# CHAPTER FOURTEEN

# EXTERNAL INFLUENCE ON THE POLITICAL ECONOMY OF KENYA: THE CASE OF MNCs

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## INTRODUCTION

The political economy of Kenya has since the colonial era been subject to a number of external influences. The external forces that have had most impact on the country's economic and political structures include bilateral and multilateral donor agencies and states, as well as foreign investors.

The major international non-state donor agencies that have influenced the Kenyan political economy include the International Monetary Fund (IMF) and the World Bank (Bank). The influence of these two institutions has been particularly immense since the mid 1970s to the present, following a series of global economic crises, that have negatively affected the economies of many African countries. But even before the onset of the current economic crisis, the Bank and the Fund still wielded a lot of influence on African governments including Kenya, as Bank's "experts" often serve as economic policy advisors to African governments and the Bank's reports often serve as guidelines for national development plans and programmes.

But with the global economic crises of the 1970s and after,the fragile Third World economies like the Kenyan one, have become more dependent on external financial borrowing for their survival. Excessive international borrowing coupled with declining export prices for primary commodities, soon led to a debt crisis that has particularly hit Latin America and Africa. Kenya has not been spared from this economic crisis, despite official statements to the contrary[1]. For example, Kenya ranked sixth among the most externally indebted countries in Africa in 1988 with an external debt burden of KSh 700 billion[2]. This economic situation has since deteriorated as evidenced by President Moi's 1991 New Year message[3].

With the debt crisis, the Bank's and Fund's influence on the political economy of Kenya has increased. The infamous Structural Adjustment Programme (SAP) and the Fund's conditionalities have been as ruthlessly applied in Kenya as elsewhere on the continent. Indeed Kenya has acquired the reputation in Bank's circles as being a show piece for proper SAP implementation[4] and in return, received more generous external loans than those African countries that have had a bad record of implementing SAP. Kenya's implementation of SAP[5] has entailed, among other things, substantial cut-backs on government's social expenditure in critical areas, such as health and education. The "cost sharing" and the user charges that have accompanied these cut-backs have hurt the poor and the vulnerable majority, especially women and children who mostly depend on the services that have been pruned. The government is also cutting back on public sector employment, at a time of unemployment crisis. Some government parastatals such as Kenya Airways have had their personnel drastically reduced during 1990[6]. Similarly, 1990 also saw the reduction of central government employment of 2 per cent, the scraping of posts that had been vacant for a long time, the withdrawal of government guaranteed employment for trainees of government training institutions and the reduction of the number of untrained teachers employed by government[7]. 1990 also saw the introduction of additional user charges and "cost sharing" measures aimed at boosting the government's revenue kitty. For example, the old Sales Tax was replaced with a Value Added Tax (VAT) of 17 per cent on all business services. Furthermore, the compulsory National Hospital Insurance Fund (N.H.I.F.) levied on all government employees was also increased in many cases by more than 200 per cent of the original charge. Urban authorities also introduced a user charge termed "service charge" payable monthly by all urban residents in formal employment or with deductible income.

As part of the liberalisation programme demanded by SAP, the government has also encouraged greater privatisation of the economic sector, and is restructuring and reducing its involvement in the parastatal sector notably Kenya Airways, National Cereals and Produce Board (NCPB), Kenya Meat Commission (KMC) and Kenya Co-operative Creameries (KCC). Price decontrols of most commodities and several devaluations of the Kenya Shilling have all been effected as part of the liberalisation of the economy and opening it up to free market forces, as demanded by Bank's SAP and the Fund's conditionalities.

Despite the negative social economic and political impact that have been experienced everywhere in Africa as a result of SAP[8], the Bank and the IMF continue to insist on the desirability of this programme for Africa's economic recovery[9]. More importantly, further external loans and any debt relief remain conditional upon "proper" implementation of SAP. Thus, although every country in Africa is wailing over the negativity of SAP, almost all of them including countries like Tanzania and Zambia that had earlier resisted, have submitted to the Bank's and IMF pressure for change in their political economies. The Bank's and IMF's influence on Kenya's political economy, as on other African economies, cannot therefore be overemphasised.

