clear and imminent threat from external forces that required a military response. As a result, a misconception that Kenya is militarily weak in comparison to its more martially active neighbours such as Uganda was popularized.⁷³ This is one of the factors in Kenya's foreign policy that have led to its miscasting as a reluctant regional power. It is therefore in the context of the political and security imperatives required to achieve the regional and global competitiveness as outlined in Vision 2030 that Kenya's foreign policy was retooled under Kibaki.

Criticism of Kenya's perceived unilateralism in the incursion into Somalia and allegations of partisanship of the KDF prompted the re-hatting of Kenyan troops to come under the auspices of the larger AMISOM intervention force.⁷⁴ The Kibaki administration acceded to the view that the Somalia conflict had regional and international ramifications and foreign troops present in the country were

⁷² Kagwanja, P (2013) Assertive turn for Kenya's diplomacy in 'Daily Nation' available at <http://mobile.nation.co.ke/blogs/Assertive-turn-for-Kenyas-diplomacy-/-/1949942/2127868/-/format/xhtml/-/y5fwwnz/-/index.html> [Retrieved 17 February 2014]

⁷³ Blombaum, C. (2012) Kenya: A Reluctant Regional Power? In The Inkerman Group Blog available at <http://blog.inkerman.com/index.php/2012/01/05/kenya-reluctant-regional-power/> [Retrieved 18 February 2014]

⁷⁴ Warner, L.A (2014) *In Somalia, Kenya Risks Death by a Thousand Cuts*, Prism 3 No. 3 Pg. 113 available at http://cco.dodlive.mil/files/2014/02/prism105-118_warner.pdf [Retrieved 01 August 2014]

therefore required to operate under a unified coordination, command and control structure. The Kibaki government conceded to have KDF fall under AMISOM command in order to not only create the synergy that would enhance effectiveness in stabilizing Somalia as requested by the AU Peace and Security Council but also to reduce Kenya's political exposure in Somalia.⁷⁵ Kenya's foreign policy in this context did not fully shift to a reliance on hard power to achieve national objectives in Somalia. Kenya's participation in the overarching political strategy fronted by IGAD and the AU advocates for the creation of credible governance structures at the local and regional levels even as AMISOM troops enforce the peace is evidence of the application of soft power as well.⁷⁶

The discovery of viable oil and possible gas deposits in Kenya and the wider region demanded the establishment of a stable security atmosphere that would make it amenable for foreign direct investment and the laying of critical infrastructure for the extractive industries for instance, the Lamu Port-Southern Sudan-Ethiopia Transport (LAPSSET) project.⁷⁷ These dynamics raise the stakes in the geopolitical engagements of both regional and international actors and were the considerations that informed the Kibaki government to engage in preventative diplomacy that animates military options to combat international terrorism, organized crime and proliferation of small arms whilst supporting post-conflict reconstruction and development.⁷⁸ One of the most notable features of Kenya's foreign policy under the Kibaki regime therefore is the increased

⁷⁵ Lt. Col. Ndiwimana, D (2013) *AMISOM in Somalia: A Ray of Hope?* Occasional Paper No.4 Series 4, International Peace Support Training Centre, Pp. 28

⁷⁶ McEvoy, C (2013) *Shifting priorities: Kenya's changing approach to peace-building and peacemaking*, The Norwegian Peace-building Resource Centre

⁷⁷ Savage, E (2014) *Build your way to 'middle-income' status?: Lamu Port and the Lamu – South Sudan - Ethiopia Transport Corridor (LAPSSET)* available at <http://www.thepanelonline.com/blog/build-your-way-to-middle-income-status-lamu-port-and-the-lamu-south-sudan-ethiopia-transport-corridor-lapsset> [Retrieved 08 June 2014]

⁷⁸ Moon, B (2010) *Preventive diplomacy is key to peace*, available at: <http://www.standardmedia.co.ke/article/2000016911/preventive-diplomacy-is-key-to-peace?categoryID=0> [Retrieved 08 June 2014]

emphasis on Kenya's role in the socio-economic development of the region.⁷⁹ This led to intensified engagement and participation in the activities of the Regional Economic and Security bodies such as East African Community (EAC), the Common Market for East and Southern Africa (COMESA), the Inter Governmental Agency for Development (IGAD), and the International Conference on the Great Lakes Region (ICGLR).

⁷⁹ Wachira, G. (2012) *Economic growth, not military action, will end insecurity in northern Kenya* in 'Business Daily' available at <http://www.businessdailyafrica.com/Opinion-and-Analysis/Economic-growth-will-end-insecurity-in-northern-Kenya/-/539548/1630338/-/ehasslz/-/index.html> [Retrieved 08 June 2014]

CHAPTER THREE

Economic Diplomacy Globally

Introduction

This chapter examines the phenomenon of economic diplomacy, as it appears on the global stage. It begins with a historical analysis of the development of economic diplomacy. It then reviews the objectives and strategies of global economic diplomacy and examines the post-modern evolution of economic diplomacy contrasting both the pros and cons of the bilateral and multilateral approaches. It highlights the actors and institutions involved in practicing economic diplomacy and the processes they engage in, the rationale for their actions and their contribution to economic security as the principal output. Finally, it traces the mutations of economic diplomacy in the 21st century and shows how the roles and responsibilities of the various actors and institutions have changed in an increasingly globalized world under the threat of international terrorism.

3.1 A History of Economic Diplomacy

The history of economic diplomacy is traceable back to commercial engagements between individual and institutional actors. Embryonic forms of economic diplomacy were present when people from different locales began engaging in trade where they exchanged goods and services although through a barter system. Records from ancient Egypt detail trade relations between the lower Egyptian kingdom and West Asian civilisations such as Persia, Tyre, Syria and Mesopotamia¹. The Silk Road from Europe to China as well and the Trans-Saharan trade route that linked North African civilisations to the gold-rich

¹ Cohen, R. and Westbrook, R. (Ed.s), (2002) *Amarna Diplomacy: The Beginnings of International Relations*, John Hopkins University Press

kingdoms of West Africa are also examples of ancient international and intercultural trade that necessitated the maintenance of cordial commercial relations. This is reflected in the mandates of the first official diplomatic missions between states whose representatives were predominantly trade representatives. For instance Roman consuls and governors to the ancient kingdoms of Egypt, Carthage, Greece, Spain, Germania and Persia were principally entrusted to maintain favourable trade relations with independent powers and ensure that appropriate tribute was paid to the treasury of the Roman Empire by vassal states.

This model continued to be the trend in the Middle Ages following the collapse of the Roman Empire and the rise of similarly structured feudal empires such as the Ottoman, Chinese and Japanese empires of the pre-renaissance and industrial ages. Europe's renaissance led by Italian principalities triggered an age of learning and scientific innovation that gave rise to the age of exploration, industrialization and mechanization. They were the progenitors of the modern form of diplomacy, characterized by permanent representation in form of consulates². At this point in history, the Italian consuls were generally private citizens and usually wealthy merchants with significant business interests who saw the value of securing external commercial markets and interceding with trade authorities at the ports of entry. The unofficial consulates set up by the Italian merchants were politically backed by their principality and thus acted as a rudimentary *de facto* embassy though it lacked many of the diplomatic privileges and immunities enjoyed by foreign missions in modern times.³

The enlightenment and economic prosperity that came with the renaissance resulted in an exponential increase in the demand for goods and services. States responded through territorial expansion designed to capture new sources of raw

² G. R. Berridge (2010), *Diplomacy: Theory and Practice* Macmillan Press 2001

³ See the Vienna Convention on Diplomatic Relations (1961) for details

materials and consumer markets in the form of colonies. Trade was thus the impetus behind the spread of colonialism. Trade motivated the journeys of Marco Polo, Vasco da Gama, Columbus, Magellan, Park, Livingstone, Stanley and all other early explorers to discover the wealth of the East and West Indies, Africa, South America and India and claim it for their respective crowns. The specialization of labour, improved modes of transport and development of comparative advantages amongst colonial powers⁴ sowed the seeds for increasing economic interdependence between states and arguably set globalization in motion.

However, in the intervening years between colonialism and globalization a number of significant developments took place that shaped the evolution of diplomacy especially that of economic diplomacy. Critically, the two world wars in the first half of the 20th century and the cold war that dominated the second half of the same century meant that political diplomacy remained the dominant form of inter-state engagement for almost 90 years. As a result of the predominant considerations of international security, conventional political diplomacy dominated and the commercial aspects of diplomacy were considered as appendages of a wider political strategy. This is reflected in the differences in professional status between diplomats working on political relations between governments compared to commercial attachés.⁵ However with the realization that trade as a tool of foreign policy is more efficient, stable and reliable compared to political and military interventions, has come the increasing acceptance and improved profile of economic diplomacy.

⁴ Wallerstein I, (1980). *The Modern World System II: Mercantilism and the Consolidation of the European World-Economy, 1600-1750*. New York, Academic Press.

⁵ Baranay, P. *Modern Economic Diplomacy* (Diplomatic Economic Club, 2009)

3.2 From Bilateralism to Multilateralism: The evolution of economic diplomacy

Diplomacy in the broadest sense may be defined as the conduct of international relations by non-violent means.⁶ Initially diplomacy was a process that involved two entities meeting at a time and even when representatives of numerous entities gathered on occasions like the peace negotiation of Munster and Osnabruk in 1647/8 or Utrecht in 1714, they did not meet as a group but face to face, between two of them at a time. This type of diplomacy was known as bilateral diplomacy. It was practiced through national or domestic institutions responsible for foreign relations such as ministries, state departments, and imperial or colonial offices. Subsequently, states as the principal actors in bilateral diplomacy designated representatives in various guises such as ambassadors, consuls and high commissioners to represent their interests in foreign countries. Bilateral diplomatic relations predominantly focused on aspects of political and military issues as shaped by the different ideological persuasions that prevailed at the time. Under this model, commerce was more often than not, a secondary or consequential consideration of political relations. Bilateral diplomacy still plays an important but declining role in international relations.

However, at the congress of Vienna held in 1814/15, representatives of states met for the first time in groups and the final document was adopted in a plenary session that was attended simultaneously by representatives of all the states that were involved in the meeting. This type of diplomacy where more than two parties are engaging at the same time is known as multilateral diplomacy because it involves many parties. Multilateral diplomacy is increasingly typical of modern times and its role is growing constantly.⁷ Regional and International

⁶ Diplomacy, Concept, Actors, Organs, Process and Rules. Kappeler, Mwagiru and Odera, IDIS Nairobi, 2010 p. 5.

⁷ Ibid p. 7

organizations and supranational institutions such as the East African Community (EAC), Common Market for East and Southern Africa (COMESA), Economic Community of West African States (ECOWAS), the South African Development Community (SADC), the United Nations (UN), the World Trade Organization (WTO), the European Commission, the Association of South East Asian Nations (ASEAN) and the African Union (AU) are products of, and also forums for multilateral diplomacy. These organs have evolved to become the institutions through which multilateral diplomatic engagements are conducted in addition to being actors in their own right with personality in international law. This means that these organizations have the capacity to conduct bilateral diplomacy with individual states and also amongst themselves.

3.2.1 Bilateral Economic Diplomacy

Bilateral diplomacy denotes relations between two states. The principal purpose of bilateral diplomacy is to improve the political, economic, social, cultural and technological relations between states. Bilateral diplomacy provides a sense of control and management. It is more selective in that other than dependent relations, states are also able to target or develop links with other actors for political, economic, medical and technical or strategic purposes.⁸ For instance, much of Cuba's international assistance is conducted through bilateral diplomacy. The main disadvantage associated with this type of diplomacy is that it limits international contacts unless it is supported by multilateral initiatives. The routine care and maintenance of bilateral relations requires significant commitments of organization resources.⁹ In dependent bilateral relations, the dependent partner may be vulnerable to coercive diplomacy and may lose its

⁸ Modern Diplomacy, Barston R.P, Person 3rd Edition Education Ltd, England 2006, p. 37.

⁹ Ibid p. 37.

sovereignty as the main power seeks support on wider foreign power issues as the ‘price’ of favoured bilateral status.¹⁰

The management of bilateral economic relations is usually the responsibility of the executive branch of government lead by the head of state, foreign and trade ministries that principally articulate the commercial objectives of the country abroad. These principals consult, negotiate and confer with their foreign counterparts on international platforms so as to advance the economic interests of their respective states and their indigenous business entities. The brief of these actors is to secure sales contracts or supply tenders for companies and commercial entities that are domiciled in their home states. The most obvious illustration of this can be found amongst the overseas trade departments of the United Kingdom, France, Germany the United States, China and Japan whose political leaders routinely extend state support to their companies as a foreign policy objective. Interestingly, Germany applies a decentralized form of economic diplomacy through the ‘three pillars’ concept. This model brings together the Foreign Service, the Network of German Chambers of Commerce Abroad (*Außenhandelskammern*) and the foreign trade and inward investment agency of the German government, (Germany Trade and Invest, GTAI)¹¹. The Foreign Service is charged with coordinating foreign policy objectives. The intent of this is to facilitate economic activities of companies abroad through government intervention. This means both promoting and protecting German economic interests abroad and helping foster the further development of sustainable global economic cooperation¹².

A notable characteristic of most bilateral relations is the multiplicity of roles appropriated by both partners. They act as vehicles for securing regular trade,

¹⁰ Ibid p. 38.

¹¹ Borchmeyer *et al* (2012) *Exploring Public and Economic Diplomacy*, Columbia University, pp. 54-56

¹² German Foreign Service Website, retrieved 07 July 2014

access to international markets, involvement in arrangements in areas such as intelligence, weapons supply and security guarantees. Kenya and Ethiopia signed a defence pact to assure each other of support against security threats in the region. There are also bilateral commercial arrangements such as those between Russia and Germany in the energy sector. Other economic issues that feature significantly in bilateral diplomacy includes transport, civil aviation, investment protection, trade disputes settlement and arrangements for repatriation of foreign earnings. Another category of bilateral relations is the 'covert' bilateral relations practiced by states who are prevented by domestic or transnational ethnic or ideological factors from conducting open political relations. For instance, both India and Egypt enjoy high shared interests with Israel but relations between these countries are conducted at private and secret meetings with strict bureaucratic controls over press and other information flows that might leak the details of the issues discussed, or areas of cooperation or highlight the contact personnel involved¹³. For instance, the supply of granite from India to Israel is fraught with challenges from the Muslim populations in these countries and in the regions.

3.2.2 Multilateral Economic Diplomacy

Bosard and Chossudovsky define multilateral diplomacy as the management of international relations by more than two states without the services of a specialized secretariat¹⁴. Ikenberry who also confines multilateral relations to state actors shares this position¹⁵. However, Aviel and Berrige contend that multilateral diplomacy is not confined to states only but also non-state actors particularly the international organizations and international lending institutions

¹³ Rana, K and Chatterjee, P. (2011) *Economic Diplomacy; India's experience.* , Jaipur: CUTS International, Pp. 13

¹⁴ Boisard, M & Chossudovsky, E (1997) *Multilateral Diplomacy : The United Nations System at Geneva: A Working Guide* Kluwer Law international

¹⁵ Ikenberry, J (Ed) 2003, *International Relations Theory and the Asia-Pacific* Columbia University Press.

that play a critical role in the shaping of international relations, especially economic and trade relations¹⁶. Multilateral diplomacy is principally conducted through several organizations at the global level, principally the World Trade Organization, the General Agreement on Tariffs and Trade (GATT), the United Nations and the Breton Woods institutions. At the regional level the Regional Economic Communities (RECs) such as the EU, AU, ASEAN, ECOWAS, SADC, COMESA and the EAC are the main vehicles for multilateral diplomacy though inter-REC consultations take on a global significance. The multilateral institutions also provide for a platform where states can articulate concepts of international order. Multilateral diplomacy has today become an established feature of modern diplomacy that is conducted through global institutions, permanent conferences and a variety of regional and pan-regional institutions. However, the anarchic nature of the international system has endowed multilateral diplomacy with more liberal and fluid avenues of interaction that allow for the entry of more actors onto the stage. For instance, the increasing numbers of institutional Non-State Actors (NSAs) in the post Second World War period have changed the face of traditional diplomacy. As diplomatic representation of these non-state actors increased, their role in global diplomacy expanded. In an increasingly interconnected world, NSAs have begun to surpass states in influencing diplomacy especially around economic issues.¹⁷ While national governments agencies continue to engage in bilateral negotiations, NSAs have shifted to multilateral spaces where they are able to leverage interdisciplinary advantages and exercise the collectivity of numbers. As a consequence the diplomatic persuasiveness of major NSAs supersedes that of most small individual states. Their collective political influence is greater than

¹⁶ Aviel, J.B (2005) *Multilateral diplomacy and the United Nations today*. Boulder, CO: Westview Press and Berrige, E.R (2005) *Diplomacy, Second Edition: Theory and Practice*, Palgrave Macmillan

¹⁷ Trunkos, J. (2011) *Changing Diplomacy Demands New Type of Diplomats* University of South Carolina

that of their individual membership.¹⁸ The political and economic superiority of the NSAs has necessitated their diplomatic representation in summit meetings that were principally the preserve of States. This is a reflection of the melding of political and commercial interests. States have realized this and have capitalized on the increasing political and economic influence of NSAs to achieve economic aspects of their foreign policy objectives.¹⁹

Non-state actors seek to impact the direction of national and sub-national commercial engagements both directly and indirectly through lobbying and determination of market decisions²⁰. Non-state actors include business interest groups, trade unions and consumer organizations. Business interest groups comprise of confederations of industry, trade associations and influential firms especially Multinational Corporations (MNCs) that have sufficient leverage to lobby governments directly. Confederations of industry are more active in the far east and western Europe where bodies such as the Japanese *Kiendanren*, Germany's *Bundesverband der Deutschen Industrie* (BDI), Italy's *Confindustria*, the UK's Confederation of British Industry (CBI) and the EU's Union of European Industry and Employers Confederation (UNICE) are the most prominent²¹. In the United States, confederations of industry are less common with individual MNCs eclipsing the National Association of Manufacturers and the various Chambers of Commerce in Washington power circles. This means that specific policy positions and institutional arrangements with regard to economic diplomacy are less formalized and therefore more flexible for the Americans than it is for the Europeans and the Japanese.

