DECLARATION

I declare to the best of my knowledge that this research thesis is my original work and has never been presented before in any other university.

Signed ____________________________ Date________________________

Charles Mutua Nzuku

This research thesis has been submitted for examination with my approval as a university supervisor.

Signed ____________________________ Date ________________________

Dr. Fred Jonyo

Signed ____________________________ Date_________________________

Dr. Solomon Owuoche

DEDICATION

This research thesis is dedicated to the entire Nzuku's family, a family with a wide vision in academic lines. Their prayers, continued advice, support and encouragement have been the source of my success to this level of academic achievement.

ACKNOWLEDGEMENT

I wish to express my sincere appreciation to the following for their support in writing to completion this project. I am greatly indebted to my supervisors, Dr. Fred Jonyo and Dr. Solomon Owuoche who were a source of valuable advice, support, encouragement and guidance throughout this work.

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LIST OF ABBREVIATIONS

AGOA	African Growth Opportunity Act
CBS	Central bureau of Statistics
CEF	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
DC	Developing Countries
DFCK	Development Finance Company of Kenya
DFIs	Development Finance Institutions
EAC	East African Community
ECOWAS	Economic Community for West African States
ELG	Export-Led Growth
ELI	Export-Led Industrialization
EPC	Export Promotion Council
EPFs	Export Processing Firms
EPPO	Export Promotion Programmes Office
EPZ	Export Processing Zones
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GNP	Gross National Product
HCPB	Heavy commercial Planning Board
I.L.O	International Labour Organization
ICDC	Industrial and Commercial Development Corporation
ICT	Information Communication Technology

IDC	Industrial Development Corporation
IPA	Investment Promotion Authority
ISI	Import Substitution Industrialization
KAM	Kenya Association of Manufacturers
KeBS	Kenya Bureau of Statistics
KIRDI	Kenya Industrial Research and Development Institute
LDCs	Least Developed Countries
MNCs	Multinational Corporations
MUB	Manufacturing Under Bond
NARC	National Rainbow Coalition
NICs	Newly Industrialized Countries
NIRP	National Industrial Research Programmes
R&D	Research & Development
SADC	South African Development Corporation
SAPs	Structural Adjustments Programmes
SMEs	Small and Medium Enterprises
TFP	Total Factory Product
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax

ABSTRACT

Africa at independence in the 1960s and 1970s was a fragmented continent with enclave economies (many small states) geared towards export of mainly primary commodities; this was to stir a desire for rapid industrialization through manufacturing. Industrialization was perceived as the vehicle towards attaining high income elasticity.[1]

The study sought to interrogate the influence of export-led strategy in Kenya's industrial development. Specifically, the study intended: To determine how value addition has contributed to Kenya's Industrial development to evaluate export incentive schemes and their contribution to Kenya's industrial development; to explore institutional export support networks and their contribution to Kenya's industrial development. The study was guided by the following hypotheses: General hypothesis: Export-led strategy has positively influenced Kenya's industrial development. Specifically; There is a positive relationship between enhancement of competitiveness of products through value addition by manufacturing industries and Kenya's industrial development. There is a positive relationship between government initiation of export schemes and increased Kenya's industrial input. There is a positive relationship between strengthening of export support networks by the government and increased the share of industry in economic development.

This study was carried out through contacts with government officials, industrial estate owners and workers. Both primary data and secondary data were collected. A purposive sampling technique was used to sample respondents from institutions while a simple random sampling technique was used to sample respondents from industrial firms. Modernization theory formed the philosophical foundation for understanding the influence of export-led strategy in Kenya's industrial development.

The study found out that despite the fact that the government of Kenya has introduced incentive schemes to promote export-led industrialization, most of these schemes are not being effectively utilized by industrial firms, thus their role in Kenya's industrialization has been subtle. The study also found out that most industrial firms are involved in low value added products which involves basic or rudimentary technology. The resultant effect is that products fetch low returns in the international market thus stifling industrial progress. The study recommends effective implementation of these policies.

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[1] Hopkins A.G.; An economic history of West Africa, Macmillan Education Ltd. London. 1973 (p.45)

CHAPTER ONE: INTRODUCTION

Industrialization has been embraced by countries as a means of achieving structural transformation of their economies. The goal of industrialization has long been held as a strategy for economic development

Being ex-colonies, many African states inherited subverted economies, primarily geared towards the export of mainly primary commodities, African governments recognized early on the need to industrialize (to grow and develop their manufacturing sector) and set up a common trade area as key economic development.[2]

Many countries therefore embarked on a path to rapid industrialization and pursued the strategy billed as catch-up industrialization for import substitution. Import Substitution Industrialization (ISI) was predominantly adopted by newly independent states such as Kenya. This was an inward looking industrialization strategy aimed at achieving autonomous/self-reliant industrialization.

In Kenya the import-substitution industrialization strategy, pursued mainly (but not entirely) in the first two decades of independence, was largely a continuation of the industrial strategy pursued by the colonial administration[3]. Emphasizing the "infant-industry" argument, it advocated for domestic production of import substitutes by industries protected from international competition. In Kenya, the instruments of

[2] Ibid.
[3] According to Anyang Nyong'o. There were recommendations as early as 1939 that import substitution industries be established in British colonies. (1988 p. 11)

protection included quantitative restrictions, high tariffs on competing imports and overvalued exchange rates as well as broad-based economic controls that subsidized the industrial sector. This was the phase that emphasized the domestic production of previously imported consumer goods that the growing urban wage class demanded. The initial impact of this strategy on economic growth was positive while the early phase of import substitution was undertaken. The gross domestic product (GDP) growth rates averaged 6% in the first decade and about 4% in the second. Part of this growth rate was attributed to an equally impressive growth rate in manufacturing value-added, which averaged 8% in the two decades. The impressive growth in manufacturing value-added of 11.7% per annum, achieved during the period 1970–75, was not matched in the second decade, when it grew at a much slower 4.9% per annum[4].

However, problems arose, as the excessive government control mechanism put in place to support the strategy stifled progress to further stages of import substitution. These stages would have entailed the production of intermediate and capital goods. By the second decade, it was quite clear that the industrialization strategy was not achieving its development objectives of creating employment and reducing poverty. The ensuing economic distortions resulted in macroeconomic imbalances and slowed overall economic growth.[5] The small domestic market (made smaller by the collapse of the East African Community) resulted in underutilized capacity, further compounding this problem and

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[4] McCormick, Dorothy. "Policies affecting Kenyan industrialization: 1964–1994." In Njuguna Ng'ethe and Wasunna Owino, eds., Towards Indigenizing the Policy Debate. Nairobi: Institute of Policy Analysis and Research. 1998. pp. 183–218.

[5] Swamy, Gurushri.. Kenya: patchy, intermittent commitment. In Ishrat Husain and Rashid Faruquee, eds., Adjustment in Africa: Lessons from Country Case Studies. Washington, DC: Oxford University Press for World Bank 1994.

making it not viable to undertake further expansion of industrial capacity based on this strategy. The only logical option was to seek export markets and thus adopt an export-oriented industrialization policy.

1.1 Problem Statement

With the inefficiency of the ISI strategy, the Kenya government recognized the need for an export-oriented industrial strategy as indicated in National Development Plans of 1974-1978 and 1979-83. The government began to embrace a liberalization policy, a major component of which was a shift from import-substitution to Export-Led Industrialization strategy. The major turning point in policy was in the form of *Sessional Paper No.1 of 1986 on Economic Management for Renewed Growth* in which the government committed itself to liberalize the economy and adopt an outward-looking development strategy.

The main problem being addressed in the study and the main research question is the interrogation of the export-led strategy and its impact on Kenya's industrialization. In other words has the level of industrial development increased with the introduction and implementation of ELI? The export promotion programmes were mainly geared towards promoting manufactured exports mainly labour-intensive manufacturers. However, despite these concerted efforts to promote Kenya's industrialization, the pace and level of industrialization has not significantly changed. That is, Kenya continues to face numerous challenges in its attempts to industrialize. It is these glaring gaps in export-led industrialization that prompted the study to interrogate the influence of export –led industrialization in Kenya's industrialization process. The study sought to address the

following questions: What is the impact of ELI in industrial output? How has value addition contributed to industrialization in Kenya? What institutions are present in the implementation of this strategy?

1.2 Objective of the Study

The study sought to interrogate the influence of export-led strategy in Kenya's industrial development. Specifically the study intended:

1. To determine how value addition has contributed to Kenya's industrial development.
2. To evaluate export incentive schemes and their contribution to Kenya's industrial development.
3. To explore institutional export support networks and their contribution to Kenya's industrial development.

Table1:1 Operational Definition of Variables

Hypothesis	Type of variable	Variable name	Variable indicator measure
Hypothesis 1	Dependent	Industrial development	- Increased gross domestic product - Increased national domestic product - Increased level of employment - Increased export return - Increased level of technology - Expansion in industrial output. - Share of industry in GPD
	Independent	Export incentives schemes	- Availability of new technology - Increased export return - Industrial expansion - Increase production - Availability of new entrants - VAT Exemption - Manufacture Under Bond - Export guarantee
Hypothesis 2	Dependent	Industrial development	- Increased gross domestic product - Increased national domestic product - Increased level of employment - Increased export return - Increased level of technology - Expansion in industrial output.
	Independent	Value addition	- Processing - Packaging - Awareness - Diversification of products
Hypothesis 3	Dependent	Industrial development	- Increased gross domestic product - Increased national domestic product - Increased level of employment - Increased export return - Increased level of technology - Expansion in industrial output.
	Independent	Export support networks	- Enhanced marketing - quality standards and compliance agencies - Trade facilitation - Availability of loan facilities - Availability of trade information

Source: Developed by the Author 2009

1.3 Scope and Limitation of the Study

The scope of this study was limited to the Export- led Industrialization that was spelled out in Sessional Paper No. 1 of 1986 on *Economic Management for Renewed Growth* as part of the structural adjustment reforms adopted by the government to remove the distortions created by the previous policy regime (ISI).

Due to constraints in time and finances, this study was carried out in the industrial facilities within and around Nairobi. It is estimated that there are about 1200 industries in Industrial Area that are involved in export manufacturing[6]. Major exports include tea, coffee, horticulture, fish and fish products, cement, pyrethrum, among others. Due to this diversity and the high number of industries, it was difficult to visit each and every industry to get their individual insight on the issue area. However, the study ensured that the respondents selected for the interviews were representative of the larger population. This was done by categorizing the industries according to lines of production.

Despite the fact that this study acknowledges that non-price factors (costs of inputs, labour costs, access to credit, etc) play a vital role in production and export supply response, a comprehensive analysis of these is beyond the scope of this paper. Thus, a detailed sectoral analysis would help to understand and appreciate the transmission mechanisms between macro level policies and manufacturing in the case of agricultural exports. Depending on

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[6] Kenya's export strategy a paper delivered at the regional executive forum during Africa trade week in Nairobi, organized by the export promotion council (EPC), International trade centre, UNCTAD,WTO and the Ministry of trade and Industry.26-28 November 2001 at the Windsor golf and country resort club.

which industry a respondent came from, his or her views were sometimes influenced by the values of that specific industry.

1.4 Justification of the Study

It is envisaged that the current study will provide an avenue through which the government will refine the existing industrialization policies and develop new ones that can see the country industrialize in the year 2030. This study will enable government to intervene to remove structural bottlenecks and improve information flow, thus removing the coordination failure that characterizes the earlier industrial strategies. This study seeks to provide a framework through which the government can tailor-make policies that will guide the provisions of incentives, improve capabilities and provide an appropriate institutional framework that will ensure an industrialization process that is encompassing all aspects. The study will guide the following policy initiatives: macroeconomic policy framework; trade policy regime that includes incentives for export promotion as well as regional integration initiatives and industrial policies that target incentives to particular industries. They consist of internal trade policies; technology policies; policies on the relative role of large- and small-scale enterprises and industrial location policies, infrastructural development policies; human resource development policies; and institutional development policies.

On the academic front, the study will add academic knowledge on the subject area of industrialization. It will validate the use of W.W.W Rostow's unilinear model of industrialization. It will give insights on the utility of this model to understanding the industrialization path of many Third World Countries and especially Kenya.

Another academic perspective that the study intends to offer is to address the particular context (Kenyan) of the implementation of this strategy. Various studies have touched on the conception and implementation in NICs as evidenced in the literature review.

This study is also justified by the fact that the interrogation of the export promotion intervention by the state involves the politics of resource allocation. The field study would therefore bring to the fore the intrigues of implementation of ELI Vis a Vis the success or otherwise of the same.

1.5 Literature Review

1.5.1 Introduction

This section deals with the review of literature by other scholars that are closely linked with the area under study. It identifies the gap in knowledge on industrialization – specifically on export-led industrialization. Suggestions are given on how the current study is going to fill the identified gaps. This section gleans through literature on export-led industrialization. Insights by different scholars are discussed. The section further interrogates industrialization process in the newly industrialized economies and the factors that have contributed to their industrialization. Examples from some of these (NIEs) countries are cited in this section. Finally it looks at the industrialization process in Africa. It is noteworthy, that this section sets the agenda for understanding the process and the major paths towards the "big push" (industrialization.) It lays the foundation for subsequent sections.

1.5.2 Industrialization in the Context of Newly Industrialized Countries

From the beginnings of the modern discipline, economists writing about economic growth have recognized industrialization as its key driving force[7] In the 1950s and 1960s many studies tried to measure the contribution of industrialization to economic growth in countries operating at the frontiers of technology[8]. The conclusion was that industrial advancement accounted for the lion's share of growth in worker productivity. Since that time, a vast empirical and theoretical literature has grown up on technological progress in the advanced industrial nations.

More recently, a number of economists have turned their attention to the mechanisms of industrial advancement in the development of economies that, initially at least, have been far behind the frontiers. The acquisition and progressive mastering of technologies that are new to them, if not to the world, obviously has been a central aspect of the newly industrializing economies (NIEs) that have grown so rapidly over the past thirty years.[9]

Since the early 1960s, countries such as Korea, Taiwan, Singapore and Hong Kong have transformed themselves from technologically backward and poor to relatively modern and

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[7] Smith, Adam. 1776. The Wealth of Nations. New York: Modern Library, 1937; first published in 1776. See also Marx, Karl. 1867. Capital. New York: Modern Library, 1934: first published in 1867. See also Schumpeter, Steven P. Managing Imitation Strategy: How Later Entrants seize Markets from Pioneers. New York: Free Press 1994.

[8] Solow, R. M. "Technical Change and the Aggregate Production Function," Review of economics an Statistics, 39,312-320. See also Denison, Edward F.1962. The sources of Economic Growth in the United States and the Alternatives before Us. New York: Committee for Economic Development 1957.

[9] Pack, Howard, and Larry E. Westphal., Industrial Strategy and Technological Change: Theory versus Reality. Journal of Development Economics, 22, 87-128. See also Kim, Linsu.1997. Imitation to Innovation: The Dynamics of Korea's Technological Learning. Boston: Harvard Business School Press 1986.

affluent economies. Each now has a significant collection of industrial firms producing technologically complex products and competing effectively against firms based in industrially advanced countries. While Korea recently has been undergoing an economic crisis, due in large part of financial mismanagement, no one denies the strong technological capabilities that Korea has built up. This leads to the question how did the NIEs do it? And what can be discerned for other developing countries?

Economists – Krugman[10], Kim and Lau[11], argue that what lies behind rapid development in these countries is simply very high investment rates that enabled movements along a production function. They insist that the greater portion of increased output can be explained by increases in physical and human capital, which brought along modern technology as a more or less automatic by-product. Nelson and Pack[12] call these arguments "accumulation theories". In contrast, other economists have placed learning about and learning to master new technologies as central in their analysis and focused on what was involved in this achievement. To be sure, acquiring and assimilating the technologies of advanced countries required high rates of investment in physical human capital. But in addition, this demanded risk-taking entrepreneurship, effective learning, and innovation[13]. Nelson and Pack[14] call these arguments" assimilation theories".

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[10] Krugman, Paul. The Myth of Asia's Miracle. Foreign Affairs, December 1994, pp 62-78

[11] Kim,J.L., and L.J. Lau. The sources of Economic Growth in the East Asian Newly Industrialized Countries. Journal of Japanese and International Economics, 1994 (18), pp 235-271.

[12] Nelson, Richard R, and Howard Pack. The Asian Miracle and Modern Growth Theory." The Economic journal, 1999, 109, 416-436.

[13] Nelson, Richard R., and Sidney G. Winter. The Evolutionary Theory of Economic Change. Cambridge, MA: Belknap Press, 1982. .

[14] Nelson, Richard R, and Howard Pack. The Asian Miracle and Modern Growth Theory. The Economic journal, 1999, 109, 416-436.

Regardless of one's theoretical explanation of what has happened, the evidence that new capabilities have been acquired is dramatic. For instance, Korea's export increased from a mere $40 million in 1960 to $125 billion in 2005, with virtually all the increase represented by products that Korea did not know how to produce at the start of the era. In the mid-1960s, Korea began exporting textiles, apparel, toys, wigs, plywood and other labor-intensive nature products. Ten years later, ships, steel, consumer electronics and construction services from Korea challenged established suppliers from the industrially advanced countries. By the mid-1980s, computers, semi-conductor memory chips, videocassette recorders, electronic switching systems, automobiles, industrial plants and other technology-intensive products were added to Korea's list of major export items. Korea is now working on such next generation products as multimedia electronics, high-density television, personal communication systems and a new type of nuclear breeder. Vogel[15] concludes that no nation has tried harder than Korea and come so far so quickly – from handicrafts to heavy industry, from poverty to prosperity, from inexperienced imitators to modern planners, managers and engineers. An important element of the viewpoint shared by the scholars is an analysis of how the successful NIEs moved from imitation in the 1960s to innovation by the 1990s.

According to Bruton,[16] the rapid industrialization going on in NIEs in the 1960s and 1970s stemmed largely from imitation – reverse engineering to existing foreign technologies.

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[15]Vogel, Ezra F. The four Little Dragons: The Spread of Industrial development in Young, Alwyn. 1993. The Tyranny of Numbers; Confronting the Statistical Realities of the East Asian Growth Experience Quarterly Journal of Economics, 1991, 110, 641-680.

[16] Bruton, H. J. Import substitution as a development strategy, in Handbook of Development Economics, Vol. II, edited by H. B. Chenery and T. N. Srinivasan. Amsterdam: North Holland: 1989. 1601-44.

When relatively simple products are involved, as they were then, reverse engineering does not require specialized investment in research and development (R&D). Only a low level of learning occurs since the firm cannot and is not required to generate new knowledge. Nevertheless, even simple reverse engineering rarely occurs in a vacuum. According to Edwards[17] reverse engineering in NIEs involved activities that sensed the potential needs in the market, activities that located knowledge or products that would meet the market needs, and activities that would infuse these two elements into a new project. Crafts[18], adds that reverse engineering in NIEs involved purposive search for relevant information, effective interactions among technical members within a project team and with marketing and production departments within the firm, effective interactions with other organizations such as suppliers, customers, for more complex products and technologies from local R&D institutes and universities.

According to Kohli and Singh[19] such activity required the willingness to take risks and to learn from experience. They further note that in NIEs considerable trial and error and try-again learning generally was involved in achieving satisfactory results. At this point it suffices to note that imitation (embraced by NIEs) does not necessarily mean illegal counterfeits or clones of foreign goods; it can also be legal, involving neither patent infringement nor pirating proprietary know-how. Mansfield[20] shows that 60 percent of

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[17] Edwards, S. Trade orientation, distortions and growth in developing countries, Journal of Development Economics, 39, 1 (July): 1992 Pp.31-57.

[18] Crafts, N. F. R. Trade as a handmaiden of growth: An alternative view, Economic Journal, 83, 331 (September): 1973. Pp. 875-84.

[19] Kohli, I. and Singh, N. Exports and growth: Critical minimum effort and diminishing returns, Journal of Development Economics, 30, 2 (April): 1989 Pp. 391-400.

[20] Mansfield, Edwin. “R&D and Innovation. “In Zvi Griliches (ed.), Maxwell Publishers Chicago 1981.

patented innovations were imitated legally within four years of their introduction. He further postulates that many skills and activities required in reverse engineering have easily been transformed into activities called R&D, as some NIEs approached the technological frontier. Skills and activities required in these processes are in fact the same as in the innovation process in R&D.

Syron and Walsh[21] note that several industries in NIEs countries, such as semi-conductors, electronics, and biotechnology, are stretching their R&D activities to transform themselves into effective creative imitators as well as innovators. According to Michaely[22] the innovation drive of newly industrializing economies in selective industries in the 1990s is marked by intensified in-house R&D activities and participation in global alliances to become members of the industrially advanced community. In other words, technology and innovation become watchwords in these countries for strengthening competitiveness in the preparation for the twenty-first century.

According to Heller and Porter,[23] NIEs managed to record high levels of industrial progress by developing strategic plans that were to provide a road map for industrial development. Ballasa[24] opines that adoption of robust strategic plans in South Korea, Singapore and a Taiwan during the early to mid –sixties paved the way for rapid industrial

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[21] Syron, R. F. and Walsh, B. M. The relation of exports and economic growth: A note, Kyklos, 21, 3 (August): 1968 541-45.

[22] Michaely, M. Exports and growth: An empirical investigation, Journal of Development Economics, 4, 1 (March): 1977 49-53.

[23] Heller, P. S. and Porter, R. C. Exports and growth: An empirical re-investigation, Journal of Development Economics, 5, 2 (June): (1978) Pp. 191-93.

[24] Balassa, B. Exports and economic growth: Further evidence, Journal of Development Economics, 5, 2 (June): 1978. Pp.181-189.

growth. In South Korea for instance, Park's government drafted a five year plan to guide the industrial development. In this plan Park established a Confucian military-style master-student relationship between the government and the business community. Its target was to ensure effective distribution of resources and to achieve economic self-reliance through industrialization and pledged to create all major foundations required for industrialization during the period of 1962 through 1966.[25] It announced that the nation would achieve 7.2% annual economic growth and would secure the basis of a self-supporting economy by boosting exports, fostering industries that could substitute for imports, and improving the balance of payments by increasing the influx of foreign currency. The basic targets of the Five-Year Plan were as follows:

a) Securing energy resources, including electricity and coal;
b) Expansion of social overhead capital including railroads and ports;
c) Construction of basic industries, such as cement, fertilizer and steel plants;
d) Expansion of farm production;
e) Improvement of the balance of foreign payments, and
f) Promotion of technology.