As Kenya's (and Africa's) international debt burden has increased, so also has her vulnerability to the influence of the major donor countries that she turns to for development assistance. Some of Kenya's major donor states, especially the United States and Britain had throughout the 1960s and 1970s, exerted various degrees of influence over Kenya's development and foreign policies, as shown in two well documented studies[10].

But in the 1980s and 1990s as Kenya's external dependence has increased, major donor states, especially the United States, have become more blatant and crude in their style of diplomatic pressure brought to bear upon Kenya to alter its economy in a manner desirable to the former. Thus for example, in mid 1990 at the height of the multi-party advocacy, the United States indicated through her Ambassador in Nairobi that unless Kenya introduced multi-party democracy, improved its human rights record, abolished detention without trial and queue-voting in the party nomination process and restored the security of tenure of the Judiciary etc, American military aid for Kenya for 1991 worth US $ 25 million would be frozen[11]. Although the Kenya government declared that she would not succumb to American pressure, political events occurring in the months that followed,

would seem to indicate a certain amount of yielding to U.S. pressure. For example, all but a handful of those originally detained over multi-party advocacy had been released by end of 1990. The queuing system as a method of voting and the 70 per cent rule had been scrapped and the security of tenure of the Judiciary had been restored. And this may be just the beginning for other political reforms that are likely to be made, along the lines demanded by the United States. The United States on its part, has been quick to recognise and acknowledge these reforms[12] and is now willing to let up on the earlier multi-party demands but continues to push for more economic liberalisation and good human rights record as a condition for future American aid[13].

The point to be underlined here is that, over the years, especially since the 1970s, Kenya has become more and more dependent on the United States as a source of economic and military assistance. That, combined with dwindling export earnings, a rising debt burden, negative foreign investment impact, recent shift of western resources to Eastern European countries and the 1990 oil price increase resulting from the Gulf Crisis, leaves Kenya understandably vulnerable to the external influence of a super power, on whom she is so economically dependent.

As mentioned earlier among the major non-state external forces that have impacted on the political economy of Kenya have been global foreign investors, who in this study are termed as "Multinational Corporations" (MNCs). It is this external force that I have chosen to focus on in the rest of this chapter, as an example of the way external influences impact on Kenya's political economy.

## THEORETICAL PREMISE

The phenomenal global expansion and growth of Multinational Corporations (MNCs) which has occurred since the end of the 2nd World War, has significantly affected the balance of power of state and non-state actors in the international system. In this connection, some have argued that the MNCs have usurped many of the traditional domestic and international powers and functions of the state to raise revenue, provide employment and adequate social services, allocate income and wealth, control prices and wages as well as conduct international diplomacy and trade. It is further argued that the MNCs are using their enormous economic power to

influence individual people's behaviours and life-styles in a more significant manner than even the most powerful governments. In the words of Barnet and Muller:

> .... the managers of firms like GM,IBM, etc are making daily business decisions which have more impact than those of most sovereign governments on where people live, what work if any they will do, what they will eat, drink and wear, what sorts of knowledge, schools and universities they will encourage, and what kind of society their children will inherit[14].

On the other hand, there are those who argue that, the view that MNCs have usurped most of the traditional roles of the nation - state is highly exaggerated. The state, they contend, still remains sovereign within its territorial borders despite corporate expansion on a global scale. In this connection this perspective points out that since the late 1970s, the global power of MNCs has become somewhat reduced as many states have developed instruments of bargaining and have devised policies for controlling transnational activities within and between their territories[15].

Opinions are also divided on the issue of the socio-economic impact of MNC activities on host-state's political economies. One school of thought, dominated by modernization theories, generally views MNCs as the most progressive and efficient allocators of global resources and promoters of global interdependency. This school of thought therefore argues that the MNCs are indispensable agents for diffusing technology and supplying capital, management and marketing networks that are essential for economic growth, especially to the Less Developed Countries (LDCs), where these factors are in short supply.