Trade unions have been on the decline as multilateral actors since their heyday in the 1970s. This can be attributed to the rising prominence of service industries

¹⁸ Gilpin, Robert. 1987. *The Political Economy of International Relations*. Princeton. New Jersey: Princeton University Press

¹⁹ Ibid

²⁰ Bayne and Woolcock Op. Cit Page 53

²¹ Ibid

over traditional heavy industry in the 21st century. As a consequence they have reduced in significance as an actor influencing economic diplomacy at the international level though they retain some clout at the national level in some countries. However, with the multitude of crises that have besieged service industries in the recent past and the resultant push for a return to heavy and light manufacturing, the resurgence of the trade union and its return as a key actor in international economic diplomacy may be imminent. The Mortgage Crisis in the United States and the financial crises in Asia and Europe are cases in point. The ability of consumer organizations to influence economic diplomacy is a function of their coordination and centralization²². The EU has the strongest tradition of consumer organizations influencing economic diplomacy. However, consumer organizations tend to concentrate on monitoring and lobbying for the improvement in the production and delivery of goods and services. Consequently, consumer organizations tend to be limited to policy engagements and rarely if ever influence contractual engagements between states.

Bayne and Woolcock situate global civil society, international business, international organizations and epistemic communities as transnational actors in multilateral diplomacy. They are unique from state and non-state actors in that they are not anchored in an identifiable national space.²³ Global civil society is defined as non-market, non-governmental organizations which seek to influence the policy and regulation of economic markets. Bodies such as the International Confederation of Free Trade Unions (ICFTU) are the face of global civil society in economic diplomacy but they are of little consequence since they have limited impact. Development NGOs such as Christian Aid, Save the Children, Human Rights watch Action Aid and most importantly Oxfam have since the 1990s,

²²Bayne and Woolcock op. cit Pp. 55

²³ Bayne and Woolcock op. cit Pp. 56-59

taken on an increasingly influential role in shaping the economic aspects of foreign policy globally. These organizations have taken up the challenge of advocating for and articulating the economic interests of developing countries on international platforms such as the World Trade Organisation (WTO), the Food and Agriculture Organization (FAO) and the UN Commission on Sustainable Development (UNCSD) especially on the issue of fair trade and subsidization of farm inputs. International business is represented at important events such as the annual World Economic Forum (WEF) where large companies meet political leaders to dialogue on the direction of the international economy and the influence of political policies on international commerce and development. Other more focused bodies include the Transatlantic Business Dialogue (TABD) that brings together the chief executive officers (CEO's) of influential companies operating on both sides of the Atlantic in an attempt to influence policy in continental Europe, the UK and the United States. However, it is the MNCs that are the most visible international business actors engaged in economic diplomacy. The challenge for them nevertheless is the fact that they are seen as national actors advocating for the interests of their home states. Consequently, they tend to be relegated to bilateral dialogue spaces even though they may have significant international interests

International Organizations in one way seek to overcome these shortcomings of MNCs acting on the international stage. The World Trade Organisation (WTO), the World Bank, International Monetary Fund (IMF), International Labour Organization (ILO) and the International Standards Organisation (ISO) all impact on economic policy development and direction at both national and international levels. These bodies act as 'brokerage houses' for deals between states on how to develop, finance, administrate, coordinate and conduct

international trade. They act as auditors of international economic policy and highlight pitfalls and risks in the current global economic system. The diplomatic responsibilities of these agencies extend to arbitrating trade disputes between states and supplying the background information that informs negotiations driven by economic diplomacy.

The WTO, previously known as the GATT advances multilateral economic diplomacy through a series of negotiations known as ‘rounds’. These tend to be identified with the city or location within which the conference takes place. The GATT had held eight rounds of trade negotiations, which worked to liberalize trade by reducing tariff and non-tariff barriers. For instance, the Doha round is the latest in the eight rounds of GATT and the first round of the WTO²⁴. The GATT is unique for being the first multilateral trade regime with laws and organizational framework. This allowed for an enforceable rule-based multilateral trade cooperation framework that effectively promoted trade liberalization and economic globalization. For instance, since GATT came into existence, total world trade volumes have grown by seventeen times while the world GDP has grown six fold²⁵

3.3 Challenges to Bilateral and Multilateral Diplomacy

The main challenge to bilateral diplomacy is that a majority of modern international issues such as global warming, migration, terrorism, proliferation small arms and light weapons, narcotics and human trafficking spread of AIDS and other infectious diseases are both complex and transnational in nature. Consequently, they cannot be tackled by states unilaterally or even bilaterally. For effective solutions to be applied, an elaborate network of national

²⁴ Flemes, D. (2010) *IBSA: South-South Cooperation or Trilateral Diplomacy in World Affairs? in Poverty in Focus No. 20 - April 2010* International Policy Centre for Inclusive Growth

²⁵ Zhixiong, H. (2008) *Doha Round and China's Multilateral Diplomacy* (seminar Discussion paper) China's Multilateral Diplomacy: Strategy and Practice" Shanghai Institute for International Studies.

governments and domestic and international agencies must work in concert. The skills required to address these issues often surpass the capabilities of bilateral diplomatic actors and call on the capacities derived from a multilateral approach.

A number of factors have influenced the growth of multilateralism, mainly the provision of a global arena for state and other non-state actors to demonstrate their sovereignty. This masks but does not remove disparities in economic and political power.²⁶ Here, states are treated legally as equals for instance at the UN General Assembly where they are able to project their views and receive diplomatic recognition and identity on the principle of ‘one state, one vote’. However, the realities of state imbalances in economic and political power also display themselves in multilateral spaces such as in the core of the UN Security Council, which is a select club of the most economically powerful and nuclear capable states. Other groupings such as the G8 also bring together powerful states in multilateral spaces for the purposes of maintaining the *status quo* and pursuit of their common economic interests often at the expense of less militarily and economically endowed states.

In spite of significant progress made in establishing multilateral relations over the past half a century, the wealthiest countries that enjoy huge advantages in military and economic power, trading power and diplomatic resources still dominate these multilateral diplomatic spaces. This leads to asymmetric relations and negotiations between weak and strong states. For instance, in the last round (Uruguay) of GATT negotiations, developed countries were accused of leveraging their dominance in trade relations in their favour.²⁷ They were seen to apply trade liberalization selectively to favour those industries in which they have

²⁶ Bayne and Woolcock Op. Cit Pp.. 39.

²⁷ Hertel *et al*, (1998) *The Uruguay Round and Africa: a Global, General Equilibrium*, Journal of African Economies Pp. 208–234.

a comparative advantage such as service industries.²⁸ This prevented developing countries from exercising their own comparative advantage to earn profit in international trade.²⁹ As a result, the UNDP estimated that due to the imbalances in WTO trade agreements the least developed countries stood to lose up to 600 million USD a year and the worst hit were in sub-Saharan Africa, which would lose up to 1.2 billion USD.³⁰ Statistics indicate that although the share of global trade in GDP increased, the share of international trade amongst least developed countries has shrunk by half in the last 20 years to 0.3%.³¹

The anarchic characteristic of the international political system has percolated into the multilateral economic system where a ‘winner-takes-all’ mentality still dominates. The imbalance of trade and development leaves economic diplomacy in deep crisis as the clout on international platforms and leverage required to make progress by weak states is lacking. Essentially, these states are at the mercy of their geographies, whether or not they have resources desired by their more powerful trading partners, and the ‘altruistic’ inclinations of developed countries and multilateral agencies to support the development agenda. However, it has become increasingly evident that asymmetric economic relations result in limited economic gains for all and hence the issue of development has once more become a salient consideration within the WTO system as evidenced in the stalled Doha round of negotiations.³²

²⁸ Ibid

²⁹ Broadman, H (1994). *The Uruguay Round Accord on Trade in Services*. The World Economy.

³⁰ UNDP, *Human Development Report 1997*, Oxford University Press, 1997, p.82.

³¹ Ibid

³² *The New Geography of International Economic Relations*. (2005) Background Paper prepared for Doha High Level Conference on Trade and Investment. United Nations, New York.

3.4 The Practice of Economic Diplomacy in the 21st Century

At the end of the Second World War, the world enjoyed a short stint of multipolarity before the start of the cold war and the four decades of bipolarity that followed. This lull between the end of one hot war in 1945 and the beginning of another cold one in the early 1950s was an opportunity for globalization to take root. This happened through the reorientation to civilian purposes of military industries that previously serviced the needs of the allied and axis powers with supplies developed from resources extracted across the globe. During this period, the global economy showed how increasingly interdependent it had become. For instance, rubber from plantations in Malaya was processed into American tires, Australian iron ore was used to manufacture Japanese vehicles and oil from the Caucasus powered soviet industry. At the same time it emerged that economic considerations had become just as important as political considerations in international diplomacy.³³

Consequently, the divide between conventional diplomacy and economic diplomacy reduced resulting in the entry of actors in to the realm of diplomacy that had hitherto not been present. The post-war multilateral trade system launched on January 1, 1948 with the advent of the UN triggered a trend in macro-diplomatic thinking that spawned the emergence of politico-economic blocs in Europe, Asia and Africa starting with the predecessors to the EU, ASEAN and the AU such as the European Economic Commission (EEC), the Association of Southeast Asia (ASA) and the Organization of African Unity (OAU) all within 15 years. These bodies now augment traditional bilateral trading relations between the member states. The tradition of individualism and

³³ Coolsaet, R. (2001) *Historical Patterns in Economic Diplomacy, From Protectionism to Globalization*, University of Ghent, Belgium Pp. 9-11

isolationism in the Americas could be responsible for the late adoption of multilateral economic diplomacy in the region.

The process of ending the cold war in the late 1980s and early 1990s saw the emergence of commercial associations focused on economic diplomacy such as North American Free Trade Agreement (NAFTA) in the Americas, the Commonwealth of Independent States (CIS) and the Eurasian Economic Community (EEC) in Central Asia including post-soviet Russia and the Gulf Cooperation Council (GCC) in the Middle East.³⁴ These organizations begun to operate side-by-side with international associations focused on political, particularly military aspects of deterrence and diplomacy such as NATO.³⁵ It is notable that South America has only recently begun exhibiting a strong showing in multilateral economic diplomacy with the advent of the Union of South American Nations (UNASUR) in 2005.³⁶ As some of the major arenas of the post-war multilateral trade diplomacy, these organizations have played a key role in advancing international trade liberalization and economic globalization.

Globalization is a recent concept that has only gained popularity in the post cold war era. As a consequence studies that examine how conventional diplomacy in general and economic diplomacy in particular have responded to the challenges and opportunities resulting from globalization are few and far between. Therefore, in reviewing how economic diplomacy functions globally, this study is faced by several challenges when examining the multiplicity of paradigms and strategies pursued by the different actors and institutions practicing economic diplomacy in a post modern world. The principal challenge is simply one of definition. Mavlanov asserts that economic diplomacy as a concept is subject to

³⁴ School of International and Public Affairs [SIPA], (2012) *Exploring Public and Economic Diplomacy*, Columbia University, NY.

³⁵ *ibid*

³⁶ Sanahuja, J. A. (2010) *Post-Liberal Regionalism: S-S Cooperation in Latin America and the Caribbean* *Poverty in Focus No. 20 - April 2010* International Policy Centre for Inclusive Growth Pp. 17-19

wide interpretation due to the broadness of the terms ‘economic’ and ‘diplomacy’.³⁷ Economic diplomacy is therefore easy to describe broadly but difficult to define precisely due to the multiplicity of actors, institutions and interests that are directly and indirectly involved in advancing the external economic interests of a state.

Regarding the difference between economic and commercial diplomacy the consensus among scholars categorizes commercial diplomacy as a component of economic diplomacy.³⁸ According to Saner and Yiu, commercial diplomacy is apolitical as it does not include negotiations on economic aid and engagements with international economic organizations, such as the World Bank and the International Monetary Fund.³⁹ Further to this, scholars emphasize on the inseparable link between political and economic diplomacy and point to the political influence exerted by states seeking to promote their economic interests. Morillas contends that “Economic diplomacy has not replaced conventional political diplomacy, but it has turned into an inseparable part of it”.⁴⁰ In this definition, the objectives of economic diplomacy are achieved through political negotiation, cooperation and coercion. However for the purposes of this study, the understanding of economic diplomacy is confined to state-sanctioned diplomatic activities that advance the economic interests of the state at the international level. The broad undertakings of economic diplomacy can thus be clustered into categories of foreign policy activities intended to do three things; increase the level of a country’s exports, attract foreign investment and facilitate participation in international economic organizations.

³⁷ Mavlanov, Ibrahim R. (2008) *Economic Diplomacy At The Beginning Of The 21st Century: Challenges and Trends of Development*, Kazakhstan in *Global Processes Journal* Pp. 2

³⁸ Saner, R. and Yiu, L. (2001) *International Economic Diplomacy: Mutations in Post Modern Times*. Netherlands Institute of International Relations Pp. 13

³⁹ *ibid* Pp. 15

⁴⁰ Morillas, J. (2011) *Economic diplomacy as a strategy in international relations*. Miradas No.17, Spanish Ministry of Foreign Affairs and Cooperation.

Deriving from these objectives of economic diplomacy, it is possible to expand the appreciation of diplomatic objectives to extend beyond the physical protection of a nation's citizens abroad but to also encompass the advancement of economic security of the state and its citizens through advantageous economic engagements externally. Essentially, economic diplomacy ought to contribute to improving the commercial capacity of the state and consequently accrue benefits to the other aspects of national security *inter alia*; military capability, ecological security, human resilience and overall international standing.

3.4.1 Strategies in Post-Modern Economic Diplomacy

Postmodern Economic diplomacy is advanced both bilaterally and multilaterally through three major strategies.⁴¹ Principally, it is through the promotion of trade through exports and motivation for foreign direct investment (FDI). The second strategy of economic diplomacy in the post-cold war era is the minimization of vulnerabilities to national security by diversifying risk. States achieve this through multilateral approaches such as international deal making and alliance-building as well as through traditional bilateral approaches such as acquisition of modern production and energy technologies. Participation in international diplomatic forums and platforms such as summit meetings, the WTO and GATT fall into the multilateral approach whilst establishment of new trade agreements with individual countries as well as renewal of existing trade arrangements with old partners comprises the bilateral approach.

The third strategy is country promotion through national branding. This is neither a bilateral nor multilateral approach but more of a unilateral one that is exercised in bilateral and multilateral spaces. Many countries now seek to capitalize on their comparative advantages and position themselves as trade,

⁴¹ Baranay, (2009) Op. Cit Pp. 5-7

investment, communications, tourism, transport and financial hubs. In this exercise they have recruited their internal agencies and foreign missions to promote the national image. Multilaterally, they achieve this through participation in international social, cultural and sporting events and by advertisement in the mass media. Bilaterally this is traditionally done through improvement of consular services. The pursuit of economic diplomacy that combines both bilateral and multilateral approaches has resulted in the incorporation of unconventional actors and culminated in the development of public private partnerships (PPPs) that engage firms, industry bodies and academia both domestically and internationally in pursuit of economic aspects of foreign policy.⁴²

It has been observed that the symbiotic relationship between political and economic diplomacy also displays elements of a proportionate relationship. This means that the greater the returns from economic diplomacy, the greater levels of political power (both 'hard' and 'soft') that a state enjoys. Consequently, both individual states and international bodies have developed a set of tools that are applied at the bilateral and multilateral levels to advance the pursuit of economic interests. For instance, economic pressure through incentives such as economic aid and foreign aid and disincentives such as sanctions or embargoes is as powerful a diplomatic strategy that has the capacity to deliver the desired outcome more efficiently than a military intervention.⁴³

Countries that have diplomatically pursued predominantly commercial objectives have witnessed a growth in their economic power that they have later translated into political power. Examples include the United States interventions on post-war Europe through the Marshall plan and the reconstruction of Japan led by Gen. Douglas MacArthur. A more clear-cut example can be found with the

⁴²Rana, K and Chatterjee, P. (2011) *Economic Diplomacy; India's experience*. CUTS International, Jaipur, India. Pp. 5 - 10

⁴³Melissen, J. (2005) *Wielding soft power; The New Public Diplomacy*, Netherlands Institute of international relations. *Clingendael Diplomacy Papers* No. 2

emerging economies of China, Brazil and India who also have begun exercising their greater political power, which they ‘purchased’ with their increased economic capacity. Increased economic interdependence has compelled countries to begin embracing multilateralism and institutionalize their working relationships as they work ever closer together. Economic summits such as the World Economic Forum (WEF) and the G-8 Summit among others have become the new platforms of diplomacy effectively supplanting traditional platforms such as bilateral meetings. The raised profile of economic considerations alongside national security means that modern diplomats have to consider economic goals right alongside political ones while representing the interests of their home states.

The form of economic diplomacy that has emerged to dominate the latter half of the 20th century and the first one and a half decades of the 21st century can be summarized as a multi-faceted approach. It combines elements of bilateralism and multilateralism in a state’s pursuit of economic objectives of foreign policy through diplomatic means. The diplomatic approaches that dominated the early half of the 20th century and the cold-war have mutated to adapt to the new non-political challenges to national security such as hostile economies occasioned by international competition for dwindling resources, volatility of financial markets, technological innovations and obsolescence of production techniques and the effects of international terrorism. In an interdependent world, states that seek to remain viable and competitive must evolve their approaches to foreign policy to be responsive to the dynamics of the international economic system particularly the rules of negotiation, international trade law, resource expansion and value-addition strategies as well as the securing of international sources of production, inputs and consumer markets through both bilateral and multilateral coalition and alliance-building. This is what makes economic diplomacy indispensable.