No doubt it was an ambitious plan and one of the most serious problems was sufficient capital to build the requisite number of factories. In order to finance industrial investment Park's government had to develop ambitious plan for providing long term capital to industry. In August 1961, the Medium Industry Bank (MIB) was established by the government for providing loans to medium and small enterprises. The rapid expansion of

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[25] Ibid

loans through this institution in 1961 resulted in a significant shift in the allocation of credit[26]. The Park Government also encouraged the inflow of foreign loan. The Government arranged systematic planning and united effort for bank guarantees to the entrepreneurs. The foreign loan guarantee operations became significant in 1963 when Korean Development Bank acceptances went up from 22 billion Korean Won in the previous year to 18.1 billion and it's jumped to nearly 70 billion in 1966.[27]

Trade policies were also designed to foster growth of industry through surplus from exports. Export-led growth was the key to fetching profits not discounting the role played by internal markets. The South East Asia NICs were both the fastest growing (15%) and fell into the strongly outward-oriented group.[28] Imports were highly restricted and discouraged with protectionist measures given to industries. In Korea, for instance, quantitative restrictions and tariffs were supplemented by additional restrictions and incentives designed to suppress import of certain products and to promote exports. Licenses to engage in foreign trade were conditional on satisfactory export performance[29]. The state was therefore a key factor in the NICs in guiding investment using financial and administrative instruments mostly aimed at fostering industrial growth in an unfavorable world economic environment.

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[26] The Successful Experience of Korea's Economic Development, A Research Report of Korean Foundation ,p.8.

[27] Amsden, Alice H., Asia's Next Giant : South Korea and Late Industrialization, (New York: Oxford University Press,1989 pp. 221-224.

[28] Ibid p.132

[29] Ibid.

One of the important features of the industrial development of NIEs was capital regulation programmes[30]. These policy programmes encouraged foreign capital investment in NIEs countries. The policy was founded on the realization that "foreign capital is necessary for the rapid development of domestic industries." NIEs governments realized that previous regulations of were inappropriate for accomplishing the goals of the economic development plan. In Korea for instance, the Park government announced the Act for Foreign Loans of 1962, which provided certificates of payment guarantee for all foreign capital and loans for shortfalls in equity capital. Under these systems, Korean enterprises wishing to borrow abroad had to obtain the approval of the Economic Planning Board, which in turn sought approval of National Assembly of the insurance of guarantee covering repayment of the foreign borrowings. Once the guarantee had been authorized, the bank of Korea issued the guarantee to the foreign investor, while the Korean Development Bank issued guarantee to the Bank of Korea. The ultimate borrower was committed to repay the loan, but he had the backing of both Korean Development Bank and the Bank of Korea that in the event of his default, the loan would be repaid. Thus the risk of default for the lender was negligible Foreign capital and the Korean borrower had assurances of support not only from the domestic banking institutions but also from the central bank. The Park government encouraged foreign investment in Korea through government. Later on, government intervention was expanded not only to capital distribution but also to resource allocation, distribution of manufactured goods in the

[30] Woronoff, Jon, Korea's Economy: Man-Made Miracle, (Seoul: The Si-sa-yong-0-sa Publishers, Inc.:1983), p.27.

domestic market and also in fixing price of commodities[31]. This way, Park Chung-hee established a system of "*government-directed capitalism*."

1.5.3 Heavy and Chemical Industry Policy

Alice[32] notes that NIES took initiative for Chemical and Heavy industry. According to her, the declaration by NIEs to adopt Heavy and Chemical Industrialization Policy provided the much needed impetus for industrialization. To fulfill this agenda, the NIEs took initiative of massive expansion of vocational education, training of scientists, engineers, and other technologically skilled of workers[33]. The HCIP focused primarily on six heavy industries--- steel, nonferrous metal, shipbuilding, machinery, electronics and chemicals and set production targets for each. More importantly, in many cases, infant industries were provided with effective protection conditional on export promotion, which had the effect of forcing the firms and industries concerned to quickly become internationally competitive[34]. By giving firms protection for certain periods, depending on the product being made, and by also requiring that they begin exporting certain shares of output within similarly specified periods, strict discipline was imposed on the firms in return for the temporary trade protection they enjoyed. Such policies forced firms to push down their own production costs as quickly as possible, for example by trying to achieve greater economies of scale and accelerating progress up learning curves. Requiring exports meant that producers had to achieve international quality standards quickly, it imposed pressures

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[31] Ibid
[32] Amsden Alice H., op cit
[33] Amsden ibid.
[34] Ibid.

to progress technologically in terms of products as well as processes[35]. For example in South Korea, the Park government published "The Long-Term Outlook for the Korean Economy, 1972—1981." In this economic plan long-term outlook focused primarily on six heavy industries: steel, nonferrous metal, shipbuilding, machinery, electronics and chemicals and set production targets for each. Its fixed total export goal was $10 billion in early 1980 and heavy and chemical products must exceed over 50 percent of total export goods. In May 1973 Heavy Chemical Promotion Committee was set up by presidential decree and a Heavy Chemical Planning Board (HCPB) was formed as a subsidiary of the committee except these bodies. The Ministry of Commerce and Industry and the Ministry of Construction were responsible for heavy chemical-related policies and their implementation. National investment fund was created to support loans were allocated to the heave and chemical industry. From 1974 to 1980, 67.1% of the national investment fund, which was 80%-90% of the financial loan, was allocated for the heavy and chemical industries. The heavy and chemical industries received special favors also from Customs Act. Fourteen key industries, including steel, metals, petrochemical, shipbuilding received 100% direct tax free for three years and a 50% tax waive for the following next two years. Much of the available finance also allotted for the chemical industry and loans from the industrial banks between 1973 and 1980 reached. According to the heavy chemical industrialization plan, the Park government chose industrial sites for each type of industry and provided necessary facilities such as roads, ports, electricity and water. In addition, the government also provided financial and tax incentives for those industrial sites. The Park

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[35] Eckert. Carter J, *Korea:* Old and New A History, (Seoul, Ilchokak Publishers,1990), 359.

Chung-hee government also pursued an economic development friendly labor policy during his whole tenure of regime.

When we examine the industrialization policy of NIEs, it is evident that some basic characteristics can be discerned. First, the most important characteristic of industrialization policy was proper planning[36].Governments fixed plan for deciding what, when, and how much to produce. Second, NIEs highlighted the shortcomings of a free market system and proposed a shift to government-driven capitalism. Third, to build the basis for a self-supporting economy, NIEs placed their main focus on key industries, such as cement, fertilizer, steel, and oil refining. Fourth, NIEs identified the boosting of exports as the primary means of restructuring the balance of payments[37].Therefore, it is mentioned as market oriented or institutional industrialization policy[38].Fifth, NIEs restricted labor liberty to form trade unions and strike. However the above literature does not clearly bring out how export-led industrialization has contributed to industrialization especially in DCs. That is to say, how have the components of export-led industrialization contributed to industrialization? How was the strategy implemented? What challenges has the strategy faced. Have the benefits outlined above been accrued in the Kenyan context? It is based on these fundamental questions that this study sought to empirically find out how export-led industrialization has influenced Kenya's industrial development. Specifically how has value addition (a component of export-led industrialization) on agricultural products

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[36] Korean Economy About to Take Off, (Ministry of Public Information, Republic of Korea, 1966 p. 17

[37] Hyung-A, Kim, Korea's Development Under Park Chung Hee: Rapid industrialization,1961-79, (London: RoutledgeCurzon:2004.p.13.

[38] Ibid.

influenced Kenya's industrial development? How have institutional export incentive schemes influenced Kenya's industrial development? How have institutional export support networks contributed to Kenya's industrial development? And finally, what are the challenges facing export-led industrialization strategy in Kenya? This study gap is unique in that an exhaustive evaluation of the implementation of this strategy has not been fully carried out in terms of research.

1.5.4 Industrialization: the African Experience

The colonial political class based in Europe initiated a socially and spatially concentrated economy in Africa. Social concentrations of wealth in Africa are in the elite and the political class or across gender while un-even regional development between rural and urban spaces, mining towns, high agricultural potential areas and tourist centers reflect the spatial concentrations of wealth. The economy was based on mining, agriculture and animal ranching with very limited manufacturing. The economy was controlled and managed through laws and regulations that blocked the Africans (referred to as natives) from being active participants in the industrialization process. Rather than being suppliers of labour, or in the case of Kenya, they were allowed to do businesses that constituted native businesses or peasant agriculture. The native businesses and peasant agriculture geared towards the satisfaction of survival instincts. Survival instincts were very basic and meant growing grains, beans, bananas inter-cropped with root crops such as cassava, yams and sweet potatoes.

Periodic markets were akin to Africa and were promoted to serve as the commercial link between the enclave economy and the African economy. Africans would exchange their farm products as they did in the early caravan trade or in the Sofala gold trade in the periodic markets. They would sell traditional foodstuffs to mine workers and other natives who were working in offices and trade houses. Asian immigrants in Eastern Africa and South African and Lebanese in West Africa mediated between 'native' and settler commerce. They set up shops where soap, sugar, salt, blankets and dress materials were sold to the natives.

Native business and the settler business evolved in distinct spaces supported by different policies[39]. The settler businesses were concentrated in geographically distinct spaces such as the Copper Belt in Zambia, highlands of Kenya and the Katanga Mines. Physical and social infrastructure that facilitated the spread of settlers' businesses was concentrated in these areas. The best road, railway, telephone and electricity networks were developed in these centres. This applied to social infrastructure such as schools, hospitals and leisure facilities.

At independence, the challenge was therefore to create national economies by integrating the native economy and the settler economy. Different countries adopted different strategies surprisingly with support from their former colonizers. Colonizers were transformed into benefactors. They supplied financial capital, and knowledge experts who designed and run the new economies. The dynamics involved in this transformation

[39] For more detailed information on the enclave economy see Mhone (2000, 2001) compare with Talbolt 1990, Maxon 2002.

perhaps constitutes the very basis of the African problem. The decision for government development agencies such the Development financial Corporations, Agricultural Financial Corporations, Industrial Development Corporations to finance industry and setting of parastatals to take over the responsibility of running the economy rather than private enterprise could be explained in many ways. On one end, there was an indomitable lack of entrepreneurialism and financial capital among the general population hence the government filled this vacuum. Some scholars such as Kinyanjui[40] have argued that government corporations were synonymous with local control of the economy against the imperialist control of foreign firms[41]. It could also be viewed as an effort to create a balance between socialist planned economies and capitalist ones which was also largely flavoured with African socialism**.** Essentially, the governments were acting on behalf of the people who were yet to be initiated into modernity. But other scholars tend to argue that African elite influenced by Western countries and institutions have stymied the industrialization and encouraged an export oriented where inter-African trade is marginalized.

It is plausible to argue that the state corporation and the African elite contributed to the demise of the African industrialization prospects. But it is important to go beyond the analysis and suggest conciliatory methods of the emerging dynamism in Africa's industrialization process by looking to new patterns of industrialization that are occurring in the post colonial economy from all levels and are challenging the traditional

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[40] Kinyanjui, M. Local Level Initiatives in Nairobi: The Case of Micro and Small Garment Manufactured and Retailers. Africa Insight. Vol. 35 No.4 2005 P. 97-104
[41] Ibid

industrialists. In the not too distant past Moi Avenue, was the centre for retail clothing shops, today the shops are gradually being replaced by exhibitions that are housing small scale dress traders[42] while Campbell[43] reports a form of economic globalization taking place from below by transnational refugee trade network.

The four dominant types of industrialization in Africa: import substitution, extractive first stage processing, export processing and the informal sector industry does contribute a significant proportion to African countries GDP as shown in Table 2. Gibbon[44] posits that although, in some cases industry includes mining like in the case of Botswana where industry accounts for nearly half of its GDP (51.1%), industry does account for relatively high proportions of GDP in the following countries: Nigeria (53.3%), Mauritius (25%), South Africa (27%), Egypt (41%) and Algeria (61%). Zarenda[45] however notes that the proportions are comparatively low compared to those of other sectors. From the above statistics, it can be asserted that striking a balance in the sources of GDP is perhaps the issue. From the above discussion it can also be remarked that over reliance on agriculture on one end or services on the other could be the main source of problems of Africa's industrialization quest.

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[42] Kinyanjui, op. cit.
[43] Campbell, H.E. Economic Globalization from Below: Transnational Refugee Trade Networks in Nairobi. In Murray. J.M. and Myers, A.G. (eds) Cities in Contemporary Africa. New York. Palgrave MacMillan 2006
[44]Gibbon, P. The African Growth and Opportunity Act and the Global Commodity Chain for Clothing, World Development Vol. 31. No. 11 2003.
[45] Zarenda, H. (1975). Tariff Policy: Export Promotion Versus Import Replacement. The South Africa Journal of Economic Vol. 43.

Table 1.2: Industries Contribution to GDP of selected African Countries

Country	GDP ($ 2007)
Algeria	125.9 billion. Agriculture 8.1%, Industry 61%, Services 30.9%.
Egypt	127.9 billion. Agriculture 13.8%, Industry 41.1%, Services 45.1%.
Kenya	29.5 billion. Agriculture 13.8%, Industry 16.7%, Services 59.5%.
Tanzania	14.11 billion. Agriculture 23.8%, Industry 18.4%, Services 38.7%.
Uganda	Uganda 11.14 billion. Agriculture 30.2%, Industry 24.7%, Services 45%.
Ghana	14.89 billion. Agriculture 56%, Industry 15%, Services 29%.
Nigeria	126.7billion. Agriculture 17.6, Industry 53.1%, Services 29.3%.
Senegal	11.1 billion. Agriculture 13.1%, Industry 20.6%, Services 66.3%
South Africa	274.5 billion. Agriculture 2.2%, Industry 27%, Services 70.9%
Botswana	11.35 billion. Agriculture 1.6%, Industry 51.5%, Services 46.9%
Mozambique	8.13 billion. Agriculture 23.1%, Industry 30% Services 46%.
Mauritius	7.03 billion. Agriculture 4.8%, Industry 25 % Services 70.2%.

Source: Central Intelligence Agency World Factbook 2007

Extractive first-stage processing is the oldest form of industrialization in Africa. Extractive industry processing was based on the comparative advantage principle that the continent is rich in resources but lacks technology and capital. Thus, it should fund enterprises that use low level of technology to process natural products before exports. The extractive industries were founded during the colonial days. They include palm oil, cocoa, tea, coffee, and mineral processing industries. The oil industry is the latest addition to this category of

industries. Bruton[46] notes that the extractive processing did not enhance Africa's export to the rest of the world thus no substantial progress was made towards Africa's industrialization quest. As Leighton[47] observes extractive processing of primary commodities, like most raw materials such as cocoa, does not fetch much in terms of export revenue unless it is processed into the next ingredient stage, e.g. butter, powder or cocoa beans. In this sense the traditional call for 'value addition' at source was never realized on any scale at this stage thus Africa's industrialization process was stifled.

Import substitution industries consist of local manufacturing of previously imported products. These include metal, beverages, foods, clothing and textiles, electronic and software development, vehicle and cement production. Production is mainly for domestic markets. Bruton[48] observes that import substitution was initiated because consumption of imported commodities had increased and there was need to conserve foreign exchange. He further observes that Kenya, Nigeria, Ivory Coast and Zimbabwe had the largest import substituting industrialization.

Coughlin and Ikiara[49] remark that the difficulties experienced in acquisition of commodities during the Second World War prompted the need for change in strategy. Thus Import substitution industrialization was induced to propel African states to industrialization. Investors were allowed to import materials duty free and repatriate profits. They were also protected from competition from imported commodities. Despite

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[46] Bruton, H. J. A Reconsideration of Import Substitution. Journal of Economic Literature Vol. XXXVI 1998.
[47] Leighton, R.I. Import Substitution: An Application and Expansion. The South African Journal of Economics Vol. 48 1980.
[48] Bruton 1998 op.cit.
[49] Coughlin, P. and Ikiara, G. K. Industrialization in Kenya in search of a Strategy. East Africa Educational Publishers Ltd, Nairobi,1988.

the change in strategy Africa continues to face a myriad of challenges towards industrialization. Critics of import substitution such as Zarenda[50], Coughlin and Ikiara[51], Riddel[52] observe that production under ISI takes place under high tariff barriers and saddle countries with high cost industries. They note that the industries are also uncompetitive because they are heavily protected. Further, they argue that countries that adopt the import substitution strategy cannot export because their commodities are similar to those produced elsewhere. The import substituting industries experience reduced competition due to protection and is characterized by inefficient production and capacity under utilization. Coughlin, Ikiara and Riddel[53] conclude that the industries use capital-intensive production methods as opposed to being labour intensive. There are also possibilities of these industries saturating local markets and have little incentives to reduce costs, which perpetuates inefficiency. It is important to evaluate the implementation of this strategy in the Kenyan scenario, a study which has not been carried out.

From the above discussion it can be deduced that there is need to reconsider import substitution and protection of infant industries; of course lessons have to be learnt from past mistakes and experimentation with the first regime of import substitution. It is argued elsewhere that import substitution did not fail. It was never tried.[54] There also need to interrogate the export –led industrialization strategy as an anti-thesis of ISI, a clear study gap that has to be filled.

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[50] Zarenda, H. Tariff Policy: Export Promotion Versus Import Replacement. The South Africa Journal of Economics 1975. Vol. 43.
[51] Coughlin, P. and Ikiara, G. K. 1988, op. cit
[52] Riddel, R.C. Manufacturing Africa Performance & Prospects of Seven Countries in Sub- Saharan Africa. Overseas Development Institute, London 1990.
[53] Coughlin, P. and Ikiara, G. K. ,1988, op. cit
[54] Bruton, H. J., 1998. Op. cit

1.5.5 Export Processing Zones

The EPZs Act defines an EPZ as a designated location where goods are generally regarded as being outside the customs territory as far as import duties and taxes are concerned. The EPZ programme was established for the following reasons: to attract new investments in production export activities, increase non- traditional exports, transfer technological skills to Kenya and produce linkages between the domestic territory and the EPZs on the one hand, and between the domestic and the international economies on the other. The study found out that EPZs, which are administered by the Export Processing Zones Authority (EPZA), have provided companies located in the zones with a number of incentives. Among the incentives provided are a 10 year corporate tax holiday and a flat 25 % corporate tax for 10 years; exemption from both stamp duty and VAT and facilitation on issuance of work permits. The introduction of EPZs as means of encouraging export –led industrialization led to growth and development in all types of industries, including garments, leather made goods, foot wear, textiles, yarns and fabrics, garments accessories, solar technology products such as cookers, panels and batteries, electronics goods, jewellery, cosmetics, furniture and food. Some of the industries that have emerged include Kabazi canners, Afrolite industry, African cotton industries, and African showcase among others.

The regime was envisaged to attract FDI, create employment, linkages with other productive sectors of the economy, skills and technology transfer, foreign exchange generation and promote diversification of the economy away from the traditional commodities. All these were aimed to spur industrial growth and development.

The export promotion programmes were mainly geared towards promoting manufactured exports—mainly labour-intensive manufactures. MUB and EPZs targeted new investments while others like duty and VAT exemption schemes targeted existing manufacturers[55]. The MUB/EPZs were aimed at using the abundant semi-skilled labour to produce labour-intensive manufactures, notably garments and foot wear for overseas market—perhaps something similar to 'sweat shops' in Asia[56].

Nonetheless, Kenya's industrial sector remained predominantly inward looking throughout the 1980s and 1990s. A number of factors have constrained the country's export growth. Firstly the government not only was slow in implementing liberalization but also did little to put in place effective export promotion policies. Insufficient exchange rate adjustments in the 1980s frustrated import liberalization while inefficient fiscal adjustments worked against investment. The end result was a persistent bias against exports despite the announced shift away from import-substitution to an outward-looking export strategy[57]. High tariff rates and burdensome administrative procedures contributed in discouraging Kenyan exporters from vigorously pursuing export expansion programmes as manufacturers found it more profitable to produce for the protected domestic market.

Secondly, the government's institutional and administrative machinery continued to be biased in favour of import substitution, leading to slow and uneven implementation of export-promotion policy reforms. In spite of the fact that policy makers clearly identified

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[55] Glenday, G., and D. Ndii. Export platforms in Kenya. African Economic Policy Discussion Paper Number (2000). 43. 2000 (p.32)
[56]Ibid (p. 32)
[57] Wignaraja, G. and Ikiara., Adjustment, Technological Capabilities and Enterprise Dynamics in Kenya, in Lall (Ed.) The Technological Response to Import Liberalization in Sub-Saharan Africa. Macmillan Press, London. 1999.p. 12.

policy-related constraints to export growth, nothing much was done to change the situation. While many export promotion policies were regularly announced in various government policy documents, development plans and budget speeches, they were either not implemented at all or were implemented in such a bureaucratic manner that their incentive value became eroded or eliminated altogether. This was partly due to the fact that some of the policy announcements were largely as a response from donor pressure without genuine domestic ownership of the policies.

Lastly, both the public and private sectors exhibited adverse attitudinal stances that worked against a successful push to increase export of manufactures. Despite government policy announcements in favour of exports, exporters were often not given adequate support by the government. Exporters frequently experienced difficulties in obtaining foreign exchange to facilitate trade promotion trips and other activities while their export compensation claims were delayed. The private sector, for its part, was often unwilling to take the steps necessary to raise their competitiveness in international markets[58]

1.5.6 Epz's and Export-Led Industrialization

The study found out that the performance of EPZs as a vehicle for export-led industrialization has been less than satisfactory. FDI generation has not been substantial and employment creation levels have been lower than anticipated. The study found out that most firms have laid off their workers as restructuring strategy. Some the firms that the

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[58]Kenya Association of Manufacturers. Rural Industrialization in Kenya: Opportunities and Constraints in Providing Basic Infrastructure. KAM, Nairobi. 1989. (p.27)

laid of workers include Africa Showcase Ltd, Afrolite Industries Ltd, and Elson Plastics of Kenya Ltd.