The opposite school of thought often associated with dependency theory and neo-Marxist scholars, views MNCs negatively, as basically exploitative instruments that increase external dependency and internal underdevelopment in "Third World" economies. MNCs are thus accused of diffusing irrelevant and sometimes obsolete technology, of perpetuating technological and capital dependence, of failing to create forward and backward linkages within the local economy, of contributing to balance of payment deficits, of unethical business practices, of being capital rather than labour intensive, of being environmental hazards, and of course shaping

economic policies of the host state, among other "crimes". It is further argued that host state's of underdeveloped countries have demonstrated unwillingness or inability to control or curb the negative impact of MNCs in their countries. Most states have instead taken the attitude that "if you can't beat them join them" and have therefore entered into unequal partnerships and agreements with MNCs, that make it even more difficult to control the activities of these transnationals.

Under such circumstances, the dependency school recommends the adoption of a strategy of development, which would entail a complete restructuring of Third World relations with the international capitalist economy (of which MNCs are part) and the adoption of an internally oriented self-reliant policy approach.

However, most modernisation theorists and development economists in particular, while acknowledging that MNCs have considerable power which makes it difficult for governments to control their activities, argue that a strategy for dispensing with them is not the solution. Instead, what is required is for Third World governments to devise skillful and aggressive bargaining techniques that would ensure that the agreements made with MNCs at the time of entry into their political economies do not contain loopholes that the latter can use to exploit the local economy. In addition, legislations should be regularly reviewed and if necessary, revised to ensure closer and stricter control over MNC's activities. Finally, the framework of bargaining should become more institutionalised and indigenous experts should be trained to handle negotiations with MNCs, especially in regard to setting of the terms under which MNCs are allowed to participate in the political economy.

This chapter proceeds on the basic assumption shared by dependency and neo-Marxist scholars that MNCs structurally occupy a dominant position in the global economy from where they exert considerable influence on LDCs, who all occupy subordinate status in the world political economy. The paper however also recognizes the view held by development economists that MNCs influence can be significantly reduced if the host country develops viable institutional and policy strategies for bargaining with and controlling the negative effects of MNCs activities.

This chapter then is an attempt to examine and analyse the nature and extent of MNC's influence on the political economy of Kenya. It assesses the extent to which the government has attempted to control MNCs and with

what degree of success in curbing the negative effects of MNC operations in Kenya. In this connection, I also examine and analyse the institutional measures that have been developed to control MNC operations in the country. An attempt is also made to identify the major structural conditions that continue to make it relatively easy for MNCs to impose their influence on the political economy of Kenya.

# THE NATURE AND EXTENT OF MNC INVESTMENT IN KENYA

## Historical Overview of MNCs in Kenya

The history of MNC involvement in the political economy of Kenya dates back to the early colonial period, when the first business enterprises were set up in the country. Thus, as early as 1905, a number of international based companies were established in Kenya. Swainson[16] identifies at least fifteen major foreign companies which were established in Kenya before 1945 and whose activities included: estates agriculture and export processing; trading; manufacturing; and mineral extraction, but with the majority of them involved in processing.

Foreign investment in Kenya increased rapidly after 1945, with a high concentration in the manufacturing sector. The period between 1945-1963 was also characterised by foreign capital concentration, through a series of mergers and takeovers.

After independence in 1963, the expansion of foreign firms in Kenya was characterised by both the consolidation of existing enterprises, as well as by the establishment of new subsidiaries of MNCs from Europe, North America and Japan. By the 1970s and throughout the 1980s, Kenya became one of the most important African destinations of MNC investment. However, since 1982, there has been some decline in United States MNC investment[17], as some MNCs relocated to the newly independent Zimbabwe and/or were escaping the anticipated political instability following the August 1982 coup attempt. The decline in US MNC investment has however not significantly affected the overall MNC dominance in Kenya, as European and Japanese MNCs have increased their presence in Kenya, in the 1970s and 1980s.