CHAPTER FOUR

Kenya's 'Look East' Policy 2002 - 2013

Introduction

For the past fifty years, Kenya's foreign relations have heavily favoured western countries and the country has excessively relied on them for development assistance. Some of the far Eastern countries like Malaysia, South Korea and Indonesia were at the same level of development as Kenya in the 1960's but have now attained the status of Newly Industrialized Countries (NICs) over the same period of time. An understanding of the role foreign and particularly economic relations played in the development trajectory of these Asian countries is important but this would constitute a whole new topic of research. For the purposes of this study however, it should suffice to conclude that the Asian Tiger economies are home grown and economic development for these countries was driven more by domestic policy especially at the inception and take-off stages. Foreign policy was only allowed to play a more significant role once these economies had matured. In Sub-Saharan Africa and particularly Kenya, dependence on international aid and trade especially with western partners in the EU member states as an avenue to development has long been a recurring pattern.¹ However, this model of development has failed to result in significant benefits for the country because the compulsory liberalization of the Kenyan market through Structural Adjustment Programmes (SAPs) in the 1980s yielded negative outcomes on the economy growth in the long run.²

The relationship model between developing countries in sub-Saharan Africa and their Asian counterparts is markedly different from that with western countries. The main difference is that relations with Asian countries tend to be

¹ OECD-DAC http://stats.oecd.org/Index.aspx?DataSetCode=ODA_RECIPIENT [Retrieved 8 August 2013]

² Busse, Matthias/Groizard, José L. (2007): *Does Africa really benefit from trade?* Economics Bulletin, Vol. 6, No. 1, p.1-6.

more politically neutral and instead focus on economic relations.³ The recent trajectory of relations between Kenya and her Asian partners demonstrate that there are a lot of mutual benefits that can accrue from their co-operation. For instance, the new cooperation agreements between Kenya and China clearly indicate that Kenya is eyeing significant benefits from a closer engagement with China. Notably, Chinese development assistance does not come with the pre-conditions that usually accompany western Overseas Development Assistance. In 2005, Kenya's Foreign Minister, Raphael Tuju observed that President Kibaki's trip to China was arguably the most important that the administration has taken.⁴

4.1 The Evolution of Kenya's 'look east' Policy

China brings a fresh dimension to Kenya's foreign policy and it marks a new era in the country's foreign relations. The idea of 'look east' can therefore be considered as a significant development in the foreign policy orientation for the country but by no means an unexpected one. In analysing the idea of "look east" Mwangi, urges scholars to adopt a bifurcated perspective, taking into account both the inward and outward-looking standpoints. Inwardly, the states of the Asia-Pacific region have positioned themselves to respond to the changing foreign policies of African States.⁵ He elaborates further that the outward looking perspective is where the states of the Asia-Pacific region have positioned themselves to provide an alternative focus for the diplomacy and foreign policy for other states, especially those in Africa. He concludes that the bottom line is the construction of a worldview that seeks to shift the diplomatic centre for African states from the traditional western anchorage to eastern ports of call.

³ Hofmann *et al.* (2007) *Contrasting Perceptions: Chinese, African, and European Perspectives on the China-Africa Summit*, IPG P. 77

⁴ *ibid.*, P. 87

⁵ Mwangi, (2006) *Op. Cit.*

Kenya has a mixed track record in its relations with South and East Asian Countries. Formal relations with China, India and Pakistan can be traced back virtually to Kenya's Independence Day on 12th December 1963. China was the fourth country to establish relations with Kenya after Germany, the Russian Federation and Ethiopia. The principal conditionality governing Kenya's relations with China is that Kenya subscribes to the 'One China' policy and acknowledges that Taiwan is part of the People's Republic of China⁶. India's relations with independent Kenya commenced with Indira Gandhi attendance of Kenya's Independence celebrations in 1963 just three years before she assumed the premiership. Bilateral relations with both South Korea and Japan were established a year later in 1964.

Thailand has maintained a royal embassy in Nairobi from as far back as 1967 but Kenya has only recently made enhanced overtures to Bangkok with the upgrading of the consulate that existed in Bangkok since 1992 to a fully-fledged embassy in 2006.⁷ Relations with the Philippines were established in 1975 when it opened an embassy in Nairobi but Kenya is yet to reciprocate.⁸ In the same year the Federal Democratic Republic of Nepal also established a presence in Kenya through an honorary consulate, the lowest level of formal diplomatic engagement.⁹ Kenya's forays into Malaysia on the other hand precede Kuala Lumpur's with Kenya establishing a diplomatic mission there in 1996. Malaysia made its official entry into Kenya's diplomatic community in 2005. However, Kenya's ties to Indonesia are still tenuous compared to those of the other South East Asian countries.¹⁰ In 1995, post-communist Vietnam established bilateral

⁶ Kan, Shirley A. (2007) *Evolution of the "One China" Policy; Key Statements from Washington, Beijing, and Taipei* Congressional Research Service

⁷ Interview with Amb. J. Lanyasunya, Director, Asia, Australasia & Pacific Islands Division, Ministry of Foreign Affairs Kenya, 07 May 2013

⁸ Interview, Amb. J. Lanyasunya, 07 May 2013 (Op. Cit)

⁹ Interview, Amb. J. Lanyasunya, 07 May 2013 (Op. Cit)

¹⁰ Interview, Amb. J. Lanyasunya, 07 May 2013 (Op. Cit)

relations with Kenya but relations with Bangladesh appear to be one-sided with Dhaka having opened a high commission in Nairobi for which Kenya is yet to reciprocate.¹¹ Kenya is also yet to establish diplomatic relations with a number of the other communist and post-communist states such as North Korea, Laos and Cambodia.¹² Similarly, there are no known formal relations with the Kingdom of Bhutan and Myanmar.¹³

Kenya's main multilateral donors have traditionally been the EU, the World Bank, and the African Development Bank, while its main bilateral partners are the United States, the United Kingdom, Japan, Germany, France, the Nordic countries, Italy, and now China. The table below is a reflection of the top 5 funding partners to Kenya in the year 2008.¹⁴

Partner	Allocation
EU's 10th EDF (2008-2013) ¹⁵	€ 399 million
World Bank	€ 223 million
African Development Bank (Mainly EU funds)	€ 84.6 million
Agence Française de Développement (AFD- France)	€ 43.7 million
Kreditanstalt für Wiederaufbau (Germany)	€ 40.9 million

Table 1: Kenya's Top 5 Bilateral Donors, 2008

That China's contribution in aid to Kenya increased from 0.08 per cent of total external assistance in 2002, to 13 per cent in 2005, is significant in its own right.¹⁶ Similarly, the resurgence of the Indian economy has provided an opportunity to reanimate bilateral trade relations between the two countries, which were structured around the Indo- Kenya trade agreement of 1981 in which both states conferred upon each other most favoured nation status.¹⁷ The India-

¹¹ Interview, Amb. J. Lanyasunya, 07 May 2013 (Op. Cit)

¹² Interview, Amb. J. Lanyasunya, 07 May 2013 (Op. Cit)

¹³ Interview, Amb. J. Lanyasunya, 07 May 2013 (Op. Cit)

¹⁴ OECD-DAC http://stats.oecd.org/Index.aspx?DataSetCode=ODA_RECIPIENT [Retrieved 8 August 2013]

¹⁵ Ibid

¹⁶ Ministry of Finance, *Kenya External Resources Policy Paper* (Nairobi: Ministry of Finance, 2007).

¹⁷ Interviews with Messrs' Mboya and Matthews, India High Commission, Nairobi 14th – 16th May 2013

Kenya joint trade committee (JTC) and the India-Kenya joint business council (JBC) remain the principal avenues of bilateral trade relations.¹⁸ Kenya is looking to India as a source of affordable, alternative technologies in the engineering, pharmaceutical, IT sectors whilst aiming to boost its exports of mineral and agricultural products to the south Asian state.¹⁹

4.1.1 Kenya's early relations with Asian Countries

Kenya and China trade diplomatic relations have significant historical dimensions, starting with the Ming Dynasty. Economic ties between Kenya and China antedate independence.²⁰ As a British colonial state, and despite the Cold War, Kenya was exporting raw materials to be processed in China in the 1950s and early 1960s such as sisal fibre, raw cotton, wattle bark extract, and pyrethrum. In return, Kenya bought semi-processed and finished products from China such as base metals, tea, fabrics, fruit preparations, and sundry manufactured goods. In 1963, Kenya's last year under colonial rule, the volume of trade between the two countries amounted to 9.2 million Kenya shillings (USD1.2 million at the prevailing exchange rate), and it was largely in Kenya's favour: Kenya's exports were valued at thrice what the country bought from China.²¹

Although China embraced communism and Kenya at independence adopted a capitalist system, their relations have largely remained cordial. China was the fourth country to recognise Kenya's independence in 1963 when the two countries exchanged diplomatic representations.²² However, since then Kenya's

¹⁸ Ministry of Foreign Affairs (2009) Op. Cit

¹⁹ *ibid*

²⁰ Kamau P. (2007). *Kenya: A case study-The Developmental Impact of Asian Drivers on Kenya with Emphasis on Textiles and Clothing Manufacturing*. Mimeo.

²¹ Chris Alden, "China in Africa," In a sweeping statement typical of this literature, Alden claims that "across the continent from Namibia to Central Kenya, traditional products, ISurviva 47, no. 3 (2005): 156

²² Zafar Ali (2007). The Growing Relationship between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment and Aid Links. *World Bank Research Observer, Vo.22, Issue 1, 2007.*

Relations with the People's Republic of China have been inconstant and have closely mirrored geopolitical trends. In the recent past, China has quickly risen to become Kenya's most visible trading partner in the East. Scholars of the Realist School make a compelling argument for the motivations behind Kenya's 'look east' policy. This is particularly evident in the case of Kenya's relations with the Peoples' Republic of China.

Chege traces the continuum of Kenya-China relations between 1963 and 2007 and is able to demonstrate the mercurial nature of the interaction between the two states.²³ Despite a good start immediately after independence, an ideological schism developed between Kenya and China during the Kenyatta-Mao regimes. During this period, Kenya became a theatre for cold war politics with each of the antagonistic blocs supporting the faction within KANU that was ideologically 'inclined' to them.²⁴ The rift between the two states manifested itself internally as the Kenyatta-Odinga split. Odinga headed the left-leaning faction of the ruling party, which advocated for a socialist model of development and hence favoured closer ties to the USSR and China. President Kenyatta and KANU party secretary General Tom Mboya represented the 'moderate' faction within the ruling party, preferring a "mixed economy," and were determined to increase cooperation between the new state, and the United States, Britain, and Western Europe.²⁵

Relations between the two states deteriorated rapidly from 1964 when the then Chinese premier Chou En-lai alluded to the "excellent revolutionary situation in Africa" whilst delivering a farewell speech in socialist Mogadishu following an African tour that included Kenya.²⁶ The Kenyatta faction in government's felt that the premier's remarks were in reference to Kenya and protested accordingly

²³ Chege, Michael (2008) *Economic Relations between Kenya and China, 1963–2007*, Centre for International and Strategic Studies.

²⁴ We contend that the relationship between the internal contending factions in KANU and the foreign powers that supported them was a symbiotic one driven mainly by self-interest. Therefore had any of the foreign blocs withdrawn support for their champion politicians, the rhetoric would have been reversed accordingly.

²⁵ Ibid pp. 20-21

²⁶ Patman, Robert G. (2009) *The Soviet Union in the Horn of Africa: The Diplomacy of Intervention and Disengagement* pp. 86

by way of parliamentary motion amid a loud silence by the Odinga faction.²⁷ Parliamentary addresses delivered by cabinet ministers Mboya, Osogo, and future president Daniel arap Moi were poorly received in Beijing with the communist party protesting that they subjected the Peoples' Republic of China "to slander, vilification and grave provocation."²⁸ Moi was accused of "brazenly vilifying China."²⁹ In March 1966, Kenya expelled a mid-level Chinese diplomat on suspicions of plotting subversion and in the following month Odinga and his acolytes were expelled from Kenya's ruling party.³⁰ In August of the same year, the Red Guard picketed the Kenya embassy in Beijing, in an incident that saw the hurling of projectiles, breaking the embassy windowpanes. A retaliatory demonstration was held by an early version of the KANU 'youth wingers' outside the Chinese embassy in Nairobi with similar results.

The one-upmanship continued to escalate with Kenya recalling its ambassador to China and declaring the Chinese Chargé d'Affaires *persona non grata*. The Chinese mission in Kenya was effectively left unmanned. In reprisal, China expelled Kenya's *chargé d'affaires* similarly leaving the Kenya embassy in Beijing unattended. Both the Kenyan Ambassador and his Chinese counterpart were on leave during this period and neither resumed their posts after their leave period ended. Consequently, the budding official economic ties between China and Kenya were severed when relations became unsustainably unfriendly resulting in the diplomatic break of 1967. The two countries while not formally severing political relations remained in diplomatic limbo for 11 years until when President Daniel Arap Moi made a state visit to China in 1980. Kenya-Soviet

²⁷ Chege, op Cit. also *East African Standard* (Nairobi), May 7, 1964.

²⁸ *East African Standard* (Nairobi), July 13, 1966.

²⁹ *ibid*

³⁰ The diplomat expelled was the third secretary in the Chinese embassy, Mr. Yao Chun, He had in fact protested at the adoption of a motion by Kenya's Senate condemning Chou En-lai's "ripe for revolution" remarks (Chege, 2008)

bloc relations did not suffer a similarly dramatic decline possibly due to the insulating effect of the Sino-Soviet split from 1960 to 1989.³¹

In the meantime, Kenya's relations with Japan have remained consistently cordial due to Kenya's geostrategic value to Japan in the East African region as well as its conventional value as a trading and development partner. Since 1986, Kenya has remained Japan's largest recipient of Official Development Assistance in Africa and one of the primary consumers of Japanese-Manufactured goods especially Motor Vehicles and electronics in the region³². Kenya's engagement with Japan transcends the traditional bilateral relations and has evolved into multilateral engagements such as the Tokyo International Conference on Africa's Development (TICAD).

4.1.2 Re-establishment of Relations with the Far East and forays to South East Asia

The overtures to the Chinese government that were made under Moi's administration were motivated by a desire to diversify the sources of Kenya's external aid following a cooling of relations with traditional western partners especially France, the Scandinavian countries, the United States and to a lesser degree, the United Kingdom who were backing calls for an expansion in Kenya's democratic space. Scholars speculate on other ulterior motives to these advances namely the accumulation of political mileage in Moi's Rift Valley base through inauguration of infrastructure projects.³³

China-Kenya economic relations in the Kibaki era also began with high-level political contacts between the two states followed by a series of agreements. Unlike the past, independent operators from Kenya and China participated in the

³¹ Lenman, B.P. and Anderson, T. [Ed.s] (2000) *Chambers Dictionary of World History*, Chambers: Edinburgh: pp. 769.

³² Ministry of Foreign Affairs, Kenya. (2009) Op. Cit

³³ Chege op. Cit pp. 22

development of relations between the two countries. President Mwai Kibaki made a state visit to China in August 2005, accompanied by 11 Kenyan trade and investment-seeking delegations.³⁴ He held extensive talks with President Hu Jintao and Chinese government officials, resulting in a five-part agreement covering official development assistance in grants (for infrastructure and energy), extended air services between the two countries, technical assistance for assessment and classification of standards in industrial products, and modernization of equipment and training at the state-owned Kenya Broadcasting Corporation.³⁵

President Kibaki's delegation also paid the obligatory visit to Shanghai, where he held discussions with its mayor, Han Zheng, on the functioning of special export industrial zones. Kenyan business delegations explored prospects in tourism, joint ventures in power generation.³⁶ Political leaders' relationship in both countries has to a great extent played a role in the establishment of business relationships. Kenya's president, Mwai Kibaki subsequently held talks with the Chinese president with the aim of encouraging more Chinese investments in Kenya with the most recent being the establishment of a commercial logistics centre in Nairobi.³⁷

Trade agreements signed between China and Kenya have played a big role in the establishment and growth of bilateral trade, some of the existing agreements are; Agreement on Economic and Technological Cooperation between the People's Republic of China and the Republic of Kenya, Agreement on Trade between the People's Republic of China and the Republic of Kenya (1978), These agreements have lead to the abolishment of import duty on goods from both

³⁴ Onjala, J (2008), *A Scoping Study on China- Africa Economic Relations: The Case of Kenya*, Institute for Development Studies University of Nairobi, Pp. 5-8

³⁵ Baah, A and Jauch, H (2009) (Ed.s), *Chinese Investments in Africa: A Labour Perspective*, African Labour Research Network, Pp. 390-393

³⁶ Ibid

³⁷ Sautman, B. and Y. Hairong, "Wind from the East: China and Africa's Development," paper presented at "China's New Role in Africa and Global South", Shanghai, May 15-17, 2007, p.3.

countries that are used for production of both goods and services in country.³⁸ However, the abolishment of import duty is not for all items, but only those that are used for specific projects that both governments have been identified as beneficial to both parties.³⁹

In South East Asia, the Kibaki regime at the same time embarked on a deliberate policy to forge diplomatic relations with emerging South East Asian ‘tiger economies’ such as Malaysia and South Korea as part of its ‘look east’ policy. The dividends from this approach are beginning to materialize with over 5,000 Korean Nationals cleared to live, work and invest in Kenya by the Ministry of immigration and over five of the larger South Korean Multinational companies such as Samsung and LG who specialize in electronics, Daewoo, Kia, SsangYong and Hyundai who focus on the automotive industry as well as Kumho and Hankook who manufacture tyres, all having increasingly significant market presence in Kenya.⁴⁰ Palm oil, building materials, textiles and furniture from Malaysia have also begun to enjoy increased visibility on the Kenyan Market. Though the balance of trade has traditionally been favourable to these south east Asian states, Kenya in turn has begun to export higher quantities of tobacco, coffee, scrap metal, gemstones, pyrethrum, spices, fish, wood products, handicrafts and beer.⁴¹

As Mwangi noted, the motivation for Kenya to look east is driven mainly by two factors.⁴² First is that states such as South Korea, China, India and Japan have acceptable policies that Kenya can identify with. Secondly Asia Pacific countries are providing an alternative focus for diplomacy and foreign policy.