Gross exports trends have been erratic and largely not substantial. Table below highlights the general performance of the regime for the last decade:

Table 1:3 Performances of EPZ firms in Kenya

Year	Investment inflows in US $ million	% of total	Employment created	Gross export US$ Million	% OF TATAL
1996	4.5	1.8	2,557	11.0	2.6
1997	3.1	1.2	160	12.1	2.8
1998	3.8	1.4	2,914	7.4	1.5
1999	16.7	5.0	4,080	33.2	7.5
2000	3.1	0.9	658	72.4	18.0
2001	0.23	0.004	68	42.9	10.1
2002	2.0	0.04	863	55.6	13.4
2003	4.7	0.9	1,724	105.1	24.3
2004	2.8	0.6	1,098	54.2	10.9

Source: Ministry of Industry, Trade and Private Sector Development Database/ NSO/ UNCTAD

Note: The table above includes statistics of companies that joined the EPZ regime after they had already established themselves in the country and were already exporting. The statistics may, therefore, not necessarily reflect responses to the regime per se.

The presence of the EPZ regime in Kenya has not helped substantially in promoting export oriented growth as the trade balance with the rest of the world has been ever increasing over the last decade. The study found that the concessions given to firms under EPZ (MUB, tax holidays) have mostly benefited foreign investors and subsidiaries of multinational companies who operate off shore Bank Accounts and are permitted to repatriate proceeds and move resources from one subsidiary to another. Apart from the application and issuance fees, the study found out that there is little leeway for government to get something out of the EPFs. There is no legislation to enable EPFs contribute to national social development as is the case in Venezuela and indeed the majority of these firms still look up to the government to provide their employees with virtually every social amenity including education and health. Worse still the study found out that, the incentives are offered to investors in the regime for as long as they keep on operating in the country. There is no provision that firms have to be graduated from the regime once they have attained a significant level of development and can withstand competition. Absence of the gratuity provision turns the whole arrangement into a mere unjustified subsidy to appease the firms given that Kenya, like other developing countries, is desperate for FDI and is determined to continue with these juicy incentives even if it is known that the investment is temporary and its potential is questionable.

The study found out that foreign investors largely own the EPFs in Kenya. The major investors in the regime are from India, Britain, Republic of China, South Africa, Italy and New Zealand. According to local investors interviewed, most of them have not benefited from the regime largely due to lack of information about the opportunities offered by the regime since the authorities have put much emphasis on foreign direct investment as

opposed to local investment when promoting regimes such as the EPZ. The result has been that local investors view the regime, as solely catering for foreign investors hence their participation is largely limited. The other contribution according to the study findings is that most local investors cannot meet the requirement of exporting 100 percent of their products because of limited marketing linkages on the world stage as opposed to foreign investors most of whom are agents or subsidiaries of multinational operations with well developed marketing network.

The study found out that Kenya's EPFs production is still concentrated in a narrow base of products mainly garments/textiles and agro products such as tea, flowers, coffee and cotton. Contrary to expectations, the study found out that the regime has failed to diversify the industrial sector and exports base. Despite all the incentives given to the regime to assist in the diversification of the country's production and export base, the traditional commodities still accounts for almost 80% of the country's exports earnings as illustrated by the table below:

Table 1:4 A Comparison between the Export Performances of EPZ Dominated Industries and the Traditional Commodities

Product	Exports (1999)	% Share	Exports (2005)	% share
Tea	274.7	66	279.0	56
coffee	39.3	9.4	48.4	9.7
Cotton	5.3	1.2	15.6	3.1
Tobacco	30.5	63	40.3	7.5
Garments and Textiles	17.0	4.1	42.2	8.4

Source: CBS

As data above indicate, the Kenyan economy is still over dependent on the traditional commodities exports for much of its export revenue. Coffee, tea and flowers still accounted for a significant 74 percent of the export revenue in the year 2005, slightly dropping from 81 percent in the year 1999. The contribution to export revenue by the EPF dominated industries was at less than 11 percent in the year 2005. The most improved performance was recorded in the textile and garments sector, which has been buoyed by the revival of the newly Rivertex[59], a Non- EPZ integrated textiles and garments establishment. Overall, there isn't any substantial improvement in the EPFs share to the national export revenue.

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[59] Owned by Moi University though it has not started to produce to its capacity. Its contribution to the export of textile and garment is applaudable.

The transfer and exchange of technology between EPFs and the rest of the economy has embarrassingly failed to work in Kenya despite being one of the core reasons for establishing the regime. The study found out that the EPFs have always worked in isolation and have relied on imported raw materials at the expense of local raw materials. The technology they bring to the country has mostly been outdated and this is why there is no element of sustainability of operations once the foreign investors have decided to leave the country. If Kenya yearns for industrial development there is need for it to embrace new technology. This is based on the fact that technology transfer is key to improving the general productivity and quality of the production chain and has a bearing on sustainable export oriented growth and development thus industrialization. Countries like South Korea and Mauritius have benefited enormously from policies that have linked local producers to the production chain of export firms.

In spite of a decade of operation of the EPZ regime, the country is still pre-occupied with the production and exportation of commodities whose terms of trade have been falling over the years. The quality of exports has been poor and less competitive hence unable to increase the country's market share on the global stage. It is also noted that the EPZA is an independent organization. That is why its policies and business in general has been devoid of government involvement outside of facilitation of legislative documents for personnel and customs. For instance, garment manufacture is predominant with casual personnel even being sourced from India, Bangladesh, and Nepal among other countries even if these skills are locally available. The study also used this gap to interrogate this state of affairs.

1.6 Theoretical Framework.

Modernization theory formed the philosophical foundation for the study. The main proponent of this theory is Walt W. Rostow who aptly elaborates this approach. It depicts the stages of development, social and economic; and otherwise of any society. The role model is the industrialized world, which has more or less followed these stages. A major assumption is that Kenya can therefore follow suit and industrialize. This framework adopts a linear stages theory model: the traditional society, the preconditions for take-off into self-sustaining growth-the take off stage, the drive to maturity, age of high mass consumption and beyond consumption era. We shall discuss a detailed analysis of the two-stage process as conceived by W.W. Rostow that are applicable to the Kenyan situation.

1.6.1 The Traditional Society

It is a society whose structure is developed within limited production functions. The central fact about this society is that a ceiling exists on the level of attainable production output. This ceiling results from the fact that the potentialities which flow from modern science and technology are either not available or not regularly and systematically applied.[60]

This therefore is a basic society that practiced primary production, extraction and basically subsistence activities for its survival. Therefore, this is a state of limitation in productivity that dedicated a high proportion of its resources to agriculture. It is a rudimentary stage

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[60] W.W Rostow The Stages of Economic Growth. A Non-Communist Manifesto. 1960 P. 101.

where there is no surplus in production no savings and therefore the society produces merely to feed itself in the current.

1.6.2 The Pre-conditions for Take-off

This stage of growth embraces societies in the process of transition, that is, the period when the pre-conditions for take-off are developed; for it takes time to transform a traditional society in the ways that makes it ready to exploit the fruits of modern science. Insights of modern science begin to be translated into new production functions in both agriculture and industry in a setting given dynamism by the lateral expansion of world markets and international competition for them. Economic progress is now taken to be necessary for other purposes, for instance, national dignity, private profit, the general welfare, or a better life for the children. Education broadens and changes to suit the needs of modern economic activity. New types of enterprising come forward in private economy and in government, willing to mobilize savings and to take risk, in pursuit of profit or modernization. Banks and other entities for capital mobilization appear. Investment increases in transport, communications and raw materials. The scope of commerce widens, modern manufacturing enterprise appears, using new methods. But all this activity proceeds at a limited pace within an economy and a society still mainly characterized by traditional low-productivity methods by the old social structure and values and by the regionally based political institutions that developed in conjunction with them.[61] This state therefore lays ground for the improved production activities.

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[61] Ibid p.102

The modernization argument was that the newly independent countries like Kenya lagged behind in development because they were 'traditional' whereas the developed countries in the West had modernized. W.W. Rostow's *Stages of Economic Growth* (1960) pioneered studies in this category[62]. According to the assumption of this theory Kenya therefore is still at the original stage in the industrialization trajectory. The remedy for the conditions in Kenya is from the standpoint of this category of studies to modernize. Modernization becomes synonymous with development and hinged mostly on industrialization. The most distinguishing feature of 'modernity' was capitalist industrial production, based initially on the classical *laissez faire* model and later (post-war period) on Keynesian model. Modernization theory therefore treated industrialization to be coterminous with development and thus called upon non-Western societies to move away from the agrarian economy. Although industrialization can be achieved through different methods, the West had realized it through free market, though this view is often contested.

Limitations of the theory.

Modernization suffered criticism from post-colonial development discourse ostensibly because the paradigm was 'eurocentric': the paradigm argued about Africa's development from the standpoint of Western experience and social values. Secondly, modernization 'privileged industrialization' in that development could not occur through other forms of production such as agriculture. Thirdly, modernization portrayed development as a 'unilinear' process by writing off other possible paths to development other than the tradition-modernity trajectory. Fourthly, modernization was a historical, for in assuming

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[62] Ibid.

that African development would follow in the footsteps of Western experience; the paradigm ignored the difference in the historical experience of the two worlds that had implications for the development trajectory. The historical experience in point is colonization. Fifthly, the modernization paradigm erroneously presumed that development in the traditional stage is static; that is, change that could mean development did not occur throughout the traditional epoch. Sixthly, modernization theory failed to show the means by which traditional societies could modernize. Finally, modernization theory was criticized for its presumption that tradition and modernity are mutually exclusive whereas in reality, elements of both tradition and modernity are present on either side of the divide. This paper would argue that while modernization theory, like all others, contains significant errors the wholesale rejection of the paradigm is an overreaction, at least in the light of what has come to be referred to as globalization. Can African countries realize development in the face of the Second Coming of Western capitalism to the continent other than by a similarly capitalist counteraction?

1.6.3 Utility of Modernization Theory In Kenya's Industrialization.

As noted in the unilinear stage of the pre-conditions for take-off, the factors of development, when they become favorable for instance surplus capital is achieved, lead to modern manufacturing. In the view of this, we can safely say that Kenya is still in this phase of modernization. The industry is still characterized by traditional low productivity methods.

It has already harnessed the benefits of the free market leading to surplus production. This has laid the ground for the next stage. Although basic infrastructure is not yet fully developed, there is notable improvement of transport and communication networks as well as modernization of the service industry, events that have resulted in capital for the investment in the inevitable phase of the Take Off.

This theory has notable strengths in that it aptly captures Kenya's liberalization of the economy opening to the consequent epoch of heavy investment in industry both by the state and individual investors. The study of the export-led growth of the industries will find this Rostow's conception invaluable.

1.7 Hypothesis

The study was guided by the following hypothesis: General hypothesis: Export-led strategy has positively influenced Kenya's industrial development. Specifically;

1. There is a positive relationship between enhancement of competitiveness of products through value addition by manufacturing industries and Kenya's industrial development.
2. There is a positive relationship between government initiation of export schemes and increased Kenya's industrial input.
3. There is a positive relationship between strengthening of export support networks by the government and increased the share of industry in economic development.

1.8 Research Methodology

Both qualitative and quantitative methods of data collection were employed in this study. The study used survey data and observation as primary data sources. Primary and demographic data were collected using close-ended or structured questions. First hand information was therefore gathered from respondents. The use of questionnaires and interactive interviews was invaluable since the latter yielded supplement information that did arise from the questionnaire.

Secondary data was also very important in this study to review issues ranging from global industrialization literature, national development plans, national development reports as well as industrial administration literature books, reports, newspapers, workshop papers, research papers, internet publications and data; among others were of great value to this study.

1.8.1 Research Design

This study aimed at interrogating the influence of export-led industrialization in Kenya's industrialization process. The study applied a descriptive field survey to help define the attitudes, opinions and views of respondents who are involved in promoting Kenya's industrial quest. The respondents in the two categories (institutional and industrial firms) were asked questions and their responses tabulated and compared.

1.8.2 Sampling Population

The sampling units comprised of two categories namely the institutional category and industrial firm categories. Under the institutional category the study target the Ministry of Industrialization, Ministry of Trade, the Kenya Industrial Research Development Institute, Kenya Association of Manufacturers, Kenya Industrial Property Institute, Export Promotion Council, the Kenya Investment Authority, Kenya Bureau of Statistics, Development Finance Corporation of Kenya and Industrial and Commercial Development Corporation. These institutions were selected based on the fact that they provide the export support networks that are perceived to play a role in Kenya's industrialization process.

Under the industrial firm categories, the study targets firms that are involved in value addition and export off products. The firms were categorized in five clusters namely chemical, textile, iron and steel, metal production and food and beverage sectors.

1.8.3 Sampling Technique and Sample Size

Purposive sampling was used in selecting respondents in the first category (the institutional category) this sampling technique was selected basing on the fact that it allows for the use of cases that have the required information with respect to the objectives of the study. (2) respondents were selected from each institution making a total of 20 respondents. 20 respondents were deemed sufficient basing on the fact that it allowed the researcher to indulge with the respondents in-depth on the issue area. In regard, to the second category (industrial firms), simple random sampling technique was preferred. A number was assigned to every firm then selected randomly. 50 respondents were selected in this

category. In total the sample size was 70 respondents. The sample size in this study is denoted by:

$$\mathbf{N} = n_1 + n_2 + n_3 + n_4 + n_5 + n_6$$

$$70 \text{ respondents} = 10 + 10 + 10 + 10 + 10 + 20$$

Where:

n = is the total sample size for the study

n_1 = is the number of respondnets fron the Chemical sector

n_2 = is the number of respondets from the textile sector

n_3 = is the number of respondent from the iron and steel sector

n_4 = is the number of respondets from the food and beverage sector

n_5 = is the number of respondnets from the metal sector

n_6 = is the number of respondets from the selected 10 institutions

1.8.4 Research Instruments

Self administered questionnaires were the main instruments for data collection. This is based on the fact that less time is required to respond and it is easier to administer. It is also less expensive and it is one of the tools that are free from interviewer bias. In addition, respondents have more time to internalize and respond to the questions. There were 2 sets of questionnaires that were developed to collect primary data. One set of questionnaires (20) were administered to respondents in the institutional category. The second sets of questionnaires (50) were administered to respondents in the industrial firm category. All sets of questionnaires contained both open and close-end questions. Interviews were also conducted to supplement data obtained from the questionnaire. The

interviews involved the production managers and directors of fore mentioned institutions. The instrument was piloted among 10 respondents in the two categories to establish weaknesses in the questionnaire instrument. After the piloting errors identified were corrected before the actual data collection was conducted.

1.8.5 Data Collection Procedure

The questionnaires were self administered and were filled by the sampled informants. The questionnaires were delivered to the respondents and instruction given. The questionnaires were then collected immediately. This ensured a high degree of accuracy and return rate and reduce instances of group influence. Appointments for scheduled interviews were organized with sampled institution in addition the research gleaned through secondary literature: journals, periodicals and other materials to back up primary data.

Documentary data served to analyze global industrialization experiences of various success stories of some states in the world as well as the failed ones in order to examine the Kenya's experience informed by a global perceptive. This was resourceful since the Kenya industrialization process is also affected by external variables alongside the internal ones.

1.8.6 Justification of the research methods used

The sampling population is representative of the Nairobi region and covers various core industries in which the strategy has been implemented or was intended to be implemented the key institutions engaged in the design and implementation of the strategy were purposefully chosen since they are the main players in the field of study. Purposive

sampling allowed the researcher to pick different strata of administrators and implementers of the strategy in order to exhaust the research on the design, administration and the actual implementation of the strategy.

Data analysis techniques used were the best suited in this kind of study to ensure the correct representation of the findings in concise and simple statistical connotations. This will ensure discernable relationships between variables. Data presentation is therefore done in understandable form.

1.8.7 Data Analysis

Quantitative data analysis was carried out by the use of the software for social research (Statistical Package for Social Scientists.) This resulted in research being presented in nominal descriptive statistics inform of diagrams charts, percentages, among others. Comparative content analysis was used to interpret the findings against the successful cases. Thematic analysis was resourceful in providing interpretation from concept and raw data.

1.8.8 Ethical Considerations

The approval of the government was obtained given the fact that the study took place in both Government Ministries and other government institutions. Data confidentiality was maintained and privacy respected in accordance with the requirements of research ethics rules and the host institution and firms. As observed by McMurray, Pace & Scott respondents in a qualitative study should: have their interests protected, have their

identities protected, individually understand clearly the objectives of the study, have the right to privacy and have reports related to the study available for their scrutiny. Respondents in this research were therefore advised that the study is for both academic and research purpose, their consent to participation was obtained and they were advised that their consent may be withdrawn at any time without reason.

1.9 Chapter Outline

Chapter One: Introduction

This chapter has laid the foundation to the study. In this chapter, the study gives abroad introduction on the issue under study the problem and objectives of the study are discussed. Literature review that relate to the subject under study are also reviewed and gaps identified. The methodology used to gather data for the study is also elucidated I this chapter.

Chapter Two: The Background of Kenya's industrialization efforts.

This chapter gleans through the different phases of industrialization that Kenya has undergone over time. The chapter looks at industrialization during the pre-colonial period, the colonial period and finally the post colonial period. Lessons and various challenges faced in every phase are discussed in this chapter

Chapter Three: The Export-led industrialization in Kenya: Situation review.

This chapter looks at the various actors and activities in Kenya's industrialization process. The specific roles are discussed to give more insights on their role in promoting export- led

industrialization. It captures a review of the whole design and implementation of ELI in Kenya.

Chapter Four: The Influence of Export-led Industrialization on Kenya's Development.

This chapter discusses the findings of the study. The objectives of the study are looked at in details in this chapter. The use of qualitative data obtained from interviews and own observation are used to corroborate the findings.

Chapter Five: Summary, Conclusions and Recommendations.

This chapter gives the summary of the salient issues discussed. The chapter concludes by affirming of disputing the major findings of the study. This chapter finally gives major recommendations for future actions.

CHAPTER TWO: THE BACKGROUND OF KENYA'S INDUSTRIALIZATION EFFORTS

2.0 Introduction

For Kenya to become a globally competitive and industrialized nation by 2030 it will require policies that support the expansion of non-traditional and manufacturing exports in both the regional and international markets. However, despite a number of export promotion incentive schemes and programmes, manufacturing exports from Kenya are still relatively low in comparison to East Asian countries. Trade has to become the foundation upon which Kenya's development and industrialization strategy rests. This chapter analyzes the different mutations Kenya's industrialization process has undergone with a view to drawing lessons for the country's industrialization strategies.

2.1 A Review of Kenya's Industrial Policies

Kenya's industrial policy can be classified into two main categories; the import substitution (ISI) and the export-led Industrialization (EI). ISI industrialization, which was the main mode of industrialization during the colonial days, continued to be encouraged until mid 1980s when it was gradually replaced with export-oriented industrialization dawning the era of liberalization measures also advocated as part of World Bank structural adjustment programmes (SAPs). ISI was initiated in Kenya before its independence; hence an analysis of industrial policies in Kenya without a backdrop to ISI policies pursued during the colonial period would be incomplete. ISI pursued influenced the inflow and kind of FDI as well as facilitating institutions including those established to support industrialization.

2.1.1 Pre-independence: The colonial period

The history of Kenyan manufacturing industry dates back to the colonial period from which the existing manufacturing characteristics including those depicted by FDI are likely to have taken their bearing. To appreciate this observation, an examination of industrial policies during the entire colonial period, would have to be examined. Various modes of capital investment would also have to be examined with particular emphasis to the kind of manufacturing industries established and their ownership structure. The analysis is presented in two phases – the period before 1945 and the period 1945 - 1963. The choice of the two time periods is not arbitrary. The period before 1945 can be regarded as the pre-war period (That is, First and Second World War) while the period after 1945 can be considered as the post war period. The period 1945 – 1963 differs significantly from the period before 1945 in that during the period 1945 – 1963, there was a radical transformation towards industrial development in the British colonies. In the later period, Britain encouraged its MNCs to invest in Kenya – as it did in its other colonies. Thus while the former period was characterized by little industrial development activity, the latter period was marked by an improved effort to promote manufacturing industry in Kenya with significant participation by British MNCs[63].

The Period Before 1945: Kenya was founded as a British Colony in 1890s and converted into a Crown colony in 1920. Existing literature on colonial history reiterates that several factors induced the formation of colonies in the nineteenth and twentieth centuries. Firstly,

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[63] Pearson D.S. Industrial Development in East Africa, London, United Kingdom: Oxford University Press. 1969. p 45.

the rush for colonial expansion during this period was to develop and control sources of strategic primary goods, raw materials and foodstuffs. Secondly, it was assumed that by controlling the activities undertaken in the colonies, the colonial territories would provide an export market ‘protected markets' for the colonial manufactured products. As a British colony, Kenya's role was reduced to that of raw material production to supply the British manufacturing industries. It was also clear that Kenya would serve as a growing market for British manufactured products - once these products are manufactured in Britain they would then be exported back to the Kenyan market including those of other British colonies in the region. This had a negative implication in that it would not stimulate strong domestic manufacturing capability development.

In order to achieve the colonial objectives, several things were put in place; first, the British Government provided funds for infrastructure development, which included roads and railway to facilitate transportation of primary goods - food crops and raw materials from the mainland. The funds availed facilitated the building of the Kenya Uganda railway in the period (1895-1901). Port facilities were also developed and export–import warehouses established to facilitate export of primary goods and import of consumer goods. Secondly, the British Government encouraged European settlers to settle in Kenya and participate in commercial agriculture directed towards exporting. As noted by Pearson[64] the commercial agricultural activities were undertaken in the so-called 'white highlands' in Kenya with labour supplied by indigenous Africans.

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64 Ibid

Since commercial agriculture turned out to be the main mode through which raw materials were generated and exported to Britain, the European settlement was further encouraged in 1920 when Kenya was declared a Crown Colony in 1920 making the number of European settlers in early 1920s reach about 20,000. Swainson[65] notes that formation of a Crown colony in 1920 was the official sanctioning of settler dominance in Kenya. Examples of major MNCs from UK, which made their investment during this period, included James Finlay (1924) in tea production; Brooke Bond (1924) in tea and coffee production; Mitchell Cotts (1936) in sisal production.[66] By participating in raw material generation, the European settlers would enable the British Government to recover the costs incurred in the construction of the Kenya-Uganda railway line. Finally, in order to encourage and support production for exports by European settlers, import protection and export incentives were offered.