## MNC Investment in Kenya's Economic Development

Various national development plans and policy statements have repeatedly emphasized the central position MNC's investment occupy in Kenya's economic development efforts. For example, in 1970-74 period, 52 per cent of foreign exchange requirements for financing the development plan was expected to come from private foreign capital inflows and was expected to increase over 1974-1978 period. Similarly, the 1989-1993 Development Plan emphasised that the Development Plan would "rely a great deal on growth initiatives from the sector"[18]. To ensure that the expected foreign capital inflow materialises during the plan period, the government pledged to take measures "to enhance the level of the private foreign investment especially foreign equity which take the form of joint ventures with the local private sector."[19]

As already noted, MNC role in the economy of Kenya has been especially important in the manufacturing sector. Here, most of the enterprises established are of the import substitution type, producing a wide variety of consumer products including shoes, cement, paints, metal containers, vehicle parts, processed food beverages and tobacco. Table No. 1 below illustrates the scenario.

## TABLE I: PARTIAL LIST OF IMPORT-SUBSTITUTION INDUSTRIES IN KENYA, 1957-1974

| Industry | Investors | Date of Investment |
|---|---|---|
| Cycle tyres & tubes | Bata Shoe Company | 1957 |
| Tubes | Avon Rubber (Kenya) Co. | 1958 |
| Paints | Leyland Paints (Kenya) Co. | 1958 |
| | Sadolin Paints (E.A.) Ltd. | 1959 |
| | Robbialac Paints (Kenya) Ltd. | 1960 |
| | Walpamur Company | 1960 |
| Baby Foods | Glaxo Allenburys (E.A.) Ltd. | 1964 |
| | Cow and Gat (E.A.) Ltd. | 1964 |
| Shoe Polish | Kiwi Home Products (E.A.) Ltd. | 1961 |
| | Reckitt and Coleman Industries | 1961 |
| Propriety medicine | Sterling Winthrop | 1959 |
| | Aspro Nicholas (E.A.) Ltd. | 1961 |
| Radios | Sanyo (through ARMCO | 1965 |
| Radio batteries | Union Carbide | 1967 |
| Motor vehicle tyres | Firestone (E.A.) Ltd. | 1969 |
| TV assembly | Sanyo (through ARMCO) | 1966 |
| Industrial ink | Coates Bros. (E.A.) | 1960 |
| Multi-wall paper & Sacks | E.A. Packaging Industries | 1963 |
| Light bulbs & Lamps | Philips Electrical | 1966 |
| Electrical cables | East African Cables | 1966 |
| Toothpaste | Colgate Palmolive | 1966 |
| Brooms & brushes | L.G. Harris | 1967 |
| Stainless Steel tanks | Hall Thermotank Overseas | 1967 1976 |

Table 1: **continued**

| Industry | Investors | Date of Investment |
|---|---|---|
| Chocolate Confectionery | Cadbury Schweppes | 1970 |
| Fish nets | Kenya Fishnet Industries | 1970 |
| Motor Vehicle assembly | General Motors Kenya Ltd. | 1975 |
| | Leyland Kenya Ltd. | 1962 |
| | Motor Mart and Exchange | 1975 |
| Textiles | Rivatex | 1975 |
| | United Textile Mills | 1962 |
| | Kisumu Cotton Mills | 1965 |
| Paper | Pan-African Paper Mills | 1973 |

Original Source: Eglin (1978: 107-112); *African Development*, May 1976; cited in, P: Coughlin and G.K. Ikiara (eds.) *Industrialization in Kenya*, p. 34.

In addition to MNC's role in the manufacturing sector, their role in the commercial sector has also been quite significant. Among the MNC subsidiaries dominating this sector are: Mitchell Cotts, Motor Mart and Exchange (Lonrho) Mackenzie Dalgety (Inchape group) Marshalls E.A., the Twentsche Overseas Trading Group and Gailey and Roberts (Unilever). In the Oil and Petrol distribution sector, such MNCs as Shell B.P., Esso and Agip, dominate.