The economic interface with the East gives Kenya and indeed Africa an

³⁸ Onjala, J (2008), Op. Cit. Pp. 7

³⁹ Interview with Cao Xiaolin, Economic & Commercial Counselor, Chinese Embassy Kenya 10th May 2013

⁴⁰ Interview with Hans Eunshil, Commercial Attaché, Embassy of South Korea, 13 May 2013

⁴¹ Interview with Amb. J. Lanyasunya, Director, Asia, Australasia & Pacific Islands Division, Ministry of Foreign Affairs Kenya, 07 May 2013

⁴² Mwangi, (2006) Op Cit.

opportunity to construct a worldview that is able to move the centre of diplomacy of these states from traditional western capitals to eastern capitals such as Beijing. This has had implications, for instance, the West has realized that the East can provide a better alternative that African states need in abundance, and for Africa, it has meant high levels of FDI from the East.⁴³ In terms of power politics, more so hard power, it was expected that the state with the strongest navies, militaries, economic, and political reach would have more influence. This therefore implied that for states such as China and India, which were considered to be more developed economically, politically and socially compared to other states in their regions would enjoy greater advantages in engaging with Africa.

With the exception of India, the entry of people of Asian origin in Kenya especially from the Far East is fairly recent and their population is still low. It is only in the last decade or so that the presence of the Chinese and Malaysian community in Kenya became noticeable. The small number of these communities and their separation from the rest of the people has, however, contributed to their being less visible. Even those members engaged in the clothing and textile industry generally avoided dealing directly with indigenous Kenyans. They tactfully employed local human resource managers and accountants to handle local matters.

It is currently estimated that there are approximately 8,000 Chinese people living in Kenya.⁴⁴ However, there are no official statistics. Most of the Chinese people in Kenya are engaged in trading and manufacturing activities. They are involved in the importation of various products from China, which they either distribute to retailers or through outlets they have opened to sell their products to the public. Since 2000, they have been actively involved in the manufacturing of

⁴³ Weng Ming, "Person Selected Right Before the Journey: Lord Qiao's first visit to the UN," *World Affairs: Diplomats in the UN*, ed. by Fu Hao and Li Tongcheng, (Beijing: Chinese Overseas Publishing House, 1995), p. 9.

⁴⁴ Kamau P. (2007). *Kenya: A case study-The Developmental Impact of Asian Drivers on Kenya with Emphasis on Textiles and Clothing Manufacturing*. Mimeo.Pp.44

apparel. More recently, a number of them have ventured into the motor vehicle industry whereby they are involved in the importation of auto-spare parts from Asian countries.⁴⁵

The government of the People's Republic of China has set up a special fund to encourage Chinese companies to import some Kenyan products, including coffee beans, rose seeds, black tea and sisal all of which are exported in raw form. Efforts being made at bridging bilateral trade should focus on value addition before export. The Third Economic and Trade Committee meeting between Kenya and China took place on 25th April 2006. The meeting addressed various issues of interest to both countries, including ways of bridging the balance of trade, which remains heavily in favour of China⁴⁶.

Chinese companies operating in Kenya, the Chinese are primarily engaged in the in the manufacturing and service sectors, but are gradually moving to mining and minerals exploration. The more dominant Chinese-owned companies in Kenya have limited local capital or joint ownership. The employment level of Kenyans in such firms is very low. However, the structure of employment is gradually changing, with an increasing proportion of Chinese employees⁴⁷.

Foreign direct investment (FDI) in Kenya is defined as “ investment in foreign assets, such foreign currency, credits, rights, benefits or property, undertaken by foreign national for the purpose of production of goods and services, which are to be sold either in the domestic market or exported overseas” (Investment Promotion Centre Act, Cap. 518). The Central Bank of Kenya keeps records of FDI transactions. Kenya like most of other African countries has recently liberalised the investment environment. Until 1995, all foreign investments

⁴⁵ Geda Alemayehu (2006). *The Impact of China and India on Africa: Trade, FDI and the African Manufacturing Sector, Issues and Challenges*. A Framework Paper for AERC Pp. 12

⁴⁶ United Nations Economic Commission for Africa (2005) *Compendium of Intra-African and Related Foreign Trade Statistics*, ECA, Addis Ababa

⁴⁷ Ibid (2007).

flowing into the country were subject to approval by the Central bank⁴⁸. The Investment Promotion Act of 2004 clearly spells out the government commitment to attracting FDI in Kenya⁴⁹. This was necessitated by the realization that FDI in Kenya was declining during the last decade, while it rose in other countries in the region. In addition, increased competition among African countries in the global FDI also necessitated Kenya to address the domestic impediments to foreign investments. According to the Investment Act of 2004, foreign ownership is only restricted for insurance industry, telecommunication industry, and companies listed on the Nairobi Stock Exchange, to seventy-seven, seventy and seventy-five per cent, respectively.

Competition and scale effects occur when separate national markets become more integrated –as a result of the trade pacts-into a single unified market. As a result of the larger market, economies of scale are achieved even as producers of member countries come into closer contact and increase their competition with one another. Efficiency within firms is increased as entrenched monopoly positions are challenged. Further foreign suppliers will change their pricing strategies as well as their attitude towards FDI, (preferring the latter to exporting), as a result of the change in market size as well as competition⁵⁰.

FDI inflows into Kenya compared to neighbouring countries are largely determined not only by macro political and macro economic factors, but by the quality of the underlying domestic business climate and institutional conditions, both within Kenya and at a regional level.⁵¹ Greater diversification in FDI has been occurring increasingly falling into several investment sectors. Significant Chinese investments in Kenya have been made in retail ventures, tourism,

⁴⁸ Geda Alemayehu (2006). The Impact of China and India on Africa: Trade, FDI and the African Manufacturing Sector, Issues and Challenges. A Framework Paper for AERC

⁴⁹ Gu Jing and John Humphrey (2007). The Impact of Africa on China. Paper Prepared for AERC, 2007.

⁵⁰ Gu Jing and John Humphrey (2007). The Impact of Africa on China. Paper Prepared for AERC, 2007.

⁵¹ Broadman, H.G., G. Isik, S. Plaza, X. Ye and Y. Yoshino (2006), *Africa's Silk Road: China and India's New Economic Frontier*, The World Bank, Washington D.C.

transport, construction, power plants, and telecommunications, among others⁵². Huawei, a major Chinese telecommunications firm, has won a huge contract to provide cell phone service in Kenya. Thus China is pursuing commercial strategies with Kenya that are about more than resources⁵³.

In light of the significant heterogeneity among Chinese FDI firms in Kenya, one would expect to observe significant differences in the emerging trade patterns between Kenya and regional states and the rest of the world. In particular, the increased presence in the services such as imports, exports, might suggest that China's motive is to use Kenya as an entry point and trading platform in the region⁵⁴. Worldwide, the presence of foreign firms usually has a profound effect on a host country's participation in international trade, because FDI is often associated with an increase in both exports and imports⁵⁵. An important potential by-product of this process in China-Kenya relations is that Kenyan firms might become exposed to transfer of advanced technology or enhanced skills. Such exposure could engender positive spill-over effects on the efficiency and competitiveness of Kenyan firms.

On technology transfer, most of the Kenyan EPZ firms recruited people without experience in the garment industry who were then trained within the factory. In this case, the EPZ firms do not compete directly with the local firms. Equally, some former EPZ employees leave formal employment to start their own small-scale garment firms using the training and experience they gained while working in EPZ garment production firms. More importantly is the likelihood of some production expatriate workers leaving EPZ firms to team up with local investors to establish garment factories.

⁵² Kaplinsky, R., D. McCormick and M. Morris (2007), *The Impact of China on Sub Saharan Africa, Working Paper 291*, Institute of Development Studies, University of Sussex, Brighton.

⁵³ Ibid

⁵⁴ Dobler, G. (2005), *South-South Business Relations in Practice: Chinese Merchants in Oshikango, Namibia*, Mimeo.

⁵⁵ Broadman, H.G., G. Isik, S. Plaza, X. Ye and Y. Yoshino (2006), *Africa's Silk Road: China and India's New Economic Frontier*, The World Bank, Washington D.C.

Since the establishment of the diplomatic relations, aid projects and assistance provided by China to Kenya mainly include: Moi International Sports Centre, methane-generating pit, the expansion project of Eldoret Teaching and Referral Hospital and the Gambogi-Serem Highway. In recent years, the bilateral trade value increased greatly. The Chinese exports to Kenya consist mainly of household electric appliances, industrial and agricultural tools, textile goods, commodities for daily use, building materials and drugs, and so on. Kenya's exports to China mainly consist of tea, coffee and leather-goods.

2002 saw the trade value between China and Kenya reach USD186.37 million, of which the Chinese export amounted to USD 180.576 million while Kenya's exports to China were valued at USD 5.798 million. The mutually beneficial cooperation between China and Kenya began in 1985⁵⁶. At present, there are over 20 Chinese companies doing their businesses in Kenya, such as Jiangsu International Economic and Technological Cooperation Co, Sichuan International Economic and Technological Cooperation Co Ltd and China Road Bridge Construction (Group) Corporation and China Import and Export (Group) Corporation for Complete Sets of Equipment.⁵⁷

⁵⁶ Kaplinsky, R., D. McCormick and M. Morris (2006), *"The Impact of China on Sub Saharan Africa"*, Agenda setting paper prepared for DFID China Office, Institute of Development Studies, Brighton.

⁵⁷ Kenya, MINISTRY OF FOREIGN AFFAIRS (2006) A Brief Prepared for Institute for Development Studies, University of Nairobi, SEPTEMBER 2006

CHAPTER FIVE

Presentation of Findings and Data

Introduction

Kenya's interests in the southern and far eastern regions of Asia lie in their potential as a market for Kenyan exports and as a source for goods and services. Additionally, Kenya is seeking to attract FDI from these regions and facilitating Kenyan investments there. This explains the intensified diplomatic engagement with the nations of China, India, Thailand, Indonesia, Malaysia and South Korea and highlights the emerging policy of economic diplomacy focussing on that region. Mwangi observes that Kenya's approach to economic diplomacy with the Asian nations is characteristically bilateral rather than the more multilateral relationship that the country has with European countries.¹ He posits that there are two main reasons Kenya is pursuing a policy of economic diplomacy that is focussed on Asian partners. The first is that Kenya, like beleaguered African states encumbered by unprofitable trade relations with western partners have chosen to diversify its options by searching for new markets and opportunities.² The second reason Mwangi offers to explain the emerging policy of 'look east' is Kenya's renewed desire to achieve industrialized status.³ This was first articulated under the Kibaki administration and captured in the 'Vision 2030' national development blueprint. The flagship projects in Vision 2030 are reliant on funding from China, Japan, and South Korea For instance; Chinese financing at a low lending rate of 2% with long grace periods of 15-20 years has been

¹ Makumi Mwangi, (2006) *Foreign Policy, Economic Diplomacy and Multilateral Relations: Framing the Issues in Kenya's Emerging Asia-Pacific Policy* in African Review of Foreign Policy, University of Nairobi Pp.-45-58

² Ibid

³ Ibid

secured.⁴ Furthermore, Kenya has called on Singapore to provide consultancy and advisory services on infrastructural development of Railways, Harbours and Ports.

As a measure of the commitment Kenya has to the policy of economic diplomacy, the Ministry of Foreign Affairs and International Trade has created a division called “Economic and External Trade Directorate”. This division is very well funded, resourced and strengthened, both in equipment and staff. In turn, evidence of Kenya’s resolution to pursue the ‘look east’ policy can be found at the Ministry of Foreign Affairs, which has created a “China” desk. Kenya has adopted the ‘One China’ policy at the political level, which guides the relationship with China. Kenya is ‘look east’ because it is hoping to realize its dream of industrialization by replicating best practice from its East Asian partners who were similarly underdeveloped in the 1960s and 1970s. Mwangi stresses the importance of mutual exchange even as Kenya looks east. Emphasis is made particularly on the vertical deepening of sectoral relationships between Kenya and Asian states⁵.

Mwangi is critical of horizontal, administrative relationships that lead merely to an expansion of the bureaucracy used to manage foreign relations without the accrual of actual, tangible benefits.⁶ In analysing Kenya’s ‘look east’ policy therefore, returns from the additional administrative infrastructure at the Ministry of Foreign Affairs and International Trade must be examined to see if the relations that are developing are more vertical or horizontal. The issue to be determined from the empirical data is whether Kenya’s relationship with its eastern partners is shallow dependency or structural interdependence that is

⁴ ‘The Star’ 12 May 2014, ‘China Deals Balloon Kenya’s Debt’ available at <http://www.the-star.co.ke/news/article-166627/china-deals-balloon-kenyas-debt> [Retrieved 23 Sept 2014]

⁵ Mwangi (2006) Op. Cit

⁶ *ibid*

mutually beneficial to both partners and enhances their prestige and influence in the international system.

The end of the cold war and the diminishing of ideological differences is perhaps the most significant factor that has contributed to the ability of Kenya to pursue a ‘look east’ policy. China is a Communist country, and because of the ideological differences with Kenya, our country did not have strong international relations with China, and hence had very little interaction during the Cold War era.⁷ Similarly, India and the other south Asian economies registered relatively little growth during the cold war years and have only become resurgent since the mid-1990s.⁸ Kenya has also begun showing signs of economic revival in the mid 2000s, dovetailing with the rambunctious growth witnessed in even the lesser eastern economies particularly, South Korea, Malaysia, Vietnam, Thailand and Indonesia.⁹

5.1 Regional Dimensions in Kenya’s ‘look east’ Policy

Kenya’s biggest trading partners are in the East African region. Uganda for instance is the biggest importer of Kenyan goods and services. In 2011, they imported KES 66 billion worth of Kenyan goods far higher than any of its other trading partners.¹⁰ Uganda is also a source and destination for FDI. In 2007, net FDI inflows from Uganda stood at KES 648 billion. Following the mini-recession in the Kenyan economy that followed the 2007 post election violence, the direction of capital flow was reversed in favour of Uganda to the tune of KES 145 billion.

⁷ Chege, Michael (2008) *Economic Relations between Kenya and China, 1963–2007*, Centre for International and Strategic Studies.

⁸ Interview with Amb. J. Lanyasunya, Director, Asia, Australasia & Pacific Islands Division, Ministry of Foreign Affairs Kenya, 07 May 2013

⁹ Amb. Nelson Ndirangu, Dir. Economic Affairs and International Trade Ministry of Foreign Affairs 23 September 2014

¹⁰ See Figure 4: Kenya’s Export Destinations 2006-2012

Kenya is also the main transit hub for goods and services to other parts of the region for instance, Rwanda, Burundi, the Eastern DRC, Southern Ethiopia, Southern Sudan, Northern Tanzania and even western Somalia.¹¹ In addition, Kenya is a key member of the Regional Economic Communities such as the East African Community (EAC), the Common Market for East and Southern Africa (COMESA). Kenya has very good trade relations with these multilateral partners and in fact, COMESA is the 3rd largest trading bloc with Kenya after Egypt.¹² These are all indicators of the interdependence between the Kenyan and regional economies.

Kenya is also an active and influential player in regional and continental politics. Kenya has over the years been a critical actor in the security dynamics of the region. Membership to regional political bodies such as the Inter Governmental Agency on Development (IGAD) and the African Union are mechanisms through which Kenya is able to express its regional security logic and exercise diplomatic influence in the region directly.¹³ Through representation in the EAC, Kenya is represented in the International Conference on the Great Lakes Region (ICGLR) and is similarly able to exercise indirect influence on security matters in the volatile east of the Democratic Republic of Congo.¹⁴ In terms of unilateral action in the region, Kenya has intervened in the collapsed south of Somalia where the Kenya Defence Forces were deployed to root out the *Al Shabaab* militant group in 2011.¹⁵

KDF troops were subsequently re-hatted and placed under AMISOM command in 2012 after they had captured the key port of Kismayu and the process

¹¹ Interview with Amb. Nelson Ndirangu, Dir. Economic Affairs and International Trade Ministry of Foreign Affairs 23 September 2014

¹² *ibid*

¹³ Ministry of Foreign Affairs, Kenya (2009), *Foreign Policy Framework*, Republic of Kenya, Nairobi

¹⁴ *ibid*

¹⁵ The Standard (2012) *President Kibaki pays tribute to KDF over Kisimayu Capture* <http://www.standardmedia.co.ke/?articleID=2000067178> [Retrieved 28 September 2014]

of pacification begun.¹⁶ Kenya has also been a leading peace actor in the region having spearheaded the peace process in South Sudan that culminated in the Comprehensive Peace Agreement of 2005.¹⁷ Kenya has similarly led several rounds of peace talks that were aimed at quelling the conflict in Somalia but these have not been successful. However, with the entry of a more widely accepted Somali National Government, diplomatic ties between the two countries have been established and coordinated efforts to secure the unstable south are underway.¹⁸ It is therefore plausible to conclude that the direction of Kenya's foreign policy has significant effects on the region and by inference; Kenya's 'look east' policy should be examined in the context of the regional political and economic dynamics.