The effort by the settlers to have full control and dominate in all social and economic activities reflected a clear emerging pattern of de-indigenization. Jorgensen[67] offers a luminous illustration of how the de-indigenization process of the Kenyan economy took place during the colonial days. He examines the role of MNCs in the de-indigenization process using a three-level analytical framework that constituted structure of the economy, control over individual production and the distribution of firms, and the racial division of

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[65] Swainson N. The Development of Corporate Capitalism in Kenya, 1918-1977, London, Ibadan, Nairobi: Heinemann. 1980.
[66] See Kaplinsky R Ed. Readings on the Multinational Corporations in Kenya, Nairobi: Heinemann. See also Swainson N. Company Formation in Kenya before 1945 with Particular Reference to the Role of Foreign Capital, in Readings on the Multinational Corporation in Kenya. Kaplinsky R (Ed.) Nairobi, Heinemann, 1978.
[67]Jorgensen J.J. Multinational Corporations and the Indigenization of the Kenyan Economy in Multinational Firms in Africa. Widstrand C (Ed.), Uppsala 1975.

labour within firms. Jorgensen shows how Kenya entered into the vertical international division of labour during the colonial period by participating in international trade suited to the colonial masters. By so doing the "structure of the domestic economy was transformed to produce agricultural goods needed by the external economy and to import consumer goods and machinery from the external economy." De-indigenization at the second level took place in the form of ownership of farms, firms and other commercial entities. Africans were not supposed to participate in either the interior or external trade with the rest of the world. These were left exclusively in the hands of non-indigenous Europeans and Asians. Africans were also denied control over units of production and over production itself. At the third level, division of labour within firms, Africans were forced to become labourers. Under pressure from European settlers, Jorgensen[68] notes that the colonial regime relegated the African population to a subservient role as labourers meant to produce largely for export to satisfy needs of non-Africans. They were not allowed to participate in production of trade goods except peasant production of foodstuffs for consumption within their native reserves[69]. Asians participated in production but were restricted to light small scale manufacturing, characterized by low capital and thus low value added.

Based on the colonial setting laid out in Kenya, it is clear that from the outset of British colonial rule emerged a policy of simple primary production without any substantive and immediate policies towards industrial development. The lack of an industrial policy demonstrated unwillingness and lack of effort by the British Government towards the development of a manufacturing industry in Kenya. Hence the manufacturing industry

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68 Ibid
69 Ibid

remained nascent characterized by low technological capability development and thus low value added manufacturing activities. The existing policies were in favour of investment in commercial agriculture and a few mercantile activities strictly dominated by foreign and non-indigenous firms - Asians firms. Existing literature on Kenya's industrialization explicitly articulate lack of political will from the British colony in support of manufacturing industry that is, Swainson[70] puts it succinctly:

> During this time it is not surprising that the colonial office was indifferent and often hostile to colonial attempts to develop manufacturing industry. The work of the so-called development agencies before 1939 illustrates the general unwillingness on the part of the British Government to encourage colonial industries. The Empire Marketing Board, for instance, gave no assistance to any forms of manufacturing and colonial development advisory committee in theory placed no limit on its spheres of activity, but in practice it totally ignored the industrial sector.

An analysis done by Vaitsos[71] indicates that very few manufacturing industries were established in the early colonial days and most of the agricultural commodities (78%) were exported to Britain in their raw and unprocessed form. As Swainson[72] frames it "… the settler bourgeoisie in Kenya was involved in a process of primitive accumulation of capital". The processing was undertaken under strong tariff wall and trade policies that only allowed processing of a few agricultural commodities for local consumption. It is important to emphasize at this point that a few investments were also made outside the agro-based industries.

In sum, the discussion held for the period before 1945 indicates that a few things are important to take into consideration when examining Kenya's industrialization process and

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[70] Swainson N, The Development of Corporate Capitalism in Kenya, 1918-1977, London, Ibadan, Nairobi: Heinemann, 1980.

[71] Vaitsos C. The State and Foreign Business Interests, in Kenya's Industrialization Dilemma, Coughlin P, Ikiara GK (Eds.) Nairobi, Kenya: Heinemann Kenya Limited, 1991.

[72] Swainson N (1980). Op cit

policy. The first one is that extremely few and simple manufacturing activities were undertaken during this period. Only products meant to substitute imports, that were scarce during the war period, could be manufactured under high tariff wall. No policy existed in support of an industrial development - one characterized by a strong entrepreneurship culture - hence low technological capability development. Secondly, despite the simplicity of the manufacturing undertaken, it was fully controlled by the British settlers and FDI from other countries with no involvement of indigenous locals - the indigenous firms remained absent. Thirdly, the British settlers and other foreign investors also dominated commercial agriculture strictly excluding Asians and the indigenous Africans. The investment done was concentrated on estate-based export commodities such as tea, coffee, wattle and sisal which were exported in their raw form. Fourthly, while a few settlers showed interest and actually moved into construction and real estate, foreign firms went into large scale trading where they became dominant. Fifth, Asian firms were concentrated in small trading activities. However, some of the Asian-owned firms originally in the mercantile trade branched gradually into light manufacturing, which formed the basis for their initial capital accumulation in Kenya.[73]

The period between 1945 and 1963: The period after the Second World War was characterized by major changes in the international capital movement.[74] There was free movement of capital across national boundaries with MNCs serving as the main conduit of capital flow across national and international boundaries. This culminated in stiff international competition to expand international capital with the United States taking a

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[73] Leys, 1975, 1996; Kaplinsky, 1978; Swainson, 1980; Himbara, 1994.
[74] Dunning, 1972; 1993.

dominant position. The United States had assumed a dominant position as a result of increased domestic investment in technology, extensive capital accumulation and great transformation of its industrial organization with tremendous increases in labour productivity. It is argued that, the huge advance by the United States in 1940s was the main cause of upheavals witnessed in technology, organization of labour and relations of production in the world after the Second World War. There was a change in the pattern of international capital when United States' industrial capital started turning outward in search of new global markets.[75]

As postulated by Louis[76] the dominance of the United States capital in the international market had long-term effects to Britain's political and economic levels. The increased international competition to expand capital globally made Britain feel threatened over its colonial territories. Economically, Britain was at a disadvantage in that it had just incurred huge expenses during the war resulting in increased foreign aid and dependence on the US. There was also the looming danger of severe unemployment in Britain if production slowed down to match available materials and foreign exchange.[77]To take care of these constraints, the British Government had no option than to try and channel more government resources into primary and industrial production. In addition, the British Government encouraged the British MNC firms to invest in colonial territories–both in the production sector and in the manufacturing industry. The British Government, therefore, implemented a radical policy change from extraction of raw materials and restriction of

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75 Dunning, 1972.p.151.
76 Louis in Kaplinsky ibid.p.147
77 Cowen, 1980 .p. 145.

industrialization to promotion of industrialization alongside agricultural production. An industrial development policy was therefore designed after 1945 to promote development of secondary industries in addition to agricultural production.[78]

In response to this policy change, many British manufacturing firms came to Kenya after 1945 to manufacture goods previously imported under protected conditions - quota restriction and high tariff walls. Available statistics show that by mid 1960, approximately 78.8% of FDI in Kenya was British owned.[79] Nevertheless, there was also intensified penetration of foreign firms and an inflow of predominantly industrial capital from other countries such as: United States, Germany, Denmark and Canada among others.[80] Examples of such MNCs include Del-Monte (1950), Pepsi Cola (1953) and Coca-Cola (1956) all from the USA; Jensen and Nicholson (1959) from Denmark and Bata Shoe Company (1958) from Canada. The period after the Second World War in 1945, therefore, marked a significant point of departure in the history of Kenya's manufacturing industry with dynamics of ISI and participation of FDI in manufacturing becoming more apparent.

From the discussion undertaken for the period 1945 - 1963, the following points have emerged. First, it can be argued that the first major drive towards industrialization in Kenya started in the period 1945 - 1963. This period can be regarded as the starting point of actual manufacturing in Kenya with policy support from the authorities, in this case the British Government. However, at this early stage, industrial capabilities and their

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78 Lee, 1967.
79 Vaitsos, 1991.
80 Eglin, 1978; Swainson, 1980.

development remained rather weak. Also, with the exception of Asians of the Kenyan origin, the indigenous Africans had not ventured into the manufacturing - thus entrepreneurship capability on their side was extremely weak or altogether missing. Secondly, that the mode of industrialization adopted at this time was ISI supported largely by the state. This mode of industrialization was implemented to a large extent under strong tariff wall and trade barriers. Thirdly, in comparison to the period before 1945 when investment was largely concentrated in commercial farming and mercantile, there was a significant increase in foreign investment into manufacturing Industry in the period after 1945, which was reflected in a major shift in the sectoral pattern of investment by FDI. The fourth point is that comparing settlers' capital to that of the incoming MNCs, the settlers' capital remained weak after their failure to take it into manufacturing industries. In actual fact, the incoming MNCs and the Kenyan Asians ended up acquiring most firms that had previously been owned by local settlers, making the incoming MNCs and a few Asian firms become dominant in the large manufacturing category especially in the period 1945 - 1955. Although Asians had ventured into manufacturing before 1945, they were only a few "due to the constraints of capital and lack of credit facilities from European banks".[81]

2.1.2 Post-independence: The Early Decades of Import Substitution

On attaining independence in 1963, the new Kenya government continued with the import substitution policy aimed at industrial development. The state was also accorded a greater role in the economy; with several public enterprises enjoying monopoly status. Some of these enterprises include the Kenya Meat Commission, Kenya Cooperative creameries,

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[81] Swainson, 1978 op.cit.

River Tex among others. The 1960s and 1970s saw the introduction of regulatory and protectionist policies in virtually all key sectors of the economy. Manufacturing production was skewed towards consumer goods, with industrial output geared in general towards the domestic captive market. The incentive structure was biased against exporting. In the first decade of independence, import-substituting manufacturing grew rapidly. The economy achieved an outstanding economic growth—with an average real Gross Domestic Product (GDP) growth rate of 6.6 percent during the period 1964-73. Wagacha[82] posits that the expansion of output and employment was supported by expansionary fiscal policy and export growth to Tanzania and Uganda under the East African Community (EAC) common market.

Following a series of external shocks in the 1970s, the inefficiency and inadequacy of the import-substitution policy became apparent. The first oil crisis (1973) and the collapse of the EAC in 1977 adversely affected the performance of import-substitution enterprises. The resultant high import costs and limited market led to excess capacity and further inefficiencies. The relatively rapid real GDP growth of 5.6 percent for the period 1974-79 was mainly due to sharp increases in international prices of tea and coffee (the 1977 coffee boom). Were[83] remarks that the high effective rates of protection, foreign exchange controls, import licensing, bureaucratic and cumbersome administrative procedures and an overvalued currency discouraged the growth of non-traditional exports. According to Lall

[82] Wagacha, M., Analysis of Liberalization of the Trade and Exchange Regime in Kenya Since 1980, IPAR Discussion Paper Series: DP No. 023/2000, Nairobi: Institute of Policy Analysis and Research (IPAR) 2000.

[83] Were, M., Employment Outcomes and Earnings during Trade Liberalisation in Kenya: The Case of Manufacturing Sector in Kenya, PhD Dissertation, University of Dar es salaam 2007.

and Pietrobelli[84], the indiscriminate and open-ended protection distorted resource allocation, reduced foreign competition and restricted technology inflows from abroad. Although the government recognized the need for an export-oriented industrial strategy, as indicated in national development plans of 1974-1978 and 1979-83, adherence to import-substitution lingered.

After the implementation of import substitution strategies in the 1960s and 1970s, the Kenyan government took decisive steps towards export-led industrialization. That intention, already evident in earlier development blueprints, was consolidated in subsequent industrial visions (e.g. the 1996 Sessional Paper on "Industrial Transformation to the Year 2020"). The government strengthened export orientation through the Manufacturing Under Bond (MUB) and Export Processing Zones (EPZ) schemes, as well as the establishment of the Export Promotion Council (1992) and the Export Processing Zones Authority (EPZA) (1996). This was accompanied in the 1990s by the privatization of parastatals, liberalization of finance and energy, price decontrols, elimination of import restrictions and tariff reduction under Kenya's Structural Adjustment Programme[85].

These policies' orientation have had mixed results. While a quite large number of micro- and small scale industries have developed, these have remained largely informal (about 85 per cent of the manufacturing sector is made of informal micro- and small-scale industries,

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[84] See Were, M., G. Alemayehu., N.S. Ndung'u., and S.N. Karingi, Analysis of Kenya's Export Performance: An Empirical Evaluation, KIPPRA Discussion Paper Series, DP No. 22. Nairobi: The Kenya Institute for Public Policy Research and Analysis, 2002.

[85] Kenya: Formulation and Implementation of Strategic Trade and Industrial Policies in Soludo, C. Ogbu, O. & Chang H.J. 2004.

commonly referred to as 'Jua Kali' industries[86]), and have few linkages with larger exporting industries. In any case, since the early 1980s industries have suffered from the macro-economic degradation of the Kenyan economy.

2.1.3 The Role Played by Actors during the ISI Period

Some of the institutions that were established during the ISI and their role in Kenya's industrialization process can be discussed as follows:

2.1.4 Industrial and Commercial Development Corporation:

Industrial and Commercial Development Corporation (ICDC) was first established in 1954 by the colonial government. At inception, it was established as the Industrial Development Corporation (IDC) to promote the colonial industrial development but after independence in 1963, IDC's mandate was expanded and diversified in the economy to provide project and commercial finance to enterprises. Consequently, IDC was changed to Industrial and commercial Development Corporation (ICDC) mandated to promulgate industrial capabilities by promoting participation of indigenous Kenyans in industrial and commercial development, encouragement of Industries with capacity to earn foreign exchange, facilitate rural development, increase use of locally available raw materials, create job opportunities and enhance diversification of the economy. The industrial and commercial development was facilitated through: venture capital finance; export financing; management, support and consultancy services and administration of funds on social-

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[86] The term '*Jua Kali*' is Swahili for 'Hot sun' referring to the open air working conditions of the entrepreneurs. According to Amollo (2008), most *Jua Kali* industries start off and remain as informal enterprises as their owners often cannot afford the process of registering with Government bodies. This means that the *Jua kali* businesses have found it hard to access business development services or export markets.

economic programmes at agreed terms. ICDC has co-invested in various leading commercial and industrial ventures in Kenya that are either local firms or MNC subsidiaries. This is important as it harnesses the resources and expertise of MNCs in the promotion and financing of joint venture (JV) projects. The study found out that ICDC has invested in a cumulative total of 105 companies in its equity portfolio. Projects financed included some of the established local companies as well as MNC subsidiaries in Kenya among them Eveready Batteries (K) Ltd., Kenya Wine Agencies Ltd, Rivatex Ltd., Kenatco Taxis, and the General Motors Kenya (GMK) Limited which boasts of significant linkages in the auto industry with domestic firms including body builders. ICDC is an important shareholder in two main industrial financing institutions; Industrial Development Bank Ltd. and the Development Bank of Kenya Ltd. This kind of coordination and establishment of financial linkages is important for the support of firms in an industry for their capability development and eventual growth, innovation and performance. However, despite a relatively good performance in ICDC, it has been criticized for failing to meet one of its major objectives to reach the small entrepreneurs. The security required for ICDC's loans has tended to favour the already established entrepreneurs and those already owning other enterprises. The implication of this is that firms owned by indigenous Africans would not qualify for financial support. ICDC officials interviewed felt that ICDC was not playing its role of promoting participation of indigenous Kenyans in industrial and commercial development effectively. Performance in venture capital and export finance had declined. ICDC was severely constrained in that they have to rely on the government for finance making its capacity limited. This was happening at a time when government was beginning to withdraw support.

2.1.5 Development Finance Company of Kenya:

Development Bank Company of Kenya (DFCK), a financial institution, was incorporated as an investment company in 1963 to promote industrialization after independence. The government was the main shareholder alongside other shareholders which included foreign financial institutions. DFCK priority was accorded to economically viable projects deemed to have the necessary capacity to contribute to economic development effort such as employment creation, increase foreign exchange earnings as well as use of locally available raw materials. It is indicated that DFCK performed well in the early days. Nevertheless, DFCK has been faced by several constraints. As noted above, the financial institutions were funded primarily through loans and grants received from multilateral and bilateral development institutions, as well as from the Kenyan Government. The government allocations of development finance to institutions have been virtually eliminated following a government policy to stop funding parastatals. At the same time, the government was gradually rescinding its role as an active guarantor to loans obtained by development finance institutions from other financial institutions most of which are foreign[87] (KIPPRA, 2001). Nonetheless, the government continues to be a key shareholder in these development finance institutions (DFIs); a situation that makes willing lenders and shareholders shy off from lending their funds to DFIs. Without privatization, foreign lenders are reluctant to continue their participation. To get round this problem, the DFIs have adopted universal banking policy which has already resulted in the conversion of DFCK into a bank. This has worsened the situation as the interest rates remain relatively high, hence not favourable of industrial promotion. Firms will shy off from taking loans at

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[87] KIPPRA, Legal and Other Constraints on Access to Financial Services in Kenya, Kenya Institute of Public Policy Research and Analysis,(2001).

such high interest rates implying that they no longer afford to acquire new machinery and technology using loan facilities from DFCK. In the long run this works out to weaken firms' entrepreneurship and capability development and consequently their ability to learn from and compete with the MNCs present in manufacturing.

2.1.6 Kenya Bureau of Standards

The Kenya Bureau of Standards (KEBS) was established by an act of parliament in 1974 to promote and make manufactured goods competitive in both the local and external markets by raising quality. KEBS was therefore formed as a regulatory body mandated to deal with strengthening of manufactured goods and services through the application of standards and by providing technical advice on quality management in Kenya. Enhanced standardisation in an industry can stimulate technology transfer and diffusion. As a technical language needed to communicate industrial and service specifications, it can equally lead to industrial growth and capability development which would come along as firms and industries strive to achieve minimum set standards or existing international standards. KEBS organizes trainings and seminars to promote and develop standardization mainly in manufacturing and service at all levels. Participants would be drawn from local and MNCs. This way the participants get to interact and share knowledge, ideas, skills etc. This is sometimes extended to include attachments and firm visits by the KEBS officers. In these trainings and seminars, the resource persons are drawn from public and private sector – with MNCs as the dominant contributors.

Nevertheless, despite the achievements made so far, there are still many problems facing KEBS. Inadequate funding to facilitate training, dissemination of information by a way of exhibiting in show grounds and others such as trade exhibitions, seminars and symposia to educate the manufacturers as well as consumers on standardization work and increase their awareness. There is extremely low patronization by manufacturers blaming it on lack of capacity such as recent metrology techniques coupled with few skills available in terms of professionals required. Although it was indicated that with regard to human resources development some of the research officers had been sent abroad for further training, there is still inadequate capacity to deal with drastic changes in standardization and metrology. Although KEBS maintains a website providing background information on the institute and the services offered, there is lack of a strong ICT back up from where queries can be launched. Information, say on training, placed on the internet site would reach a larger audience. Another problem is that there are few testing centres in the country subjecting manufacturers to unnecessary delays waiting. KEBS also needs to strengthen its modalities to come up with a meaningful cooperation between players from both the public and private sectors.

2.1.7 Kenya Industrial Research and Development Institute:

Kenya Industrial Research and Development Institute (KIRDI) was established in 1979 to promote the national industrial innovation process through the development of a sufficient national capacity in disembodied and embodied industrial technologies for the attainment of self-sustaining industrialization process. Although services are offered at a specified fee, many firms in the manufacturing industry including small and large firms, locally and

foreign owned firms have sought KIRDI's services. Interviews conducted indicated that due to the increased demand in their services from the industry, KIRDI has recently started outsourcing for professional services from the private sector – especially MNCs with higher technological capabilities. This strategy seems successful and is now being extended to include other institutions and universities where experts will be taken on contract or part time bases. This coordination strategy is expected to reduce the time manufacturing firms spend waiting for certain services. Although relatively good progress has been made at KIRDI, internal constraints have hindered KIRDI from achieving its full potential. For instance, the unidirectional staff mobility running from KIRDI to the private sector or universities makes retention of trained staff difficult. Part of the reasons for this is that the salaries paid are low and thus once they get trained they leave to join private firms or teaching institutions, universities and polytechnics. This is fine since it would indicate that KIRDI generates human capital for the larger industry but because of this aspect, most of the time you find that the core staff constitutes young graduates with little experience in research. The effect of this, is that the productivity of the institute is reduced in terms of research conducted or services offered to the industry. With the activities of KIRDI funded by the government, it is obvious that this funding may not be enough as this appears to be the case with most institutes funded by the government. Due to lack of working capital, it becomes difficult to purchase adequate machinery and facilities for use in the laboratories or stock and maintain library. Lack of funds also does not permit improvement in remuneration and conditions of service. It becomes also difficult to contract services of qualified professionals from the private sector. With availability of funds such professionals could be engaged for instance to carry out surveys or experiments or train in-

management. Lack of all these denies Kenya flow of spillovers which are necessary for industrial development. To some extent this has an effect to the weak co-operation between KIRDI and the industrialist as they think KIRDI has little to offer.

For its development expenditure, KIRDI relied mainly on foreign donors which was no longer enough or assured. When the government adopted strict fiscal control, especially with SAPs, the implication was that institutions relying on treasury for grants were forced to reduce their operations drastically. To overcome this problem of funds KIRDI established a National Industrial Research Programme (NIRP) which would draw funds from government, private sector and donors. NIRP would play a more active role for technology development, identify constraints to linkage formation and information flow and maintain a database for industrial technologies. The body would also actively play the matchmaking role to identify and connect for instance SMEs to MNC firms for technical assistance etc. However, to-date KIRDI has not been able to create a technologically vibrant culture. It has for instance significantly failed to trigger technology and innovation interests in most large firms including MNCs in the manufacturing sector. This problem is compounded by the fact that there is little attempt from the government to link and co-ordinate the research institutions in the country. Lack of such intermediation reduces spillovers in an industry and thus learning and capability building.