The dominance of MNCs is also evident in the services sector of the economy, including banking (Barclays, Standard, Citicorp, Bank of Africa - affiliated to Bank of America, etc.), and tourist/hotel industry, where United States, British and German multinational investments are quite important.

In the agrarian sector, there is also high degree of agribusiness control, especially over the key export commodities - tea and coffee. This is a sector which has traditionally been dominated by British multinationals (Brooke Bond, James Finlay, Lonrho, James Warren and Booker McConell). However, other MNCs have since independence figured prominently. For example, the U.S. based J.R. Reynolds (Del Monte) in the pineapple

industry, the Canadian based MNC - Massey Ferguson - in the supply of agricultural equipments.

Overall then and despite some disinvestment in recent years, MNCs continue to occupy a strategic and important position in the Kenyan economy. Under such circumstances, it can be expected that MNCs would influence and shape the character of the Kenyan economy and society. In this connection, MNCs influence in this paper then, is broadly conceived to include any effect or impact that has significantly shaped the structure and direction of the political economy of Kenya.

In the discussion that follows, we shall assess the extent and nature of the influence, by specifically focusing on the MNC's impact on Kenya's industrialization process. We will therefore examine and analyse MNC's impact on the following:- (i) foreign exchange (ii) employment (iii) incomes (iv) technology transfer (v) indigenisation of the economy and (vi) human health and consumer tastes.

# THE IMPACT OF MNCs ON THE POLITICAL ECONOMY OF KENYA

## MNC's Import on Foreign Exchange, Employment, Incomes, Technology, Indigenisation, Human Health and Consumer Tastes.

Many of the studies focussing on MNC - led industrialization in Kenya, seem to concur on the fact that the global corporations operating in Kenya have significantly affected the foreign exchange situation in the country, shaped the pattern and level of employment, dominated the choice and application of technology and obstructed the development of indigenous capitalism.

In this connection a study of Kenya's soap industry[20] revealed that the MNCs involved in the sector employed capital rather than labour intensive techniques, with some of the MNCs cutting back on human labour, as they became more mechanized. The study also revealed that many of the soap MNCs in Kenya imported up to 90 per cent of their production inputs. This in practice meant that these companies are draining the little foreign

exchange the country has rather than saving or generating any. The soap MNCs were also seen to be milking the country of foreign exchange through heavy repatriation of their profits rather than reinvesting it in the economy. Furthermore, the study also revealed a lot of wastage of capital, especially in advertising, of amounts totalling more than one and a half times what the government's total allocation to a key ministry - of health - over a five year development plan period. Further still, the same study demonstrated that these MNCs have made no significant effort to generate foreign exchange through the expansion of the soap market beyond the East African region.

Despite the obvious negative effects of MNC - led industrialization in the soap industry, the Kenya government has largely been unable to prevail upon the MNCs operating in this sector to alter their production structure in a manner that would generate more employment and save or create foreign exchange. The political explanation for this situation is that key policy makers have personal vested interest in promoting the MNC sector as I show later in this paper.

The MNC's position on the matter is that, being global enterprises, they are governed by decisions (made at headquarters) on technological choice, quality standards, and operational techniques that are standardised for all the subsidiaries of an entire firm. This kind of argument does not leave much room for negotiations or adjustment to the needs of the host economy.

Other studies outside the soap industry, have produced similar findings to those of Langdon. These include: Kaplinsky[21], Garshensberg[22] and Coughlin and Ikiara[23]. In the latter study, it has been shown for example that a lot of foreign exchange is lost and the unemployment situation worsened, due to inappropriate technology choice and production techniques employed by many MNC subsidiaries operating in Kenya. In this connection, the plastics and synthetics industry which is dominated by MNCs, is not only highly dependent on imported raw materials (and hence a foreign exchange guzzler) but it tends to be capital rather than labour intensive. Furthermore, this industry competes with and finally destroys the indigenous enterprises that are dependent on natural and locally available materials. Thus, for example, the MNC-manufactured plastic chairs threaten jobs of the carpenters who make wooden chairs, as does the plastic baskets that undermine the many poor women and their families whose livelihood depends on making and marketing of sisal baskets. Other inappropriate MNC made products that are foreign exchange consumers include

throw-away pens, as their raw materials have to be imported fairly regularly and frequently to replace them.