In this context therefore, it can be argued that the benefits and risks accruing from such a policy also affect the region, but this happens without the consent of the partners. And this is because Kenya is pursuing the 'look east' policy using a bilateral approach. The argument here is that, a structural institutionalization of these relationships allows for the mitigation of political and economic risks attending this policy and it also puts Kenya in a better bargaining position with its eastern partners. The conduct of international economics has taught us that weaker countries that belong to functional regional economic blocs like the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA) are in a better position to articulate and negotiate their national interests with more powerful nations if they act as a unit. This means that they have to formulate and consistently subscribe to a collective regional policy that

¹⁶ AMISOM (2012) *AMISOM assumes formal command of Kenyan Forces in Somalia*, available at <http://amisom-au.org/2012/07/amisom-assumes-formal-command-of-kenyan-forces-in-somalia/> [Retrieved 28 September 2014]

¹⁷ UNMISS (2010) *The background to Sudan's Comprehensive Peace Agreement* available at <http://unmis.unmissions.org/Default.aspx?tabid=515> [Retrieved 28 September 2014]

¹⁸ The Standard (2013) *Kenya set to re-open embassy in Somalia* available at <http://www.standardmedia.co.ke/ktn/video/watch/2000063294/-news-kenya-set-to-re-open-embassy-in-somalia> [Retrieved 28 September 2014]

serves their communal interests which supersedes their individual national policies.

The regional economic groupings such as COMESA and the EAC have greater leverage than the constituent states if they act in a monolithic manner. Specifically, they have a larger capacity for the production and consumption of goods and services than the individual member states. For instance the EAC has a combined population of over 160 Million people.¹⁹ This has been a successful strategy for the EU particularly because it has managed to develop and consistently advocate for strong, broad based policies that enjoy relatively uniform mass appeal among the member states. This provides them with a credible value-proposition to their more powerful trading partners in the east and the capacity to negotiate for more favourable terms for the western nations.²⁰ Regional groupings therefore offer safety in numbers and are consequently more convincing agents than disaggregated countries in the rough and tumble environment that is international politics and trade. Logically therefore, Kenya's approach to economic engagement with the east ought to have a strong multilateral component that capitalizes on the advantages offered by pursuing it through the regional and continental bodies in which Kenya is a member state.

However, this is presumptuous to the extent that the other member states of these economic groupings share a similar viewpoint. Internecine rivalries, security dilemmas and political differences among member states can easily scuttle efforts at multilateral economic diplomacy. For instance, economic relations between Kenya and Tanzania tend to be always uneasy, with the latter always wary of Kenya increasing its economic hegemony over the region. Similarly, relations

¹⁹ EAC website http://www.eac.int/index.php?option=com_content&view=article&id=169&Itemid=157 [Retrieved 20 September 2014]

²⁰ European Commission (2014) *Europe 2020 – Europe's Growth strategy* http://ec.europa.eu/europe2020/index_en.htm [Retrieved 20 September 2014]

between Tanzania and Rwanda underwent a rocky patch in August 2013²¹, a matter in which Burundi has been dragged into the fray. Relations between the East African community member states also suffered as a result with Burundi and Tanzania appearing to have been snubbed during the launch of a new berth in Mombasa port in September 2013²². The difficulty in pursuing a cohesive regional policy is further compounded by the ‘quick wins’ availed by pursuing a bilateral approach. These have a shorter turnaround time and tend to appeal more to the immediate national interests of a country than the drawn-out processes of multilateral engagement in which critical national interests get diluted. Cases in point are the deals that both Kenya and Tanzania have secured separately from China to develop competing ports in Lamu and Bagamoyo respectively²³. This may be interpreted as a ‘divide and rule’ strategy by China that is exploiting the differences between the countries to prevent EAC member states from coming together to bargain collectively by appealing to their individual self-interest.

Realism demands that moral values should not be ascribed to the actions of nations. In analysing the diplomatic actions taken by China and other East Asian countries with regard to their engagement with in African states and Kenya, an appreciation of their national interests must be placed at the centre. For China, having as many entrepôts as possible along the African seaboard is a good thing because it offers them many gateways into the continent, reduces the cost of freight through competition and cuts the turnaround time in the loading/unloading of goods. Failure to consider the perspective of the potential economic partners in such a manner results in the development of skewed policies that fail to appeal and hence perpetuate an unequal relationship.

²¹ The Daily Monitor, *Tanzania, Rwanda now turn to 'quiet diplomacy'* <http://www.monitor.co.ug/News/World/Tanzania--Rwanda-now-turn-to--quiet-diplomacy--/688340/1969908/-/hv0xnu/-/index.html> [Retrieved, 2 September 2013]

²² The Star, *Lawyers criticise Tanzania, Burundi 'side-lining' in EAC* <http://www.the-star.co.ke/news/article-134804/lawyers-criticise-tanzania-burundi-sidelining-eac#sthash.5CyhYMMz.dpuf> [Retrieved 3 September 2013]

²³ Bloomberg, *Kenya Fights Off Port Competition With \$13 Billion Plan: Freight* <http://www.bloomberg.com/news/2013-08-20/kenya-fights-off-port-competition-with-13-billion-plan-freight.html> [Retrieved 3 September 2013]

Similarly, failure to appreciate the interests of the partner state means that their policies can be misinterpreted domestically and actually result in a xenophobic backlash or hostility to a neighbouring state that appears to enjoy preferred status. The bottom line in economic diplomacy is the desire to expand into new demand and supply markets as well as to sufficiently diversify the national economy in order to reduce its vulnerabilities and shield it from shocks. The economy is the engine that drives national development and underwrites modern security strategies for many countries. Many states worldwide are therefore now focussing on realizing energy, water and food security and are making efforts to secure consumer markets and sources of raw materials for manufacturing. The critical thing to note is that due to the collapse of ideological barriers and globalization, these objectives are not being single-sourced from a selected region. Instead, countries have diversified their approach to securing these aims in order to exploit comparative advantages the different regions and locales have to offer.

Over the past fifty years, Kenya–Asia relations have achieved some remarkable outcomes. However, most of these achievements are principally at the bilateral level.²⁴ Relations have opened up the horizons for both regions in terms of trade, and cultural exchange. In the perspective of what should be achieved in the next fifty years, two main challenges and perspectives need to be considered. The first is the need to strengthen bilateral diplomacy and the second is the need to for Kenya to champion a regional approach with respect to the policy of ‘look east’.²⁵ Bilaterally, certain aspects of both sides of the relationship need to be strengthened in order to give the vertical relationships that have emerged over

²⁴ Interview with Amb. J. Lanyasunya, Director, Asia, Australasia & Pacific Islands Division, Ministry of Foreign Affairs Kenya 30 September 2014

²⁵ Interview with Amb. Nelson Ndirangu, Dir. Economic Affairs and International Trade Ministry of Foreign Affairs 23 September 2014

fifty years more depth. One such area is the strengthening of cultural aspects of diplomacy.²⁶

As noted in Chapter 3 of this study, both Kenya and its Asian partners have begun cultural and student exchange programmes. For example, at the University of Nairobi, a Confucius Institute was established in 2005, where language and cultural promotion classes are on offer.²⁷ In addition, the Ministry of Foreign Affairs and International Trade has received 64 scholarships in 2013 for students to study in Thailand, Japan, and South Korea. Cultural diplomacy is a facilitator of values-exchange because it is through individual interactions and personal relationships that mutual affinity is built, even among nations.²⁸ Tourism is a convenient gateway for this kind of interaction and it helps cement political and economic ties across borders.

5.2 Emerging Economic trends from the 'look east' Policy

China, Japan, Korea, India, Malaysia and Indonesia all developed a domestic market to consume the goods and services they were producing before they began aggressively expanding into external markets. These states invested heavily in building their internal production and consumption capacities through the formulation and implementation of domestic policies that promoted education especially in the acquisition of technical skills required in the engineering and manufacturing sectors.²⁹ Similarly, they invested in improving the quality of their populations both as a factor of production and a potential consumer base through improved health infrastructure, education and programme.³⁰ Efforts at agricultural self-sufficiency were stepped up with the application of innovations

²⁶ Interview with Amb. J. Lanyasunya, Director, Asia, Australasia & Pacific Islands Division, Ministry of Foreign Affairs Kenya 30 September 2014

²⁷ University of Nairobi, <http://confucius.uonbi.ac.ke> [Retrieved 30 September 2014]

²⁸ Interview with Amb. J. Lanyasunya, Director, Asia, Australasia & Pacific Islands Division, Ministry of Foreign Affairs Kenya 30 September 2014

²⁹ Ministry of Foreign Affairs, Kenya (2014), *Asia Country Briefs*, Republic of Kenya, Nairobi

³⁰ *ibid*

to the agricultural sector to boost production and achieve food security. The development of transport and communications infrastructure and the pursuit of energy security was also a key undertaking.³¹

As a consequence the fiscal and monetary policies of these countries were adjusted to be in alignment to these objectives. There have been mixed results from these initiatives but it is clear that the level of economic development was significant. Levels of malnutrition, infant and maternal mortality dropped, whilst the levels of education, life expectancy and GDP rose. The patterns of these indicators have been generic to the region but the devil is in the details. It is possible to discern differences in the per capita incomes of the different Asian state as well as stark inequalities between rural agricultural areas and the urban manufacturing bases.

There is a clear convergence of interests in Afro-Asian engagements. Africa is endowed with significant deposits of raw materials and energy resources for which there is a growing global demand.³² Africa also has a growing population that is increasingly becoming solvent on the back of high commodity prices. This population is generating the demand for more energy, expanded infrastructure, schools, hospitals, food, cheap consumer goods and medicines on the continent.³³

Asian economies specialize in the production of cheap goods and affordable technology that meets this demand. That is why they are the fastest growing economies in the world. China for instance is referred to as the ‘world’s factory’ whilst India lays claim to the title of the ‘world’s pharmacy’. However, the rapid economic growth on both continents requires ever increasing injections of resources to sustain it. In exchange for African resources, the Asian countries are capitalizing on their individual strengths. It would appear there has been a

³¹ *ibid*

³² Dietz, T *et al.* (2011) *African Engagements: Africa Negotiating an Emerging Multipolar World*, Brill. Pp. 2-7

³³ Broadman, Harry G *et al.* (2007) *Africa's Silk Road; China and India's new economic frontier*. World Bank pp. 328-349

division of labour and a separation of roles amongst the major Asian nations that are engaging with Africa. China seems to be specializing in competitive infrastructural development solutions in the sectors of transport, communications and energy. On the other hand, India is capitalizing on its developed capacity in the sectors of health, education, pharmaceutical and light manufacturing to facilitate skills and technology transfers.³⁴ South Korea has captured the agricultural sector by offering value-addition solutions for African primary produce. South Korea has also sought to expand its global footprint by establishing electronics assembly and manufacturing plants.³⁵

Competition amongst the major global players for African resources in the past decade has boosted growth rates, trade, and the bargaining power of countries in sub-Saharan Africa. At the centre of this is the increased competition between China and the west for Africa's resources, which has resulted in a commodities boom, and windfall profits for Africa.³⁶ However, the likelihood of these economies succumbing to the “resource curse,” and Dutch disease effects is high where profits are retained by Africa's power elite, but not percolate to Africa's poor.³⁷ The competition for Africa's resources between the east and the west has also led to the emergence of bi-polar economics similar to the bi-polar politics that characterized the Cold War. Regardless of the legacy of colonialism and discounting the inefficiencies of poor governance in many African countries, asymmetrical trade relations between African countries and western economies continue to persist.³⁸ The self-serving trade policies of these countries directly contribute to the fragility of African economies and retarded development in sub-

³⁴ Interviews with Messrs' Mboya and Matthews, India High Commission, Nairobi 14th – 16th May 2013

³⁵ Interview with Mr. Hans Eunshil, Commercial Attaché, Embassy of South Korea, Nairobi, 13 July 2013

³⁶ Kohnert, Dirk (2008): *EU-African economic relations: Continuing dominance, traded for aid?* GIGA working papers, No. 82, <http://hdl.handle.net/10419/47856> [Retrieved 8 August 2013]

³⁷ Mwega, M (2007) *China, India and Africa: Prospects and Challenges*, Discussion Paper Presented at the AERC- AFDB International Conference on Accelerating Africa's Development Five Years into the Twenty-First Century, November 22-24, 2006, Tunis, Tunisia. University of Nairobi Pp. 13-22

³⁸ Zartmann, W (2009) *Life Goes on and Business as Usual: The Challenge of Failed States*, Johns Hopkins University, Pp. 4

Saharan Africa's least developed countries, which remain vulnerable to external shocks generated from without such as global terrorism and financial crises.³⁹

Singapore, India, and Malaysia are the top Asian countries making significant Foreign Direct Investments in Africa. By 2008, their collective investment stock stood at USD 7 Billion⁴⁰. China, the Republic of Korea, and Taiwan have also been stepping up their investment presence in Africa notably in the areas of infrastructure, electronic engineering and textile manufacturing. In 2005, China's FDI stock in Africa stood at USD 1.6 billion and Chinese companies were operating in 48 African countries.⁴¹ Initially, the bulk of significant Chinese investment in Africa was in only a few African countries such as Sudan, Algeria and Zambia. However since 2008, Asian investment especially in the resource-rich countries, such as Nigeria, South Sudan, Angola and Botswana is on the rise. This is reflective of the fact that nearly 8% of the world's oil reserves are in Sub Saharan countries. This has motivated China to spend billions to secure drilling rights in Nigeria, South Sudan and Angola, as well as negotiating for exploration contracts with Chad, Gabon, Mauritania, Kenya, Equatorial Guinea, Ethiopia and the Republic of the Congo. For instance, in 2008, China extended USD 50 Billion to Nigeria, the largest financial commitment by China to a foreign country so far.⁴² As a result, Africa now accounts for 25% of China's oil imports and Angola surpassed Saudi Arabia in 2006 to become China's number one source for imported oil.⁴³ In 2008, the Democratic Republic of Congo entered a highly controversial minerals-for-infrastructure deal with china worth USD 9.25 billion.⁴⁴ China also finalized a deal with Tanzania worth USD 11 billion to

³⁹ ibid

⁴⁰ Kohnert, Dirk (2008) Op. cit

⁴¹ Interview with Cao Xiaolin, Economic & Commercial Counselor, Chinese Embassy Kenya 10th May 2013

⁴² Interview with Cao Xiaolin, Economic & Commercial Counselor, Chinese Embassy Kenya 10th May 2013

⁴³ ibid

⁴⁴ Global Witness (2011) *China and Congo: Friends in Need*, Pp. 11-12

upgrade handling capacity of 4 port facilities: Bagamoyo, Dar-es-Salaam, Tanga and Mtwara to 20 Million containers annually.⁴⁵

In spite of this, the question of China's moral responsibility to contribute towards improving governance in Africa keeps arising.⁴⁶ Furthermore, the impact of China's 'no-strings' approach to human rights issues in Africa and its own human rights record also keeps coming to the fore.⁴⁷ Activists point to the transfers arms and equipment from Asian countries especially to regimes in Africa that are perceived as repressive and argue the case that China is actually undermining democracy and economic development in Africa.⁴⁸ It has been claimed that military technology and aid transfers from China as well as intelligence sharing with countries such as Kenya and Zimbabwe is one of the key enablers to the longevity of regimes that are decried in the west such as that of President Robert Mugabe.⁴⁹

5.3 'Look east' Policy and the effects on Kenya's Balance of Trade

In order to make a determination of these issues an examination of emerging trends in Kenya's direction of trade for the last 15 years was carried out. The assessment selected Kenya's top five trading partners in the eastern and western hemispheres respectively. In the east, the countries that were selected were China, India, Pakistan, South Korea and Malaysia. In the western hemisphere, the UK, France, Germany, the Netherlands and the USA were selected. Import and Export trade values since 1998 to 2012 were reviewed and the difference between them was computed to determine the balance of trade. A time-series analysis of the same set of statistics was conducted to determine the direction of trade.

⁴⁵ Bulzomi *et al* (2014) *Supply Chains and Transport Corridors in Eastern Africa*, International Peace Information Service and TransArms-Research Pp. 21

⁴⁶ Qinglian, H (2007) *The Sino-African Cooperation against Human Rights*, China Human Rights Forum

⁴⁷ Meidan, M (2006) *China's Africa Policy: Business Now, Politics Later*, Asian Perspective, Vol. 30, No. 4, 2006, pp. 69-93.

⁴⁸ Medeiros, E (2006) *The African Dimension in China's Foreign Policy*, Presentation at the FLAD-IPRI Conference on

"Strategy and Security in Southern Africa" Lisbon, Portugal October 2006, Rand Corporation

⁴⁹ Meidan, M (2006) Op. cit

Figure 1 below shows Kenya’s trade situation in 1998. Imports and exports from western countries were dominant and even though Kenya had a negative trade balance with both hemispheres, trading partners in the western hemisphere out traded their eastern competitors by a ratio of 3:1.