2.1.8 The Post ISI Initiatives towards industrialization

In the midst of all these problems the government launched new effort towards industrialization with an objective to transform Kenyan economy into a newly

industrialized country by the year 2020. In the wake of multiparty system in Kenya, a new political dispensation emerged in 2002 and which supports the industrialization process by entrenching the same industrialization objective. Two main strategies are being considered: Firstly, to consider industry as the leading sector in economic development and second, to earmark specific industries for government support. The proposed Industrialization strategy outlines some of the measures to be implemented, to industrialize over a two-stage period. In the first phase, the government will selectively encourage labour-intensive, resource-based and light manufacturing industries, where the country enjoys comparative advantage. In the second phase, the policy will target intermediate and capital goods industries that are more technology and capital intensive but that must await the removal of infrastructure, technology, and human capital and savings constraints. The policy framework for industrialization, therefore seeks to provide incentives, improve technological capabilities and provide an appropriate institutional framework that will ensure an industrialization process led by the private sector[88].

The effort to industrialize the country by 2020 would be pursued alongside industrial policies articulated in the Kenyan Vision 2030. This is the most recent thinking on Kenya's industrial policy. Kenyan Vision 2030 is an economic development plan aimed at accelerating the rate of economic growth. If the vision is realized, Kenya will become a newly industrialized, middle income country by 2030. The vision is skillfully designed taking lessons from developed and advanced developing countries that have their economies highly industrialized. Manufacturing is one of the components of the overall

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[88] Kenya's Vision 2030:2008-2012 medium term plan

Vision. According to the Vision, the Government should strive to transform Kenya into the provider of choice for basic manufactured goods in eastern and central Africa through improved competitiveness in manufacturing. Priorities were identified accordingly for a first Medium Term Plan covering the 2008-2012 period. The plan was produced through wide stakeholder participation involving the government, the private sector, civil society and development partners. It sets the objective of achieving economic growth of 10 per cent by 2012 and details policy and sectoral priorities to support that objective. The Vision and its first implementation plan build on existing instruments but combine an export-led orientation with objectives for import substitution (Box 1). Moreover, emphasis is given to utilizing more fully the potential of Eastern and Central African regional markets. These objectives should be achieved through improved efficiency and competitiveness at firm level. The government will invest in training, research and development.

Box 1: Kenya's Vision 2030, 2008-2012 Medium Term Plan: Manufacturing

The goal for 2012 is to increase the industrial contribution to GDP by at least 10 per cent annually. To achieve this objective, the Plan identifies the following general and specific priorities:

- Support manufacturing firms that were adversely affected by the post-election crisis of 2008 as a matter of emergency;
- Promote small-scale firms and regularise informal SMEs, assisting them in securing property rights, licences, tax and labour law compliance etc.
- Produce consumer goods to compete with imports in key local industries (without resorting to import restrictions), and raise market share in the regional market from 7 per cent to 15 per cent.
- Increase the generation and utilisation of R&D
- Attract large strategic investors, restructure industries that use local raw materials but lack a competitive edge (for instance sugar and paper manufacturing) and exploit opportunities in adding value to imports for re-exporting (e.g. in metals and plastics).
- Increase value addition for niche exports by additional processing of local agricultural products.
- Work towards the establishment of at least two "Special Economic Clusters", that is, industries located together to gain from economies of scale. Pilot sectors will concern the blending and packaging of fertilisers, teas and coffees and processing of meat and fish (Mombasa), and the cement, chemicals and metal industries and horticultural processing (Kisumu);
- The creation of at least five SME parks in agro-processing industries).

In addition to Vision 2030, other policies have a direct bearing on Kenya's industrial efforts. These include the Support for the Development of Micro- and Small Industries Micro Enterprise Support Project, the Private Sector Development Strategy (2006-12) and the Master Plan for Kenya's Industrial Development. A National Industrial Policy is being prepared.

2.2 Conclusion

A key question for Kenyan policy makers is ‘why has substantive industrial policy reform in Kenya produced to date a limited response in terms of the growth and diversification of exports?’ This chapter has concentrated on a number of issues relevant to answering this question and to the formulation and implementation of future policy; the issue of export market access, possible further trade policy reform and complementary measures to support industrial policy reform. All are shown to be necessary, but probably not sufficient to turn Kenya into a competitive, export-oriented economy. The chapter has also discussed the roles that institutions that were established by the government to bolster industrialization. Some their success stories are succinctly discussed.

The next chapters assess fully the implementation of ELI in Kenya. Different reviews are analyzed as well as literature on various actors and main institutions involved in the ELI strategy.

CHAPTER THREE: EXPORT-LED INDUSTRIALIZATION: KENYA SITUATION REVIEW.

3.0 Introduction

The role of exports in economic development has been widely acknowledged. Ideally, export activities stimulate growth in a number of ways including production and demand linkages, economies of scale due to larger international markets, increased efficiency, adoption of superior technologies embodied in foreign-produced capital goods, learning effects and improvement of human resources, increased productivity through specialization[89]and creation of employment. The National Development Plan for the period 1989 also reports on the impact of I.S.I. It notes that the industrial and commercial sectors combined witnessed fast growth with their share of overall GDP increasing from 8 per cent in 1963 to over 26 per cent in 1987. It attributes this performance to the industrial strategy of import substitution propped up by high protective tariff walls and administrative controls.[90] However, it proposes an export promotion strategy of consumer and intermediate goods while at the same time laying the base for eventual production of capital goods, as the new approach in strategy for industrialization. It outlines several principles to guide this strategy: Improved information to the public about the strategy; enabling environment that is, conducive climate for both domestic and foreign private

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[89] Basu, A; Calamitsis E.A. and Ghura D., Promoting growth in sub-Saharan Africa: learning what works. *Economic Issues No.23.*Washington, DC: IMF. 2000 P.23 See also Fosu, A. F., Export composition and the impact of exports on economic growth of developing economies. *Economic Letters* 34, 1990. pp.67-71 See also Santos-Paulino, A.U., Trade liberalization and export performance in selected developing countries. Kent: Department of Economics, Keynes College, University of Kent 2000 p.34 See also Giles, J. A. and L. C. Williams., Export-led growth: a survey of the empirical literature and some no causality results: Part 1". Econometrics Working Paper, EWP0001.2000. p.45

[90]Republic of Kenya: National Development Plan for the Period 1989-1993. p. 139.

investment; profit maximization through reduction of risks, technological Development through industrial research and the development of indigenous talent through acquisition, adoption and assimilation of foreign technologies.[91]

One of the key facilities investigated in this research undertaking was to examine the implementation of the "Manufacturing under –Bond initiative", which this plan epitomizes as the backbone of the export strategy. This is the programme designed to offer exporters potential for simplifying the steps that must be followed in obtaining imported inputs and moving products to export markets. The scheme is supposed to allow imported inputs free of duty and local purchases free of sales taxes provided the eligible production facility is licensed entirely for export production.[92] . An evaluative investigation of this policy would be carried out in this study.

The National Development Plan for the period 1994 to 1996 cites several weaknesses of the I.S. strategy: it turned out to be inefficient and operated at high costs with less incentives to concentrate on reducing and improving the quality of both consumption and intermediate goods; protection; reduced competition to the domestic industries and hence made them act as monopolies, raising prices to the consumers; industries found it more profitable to produce for highly protected domestic market than for export hence resulting in an "anti-export bias"; and, the overvalued currency made the cost of imported capital and intermediate goods relatively cheap. This, the plan indicates, had the effect of encouraging the installation of huge production capacities which could not be justified

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[91] Ibid (pp. 144-146)
[92] Ibid (p. 154)

economically. [93] It calls for Export promotion and proposes structural reform to the principles guiding this exercise. The Immigration Department will issue work permits to EPZ firms automatically upon confirmation from the EPZA, while permit fees for EPZ workers will also be waived. The duty remission/VAT exemption will continue to be implemented, the bonded factory license fees will be reduced at par with other trade license fees; there will be coordination of export promotion institutions or programmes; quality investment and trade information services would be offered; and reform of laws governing the production of Agricultural raw-materials and their processing.[94] It also observes that most raw materials for industries are imported (over 95% for pharmaceutical industry and most raw materials for soaps, perfumes and cosmetics, despite good potential for their local production). The study will investigate the performance of policy reform on export promotion and import restriction.

The Sessional Paper No. 2 of 1997 on industrial transformation to the year 2020 gives general foundations to the cause of industrialization for the country. It calls for: political and social stability; Macro-economic policy framework to build business confidence and enable exporters to compete with foreign competitors in world markets on an equal footing; increased primary production and value addition as a base for economic growth; development of human resources; the formation of a strong and sustainable industrial base; revitalizing and expanding sectors and enterprises in which Kenya already has experience and comparative advantage; and a public policy framework for industrialization guided by mobilization of savings, industrial investment financing, investment promotion, vibrant

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[93] The National Development Plan for the period 1994 to 1996 (p. 148)
[94] Ibid pp. (155-163)

technology policies, standardization policies and regional and international trade pacts.[95] The National Development plan for the period 1997 to 2001 which covers the first phase on the above sessional paper places emphasis on the expansion and modernization of existing industries and on the attraction of new investment in light manufacturing and resource based industries. The strategy would focus on these activities because they are well suited to the level of technology and human skills currently available in Kenya.[96]

The shift to export – oriented industrialization was meant to make developing countries' industrial sectors more dynamic and competitive. Both private and public sectors undertook to boost export – oriented manufacturing, a trend that was viewed as the pathway to industrialization, and ultimately, development. Experiences from developed countries and the newly industrializing countries (NICs) indicate that the state has been generally a key player in the export – led industrialization especially through provision of incentives to investors. Governments support export- led industrialization through strategies such as imposition of export quotas, export subsidization, reduction of tariff on export products and on imported inputs for use in the export – oriented manufacture, direct financial support and credit facilities, provision of infrastructural facilities and maintenance. Many governments notably in the NICs have used export processing as a way of enhancing development through export manufacture."[97]

While practical evidence in support of export-led growth (ELG) may not be universal, rapid export growth has been an important feature of East Asia's remarkable record of high

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[95]The Sessional Paper No. 2 on Industrial Transformation to the year 2020 (pp. 23-62)
[96] National Development Plan for the period 1997-2001. p.13)
[97] Chabari Njue., The Role of Export Processing Zones In Kenya: An Assessment .Thesis submitted in the Department of Government University Of Nairobi. 2000. P.2

and sustained growth. In particular, the wave of growth in the four tigers (Hong Kong, South Korea, Singapore and Taiwan) and the Newly Industrialized Countries (such as Malaysia, Indonesia and Thailand) has been used to support the argument that carefully managed openness to trade through an ELG is a mechanism for achieving rapid growth[98]. The experiences of these countries have provided impetus to the neoclassical economists' view that ELG strategy can lead to growth.

The supportive evidence in favour of ELG and global trend towards trade liberalization appears to have influenced Kenya to adopt an export-led growth strategy. ELG is envisaged in Kenya's Poverty Reduction Strategy Paper (PRSP) as the strategy towards being industrialized[99]. In this era of trade liberalization and globalization, the importance of exports cannot be over-emphasized.

3.1 Export –led Strategy

In the early 1980s, partly due to the increasing pressure for structural adjustment reforms, the government began to demonstrate commitment to a liberalization policy, a major component of which was a shift from import-substitution to export-promotion strategy. The major turning point in policy was in the form of *Sessional Paper No.1 of 1986 on Economic Management for Renewed Growth* in which the government committed itself to liberalize the economy and adopt an outward-looking development strategy. By this time, Kenyan exports had deteriorated tremendously. Merchandise export earnings as a percentage of GDP had for example declined from 19.6% in the 1970s to 16.97% over

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[98]Giles, J. A. and L. C. Williams 2000. Export-led growth: a survey of the empirical literature and some no causality results: Part 1. Econometrics Working Paper, EWP0001. 2000 p.45.

[99] Government of Kenya (GoK), Poverty Reduction Strategy Paper for the period 2001-2004. Nairobi: Ministry of Finance and Planning. 2001. p. 30.

1980-84 and to 13.6% over 1985-89[100]. Besides the export compensation scheme established in 1976, a number of export promotion programmes were initiated. These included:

3.1.1 Manufacturing under Bond

The Manufacturing under Bond (MUB) programme was began in 1986 to encourage investors to produce for export. The incentives given to investors under this programme include duty and value added tax (VAT) exemption on imported plant, machinery, equipment, raw materials and intermediate inputs. It also gives an investment allowance of 100% on immovable fixed assets. When import licenses and other approvals were applicable, investors under the MUB programme enjoyed priority location. The Investment Promotion Center Processes investment projects under this programme.

Under MUB, investors are allowed to import equipment duty- free, with customs officials ensuring their storage and use, releasing them as needed. Bonded factory facilities are granted to large companies, those exporting 80% or more of their products.

Investors under this programme may dispose some of their products in the domestic market subject to the approval of the commissioner of customs and Excise, payment of normal duties and taxes and a 2.5 % surcharge. Investments under this programme exist in Nairobi, Mombasa , Kisumu, Thika , Eldoret, Nakuru and Nyeri. Most investors under the programme are in the garment business, producing for export into the U.S. and European

[100] Glenday, G., and D. Ndii (2000). Export platforms in Kenya. African Economic Policy Discussion Paper Number 43. 2000 (p.32)

Union markets. Up to 1995, about 40 investors had their projects approved under the programme. The performance of the programme was affected after 1995 by problems in the US market where most of the products were destined.

3.2 The Liberalization Period (1990s)

Industrialization during this period can be linked to trade liberalization which started with a conversion of quantitative restrictions to tariffs equivalent. The government embarked on phased tariff reductions and rationalization of the tariff bands in 1982. By 1991, quantitative restrictions affected only 5% of imports compared with 12% in 1987[101]. Over the 1987-92 periods, the number of tariff categories and maximum tariff rates were reduced from 25 to 11 and 170% to 70% respectively[102]. By 1997/98, the simple average tariff rate had been reduced to 16.2% and the trade weighted tariff rate to 12.8%, down from 25.6%[103]. The number of tariff bands (including duty free) was reduced from 15 in 1990/91 to four (4) in 1997/98 and the top regular tariff rate from 100% to 25% over the same period[104]. That notwithstanding, the most significant shift in trade policy regime came in May 1993 with the abolition of trade licensing requirements and more importantly, foreign exchange controls[105]. Foreign exchange retention schemes for

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[101] Swamy, G., Kenya: Patchy, intermittent commitment. In Husain, I and R. Faruqee (eds). Adjustment in Africa: lessons from country case studies. Washington, D.C: World Bank. 1994. p. 45.

[102] Mwega, F.M., Promotion of non-traditional exports in Kenya: 1980-1996. In Helleiner, G.K (Ed). Non-traditional export promotion in Africa: experience and issues. New York: Pal grave. 2002.p.54.

[103] Glenday and Ndii, 2000. op cit

[104] Maureen Were, Njuguna S. Ndung'u, Alemayehu Geda , Stephen N. Karingi.,Analysis of Kenya's Export Performance: An Empirical Evaluation. Kenya Institute for Public Policy Research and Analysis. KIPPRA Discussion Paper No. 22. 2002. p. 13.

[105] Ndung'u, N. S. and R. W. Ngugi., Adjustment and liberalization in Kenya: the financial and foreign exchange markets. *Journal of International Development* II, 1999. Pp.465-491. See also Were, M; A. Geda; S.N. Karingi; and N.S. Ndung'u., Kenya's exchange rate movement in a liberalized environment: an empirical analysis. KIPPRA Discussion Paper No. 10. Nairobi: Kenya Institute for Public Policy Research and Analysis. 2001.p.32.

exporters were introduced at a rate of 50% and later increased to 100% in February 1994[106]. Over the 1993-94 period, all current account and virtually all capital account restrictions were lifted. The response on the imports and exports was immense but the export response seems to have been combined with a price effect due to a steep devaluation of the Kenya shilling in 1993. In totality, the effect seemed to raise export earnings because export earnings rose dramatically in the early 1990s from 13% of GDP in 1992 to over 20% between 1993 and 1996[107]. The recovery in manufacturing exports in particular was mainly because of macroeconomic reforms, trade liberalization measures and regional integration. Liberalization measures were also extended to the agricultural sector. In the coffee sub-sector for instance, processing, delivery to millers and milling were liberalized and government controls on the Coffee Board of Kenya (CBK) withdrawn[108]. The tea sub-sector, which was subject to government controls implemented by Kenya Tea Development Authority (KTDA), was also liberalized and the role of KTDA redefined.

Regional trade integration measures under the East African Cooperation and the wider Common Market for Eastern and Southern Africa (COMESA) also accounted for the dominant share of the increase in Kenya's exports, particularly in manufactured exports. The economic recovery and trade liberalization initiatives in the region, particularly in Uganda, have provided an impetus for overall increase in import demand. Recorded exports to COMESA increased from an average of 15% for the period 1990-1992 to 34%

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[106] Mwega, F.M., Promotion of non-traditional exports in Kenya: 1980-1996. In Helleiner, G.K (Ed). Non-traditional export promotion in Africa: experience and issues. New York: Palgrave. 2002.p.42.
[107] Maureen Were, Njuguna S. Ndung'u, Alemayehu Geda , Stephen N. Karingi *2000. op cit.*
[108] Nyangito, H. O., Delivery of services to smallholder coffee farmers and impacts on production under liberalization. KIPPRA Discussion Paper No. 4. Nairobi: Kenya Institute for Public Policy Research and Analysis. 2000.p. 16.

in 1996-98[109]. On the other hand, Kenyan exports to European Union (EU) showed a downward trend in the late 1990s, and especially from 1997. Exports to the EU have mainly been agricultural products—tea, coffee and horticultural products. The impact of export incentive schemes especially MUB and EPZs designed to target dedicated export processing for overseas' markets has not been significant[110]. Unlike in the fast growing Asian countries, Kenya has not been successful in gaining competitiveness in labour-intensive export processing. Some of the incentives such as exemption from foreign exchange controls were overtaken by the liberalization of the foreign exchange market in 1993. Other incentives have also been eroded over time. As tariff rates have declined

over time, the net subsidy provided by the export promotion schemes have also declined. Other subsidies like the import duty and VAT rebates by EPPO have been marred by delays and therefore eroded their incentive value. Other indirect additional costs associated with restriction of choice of location, bureaucracy and risk of excess capacity have tended to discourage entry into the EPZs. Most of the parks have remained undeveloped and under-utilized.

3.3 Structure and Composition of Exports

Kenya's export market is mainly concentrated on primary products. The agricultural sector contributes about 25% of Kenya's GDP and accounts for 65% of total export earnings. Tea, horticulture, coffee, pyrethrum, sisal, fishery, and leather products are the country's major agricultural exports. The focus of Kenya's exports on unprocessed primary products

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[109] Glenday, G., and D. Ndii., Export platforms in Kenya. African Economic Policy Discussion Paper Number 43. 2000 p. 23.
[110] Ibid.

is mainly due to low levels of education among population and availability of abundant natural resources.

Kenya, a late starter in embracing industrialization, depends largely upon the export sector as envisioned by the Kenyan Finance and Planning Ministry[111]. The African region, especially Common Market for Eastern and Southern African States (COMESA), is the major market for Kenya's exports, followed by the European Union. The African Growth and Opportunity Act 2000 (AGOA) provides incentives for African countries to foster barrier free exports and to build free markets. Regional blocks such as COMESA,

SADC, ECOWAS, and the respective Central and West African (CFA) franc zones are also key factors to promote export via reduced intra-regional barriers. Through AGOA, Kenya's Export Promoting Zones (EPZs)[112] also expanded largely with duty and quota free access for exports to capture a larger market. This creates employment opportunities and cultivates development of other sectors in the economy. The five major destinations of exports by country in 2004 include: Uganda (17.29%), U.K. (10.45%), Tanzania (8.36%), Netherlands (7.97%) and Pakistan[113] (5.30%).

To diversify the exports, Kenyan National Export Strategy (NES) has identified six out of 14 sectors to focus namely: horticulture (flowers, fruits and vegetables) and other agricultural areas, textiles and clothing, commercial crafts and SMEs, fish and livestock products, other manufacturing, and services other than tourism[114]. Despite the initiative

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[111]Government of Kenya., Poverty Reduction Strategy Paper for the Period 2001-2004, Vol. I & II, Ministry of Finance and Planning, Nairobi, Kenya. 2001 p. 35.
[112] The main objective of EPZs is to promote the export-oriented firms by providing incentives such as import duty exemption for inputs, income tax break etc.
[113]Pakistan is a major tea importer from Kenya.
[114]Export Promotion Council of Kenyahttp://www.epckenya.org. accessed on 26th august 2009

towards diversification, Kenya's exports predominantly depend upon primary agricultural products[115]. Wood and Mayer[116] in their UNCTAD study contend that the best short run development strategy for African countries is to increase the level of primary exports (processed and unprocessed) followed by a long-term development goal.

Table 1 shows the proportion of Kenyan exports for the period 1997-2001. The value of total exports has been fluctuating over time but averages Kshs. 14 billon for the last five years.

Table 3:1 Proportion of exports (%):1997-2001

Item	1997	1998	1999	2000	2001
Tea	16.84	23.78	22.85	29.39	28.41
Tourism	15.92	12.62	14.89	18.04	19.93
Horticulture	9.60	10.77	12.29	17.70	16.39
Petroleum Products	5.00	6.58	6.36	7.85	10.13
Coffee	11.77	9.24	8.34	9.77	6.18
Soda Ash	0.93	0.89	0.91	1.17	1.65
Cement	1.60	1.04	0.87	1.17	0.82
Pyrethrum extract	0.96	0.52	0.46	0.58	0.82
Sisal	0.50	0.50	0.44	0.51	0.60
Fluorspar	0.26	0.15	0.36	0.54	0.54
Hides and Skins	0.12	0.09	0.22	0.41	0.52
All other	35.89	33.21	31.37	12.44	13.51
Total exports	100	100	100	100	100

Source: CBS Economic survey, 2002

[115] Were, M., Ndung'u, N.S., Geda, A., and Karingi, S.N., Analysis of Kenya's Export Performance: An Empirical Evaluation, *Kipra Discussion Paper No. 22*, Nov. 2002 Kenya Institute for Public Policy Research and Analysis, Nairobi, Kenya. 2002 p.22.
[116] Wood, A., and Mayer, J. "African Development in a Comparative Perspective," UNCTAD Series, Study No. 4. 1998.p.32.