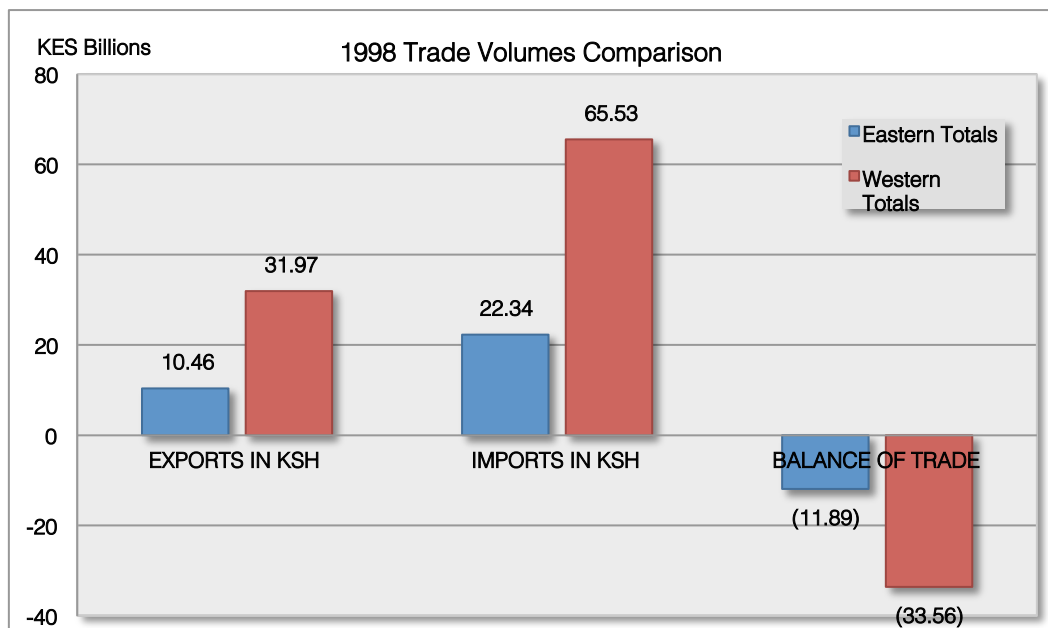


Figure 1: East vs. West Trade Volumes Comparison 1998

Flash forward to 2012 and figure 2 below shows that the situation has been reversed. Imports and exports from the eastern trading partners are now dominant in Kenya. The country still has a negative trade balance with both hemispheres, but now the ratio of trade stands in favour of Asian at 4:1.

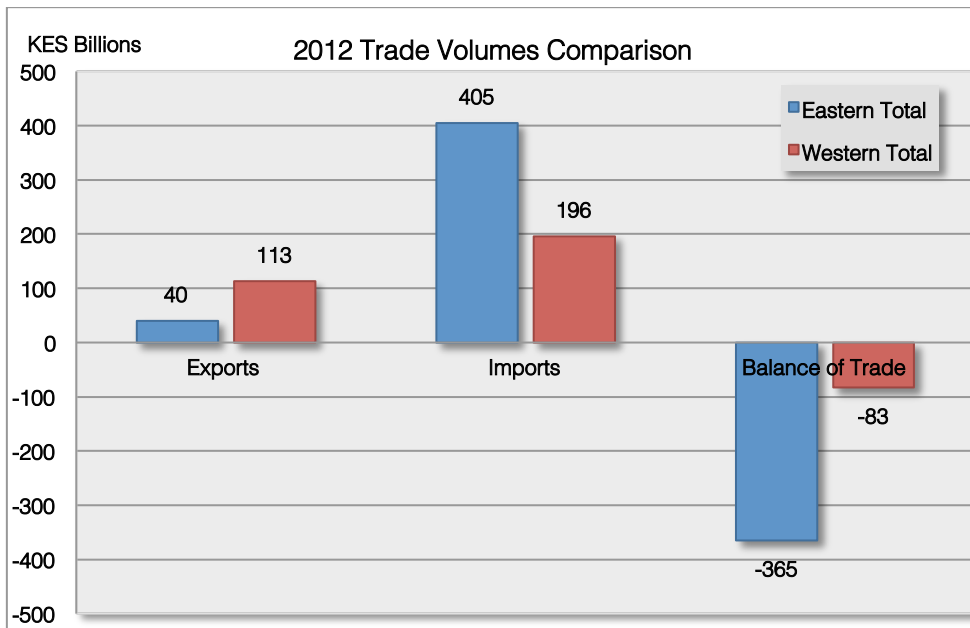


Figure 2: East vs. West Trade Volumes Comparison 2012

What is notable is that in both instances, Kenya's trade position is disadvantageous and appears to actually worsen following improved trading relations with eastern countries by 2012. This impression is borne out by Figure 3 below. However, these statistics must be juxtaposed against the trajectory of economic growth that the country experienced over the same period.

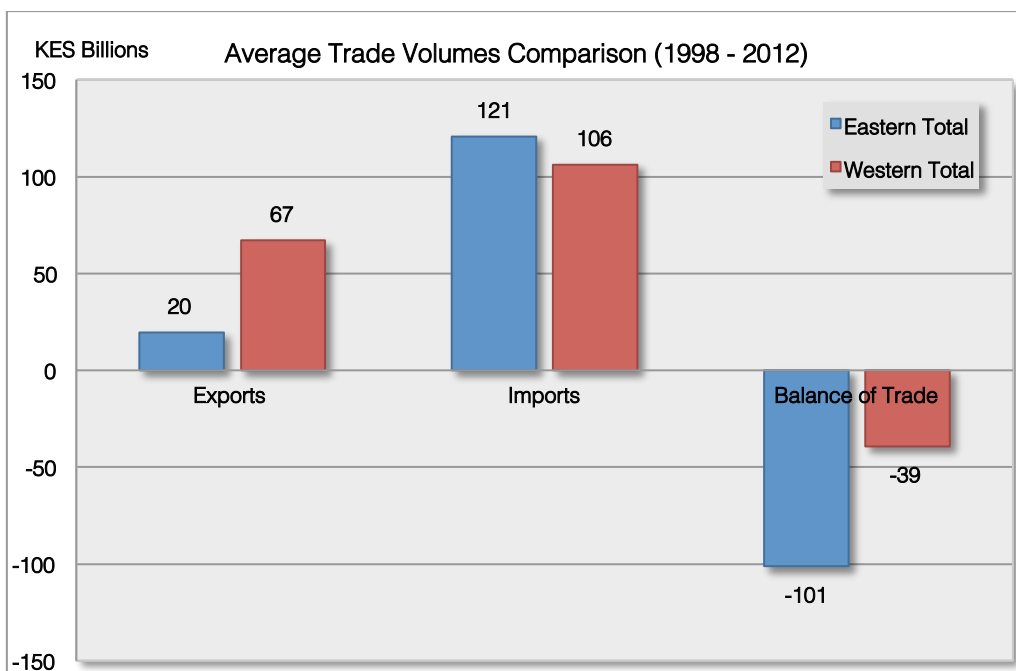


Figure 3: Average Trade Volumes Comparison 1998-2012

Figure 4 below shows Kenya's exports in Kenya Shillings to various destinations of the world⁵⁰. Kenya's traditional trading partners over the past three years have been the East African Community states, the European Union (EU), Asia, Canada, USA and The rest of America. It is also worth noting that Asian countries in the Middle East such as UAE and Pakistan are on the rise as export destinations. Exports to China have increased significantly enough from below the top 10 destinations in 2002 to rank amongst the top 5 export destinations for Kenya in 2012. Exports to western markets such as the UK, USA, Netherlands, Germany and France have also been consistently on the rise though only in proportional volumes. They have failed to register the exponentially meteoric growth observed in the Chinese market.

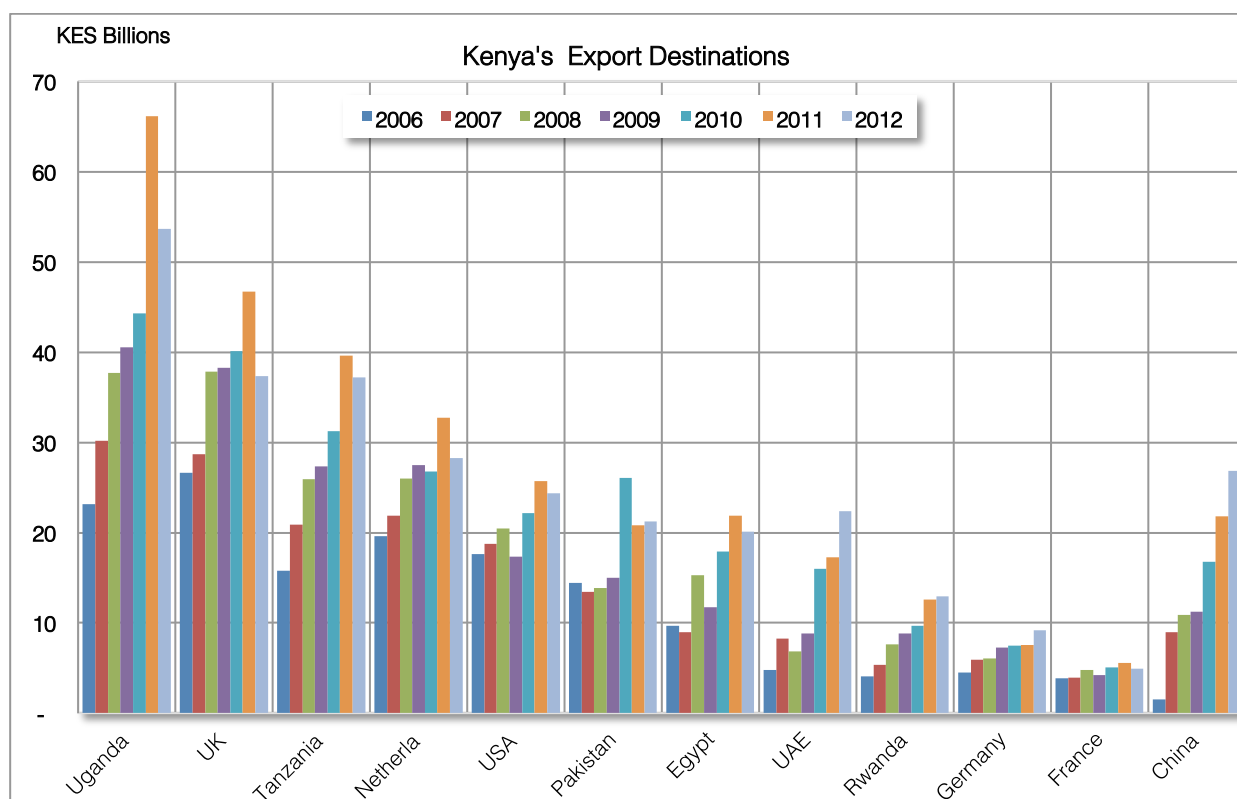


Figure 4: Kenya's Export Destinations 2006-2012

⁵⁰ KNBS trade statistic yearbook 2013

Figure 5 below shows Kenya's main import sources from various parts of the world⁵¹. Goods and services from Middle and Far eastern countries such as the UAE, India, China and Japan dominate the Kenyan market. In fact, towards 2012 India and China supplant the UAE as the principal sources of imports to Kenya, whilst Saudi Arabia also makes a strong showing. European producers such as the UK, the Netherlands and the USA registered a small decline in 2012. In contrast, the UAE and Germany showed marginal resurgence as exporters to Kenya but not as at the same level as China. Japan suffered a decline in the middle years only to make a small comeback at the tail end of this study period, as did South Africa.

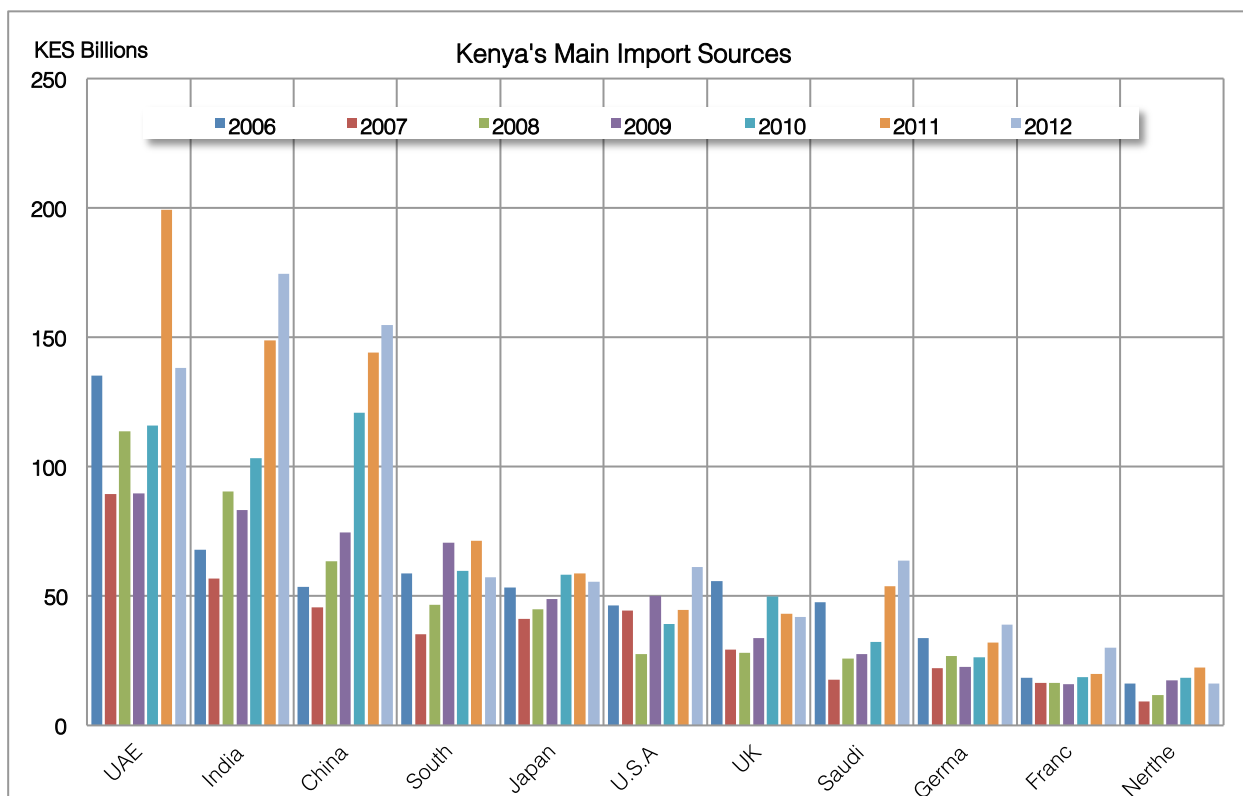


Figure 5: Kenya's Major Import Sources 2006-2012

⁵¹ Ibid

5.3.1 Kenya's Trade Relations with Eastern Countries

In breaking down these aggregate figures, a country-by-country assessment of trade data was conducted for the ten sample countries. The analysis looked at the import, export and balance of trade. The chart below shows the exponential growth in trade between Kenya and China over the past 15 years. It illustrates the growth in exports from a low of USD 78 Million in 1998 to over USD 5.3 billion in 2012. This represents a growth in volume of about 68 times.

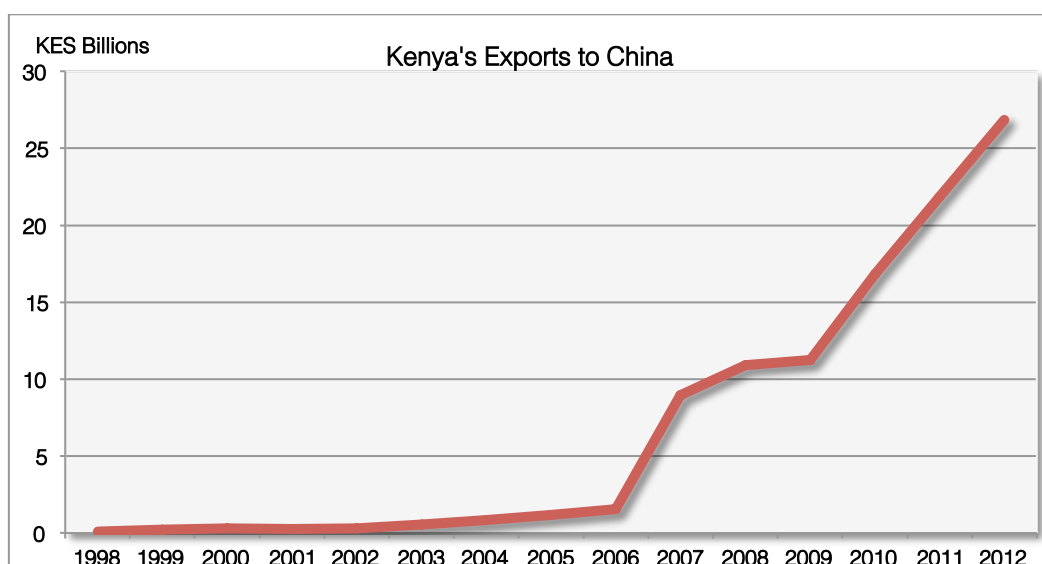


Figure 6: Kenya's Exports to China (1998-2012)

However, this should be considered also from the perspective of China's exports to Kenya over the same period as illustrated in the chart below. In 1998, Kenya's imports from China stood at KES 4.1 billion and these have steadily grown to over KES 167 billion by 2012 representing an escalation of approximately 40 times the 1998 value. This means that for every one additional unit of our imports from China, we exported an additional 1.7 units. These included hides and skins, sisal, fibre, coffee and tea. There is a very marked increase of exports, and there is still potential for this to grow. Nevertheless, the trade deficit between Kenya and china still grew from negative 4 billion KES in 1998 to negative 161 billion

KES in 2012. Similarly, imports have increased comprising of glassware, pottery, iron and steel wire, tubes and pipe-fittings, ready-made clothes, shoes, household goods, machinery and equipment and other manufactured items. In addition the government of the People's Republic of China has set up a special fund to encourage Chinese companies to import some Kenyan products, including coffee beans, rose seeds, black tea and sisal are exported in raw form. There are also efforts being made that are aimed at bridging bilateral trade, which will focus on value addition before export.

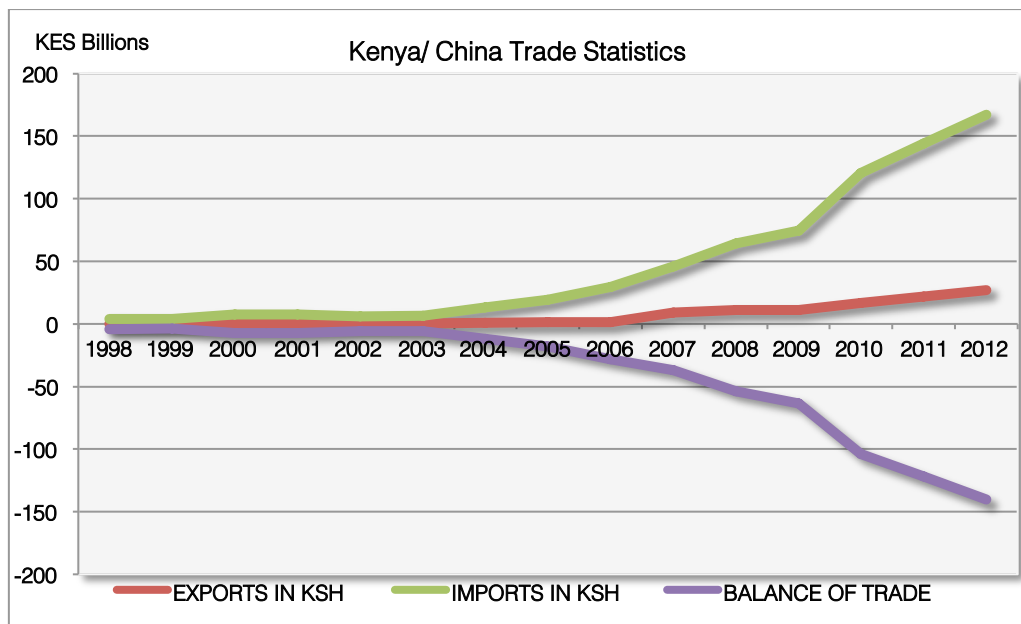


Figure 7: Kenya-China Trade Statistics (1998-2012)

Interestingly, this pattern repeats itself with India, Kenya's other main trading partner in the east and in fact, the situation is worse. Kenya's trade deficit with India stands at KES -187 billion at the end of 2012. Import values have risen to KES 195 billion. In contrast, exports to India have remained relatively stagnant rising only sevenfold from KES 1 billion in 1998 to KES 7 billion in 2012 as illustrated in Figure 6 below.

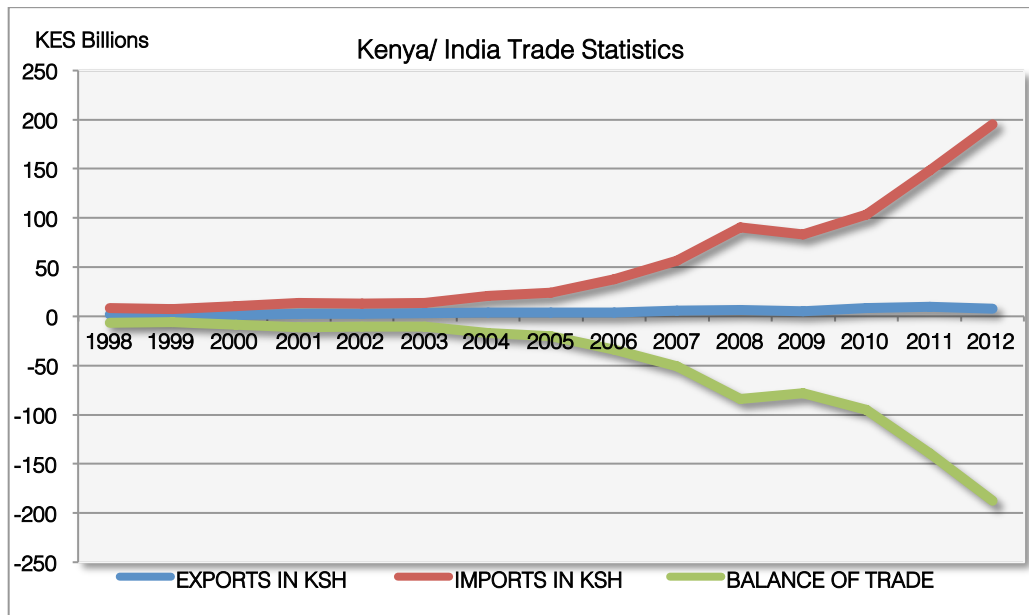


Figure 8: Kenya-India trade statistics 1998-2012

A similar situation exists with South Korea and Malaysia, Kenya’s other major trading partners in Asia. Kenya’s trade deficit with South Korea stands at KES -21.5 billion at the end of 2012. Exports to this country surpassed the KES 1 billion mark for the first time in 2012. In the case of Malaysia, Kenya already had a KES 4 billion trade deficit in 1998. This fell steadily not because of improved export performance by Kenya but instead due to reduced import volumes from Malaysia. Kenya’s deficit reduced to a low of KES 854 million in 2002 when once again imports from Malaysia increased to KES 9.8 billion in 2011. In contrast, Kenya’s export values to Malaysia remained moribund at the 300-400 million shilling mark until 2012 when the country experienced a five-fold spike in exports to hit the KES 2.1 billion mark. At the same time, import values from Malaysia dipped to KES 7.0 billion resulting in a 50% reduction in the trade deficit from KES 9.4 billion to KES 4.9 billion. These scenarios are reflected in Figures 9 and 10 below.

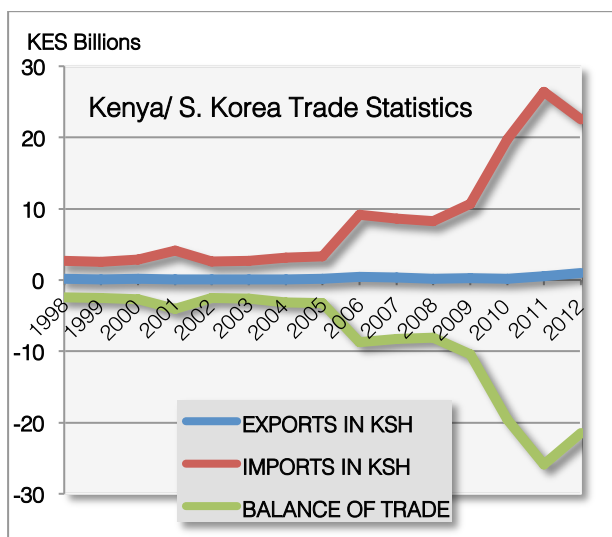


Figure 9: Kenya-S. Korea Trade

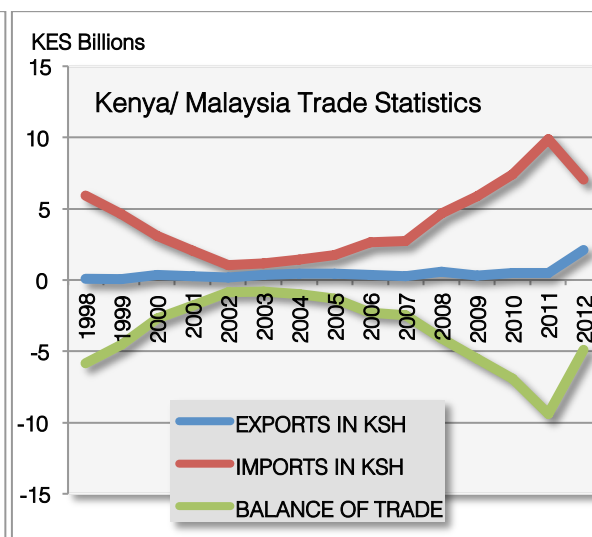


Figure 10: Kenya-Malaysia Trade

The only country in Asia with which Kenya has a positive trade balance is Pakistan. Kenya exports food and beverages, especially tea and coffee. However, non-food industrial supplies, fuel and transport equipment also make up the export basket to this country. Between 1998 and 2012, Kenya maintained a consistently positive trade balance with the exception of 2002, which marked the low point of a recession that culminated in a trade deficit of KES 1.5 billion. However, the country quickly recovered and begun posting positive balances that hovered close to the KES 10 billion mark since then. Export values have grown tenfold from a low of KES 2.3 billion in 2002 to KES 23 billion in 2012. Imports from Pakistan to Kenya have also been on a growth trajectory reaching a high of KES 17 billion in 2011 before sliding back to KES 12 billion in 2012. Figure 11 below clearly shows this.

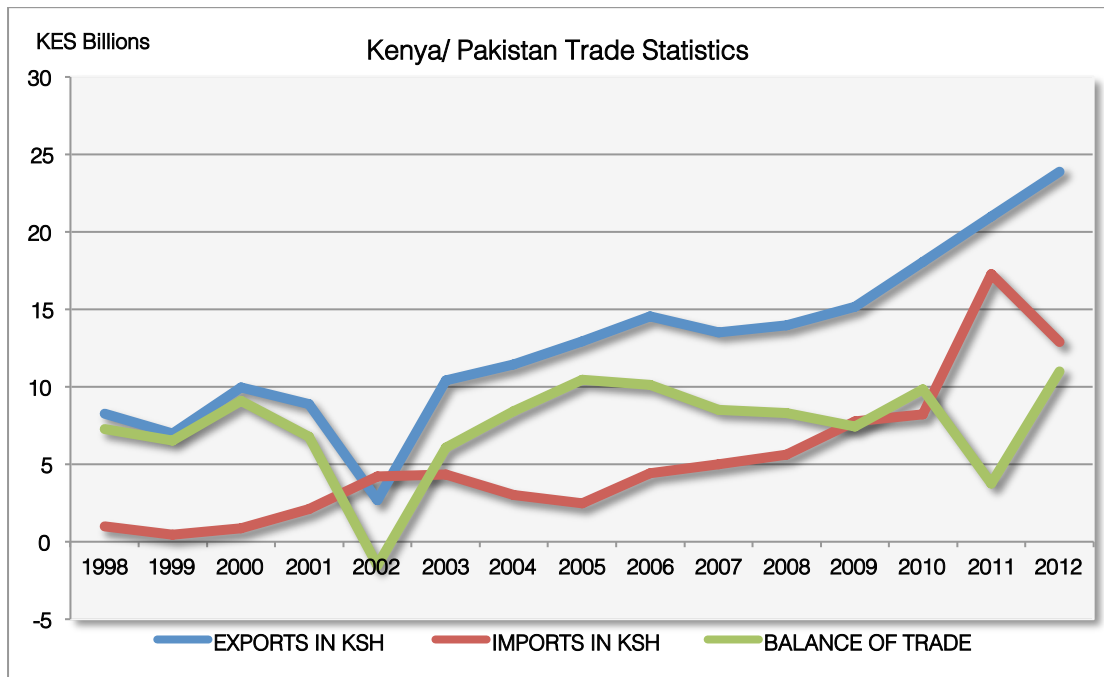


Figure 11: Kenya - Pakistan Trade Statistics 1998-2012

Kenya’s trade with eastern countries between 2010 and 2013 posted a negative trade balance. Sources indicate that the actual figures stood at KES -489.4 billion in 2010, KES -712.7 billion in 2011 and KES -751.1 billion in 2012.¹ The biggest export destination for Kenyan products to Asia is UAE (23.7%) followed by Pakistan (22.1%).² Kenya’s exports to China are one of the lowest importers of Kenyan products at KES 11.6 billion (4.1%) for the three-year period. While in Africa, Kenya’s trade balance was positive for the entire three-year period.

5.3.2 Kenya’s Trade Relations with Western Countries

A similar comparison of trade performance with western partners yields a mixed bag of results. Whilst Kenya maintained a deficit with four of its five major trading partners in the west, the growth in the deficit has not been as stark as with the Asian countries. In fact, only trade with Germany and France showed any indications of a consistently growing deficit mirroring the predominant patterns in

¹ Amb. Nelson Ndirangu, Dir. Economic Affairs and International Trade Ministry of Foreign Affairs 23 September 2014

² KNBS 2013

Asia. For instance, in the case of Germany, the deficit grew consistently from KES 3.8 billion in 1998 to KES 31 billion in 2012. This is in spite of Kenya's export values rising marginally from KES 5.5 billion to KES 9.7 billion over the same period, which was offset by surging appetite for German imports by Kenyans rising four times from KES 9.1 billion in 1998 to 41.4 billion in 2012. The analysis of French values yields a similar pattern, albeit on a smaller scale. Kenya's trade deficit with France rose from KES 3.7 billion in 1998 to KES 22 billion in 2012 on the back of strong French exports to Kenya from 7.9 billion in 1998 to 27.0 billion in 2012. Kenyan exports to France in the meantime registered lukewarm performance rising from KES 1.8 billion on 1998 to 4.9 billion in 2012. Figures 12 and 13 below show these trends.

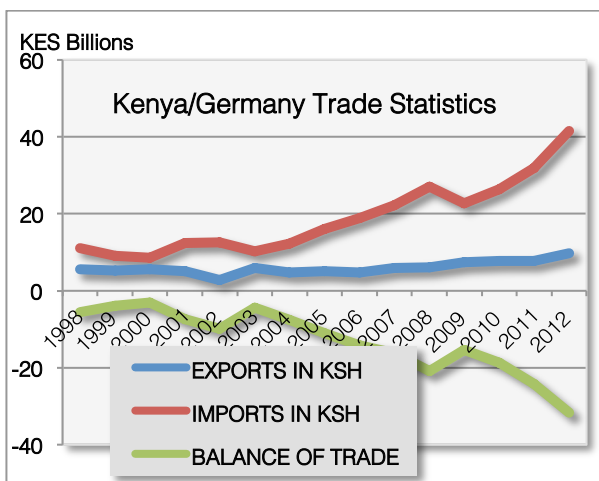


Figure 12: Kenya-Germany Trade

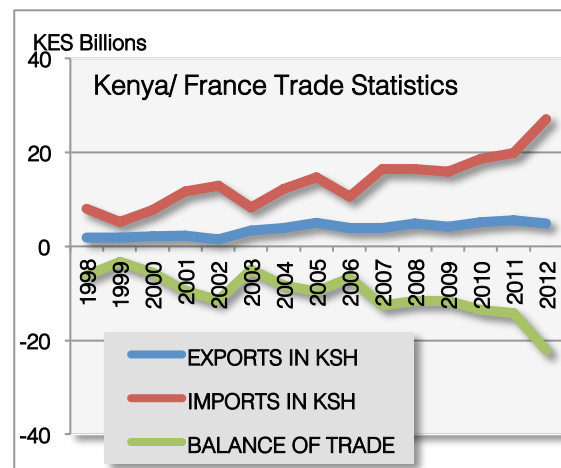


Figure 13: Kenya-France Trade

In contrast, trade with the UK and the United States returned an inconsistent trade deficit. For instance, in the case of the United States, Kenya's trade deficit has exhibited what can best be described as inconsistent regularity. It has risen and dropped on 5 different occasions from highs of between negative 3 and negative 6 billion KES to lows of KES 39 billion. Imports from the United States have also followed this pattern albeit; they have been consistently on the rise from KES 9.5 billion in the year 2000 to 65.9 billion in 2012. Kenya's exports to the USA also

spiked sharply between 2005 and 2006 gaining five times their value from KES 4.3 billion to KES 21 billion virtually overnight. In the case of the UK, Kenya's trade performance has actually improved overall. Exports to the UK have risen consistently from KES 14 billion in 1998 to KES 40 billion in 2012. Between the years of 2008 and 2011, Kenyan exports to the UK actually overtook the imports by a small margin resulting in a trade surplus of KES 9.8 billion at its height in 2008. Figures 14 and 15 below show these economic trends.

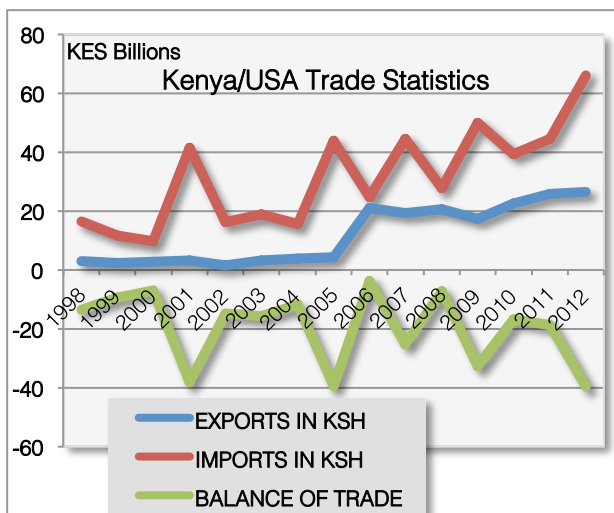


Figure 14: Kenya-USA Trade

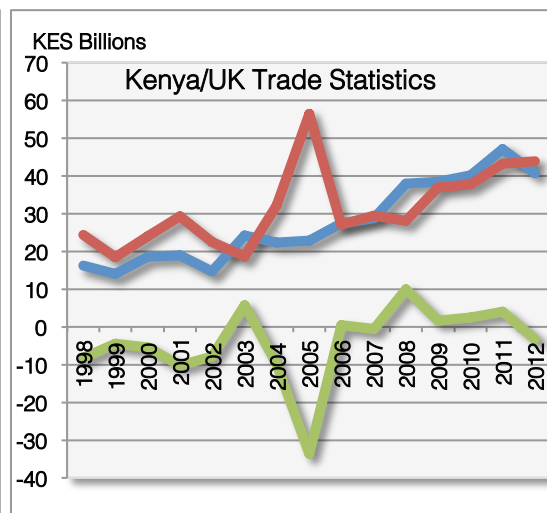


Figure 15: Kenya-UK Trade

Like Pakistan in the east, the Netherlands is the only major trading partner in the west with whom Kenya maintains a trade surplus. Since the year 2000, the growing appetite in the Netherlands for Kenya's horticultural produce, especially flowers, has driven the balance of trade in Kenya's favour. Indicators show that Kenya's net gain from trade with the Netherlands stands at KES 13.4 billion as of 2012. Between 1998 and 2011, exports to the Netherlands grew from KES 4 billion to KES 32.8 billion. The last time Kenya had a deficit was in 2000 and since 2002, Kenyan exports to the Netherlands and Dutch exports to Kenya have grown in tandem. See figure 16 below.