3.4 State Organizations Involved in Export Promotion

There are three public sector agencies whose main responsibilities are to promote exports and investment in Kenya; Investment Promotion Centre (IPC), Export Promotion Council (EPC) and the Export Processing Zones Authority (EPZA).

3.4.1 Investment Promotion Centre (IPC)

The Investment Promotion Centre (IPC) is a statutory body established in 1986 to promote private investments in all sectors of the economy and especially in agriculture, tourism and horticulture. The IPC is managed by a board of directors drawn from both the public and private sectors and is headed by an executive chairman. The Centre approves investment projects and assists investors in the acquisition of necessary permits and licenses by liaising with the authorities concerned. It also provides information services on investment policy, regulations and opportunities in Kenya. It is entrusted with the task of promoting investment activities both locally and internationally. Once it gives an approval to an investor, it issues a General Authority Certificate which enables the applicant to implement one's project for up to six months.

The performance of the IPC has been limited by inadequate funds and incompetent personnel to carry out promotional activities. A proposal to strategically establish offices abroad in order to facilitate dissemination of information on the investment opportunities available in Kenya has been an early casualty of this lack of funds. The recruitment of personnel is highly influenced by political considerations as has been the case with many government bodies in the country leading to the hiring of incompetent people to perform jobs within IPC to the detriment of the organization.

3.4.2 Export Promotion Council (EPC)

The Export Promotion Council (EPC) was established in 1992 with the primary objective of assisting exporters and producers of export goods and services to overcome difficulties and to help increase the level of performance for the export sector. It was expected that the EPC would harmonize the efforts between the public and the private sectors in promotion traditional exports such as tourism, coffee and tea as well as non –traditional but competitive products such as manufactured and horticultural products. Members of the council are drawn from both the public and private sectors.

3.4.3 Export Promotion Programmes Office (EPPO)

The Export Promotion Programmes Office (EPPO) was also set up in 1992. It was largely an initiative of the World Bank whose objective was to enable the government generate foreign exchange. The programme was initially under the Ministry of Finance but was later transferred to the Kenya Revenue Authority in August 1998. It provides for duty and VAT waivers on imported materials used by manufacturers producing for export or those serving such manufacturers. The facility is also open to Kenyan companies producing goods that can be imported duty – free, or goods supplied to the Kenyan armed forces or on approved aid –funded projects, to import raw material duty and VAT – free for such production.

While a substantial number of large manufacturers have benefited from this facility, small and medium domestic firms have not benefited significantly mainly due to ignorance. For the time that the facility was under the Ministry of Finance, not much was done to

publicize it among the manufacturers. The programme was also prone to abuse by its administrators, allowing import of taxable raw materials duty- free. Investors under other programme like the EPZs have opposed the establishment of EPPO, arguing that it renders irrelevant the incentives given under the EPZs programme.

3.5 The Role of the Kenya Government in Export Promotion

The Government of Kenya expresses recognition of the fact that the overall national economic development and industrial growth in particular will depend largely on the country's ability to expand its capacity to export goods and services. The trading environment has changed considerably in the recent past with liberalization in the neighboring countries. The government recognizes that there is an urgent need to ensure that the country's competitiveness for outward investors measures up to the international standards, and that it requires aggressive promotion of the available investment opportunities and an enabling investment in terms of efficient service provision, good infrastructure, less red tape in the bureaucracy and a conducive macro economic and political environment.

The incentives given to both domestic and foreign investors under various programmes shows the commitment the Kenyan government in stimulating export manufacture in the country. Although both financial and administrative support has been given to the export-oriented programmes, their performance has been below expectation. Financial constraints and social vices such as corruption amongst officials entrusted with the operations of the programme has contributed to this poor performance.

Having realized the limitations of the ISI- based industrial strategy adopted at the independence , the government of Kenya emphasized the establishment of export –oriented industries in the 1980s. Programmes geared towards the realization of this goal were put in place but their effective operationalization has been limited by inadequate funding as well as the inefficiency of the officials entrusted with the programmes.

Corrupt officials have abused the incentives given under the various programmes to benefit themselves at the expense of the entire country.

3.6 Foreign Investment, Multi-national Firms and Kenya's industrialization

Industrialization through import substitution means, local production of formerly imported goods, partly transnational, branded and standardized products. It is no wonder then, that foreign investment and multinational firms are heavily engaged in Kenya's industrial development. Since independence the Kenya Government has followed a generous open-door policy to foreign firms, providing very favorable terms. From 1966 onwards international capital poured into Kenya. Although fluctuating from year to year, it nevertheless represents a significant proportion of total investment- in some years as much as 20% of the capital formation by enterprises and non-profit institutions.

International capital has become dominant particularly in large- scale manufacturing. According to the 1987 Census of Industrial Production, predominantly or totally foreign-owned firms contributed 71 per cent of total value-added in Kenya's manufacturing sector.

Langdon[117], who surveyed 81 subsidiaries in 1972/73, valued the book value of direct foreign Investment in Kenya *at* K£ 130 million in 1971/72, representing about 21 per cent of GNP. Langdon also confirms the I.L.O. 1972 report finding that foreign capital was involved in about 60 per cent of manufacturing investment.[118]

A recent study undertaken by CBS on the ownership of all large-scale manufacturing (and all tourist firms) shows that between 1990 and 1996 foreign Investment has remained important. However, some significant changes have occurred during this period. The share of total issued capital, owned by foreign firms, declined from 59.3% in 1990 to 42% in 1996. This is a reflection of a selling-off of a minority stake of shareholdings to local firms, the growth of small indigenous -owned enterprises and the increasing role of parastatals in joint ventures with foreign capital. Furthermore, there has been a shift of foreign investment, concentrated in the food, beverages, chemical and rubber sectors, to the textile, leather, paper and printing sectors. However it can be noted that these developments have not really challenged the control that multinational corporations (MNCs) have over a substantial part of Kenya's manufacturing sector.

In Kenya, MNC's are involved in a wide range of products, such as food processing, beverage and tobacco, petroleum refining and basic industrial chemicals, soap, paint, pharmaceuticals and other chemical production, rubber products, cement and metal

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[117] Langdon, S., The Multinational Corporation in the Kenya Political! Economy, in: Kapinsky. Readings on the Multinational Corporation in Kenya, Oxford University Press, Nairobi. 1978 p.56.

[118] I.L.O., Employment, Incomes and Equality. A strategy for increasing Productive Employment in Kenya, Geneva. 1972 .p.442.

products. Evidently, the bulk of MNC's manufacturing activities is oriented towards consumer goods for *local* market rather than production for export markets.

Generally speaking, MNC's try to maximize accumulation of capital and profits at a global level. Their operation may diverge from the needs of national society and may also contradict national government policy goals. One of the implications of a large proportion of foreign investments in total Kenyan investment has been a large out flow of profit and dividends. UNCTAD estimates show that in Kenya during 1964-70, inflow of new private long term capital almost equaled net outflow of investment income.

As Stewart[119] points out, this situation illustrates;

> One of the dilemma facing an economy pursuing a strategy of encouraging-foreign Investment from abroad. Once foreign assets form a sizeable proportion of the total stock, the potential dividend outflow also forms a sizeable proportion. Hence a high rate of growth; of foreign Investment must be maintained to offset the potential outflow. The maintenance of such a rate of growth leads to further potential dividend outflow and hence the need further to encourage foreign inflow.

The merits and demerits of foreign investment can be assessed in terms of the impact on several key economic factors: choice of production techniques, type of products, use and creation of employment, reinvestment of surpluses and profits, use of imported inputs and forward- and backward linkages within the host economy. In Kenya relatively, findings tend to suggest that the ultimate impact on the overall Kenyan economy is unfavorable.

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[119]Stewart F., Kenya Strategies for Development, In Damachi, G., Development Paths of Africa and China. Macmillan Press, London. 1976. p.32.

Kaplinsky[120] notes that the power of the MNC's arises largely from their control over technology. A survey of several British MNC's in Kenya reveal that "parent corporations are anxious to control the generation of a new technology in their subsidiaries and that, particularly in the consumer and intermediate goods sectors, the subsidiaries are largely dependent upon parent companies for the generation (and choice) of new technology.[121]"However this does not necessarily mean that MNC's are using capital intensive techniques.

It appears that MNC's are not much affected by market price competition due to the high levels of protection. In fact one of the main reasons making foreign firms eager to invest in developing countries including Kenya, is that they can exploit the existing imperfections in the factor and product market giving them a monopolistic advantage. This allows for high levels of surplus appropriation, including high profits while operating below maximum capacity utilization. Hopcraft[122], among others, has set out the negative results of a heavily protected economy. Import bans or controls lead to distortions in the price structure, by increasing the domestic price of non-essential products (formerly imported.) "The problem comes not with luxury items per se but with irrational distortions that bias incentives toward inward-looking luxury goods production. The bias is simultaneously toward import-intensive, capital-intensive lines and away from internationally efficient, exportable lines.[123]" MNC's also tend to add little value-added while producing in Kenya. Both Langdon and Kaplinsky found evidence that MNC subsidiaries, operating in Kenya,

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[120] Kaplinsky, R., Readings on the Multinational Corporation in Kenya. Oxford University Press, Nairobi. 1978 p.45.
[121] Ibid p. 11.
[122]Hopcraft, P., Toward a Protectionist Economy. Working Paper. No.29. Institute for Development Studies, University of Nairobi. 1972.p.15.
[123] Ibid p 6.

mainly assemble, mix and package imported inputs. Thus most value-added has already been realized abroad in parent firms.

Altogether, it seems unlikely that multinational corporations contributing to the process of genuine industrial development but as Kaplinsky[124] remarks:

> It is one thing to highlight the negative characteristics of this foreign investment, but the question remains whether the host state or an indigenous bourgeoisie would have undertaken similar or equivalent investments and, if so, whether the impact of their investment would have been substantially different. The nature of the political formation in Kenya with a passive state, a fleeing Asian industrial bourgeoisie and a slowly emerging African industrial bourgeoisie makes it difficult to envisage industrialization without the extensive and relatively unrestrained participation of direct foreign investment.

Drawing up the balance-sheet, it can be concluded that the strategy employed by the government to attain industrialization did hot lessen Kenya's external dependence but merely changed its nature. Capital and intermediate goods became much more important items on the import list. It is paradoxical that the provision of these goods became vital for the new industrial and that the constraint on their importation (in the case of shortages of foreign exchange to pay for them) caused industrial stagnation.

Import substitution policies tended to discriminate against agriculture. Price and tax policies were designed to transfer a considerable amount of capital out of agriculture to the benefit of the industrial sector. Generated income in the latter was to a limited extent used

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[124] Kaplinsky op. cit p.20.

to create employment since employers in manufacturing, due to relatively cheap capital and other institutional factors favored foreign technologies. This in turn contributed to underutilization of production capacity, inducing high costs of production.

Multinational corporations took advantage of 'distorted' factor markets and the inherent unequal income distribution by providing western-type consumer goods, thus accentuating the skewed pattern of income distribution. They also 'redefine' consumer needs and tastes, often through mass advertising. It is this kind of distortion that made the Kenyan government changes its industrialization strategy to- export-led industrialization.

The next chapter now discusses the research findings on the design and implementation of the ELI in Kenya.

CHAPTER FOUR: IMPACT OF EXPORT-LED INDUSTRIALIZATION ON KENYA'S INDUSTRIAL DEVELOPMENT.

4.0 Introduction

This chapter discusses the findings of the study. The hypotheses outlined in chapter one provide the roadmap through which this chapter is organized. The presentation and analysis are in form of tables, pie charts and thematic format. The use of qualitative data obtained from interviews and own observation are used to give as much insight as possible.

4.1 Export Incentive Schemes and Kenyans Industrialization Process

Having recognized the existence of export barriers companies face, some of which are generic to most exporters while others vary from one company situation to another, the study established that the Kenyan government has designed incentive schemes to help exporters overcome these barriers. A respondent from the Ministry of Industrialization reported that the enclave nature of export facilities is intended to bulwark exporters from the distortions that undermine their international competitiveness, such as high tariffs and unwieldy bureaucracies, so that firms can produce for world markets. During the field survey a respondent said that "We the government realized that in order to improve on export we had to give both local international firms some incentives to enable them compete favorably. To progress this agenda we initiated some form of incentives such as VAT exemptions, export guarantee among others." This view was corroborated by one owner of an export firm in industrial area who said "there is no way Kenya can industrialize without promoting export through value addition. To achieve this, the government has to protect and promote investors. I am happy that the government now is

alive to this fact and it has introduced some incentives for us. For instance the marketing assistance scheme has been of great help to my firm."

Incentive schemes that were cited by respondents can be discussed as follows:

Export Credit and Foreign Investment Insurance: A respondent from the EPC noted that this incentive scheme was introduced to attract foreign direct investment into Kenya with a view of promoting export led industrialization. According to the respondent, this scheme was introduced to buffer investors from risks. Such potential risks accrued from government policies, foreign exchange regulations that restrict conversion, and transfer of hard currencies, confiscation and expropriation of foreign assets, war and civil disturbance occasioned. It is for this reason that Kenya introduced this incentive scheme. According to the chairman of EPC, "the export credit and foreign Investment Insurance scheme is designed to facilitate private sector-led trade flows, investment and productive activities through the provision of insurance, coinsurance and reinsurance, financial instruments and related services."

Africa Trade Insurance agency Chief Executive Officer also had this to say "Kenyan exporters and importers can take advantage of the political and credit insurance provided under the export credit and foreign investment insurance to enhance their creditworthiness with financial institutions. These products can help them increase market share, borrow from banks with the scheme as security and reduce the over-reliance of tangible security when receiving funding from banks. Most importantly, these products help Kenyan exporters compete effectively in the international markets for their

products" this view was corroborated by another respondent who noted that "We now recognize the benefits of using of Export credit investment insurance for both political risk and commercial risk cover as an alternative method of credit enhancing transactions and mitigating risks, thereby facilitating access to finance on more competitive terms and conditions. This includes using the commercial cover policies as alternative security."

On his part, the Chief Executive Officer of EPC said that "We are aware that the concept of an export credit insurance scheme and trade finance is new to a majority of Kenyans. We shall therefore continue to actively work closely to ensure full understanding of the benefits of this incentive scheme and assist exporters in accessing all of the services offered by EPC.

4.1.1 Export Marketing Assistance Scheme:

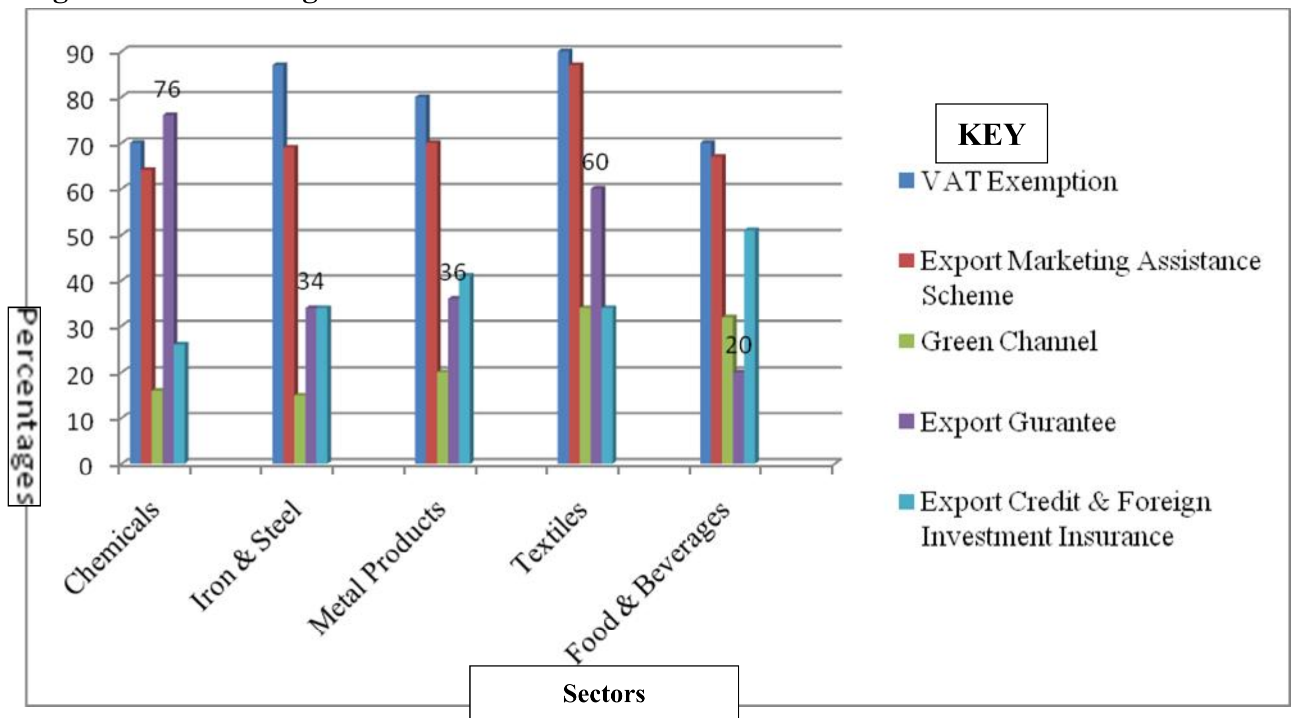
This is incentive scheme that was initiated to help exporters market and promote their products in the international world markets. The aim was to expose export products to a wide range of markets. During field survey, one respondent noted that export marketing assistance scheme assists small scale industries to market their products in the international market and has adopted a single window assistance approach for export of small industries products abroad. According to the respondent the scheme assists small export industries in Kenya in that the products of the small - scale sector are displayed in specified Trade Fairs / Exhibitions at concessional charges. Another respondent noted that through this scheme firms assisted in negotiations with overseas buyers by sending samples and for subsequent correspondence for procuring export orders. Another respondent reported that "through this scheme we are able to expose our products to the world market. This scheme has also

assisted our firm by providing raw materials for production at concessional rates. This has assisted our firms especially when capital for raw materials is limited. Through this incentive scheme one respondent reported that they have been able to showcase their industrial products in ten trade fairs in different parts of the world in the year 2010. According to this respondent, the trade fairs have been useful in terms of exposing products and exposing industries to other products. To underscore the benefit of this scheme to industries, a respondent had this to say: “indeed the trade fairs organized under export marketing assistance scheme has benefited us (industrialists). For instance, in 2010 my firm participated in four trade fairs. This helped my firm expose its products. I am happy to say that our product orders from international clients increased in the year 2010. This good fortune can largely be attributed to this scheme.”

Firms were asked whether they were aware of incentives schemes, and whether they had used them. The study established that opportunities offered by incentives have not been fully exploited by some of the firms even though they are aware of their presence. In the five sectors (chemicals, iron and steel, metal products, textiles and food processing and beverages,) firms responded that they are more aware of the VAT exemption, and the export marketing assistance scheme as shown in figure 1. During the field survey, one respondent said “my firm is aware of the incentive schemes that have been established to assist us exporters. Although they are many, I am aware of only two (VAT exemption and export marketing assistance scheme.) This is due to the fact that these are the schemes that we use as a firm and they have been beneficial to us in terms of increasing our market.” On the contrary, another respondent said that “I am not aware of the schemes that the

government has established to assist exporting firms. We struggle on our own. Even if the schemes are available they only assist big firms.” This disparity in the response can be attributed to the fact that some firms considered for the survey were still new thus they may not have used or benefited from the discussed schemes.

Figure 4.1: Percentages of Selected Firms aware of Incentives

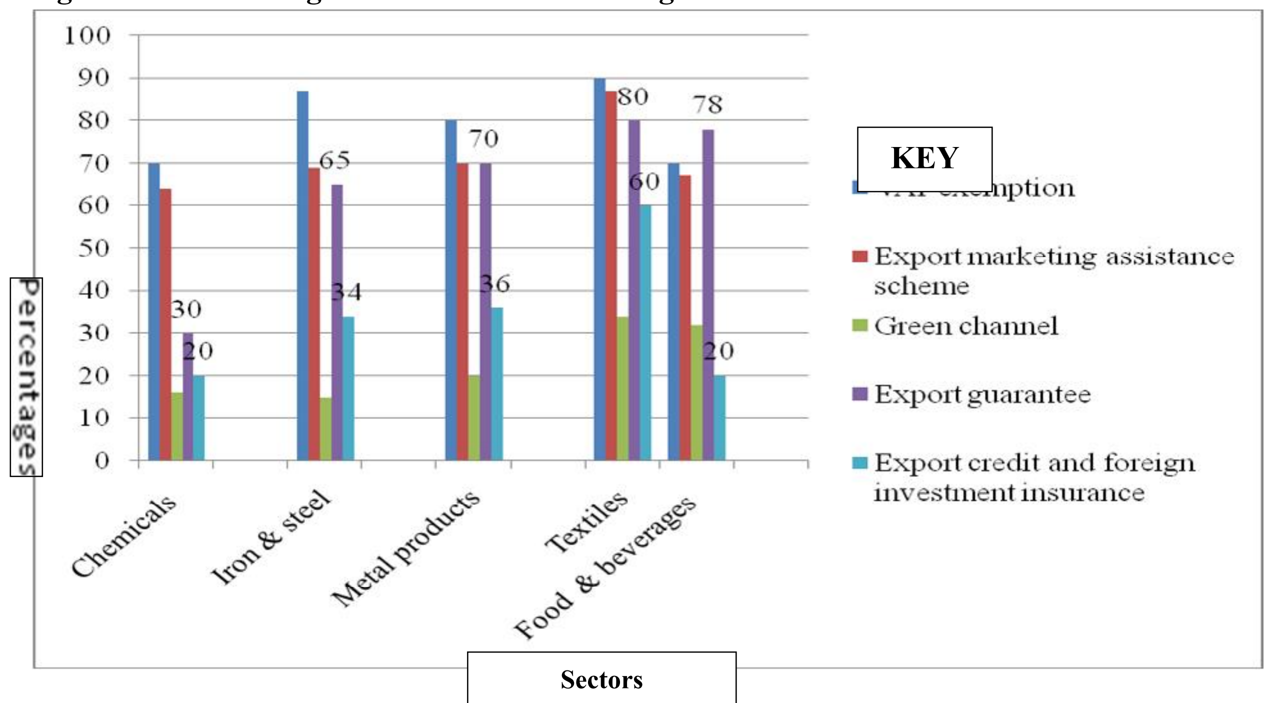


Source: Field Data March 2009

The study found out that the incentive schemes that firms are aware of are the ones that are used most (see figure 4.2). These include VAT exemption, and the export marketing assistance scheme. During the field survey, a respondent had this to say regarding awareness and use of the incentive schemes: “the only incentive schemes that my firm is aware of are the schemes that we use on a daily basis for our exports. These are the VAT exemption scheme and the export marketing assistance scheme. Under latter, our firm has participated in 3 trade fairs organized under this scheme which has enabled our firm

expose its products to the world market." It is noteworthy that the number of firms aware of incentives does not automatically result into those particular firms using the programmes. For example, while 76 percent of firms in the chemicals sector are aware of the export guarantee scheme, only 30 percent responded that they had made use of it. This can be attributed to the fact that these firms do not know the objectives of the schemes and how the schemes are to benefit their respective firms. This view can be corroborated by the views of a respondent from the EPC who said, "We as an organization have noticed that exporting firms are not aware of some of the incentive schemes that the government has established to promote export production. As a result, most firms do not utilize the available opportunities. We are trying to create awareness in order to enhance maximum utilization of the available schemes."