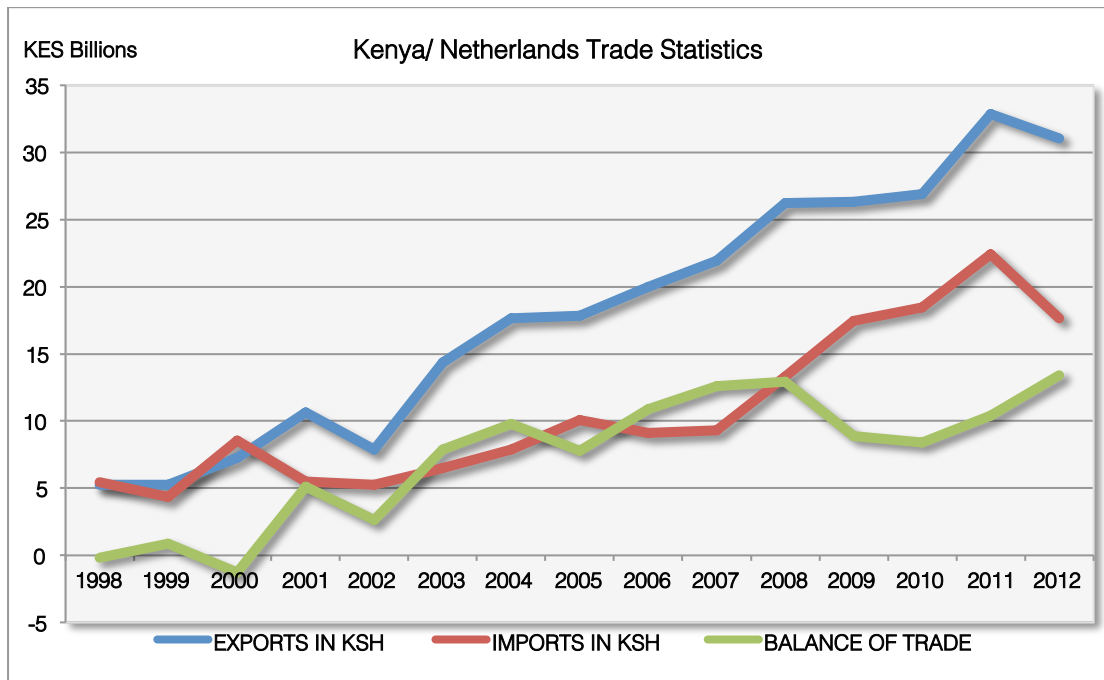
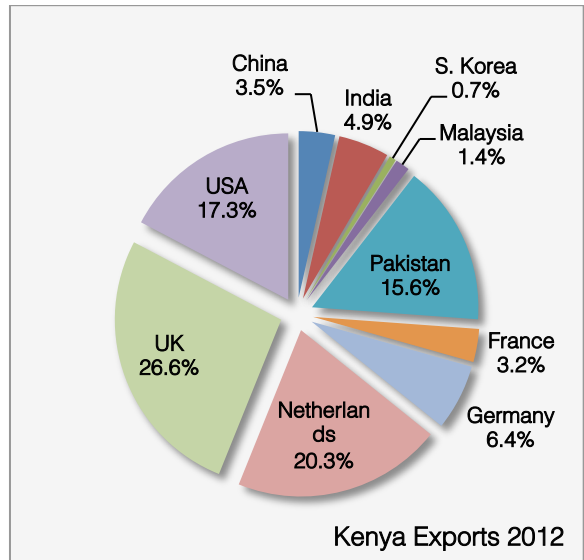
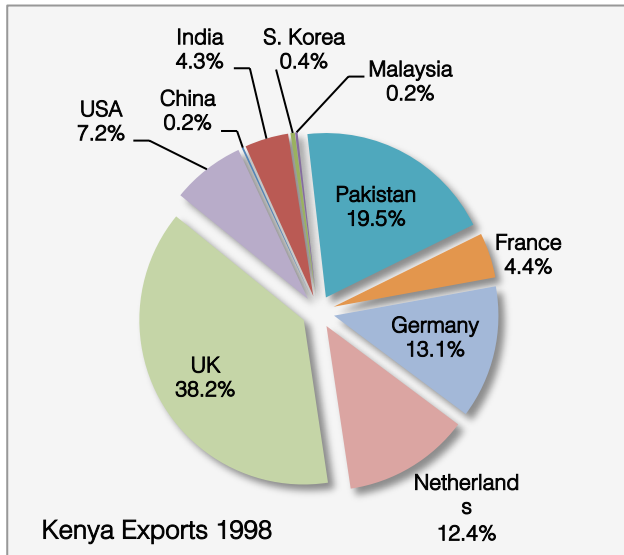


Figure 16: Kenya-Netherlands Trade

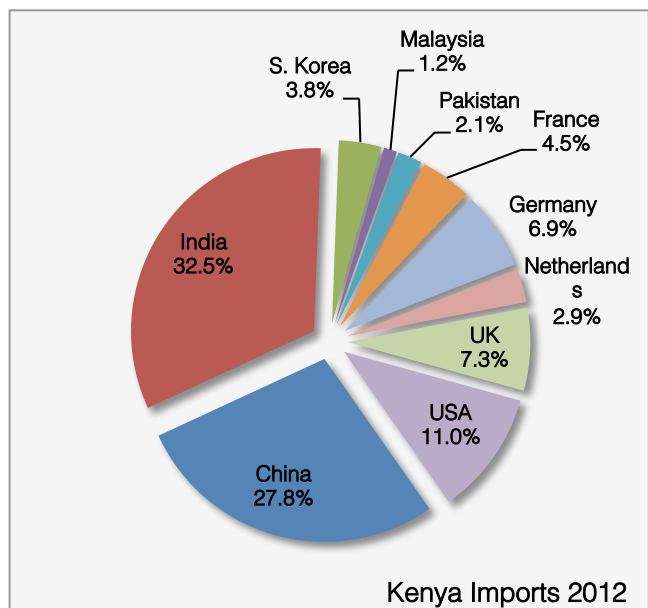
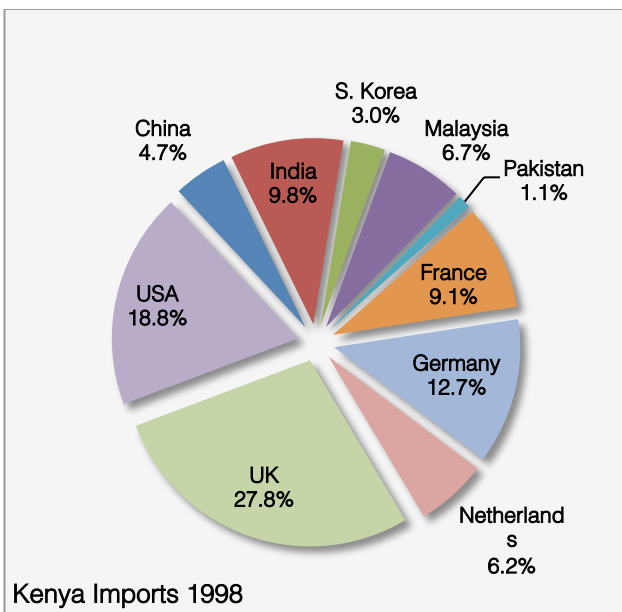
Kenya’s trade with western countries between 2010 and 2013 similarly posted a negative trade balance. The biggest export destination for Kenyan products to Europe is the UK followed by the Netherlands, United States, Germany and France.

5.3.3 Comparative Analysis of Kenya’s East-West Trade Relations

The charts below illustrate the change in trade orientation that has occurred over the past 15 years among Kenya’s trading partners in Europe, America and Asia. The growth of exports to the partners in the east has been marginal with only China recording significant growth from 0.2% export share to 3.5%. In the west, the USA recorded 10% growth whilst the Netherlands reflects a growth difference of 8%. The other countries all show reduced proportions in response to the higher profiles of these new export destinations.



The analysis of imports returns a starkly different picture. China grew its market share in Kenya by over 5 times between 1998 and 2012, moving from 4.7% to 27.8%. India has followed suit with a threefold increase in market share among Kenya's top trading partners from the eastern and western hemispheres. Malaysia and South Korean market shares actually shrunk over this period, as did those of the other western nations.



These statistics make for interesting reading and may be used to enter a verdict that on the surface, Kenya's 'Look East' policy may be laying the foundations for the beginning of another asymmetrical relationship like the one that existed with the west during the cold war period. However before this is possible, an examination of other factors such as FDI, bilateral aid for infrastructure development, energy, education, health and even security sectors have also to be considered. The figure below shows the average net flows of Foreign Direct Investment to Kenya for the years 2007-2008. Western trading partners dominate the higher end of the chart with the UK registering average net capital inflows of KES 28 billion. Asian trading partners on the other hand appear at the tail end of the chart with India leading the pack with average capital investments of KES 1.4 billion. China, Pakistan and Malaysia put in weaker showings with investments in the hundreds of millions. Over this period more FDI flowed out of Kenya into Germany than from Germany to Kenya to the tune of -942 Million KES.

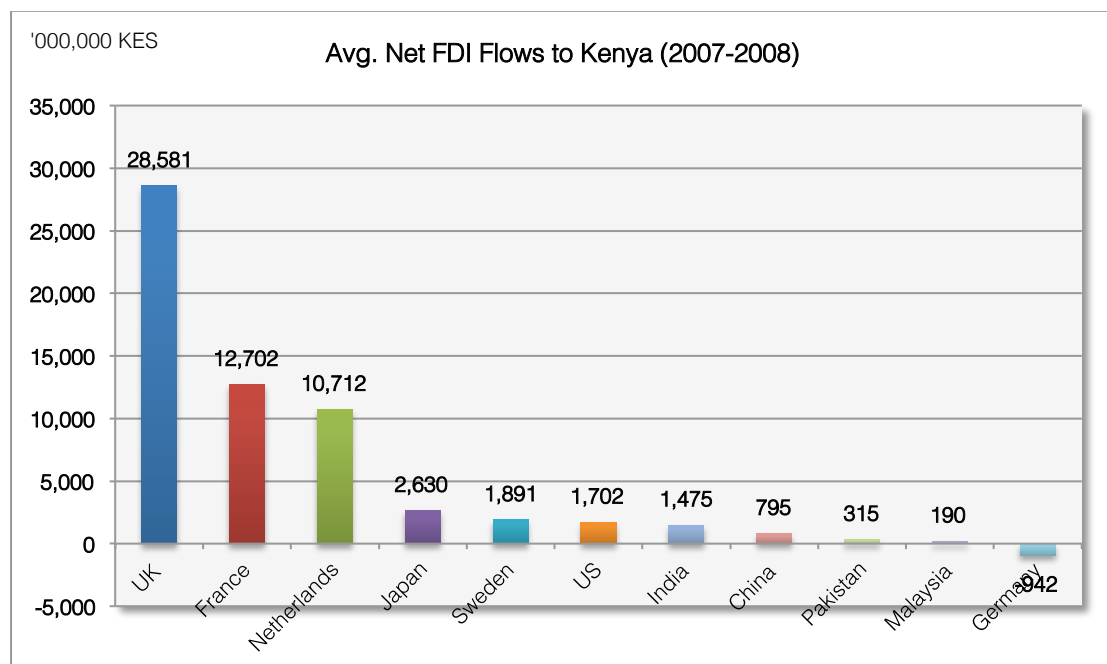


Figure 17: Net FDI Averages Kenya (2007-2008)

CHAPTER SIX

Conclusions and Recommendations

6.1 Conclusions

The reorientation of Kenya's foreign relations based on economic diplomacy needs to be framed against the acknowledgement that it is not possible to pursue an effective policy of economic diplomacy when the economy is underperforming. Economic diplomacy is all about value-propositions meaning it is an appeal to commercial interests and not political ideologies. The findings of the research support this position and are thus reflected in the fact that whilst eastern economies have made significant inroads into the Kenyan market, the country has returned mixed results in penetrating Asian economies. However, this is not to say that Kenya's national interests have been under-served by the 'look east' policy. If anything, the entry of cheaper imports from Asian countries has emancipated local economic sectors such as construction and consumer goods from the stranglehold of western manufacturers and boosted rapid growth rates through 'commodity liberalisation'. At the same time, Kenya's trade relations with its traditional western partners appear to be none the worse for wear for instance in the case of the Netherlands and the United States.

Kenyan policy makers should now focus on improving the balance of trade with our major import partners especially those in southern and far eastern Asia. A critical look at the imports and exports indicates that the balance of the trade is heavily in favour of China, India, the UAE and Saudi Arabia where Kenya has a negligible export presence. However, this should not discourage Kenyan businessmen from exploring other areas of trade that they can engage in especially in the African region. Economic diplomacy is founded on the tenets of continuous exchange that delivers mutual growth and benefits. This exchange

relationship is what drives the theoretical framework of interdependence upon which this study is based on.

In the last 15 years or so, the practice of economic diplomacy has gained increasing prominence in Kenya's foreign policy. However, the policy and administrative alignments necessary for the seamless implementation of economic diplomacy as a strategy in foreign policy are still evolving. One reason for this may be that the Ministry of Foreign Affairs, Kenya is still making the transition from conventional diplomacy approach that appreciates foreign relations principally from a political perspective.

Traditional diplomacy is an almost purely political affair, concerned only with political relationships hence principally handled by designated government personnel. This perspective has changed dramatically in modern diplomacy, and especially so in modern multilateral diplomacy, which has made the practice of diplomacy a more technical and complex undertaking requiring multi-disciplinary expertise that lies beyond the political field. The lesson to be learnt here is that it is not possible to pursue a policy premised on economic diplomacy without economists and enterprise leaders. Conversely, economists cannot pursue economic diplomacy without an understanding of the political aspects of diplomacy. A mastery of both politics and economics is therefore essential to the pursuit of an effective foreign policy strategy based on economic diplomacy.

6.2 Recommendations

- I. **Diversification of Actors Engaging in Economic Diplomacy on Behalf of the State.** Kenya needs to complete putting in place the legislative and administrative structures that will be indispensable to the practice of economic diplomacy. The effective practice of economic diplomacy requires a movement away from the perception that diplomatic practice is the

preserve of the Ministry of Foreign Affairs alone and to open it up to actors outside government and especially within the private sector.

II. Establishment of a Clear Regulatory Framework on Economic

Diplomacy. Kenya must put in place mechanisms that regulate how non-state actors engage on behalf of the state by way of a coherent policy, legislative and administrative framework. Specifically, the research lends itself to the recommendation that agencies that act as repositories of the economic vision of the country such as the National Economic & Social Council (NESC) which is in charge of implementing the Vision 2030, take a lead role in proactively preparing a cohort of thought leaders and technocrats on economic diplomacy within the foreign service corps.

III. Delineation of Political Vs. Economic aspects of National Interest.

Kenya can emulate lessons in compartmentalisation from the Chinese model of economic development, which carefully balances the co-existence of communist ideology and liberal economic frameworks. The intention here is to acknowledge that under the post-cold war world order, pragmatism rules and it is possible to pursue economic objectives that appear to be in conflict with political inclinations. Factoring in the undercurrents of the international political system is a prerogative in implementing Kenya's 'look east' policy. The realistic separation of politics (regime interests) from economics (national development interests) is a critical ingredient to this approach. Alternatively in the Kenyan case, an attitude that subsumes regime interests within national development interests in the most practical compromise. With this appreciation, Kenya is encouraged to diversify the strategies it applies to secure its national interests to the extent they do not denude its interests with western partners, who remain significant. Diversity of choice is

one of the outcomes of democratization of international politics and trade. Weaker nations such as Kenya ought to capitalize on the opportunities created by competition among the great powers. The study identifies that there is a pressing need for further research on how Kenya can successfully execute the high-wire balancing act between its traditional political partners in the west and its increasingly important trade partners from the east and global south.

- IV. **‘Look in’ as well as East.** Kenya’s ‘look east’ policy should apply the strategies of economic diplomacy that favour sustainable outcomes over ‘quick wins’. A hybrid approach that combines both bilateral interactions and multilateral engagement is the best strategy towards the realization of this objective. The policy framework that Kenya will be using to engage with its eastern partners ought to be carefully balanced to consider national interests on both sides of the equation so as to retain unceasing appeal going forward. Kenya is well placed and advised to capitalize on its dominance and prestige at the regional and continental levels and lead the way for the regional groupings such as COMESA and the EAC to fashion economic and trade relationships that benefit the other member states as well. The country should therefore focus more on promotion of Kenya’s products to eastern markets in order to increase its export base. The analysis of statistics clearly indicates that the African region will remain the best export market destination for Kenya’s products compared to Asia and EU combined.

6.3 Suggestions for future Research

The study addresses itself to the research question posed at the inception and the findings support the conclusion that implementation of the ‘look east’ policy is not a

zero sum game that implies the automatic exclusion of western partners. However, as it is still early days and considering the turbulence that is currently characterizing the eastern economies it would be fascinating to see if these findings will continue to obtain over a succession of administrations in Kenya, the shelf life of vision 2030 and within the timeframe of AU's agenda 2063. Future enquiries are therefore needed to facilitate continuous evaluation of this conclusion over immediate and longer time periods.

A further suggestion for future research is on the effectiveness of response to the prerequisite factors that influence implementation of economic diplomacy as a strategy to achieving national interests. This is for purposes of determining the extent to which addressing internal shortcomings will sufficiently tilt the effectiveness of Kenya's economic and trade engagements in its favour.

Finally, the study has highlighted the fact that in as far as economic diplomacy is concerned, there exists a complex and dynamic relationship between domestic economic policy and trade objectives as expressed within foreign policy. It will be instructive to explore the effect that one has on the other and how Kenya can best formulate strategies that comfortably accommodate what may be at times divergent objectives.

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