Figure 4.2: Percentages of Selected Firms using Schemes



Source: Field Data March 2009

The three schemes used extensively by manufacturing firms are VAT exemption, the export marketing assistance scheme and export guarantee. Generally the percentage of take- up for most used programmes is quite similar across all sectors. For example, the VAT exemption is used by averagely 79.4 percent of firms, followed by Export marketing assistance scheme at 70 percent and Export guarantee at 64.6 percent across the five sectors. The least used incentive schemes are the Green Channel Scheme (23.4 percent) and the Export Credit and Foreign Investment Insurance (34 percent.) Respondents were also asked to comment on how relevant these schemes are to their businesses. The study found out that the schemes that respondents were not aware of were deemed to be irrelevant to their firm's growth and development. The low level of awareness and use of some of the incentive schemes is also reflected in the low rating given to the importance of the schemes. But, more than half (68 percent) of the firms rated the VAT exemption as essential and 57 percent of firms said it was useful to their business. This rating corresponds well with the take-up of this particular scheme. The manufacturing under bond (MUB) was rated to be essential by approximately 28 percent and useful by 12 percent[125]. The green channel and Life scheme programs are considered least relevant to business. The lower rate of MUB can be attributed to the revocation of Kenya's quotas on some apparel products by the United States and, the appreciation of the exchange rate coupled with a rise in real wage costs. The low rating of MUB can also be attributed to mean that a very limited number of new firms have been established in Kenya. This is based on the fact that MUB was meant to attract and benefit new investments in the economy.

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[125] The result here is likely to be different if the rating was based on the total number of firms in the relevant sector the program is targeted.

A respondent from the Kenya Investment Authority said “government has initiated incentives. These incentives are important to exporters if Kenya is to attain the much coveted industrialization. I am aware that to simplify licensing , 17 trading licenses were removed in the fiscal year 2005/06 and a further 118 licenses were to be eliminated in the fiscal year 2006/07 together with removal of duties on selected imported inputs. “Under the Investment Climate Action Plan-guillotine process, 136 licenses have been eliminated, with 700 under review,” says Bwire. Other regulatory reform initiatives to encourage investment include public sector development strategy, Investment Climate Action Plan, Enactment of Investment Promotion Act 2004, Enactment of Procurement Act 2005.

The result from the firms surveyed, shows a high export orientation. Of the 50 firms in the selected sample, 71 percent of firms export their output to world markets. Although a large proportion of firms trade, the share of output exported is low for most sectors. Within the sample, only 10 percent of the firms export half or more than half of their sales and these are found in the iron and steel, metal products and machinery, and textile components sectors. In an attempt to establish the growth of exports, firms were asked to indicate whether they had any changes in their exports between 2008 and 2010. Based on the annual sales exported between 2008 and 2010, the performance of many firms had improved but remained unsatisfactory. This reflects the low growth of exports within firms.

It was established from the analysis of the study that there is little variation in growth of exports a cross sectoral lines in the level of sales to world markets between the years 2008

and 2010. A larger proportion (70 percent) of firms within the textile and food and beverage sectors experienced same sales between 2008 and 2010. The sales recorded in the textile sector can be attributed to the AGOA[126] initiative that provides trade preference for Quota and duty free entry into the United States.

The low level of export in the five sectors during 2008 – 2010 can also be attributed to the effects of post-election violence that slowed investment and growth in the industrial sectors. The post-election violence impacted on the supply of raw materials thus impacting on the industrial output for export. The low level of export can also be attributed to the fact that some firms have relocated their plants to other regions considered investment friendly. Bidco Oil Refineries Limited is one such company, which has relocated its palm oil production facilities to Uganda. The company's MD Vimal Shah says Kenya continues to be an expensive investment destination owing to a number of factors including transport and logistics problems at the port of Mombasa, a key lifeline for the manufacturing sector in Kenya. That industries can be more comfortable in Uganda which also uses the Mombasa port is a great contradiction, in that Uganda can negotiate better services with the port for its firms than Kenya.

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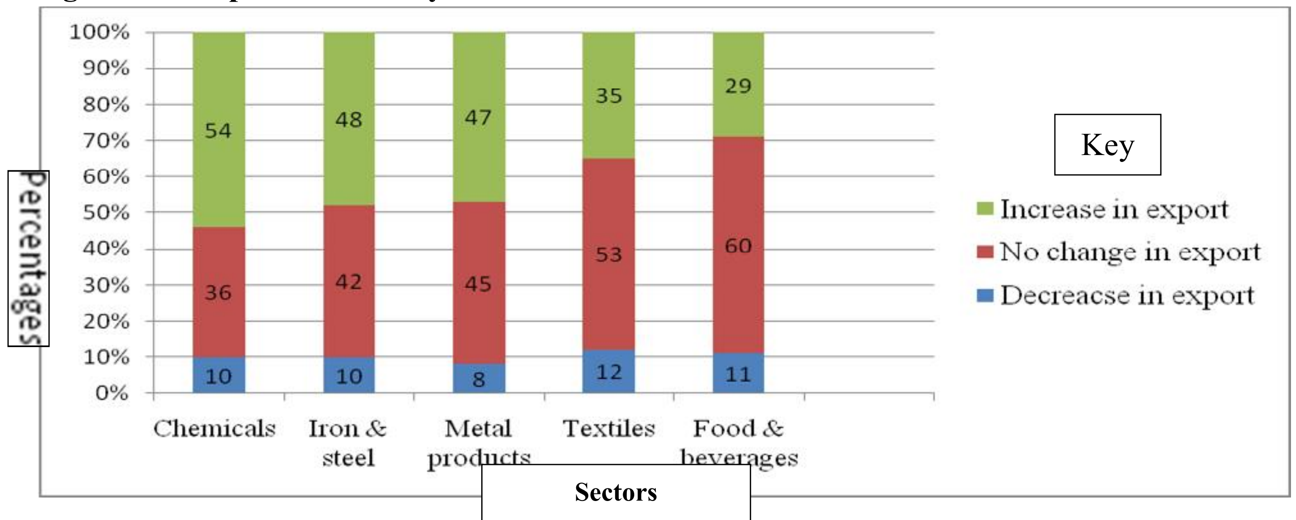
[126] The African Growth and Opportunity Act (AGOA) was signed into law on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. The Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets.

Figure 4.3: Export Growth by Sector March 2009

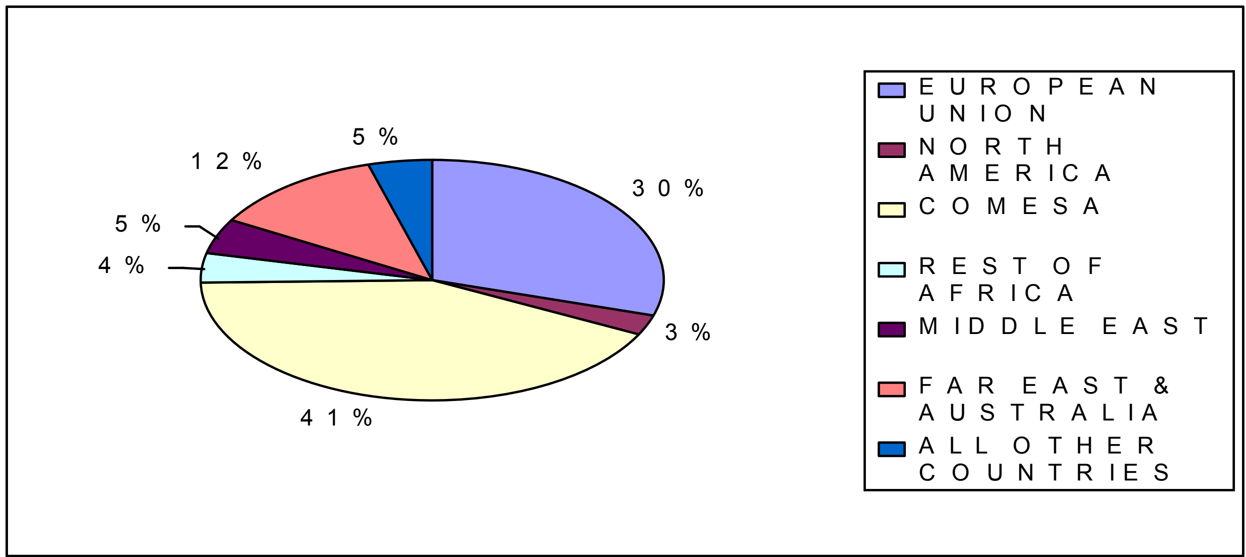


Source: Field Data March 2009

The chemicals sector has the highest number of firms experiencing growth in exports (54 per cent) followed by iron and steel sector (48 per cent) and metal products (47 percent). Within the textiles and food and beverages sectors, half of the firms did have change in the sales and 35 percent (textile) of firms registered an increase in the exports to world markets while food and beverages had 29 percent export to the world market.

In terms of direction and destination of exports, the study through a glean of secondary literature found out that COMESA region is the leading destination for 41 percent of firms exports. The European Union is the second most popular market. Although only 12 percent of firms export to Far East and Australia, the proportion of exports to this destination is 7 percent greater than that going to Middle East with about 5 percent of firms exporting to it.

Figure 4.4: Export by Destination



Source: Field Data September 2010

From the above discussion, it can be deduced that the government of Kenya has initiated several schemes to enhance export in order to influence Kenya's industrialization process. However some firms have not made use of the schemes to enhance their industrial growth. This has been attributed to the lack of knowledge on the existence of these schemes among industrial players.

The limited impact export incentives schemes have had on industrial export can be attributed to weaknesses in implementation and coordination of the promotion schemes.

4.1.2 Relationship between Export Incentive Schemes and Kenyas Industrial Development,

Further to the factor analysis, in order to establish the association between export incentive schemes and Kenya's industrial development, bi-variant Pearson Correlation coefficient was computed and tested at 5 percent significant level. The results as tabulated in Table 4.1 indicate that there is a strong and positive relationship (r= 0.764) between export

incentive schemes and industrialization growth. The relationship was found to be statistically significant at 5 percent level (p=0.000, <0.05, meaning that the sample results happened not by chance but did exist in the population of the study. The effects of export incentive schemes were determined by r^2, which was found to be 59.29 percent, holding other variables constant.

Table 4.1: Correlations between Export Incentive Schemes and Kenya's Industrial Growth

	REGR factor score: Access to finance
REGR factor score: performance of EIs	.764**
Sig. (2-tailed)	

** Correlation is statistically significant at 5 % (two-tailed)

The finding on the relationship between incentive schemes and industrial growth is in tandem with the findings of surveys carried out by other scholars. Indeed during the past three decades, several scholars have arrived at similar findings, including Kinyanjui, Ligulu, and McCormick, (2004) and Omolo (2010).

4.2 Institutional Export Support Networks and Kenya's Industrial development.

In order to enhance diversification of export markets and products and to facilitate identification and removal of obstacles to rapid development of the export sector, the study established that the government has established institutional export support networks that are meant to give impetus to Kenya's industrial development. The institutions[127] are

[127] Given the scope of this study, not all institutions are discussed this section identifies three institution (one every sector) an analysis is done and conclusion drawn with respect on the role of institutional export support networks and Kenya's industrialization.

categorized into research institutions, marketing institutions, and credit facilities institutions. One such institution is the Kenya export Council. The study established that EPC has been pivotal in promoting Kenya's industrial quest. The study established that the activities of EPC have so far focused on consolidation and expansion of market share in traditional markets, diversification to emerging markets and promotion of non-traditional markets including promotion of non-traditional exports in order to diversify and expand the export basket. A respondent from EPC said: "to ensure greater discipline and enforcement of industry codes of practice, we have continued to help set up sector-based trade associations. Some of the trade associations that we have established include: Association of Fish Processors and Exporters of Kenya (AFIPEK) and the Association of Makers and Exporters of Gifts and Allied Article of Kenya (AMEGA)." These associations have continued to help industry players' to access new markets. The export growth recorded by some sectors such as the chemical sector (see figure 4.3) can be attributed to such initiatives such as intensive marketing by EPC.

Asked about the role of the institutional support sector to the growth of firms, one respondent said: "Support networks have been very instrumental to our firm. For instance, EPC has assisted our firm with technical assistance. This has supplemented our efforts in product development and helped us address the quality and packaging of products. This in turn has enhanced the competitive advantages of our products thus the increase in our export products in the recent past. In support of the institutional export support networks, another respondent was of the opinion that the networks have been useful especially the EPC. The respondent observed that through EPC, they have been able to obtain vital

information that has enabled them facilitate trade. This has been made possible through Centre for Business Information in Kenya (CBIK) located at the EPC. Through this centre,a respondent observed that they have been able to get vital information on new markets that has enabled them diversify their manufactured products and explore new markets. Respondents also observed that EPC has identified market opportunities and formulated appropriate market strategies. Techniques employed include contact promotion programmes, market surveys and investigations, trade fairs and exhibitions, buyer-seller meetings and trade missions. A respondent observed that at the beginning of every year, the Council hosts a forum of stakeholders that draws up a national market development programme for the year. This consequently has enhanced marketing thus opening new markets for Kenyan firms. 80 percent of the firms in the survey reported that they have been able to venture into new markets courtesy of EPC. Respondents also observed that through the buyer-seller meetings they have been able to exchange vital views that has enabled them improve on their products. The powerful impact the buyer-seller meetings have had on firms is visible in two testimonies, which were characteristic of the larger group:

> The meetings are good we are able to meet our customers who come from far; we are able to exchange views that help our firms diversify products. This is very important.
>
> The meetings organized by EPC are crucial to us. Through such meetings I was able to get new clients from the Middle East. Now I export my products to this region unlike before. Through these meetings, we have been able to improve on the quality of our products (customer satisfaction) this has made our produce competitive.

Table 4.2: Some of the Institutional[128] Export Support Networks in Kenya

Institution	Function
Kenya Industrial Research and Development Institute	
Export Processing Council	- Research and Policy Facilitation - Export Market Development: - Product Development and Adaptation: - Trade Information Delivery Services:
Kenya Association of Manufacturers	- Carry out research and development for Kenya's industrialization
Investment Promotion Centre	- enhance the investment climate in the country - maintaining a liaison between investors and Ministries, government departments and agencies, institutional lenders and other authorities concerned with investments - assisting investors by providing support services including assistance with permits required for the establishment and operation of enterprises
Kenya Bureau of Standards	- Regulating of standards relating to products (measurements, materials, processes)
Kenya Agricultural Research Institute	- Carry out research in agricultural and vetenery sciences
Industrial development bank	- Provide loan services to industrial firms.

Source: Authors Compilation

One of the institutions that have been instrumental in propelling Kenya's industrialization is the Kenya Industrial Research and Development Institute (KIRDI). The study established that KIRDI has focused on enhancing industrial manufacturing. It has ensured

[128] The institutions are not exhaustive. The study selected only a few basing on their important role in the export-led strategy and Kenya's industrialization process.

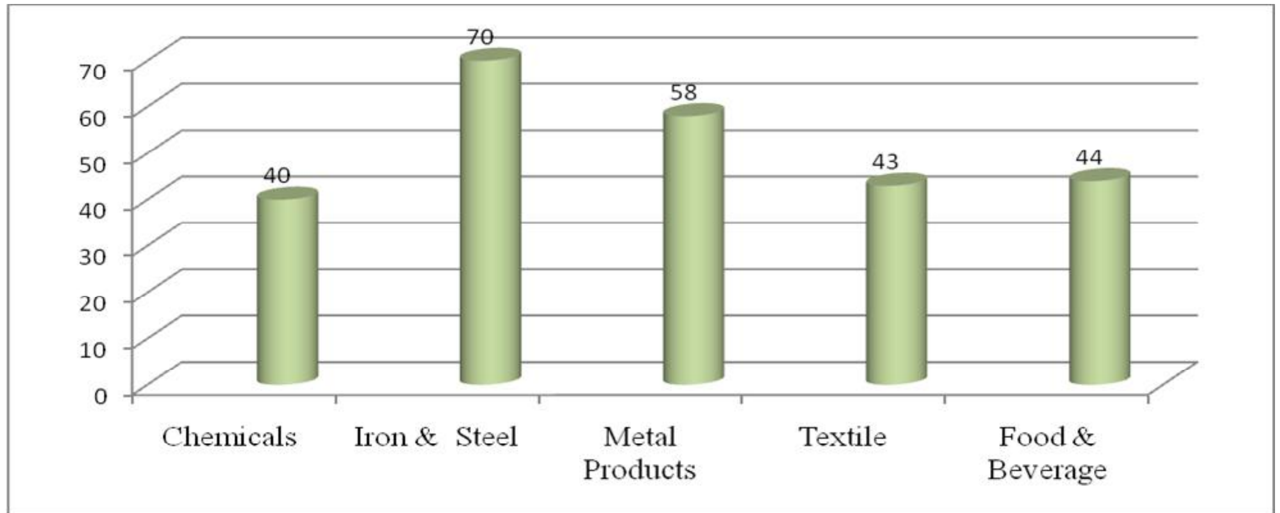
that the process of value addition is driven by the market and through the promotion of new technology and skills through training. This has been established through research and development and through seminars and exchange programmes of players in the industrial sector. The study established that KIRDI is currently in the forefront in developing technologies to support value addition in the sub-sectors such as leather, cotton, fruits and vegetables and natural products. The study found out that KIRDI has introduced the concept of common manufacturing facility as a way of promoting manufacturing based enterprises. As observed by the Director of KIRDI "the concept of common manufacturing facility is very unique and can be a useful tool for the promotion of manufacturing based enterprise. KIRDI will strengthen this concept in order to support SMEs. Ultimately it will contribute significantly to Kenya's industrialization." Through the auspices of KIRDI the study established that 30 technologies in the areas of food, natural products and leather have been established. Currently, KIRDI has business incubation capacity to house 24 enterprises.

One of success stories that came out from the field study is the story of Parma Medical Equipment through the leadership of KIRDI. The study found out that through the business incubation programme Parma Medical Equipment has developed and produced two disinfectants: Microsafe hand gel and Klenfix Alcoholic disinfectant detergent. The products are exported to Uganda, Tanzania and Rwanda. A respondent from Parma LTD reported that their firm lacked space, facilities and prerequisite expertise to embark on the process of manufacturing and it is here that KIRDI came on board and attached a scientist to assist the team. The respondent further remarked that through intensive research work

and consultations a breakthrough in gelling the alcohol based disinfectants a solution was achieved and the team ensured the products met standards set by the World health organization. The respondent observed that they can now produce the products – Microsafe 500ml and 50ml.

The study also revealed that there are financial institutions that have been established by the government to offer financial loans to industrial firms with a view of enhancing their capital base for further expansion. Firms that have received financial assistance between the years 2008 – 2010 can be summarized below in percentages according to sectors.

Figure 4.5: Percentages of Firms that have benefited from Financial Facilities (2008 - 2010)



Source: Field Data

From the above figure (4.6) it is clear that firms in the iron and steel sector are the highest beneficiaries of financial facilities as compared to other sectors. This can be attributed to the demand of iron and steel products that has been given impetus by the growth of the

construction industries both within the country and other regions. Actually, 60 percent of firms in iron and steel sector reported to have expanded in last 2 years.

A respondent from the ministry of industrialization cited the Maendeleo Agricultural Technology Fund (MATF) that was established in 2002 by the Gatsby foundation. According to the respondent MATF has promoted innovative ways for improving productivity that will feed the industrial sector. According to the respondent, the funds have focused on dissemination of innovative proven agricultural technologies, facilitation of effective partnership. The respondent noted that 51 projects have been funded.

The success of the above story reveals the importance institutional export support networks in Kenya industrialization. It reveals that certain steps including sensitization and awareness, capacity building, access to inputs associated with technology, development of small holder enterprises, market development and business support are prerequisite to Kenya's industrialization process. That is not to say that the institutional export support networks have been smooth sailing. Challenges ranging from prices, lack of policy discussions and their wider implication on technology and lack of adequate institutional funding have hampered the role of some of the institutions in championing Kenya's industrial progress.

4.2.1 Relationship between Institutional Export Support Networks in Kenya's Industrialization Process

To indicate the relationship between institutional export support networks and Kenya's industrial development, a bi-variant analysis was done and Pearson Correlation Coefficient computed and test at 5 percent significant level. The results in table 4:2 indicates that there is a strong and positive association ($r= 0.695$) between institutional export support network and industrial development. Further, the relationship was found to be statistically significant at 5 percent level ($p=0.006$, <0.05), meaning that the sample results did not occur by chance but existed in the population of the study. The influence of institutional export support networks is determined by r^2 which is 45.6 percent holding other variables constant.

This result is in tandem with Ferdows (1980) who argues that provision of support to manufacturers increases production which allows for expansion of the industrial sector. Research conducted by Olsen & Johannessen (1994) also add that the creating export support networks are an important factor in influencing value addition to production which in the long run leads to industrialization.

Table 4:2 Correlation of Institutional Export Support Networks and Kenya's Industrial Growth.

	REGR Factor score: Access to Network support
REGR factor score: Performance of IESNs	-. 667**
Sig. (2-tailed)	.006

** Correlation is statistically significant at 5% (two-tailed)

4.3 Value Addition in Kenya's Export-led Industrialization Process

Value addition in Kenya's industrial sector involves the process of improving the natural and conventional form, quality and appeal of products, subsequently increasing the consumer valuation. Asked about the importance of value addition in industrial progress, 90 percent of the respondents observed that value addition is very critical in enhancing the growth of Kenya's industrial sector. 85 percent of the respondents observed that their firms engage in value addition which involved processing of fruit juice, crisps , canned meat and fish products, and garments. Other metal products like wires were also mentioned by respondents. The study found out that most of the processing facilities were operating at 10 – 40% of their expected capacity– vis-à-vis set project targets despite the fact that most companies had benefited from financial assistance to expand their operations. Respondents attributed this to the fact that in some cases supplies were still building up to the required volume for export. In other cases, the exporting firms could only buy little because orders from buyers were yet to be finalized, or packaging and transportation issues were still

being worked out. Guaranteeing cost-effective operations was not possible, which impeded the process of value addition.

Asked about the degree of value addition their respective firms were engaged in, 70 percent of the respondents reported that their firms are engaged in low value-added products that are simple in terms of how many manufacturing processes are required to manufacture the product, for example crips and beverages like juice. Respondents whose firms were involved in low value added products observed that they engage in this degree of production because it does not require any substantial engineering design and the level of capital required is low for production. On the other hand, a paltry 30 percent of the respondents reported that their firms are engaged in high value added products. These were mainly respondents from the chemical, metal, iron and still and automation sectors. Respondents observed some of the products in these sectors were complex thus they required substantial engineering. From the above observation, it can be argued that many firms are still involved in low value added products as compared to those that are involved in high value addition products. This implies that the low value added products do not contribute much in terms of technological innovation that is needed to inject the "big push" towards industrialization. As observed in the analysis of NIC in chapter one, for a country to industrialize, it needs to invest in high level addition products as this will attract high revenue and new technology that is needed for industrialization.

All the firms that export their value added products mentioned having difficulties in sourcing material and equipment required by the value-addition opportunity. Some of the sourcing challenges identified by respondents included:

i. Apart from the farmers, it was difficult to locate the right supplier of raw materials. Most suppliers identified by respondents were outside the country. Some were 'first time' suppliers of the exporters requirements – particularly in packaging.

ii. Details of product specifications were in some cases difficult to pass on to the manufacturing supplier – again particularly for the packaging materials.

iii. Because of the need to order larger than necessary quantities dictated by the ingredient/component suppliers, the exporters in turn had to shoulder the related inventory costs. These include costs of holding the inventory and obsolescence costs resulting from the stored packaging material. One exporter had a stock of aluminium cans worth more than $40,000 that were imported to meet an order, only for the buyer to change the packaging requirements and ask for glass bottles.

iv. The supplier normally requires some lead-time to make and send the ordered materials. However, the supplier did not always guarantee this delivery time. With limited options for sourcing, respondents reported that the exporters have tended to accommodate the timeframe of the supplier. This has implied reduced flexibility on the side of the exporter as to when processing should start, even when they should accept an order from the European buyers.

v. Margins appear attractive but the returns are low. Even though on average, the study indicated margins of between 15 – 25% per annum, unless breakeven export

volumes are achieved for each product, the returns being realized remain too low to attract more exporter investment. Yet more investment is required to push up volumes, develop new products to enable the necessary adaptation to changes in the market.

vi. Inadequate managerial and technical competences within exporting companies and their suppliers limit the benefits from the export opportunity while possibly increasing its cost. It is also a challenge that some exporters cannot easily adapt to the work ethics (culture) of international buyers: the need for predictable supplies, consistent and clear communication, reliability, and quick and guaranteed responses.

In all the firms studied, it was evident that there was a general weakness of managing costs related to the supply chain. It was evident that cost increases had been registered ranging from higher costs of inputs, and therefore higher costs of production, to higher logistics and marketing costs (transportation and packaging costs). Because the supply chains were at different levels of development, the exporters, input suppliers and the farmers had not yet oriented themselves to cooperating and reducing overall costs and delays in the chain. Input suppliers and farmers were transferring all costs forward to exporters or exporters were transferring them backwards to farmers. This created pressure on the premium price promised by the firms to supplies and on the returns realizable by the exporter.

It was evident from the study that value addition process is still at its lowest in most industries; therefore there is need for all stake holders to pull their efforts together to

enhance value addition in most products. This is the only sure way of realizing the much coveted industrialization status. Thus it can be asserted that value addition as a component of export-led industrialization has not given enough impetus to Kenya's industrial development.

4.4 Challenges Facing Kenya's Industrialization Process

Asked about challenges facing Kenya's industrialization process, respondents identified the following as the main factors contributing to slow pase of industrialization:

4.4.1 Infrastructure

Respondents observed that the state of infrastructure development in Kenya is least developed. Respondents asserted that the road, rail, and maritime transport are not fully developed and there is acute underutilization of the navigable rivers for transportation purposes. According to the respondents, the poor state of roads has increased the cost of value addition in form of the high cost of transportation incurred by firms. Respondents also observed that the poor state of the roads had led to delay of supplies thus affecting productivity.

In addition, respondents reported that power generation is insufficient to meet demand and that is why it is difficult for exporters to attract and sustain the heavy mining industries. Respondents observed that that the constant power black-outs had affected productivity. A respondent observed:

> The constant power black-outs has affected our productivity, we have been forced to install power generators, this has really increased our cost of

> production forcing us to raise the prices of our products. The resultant effect has been that our products have become less competitive in the world market due to the high prices.

Respondents also observed that water supply is erratic and insufficient to meet demand. Respondents reported that water shortage was a perennial problem in Nairobi. It was also reported that Air facilities and services are still not well developed and this has contributed to cancellation of several orders due to absence of direct flights between the country and the major markets in Europe.

4.4.2 Business Environment

Many business captains in the industrial sector expressed concern that despite being happy with the general incentive package being provided by the government, bureaucratic tendencies in customs facilitation, tax administration, processing of land applications, processing of business resident and employment permits and the general business establishment processes costs them a lot in terms of time spent attending to these issues. Respondents said that high interest rates and scarcity of foreign exchange on the market have also impacted negatively on the growth of industries and firms.

4.4.3 Labour

The study established that there is generally low quality of labour force in Kenya to meet the standards of the industrial production lines. Respondents reported that the type of labour force is not familiar to industrial production culture because of the low education and literacy levels compounded by low access to vocational and business development training. This has resulted in poor skills and poor adherence to workmanship that is geared

towards productivity and quality. Emphasis on cheap labour has, therefore, impacted negatively on the quality and number of product rejects in the industries.

Another problem mentioned by the respondents is the rise in worker absenteeism due to the rise in sicknesses and funerals compounded by the HIV/ Aids pandemic**.** This is a critical problem to the productivity of the industries as one funeral in the prevailing extended family systems costs the companies more working-hours. This problem is more rampant with agro-processing companies. It was reported that the rate of worker turnout was high in this sector.

4.4.4 Over-Reliance on Export of Raw Products

The study established that most processing facilities were operating at 10 – 40% of their expected capacity. This means that the level of value addition is still very low. This implies that Kenya still relies on export of raw materials for production of highly upgraded products. This leads to low returns. The study also established that most firms still relay on importation of raw materials for production given the fact that some raw materials (chemicals, and other metals like copper) cannot be obtained locally. The over reliance on imported raw materials by most industries in Kenya entails that the net effect of foreign exchange generation is insignificant as imports of raw materials depletes the foreign reserves generated.

4.4.5 Lack of Consultation and Coordination

Respondents observed that there is little consultation and coordination of industrialization initiatives in the country. A respondent from KAM remarked that government officials and donor representatives have dominated the initiation of industrialization policies, with private sectors playing at the periphery. Citing an example, the respondent noted that the country's blueprint to transform Kenya into a Newly Industrialized Country by the year 2020 was finalized without any input from KAM. According to the respondent, KAM was only invited to participate in the seminar when this important document was being launched.

4.5 Conclusion

This study sought to find out how export-led industrialization strategy has contributed to Kenya's industrial development. The study found out that despite the fact that the government has put in place schemes to promote export-led industrialization some firms are not aware of these schemes thus impacting on schemes utilization and their envisaged benefit. The study also found out that institutional export networks have been established and they have been in the forefront in spearheading Kenya's industrialization process. Owing to a number of these programmes initiated by the government, prospects are likely to improve considerably and Kenya may achieve its fullest potential as far as its industrialization is concerned.

Having conducted research on export- led industrial strategy and its implementation, the next chapter gives conclusion to the study and proposes research and policy recommendations. Recommendations for further research are also offered.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This study was aimed at investigating the impact of export-led strategy in Kenya's industrial development. In the process of inquiring, the study had to look at how value addition on agricultural products has contributed to Kenya's industrialization process, evaluate export incentive schemes and their contribution to Kenya's industrialization process, and explore institutional export support networks and their contribution to Kenya's industrial development.

It is evident from the study that the government of Kenya has made some subtle strides towards industrialization; however much needs to be done if Kenya has to attain the level of industrialization visioned in vision 2030. The study therefore concludes:

5.1 Summary on Value Addition and its Contribution to Kenya's Industrialization Process

The study established that value addition was very important for industrial growth. 90 percent of the respondents affirmed this fact. The study established that 85 percent of the firms interviewed were engaged in value addition. However the study found out that most of the processing facilities were operating at 10- 40 percent of their expected capacities vis-à-vis set projects goals. This means that value addition in most firms used in the survey was still limited. The study also established that a majority (70 percent) of the firms were still engaged in low value-added products like crisps, nylon papers and juice. This means that the level of technology and the amount of revenue collected from

These products are low thus they cannot give the much needed impetus to industrialization. Respondents mentioned some difficulties in sourcing materials and equipments needed for value addition, for example, difficulties in locating the right suppliers and inadequate managerial and technical competence among others

5.2 Summary on Institutional Export Support Networks in Kenya's Industrialization Process

The study found out that the government has established institutional support networks that play a role in spear-heading Kenya's industrialization. Some of the institutions mentioned include ICDC, KBS, IPC, KIPI, and KIRDI among others. Some of the roles that these institutions play include coordination of industrial activities, communication, financing, and regulation. However, the study found out that these institutions are sometimes limited in their respective mandates. Some of the limitations cited by respondents are lack of enough finance, lack of qualified human resource, unpredictable economic environment and lack of coordination of the various institutions. Despite the challenges we can conclude that institutional export support networks have played a subtle role in Kenya's industrialization process.

5.3 Summary on Export Incentive Schemes and Kenyans Industrialization Process

The study established that there are incentive schemes that have been put in place to give impetus to export-led industrialization. Some of the incentives include Value added tax, Manufacturing under Bond, Export marketing assistance scheme, green channel, export grantee and the export credit and foreign investment insurance. The study established that

the Value Added Tax was the most used incentive at 79.4 percent followed by export marketing assistance scheme at 70 percent. The least used incentives schemes were the green channel scheme and export credit and foreign investment schemes. Lack of awareness was cited as the reason as to why these two schemes were not being utilized.

The study also showed a high export orientation. 71 percent of the firms surveyed reported that they export their products to the world market. However within the sample, only 10 percent of the firms export half of more than a half of their sales.

5.4 Summary on Challenges Facing Kenya's Industrialization Process

Some of the challenges identified by respondents included:

5.4.1 Infrastructure

Respondents observed that the state of infrastructure development in Kenya is least developed. Respondents asserted that the road, rail, and maritime transport are not fully developed and there is acute underutilization of the navigable rivers for transportation purposes. According to the respondents, the poor state of roads has increased the cost of value addition in form of the high cost of transportation incurred by firms.

5.4.2 Business Environment

Industry players expressed concern that despite being happy with the general incentive package being provided by the government, bureaucratic tendencies in customs facilitation, tax administration, processing of land applications, processing of business resident and

employment permits and the general business establishment processes costs them a lot in terms of time spent attending to these issues.

5.4.3 Labour

Respondents observed that the quality of labour in Kenya was very low. The number of qualified personnel was low thus most firms lack the expertise required to engage high value added products this means that most firms have been limited to engaging in low value added products.

5.4.4 Lack of Consultation and Coordination

Respondent observed that there is little consultation and coordination of industrialization initiatives in the country. Respondents observed that most policy plans are not all inclusive and do not involve a rigorous research before formulation thus their failure to achieve desired results – industrialization.

5.5 Conclusion

Vis avis the objectives and the hypotheses of the study, the following can be deduced:

1. That there is a significant positive correlation between export strategy and industrial development. Although the strategy has not yet been implemented to its potential, there is a significant level of development of industry corresponding to the level of the strategic intervention. This slow pace, the study found out, is attributable to poor implementation and coordination of the schemes as well as the political environment of resource allocation.

2. By the use of Pearson Correlation, there was found to be a positive relationship between export incentive schemes and industrial growth. There was found to be a strong positive relationship between the variables, an indication that were the schemes implemented efficiently and impartially, there would be a corresponding development of industry and the increase of industrial output.,
3. That export support networks have positively impacted on the share of industry in Kenya's economic development. The study shows a steady improvement in the contribution of the industry in the overall GDP of the country corresponding to the implementation of the export strategy across the two main decades of the intervention.

This paper examined broadly the role of Export-led industrialization strategy in Kenya's industrial development focusing on Export Incentive Schemes, Institutional Export Support Networks and Value Addition. Also, the paper examined the challenges facing Kenya's industrialization. Since commencement of manufacturing, Kenya pursued two modes of industrialization starting with import substitution followed by export orientation. Import Substitution was adopted in 1945 when the first major drive towards industrialization took place in Kenya. This mode of industrialization was continued until mid 1980s when it was gradually phased out and replaced with export orientation dawning the era of structural adjustments programmes in Kenya.

The analysis undertaken revealed that industrialization was initiated before independence and was dominated by European MNCs. Kenya enjoyed an early colonial manufacturing

experience in capital investment from foreign investment particularly British firms as they were the majority. These benefits can be interpreted as spillovers into the manufacturing industry. The country also enjoyed most of the revenue earning primary sectors developed during colonial days as well as infrastructure such as railway line, roads and port facilities. Under I.S industrialization, the country was characterized by rapid economic growth with most economic activities witnessing high levels of growth. The institutions established seemed relatively sound and functional. However the strategy encountered challenges leading to the introduction of export-led industrialization.

The analysis showed that under export-led industrialization, Export Incentive Schemes, Institutional Export Support Networks and Value Addition were initiated as ingredients of export-led industrialization that was to spur Kenya into an industrialized economy. The study concludes that despite the fact that these ingredients were introduced, they have contributed very little towards Kenya industrialization. The schemes are still being utilized by few firms; the institutional frame works are facing a plethora of problems thus affecting their important role in Kenya's industrialization.

It should however be emphasized that with the new political dispensation since 2002 there are signs of recovery although it is still early to make sound conclusion on Kenya's industrial capability and performance. The positive signs of recovery are as a result of policies enacted. Such initiatives are articulated in the industrialization plan to industrialize by 2020 and in vision 2030. Both of these spell out clearly the specific grounds that need to be addressed to industrialize the country.

5.6 Recommendations

5.6.1 To the Government

i. The government should continue providing support to the institutions particularly to enhance their capacity such as co-ordination, finance and human capital. This would strengthen their intermediary role in supporting industrialization.

ii. Linkage promotion should be done in earnest, possibly, through establishment of an institution with a clear mandate to enhance linkage formation with deepened content.

iii. The government should regulate competition in such a way that it spurs learning, capability development and innovation.

iv. The government should encourage R & D through stimulation of science, technology and innovation culture. Such would ensure that firms maintain clear path-dependence towards capability development that would be followed by industrial development and economic growth.

v. The government should provide information to firms about the available incentive schemes to massive benefits. It should also encourage high value added products. This can be done through encouraging firms to take up available incentives.

vi. The government should invest massively on the infrastructure like roads, railway line, ports, air and water transport.

5.6.2 To Industrial Firms.

i. Firms should make use of available incentive schemes to acquire new technology to enhance high value added products.
ii. Firms should invest in training their human resource to enhance skills in production of high value products
iii. MNCs should use their huge financial base to invest in new technology that will enhance production. This technological knowledge should then be shared by other small upcoming industrial firms.

5.7 Recommendation for Further Research

Comprehensive analysis should be done on the role of non-price factors (costs of inputs, labour costs, access to credit,) and their role in production and supply and how these influence industrialization particularly in Kenya.

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APPENDIX 1

QUESTIONNAIRE FOR INDUSTRIAL FIRMS

SECTION A: General Data

Date …………………………………………….

Questionnaire No. ………………………………

Firms Details

1. For how long has your firm been existence?

- [ ] More than 10 years
- [ ] 5-10 years
- [ ] Less than 5 years

2. What does your firm engage in production?

- [ ] Chemical products
- [ ] Metal products
- [ ] Iron products
- [ ] Textile products
- [ ] Food and beverage

Others (please specify)…………………………………………………

SECTION B: INCENTIVE SCHEMES AND EXPORT-LED INDUSTRIALIZATION

3. Are you aware of export incentives provided by the government?

☐ YES ☐ NO

4. If yes, which ones are you aware of? (please list them)

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5. Has your firm benefited from this schemes?

☐ YES ☐ NO

6. If No, why is your firm not benefiting from the incentive schemes? (please outline reason)………………………………………………………………………………
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7. If yes, what incentives schemes is your firm benefiting? Please list them?

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8. In your on view, are these schemes relevant to your firm?

☐ YES ☐ NO

9. If yes, how beneficial are they to your firm? (Please outline)

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10. Does your firm export some of the products you produce?

☐ YES ☐ NO

11. If yes, where do you export your products?

☐ COMESA

☐ East Africa

☐ Rest of Africa

☐ Middle East

☐ North Africa

☐ European Union

12. Has your firm experienced changes in sales/ export in the last two years 2008 - 2010?

☐ Increased ☐ Decreased

13. What do you attribute these changes to?

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14. How can the schemes be made beneficial to your firm in the long run? (Please outline)

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SECTION C: INSTITUTIONAL EXPORT SUPPORT NETWORKS AND EXPORT-LED INDUSTRIALIZATION

15. Are you away of institutions that have been formed to promote export manufacturing?

    ☐ YES ☐ NO

16. If yes, what are some of these institutions? please state

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    …………………………………………………………………………………………
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17. What the role of the institutions named above? Please state?

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18. Has your firm benefited from these institutions?

    ☐ YES ☐ NO

19. If NO, why has it not benefited? Please state.

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20. If YES, what are some of the benefits your firm has obtained from these institutions? please state

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21. In your view are these institutions executing their mandate effectively?

☐ YES ☐ NO

22. If No, what are some of the challenges they are facing? Kindly out line.

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23. How can these institutions be made more effective in executing their mandate? Please outline.

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SECTION D: VALUE ADDITION AND EXPORT-LED INDUSTRIALIZATION

24. Does your firm process its products before exporting them?

☐ YES ☐ NO

25. In your view what is the degree of value addition of your products?

☐ Low degree value added products

☐ High degree value added products

26. Why does your firm engage in the degree of productions named mentioned above? Please State

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27. Have you acquired new technology to assist in value addition?

☐ YES ☐ NO

28. If yes, has it assisted your firm in enhancing value added export?

☐ YES ☐ NO

29. What challenges is your firm facing in promoting value addition? Please outline?

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30. Generally comment on Kenya's industrialization effort?

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31. What do you think are the challenges facing Kenya's industrialization efforts?

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THANK YOU

APPENDIX 2

QUESTIONNAIRE FOR INDUSTRIAL INSTITUTIONS

SECTION A: General Data

Date …………………………………………….

Questionnaire No. ………………………………

Firms Details

1. For how long has your Institution/Ministry been existence?

   - [ ] More than 10 years
   - [ ] 5-10 years
   - [ ] Less than 5 years

2. What does your Institution/Ministry engage in?

   - [ ] Promotion of trade
   - [ ] Offering loans
   - [ ] Market information
   - [ ] Research and Development

   Others (please specify)……………………………………………………

3. Are you aware of export incentives provided by the government?

☐ YES ☐ NO

4. If yes, which ones are you aware of? (please list them)

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5. Are aware of firms that have benefited from these schemes?

☐ YES ☐ NO

6. In your on view, are these schemes relevant to Kenya's industrialization process?

☐ YES ☐ NO

7. If yes, how beneficial are they to industrial firms? (Please outline)

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8. Who are the major exporters of value added products in Kenya? Please list a few

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9. If yes, where do they export their products?

- [ ] COMESA
- [ ] East Africa
- [ ] Rest of Africa
- [ ] Middle East
- [ ] North Africa
- [ ] European Union

10. What are the challenges being faced in implementing these schemes?

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11. What do you attribute these challenges to?

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12. How can the schemes be made beneficial to industrial firms in the long run? (Please outline)

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13. What has your Institution/Ministry done to enhance the usage of the incentives? Please outline.

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14. Is your Institution/Ministry involved in the promotion of export manufacturing?

☐ YES ☐ NO

15. If yes, how is it involved? Please outline

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16. Are there firms that your Institution/Ministry has assisted in the recent past?

☐ YES ☐ NO

17. If yes, what are some of these firms and what was the nature of assistance

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18. In your view has your Institutions/Ministry executing its mandate effectively?

☐ YES ☐ NO

19. If No, what are some of the challenges your Institution/Ministry is facing in promoting Kenyas industrialization? Kindly out line.

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20. How can your institution/Ministry be made more effective in executing its mandate? Please outline.

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21. In your view what steps should Kenya undertake to achieve industrialization status in the near future? Please outline.

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THE END

THANK YOU