Similarly, other MNC-made products such as those of BATA of Canada, have led to the destruction of the domestic shoe-making industry which comprised of small scale artisans who made leather shoes using locally available inputs. And yet according to Nyongo's assessment, the employment generated from such artisan workshops was relatively much higher than that generated by highly mechanized Bata factory. Furthermore, the shoes made by these local artisans were relatively cheaper and of much better quality than the Bata produced synthetic and plastic shoes[24]. It has also been shown that the liquid food packaging materials produced by such MNCs as Tetra-Pak amount to inappropriate choice of product technology, at this stage in Kenya's development process[25]. Coughlin argues that the MNC's choice of expensive, import dependent packaging technology, has made milk unnecessarily foreign exchange intensive in Kenya[26]. This is despite the fact that there are much cheaper locally available packaging alternatives such as the use of glass bottles. In this connection it is important to note that Kenya has an elaborate glass industry which is currently only utilising 60 per cent of its installed capacity, due to the undermining effect of MNC-controlled plastics industry, which consumes up to Ksh. 1 billion annually in foreign exchange[27] and creates minimal employment. On the other hand, it has been estimated that if all the marketed containers of up to one litre were made of glass, this industry would be able to create at least 4,000 jobs and provide an average of Ksh. 1,000 a day to the owners of the land from where the sand would be mined[28].

Similarly, the promotion by MNCs of corrugated iron sheet usage for roofing in Kenya has the net effect of transferring inappropriate technology, guzzling foreign exchange (due to a high import content of up to 60 per cent) and creating few jobs. Additionally, the high level of asbestos, employed in manufacturing iron sheets has been shown to be hazardous to human health[29]. Despite negative effects, MNC dominance over the Iron and Steel industry has prevented the industrial promotion of alternative roofing materials, such as clay tiles and bricks, that would create more jobs, save on foreign exchange and remove the health risks of iron sheet materials.

It has also been shown that, MNCs such as Massey Ferguson, Fiat and International Harvester, supply Kenya with complex agricultural technology, which is expensive and unnecessary at this stage in the country's development. It has been shown in this regard that if simpler technology such

as animal drawn carts was used more widely than tractors, the country would save significantly on foreign exchange as well as create more jobs[30].

In the motor vehicle industry it has been noted that there is minimal if any, transfer of technology by MNCs as the industry merely assembles Completely Knocked Down (CKD) vehicles, which have been manufactured elsewhere. The global financial interests of many MNC subsidiaries make them prefer to obtain the entire CKD kit rather than to obtain locally those components that can be supplied by the existing indigenous foundries and mechanical engineering industries. The MNC's preference is implemented through the setting of artificially low deletion allowances which are "used to financially pressure a local assembler to obtain components only from the licensor company"[31]. The idea here is that, since the locally made components usually cost more than this deletion allowance, logically, the local assemblers then prefer to continue to import. MNC manipulation of the deletion allowance then effectively blocks the development of indigenous local capacity.

Another way in which MNCs block the development of indigenous capacity is through the uncontrolled importation of many makes and models of vehicles, machineries and other implements. For example in 1987, 88 models and 26 makes of vehicles were assembled in Kenya. By 1988, Kenya had some 200 models of Sedan cars in about 65 makes on the streets[32]. Similarly, there were at least 33 firms in Kenya selling more than 116 makes and 263 models of imported pumps[33]. Within a situation of so many makes and models, it becomes difficult for Kenyan foundries and metal engineering workshops to manufacture the necessary spare parts.

Again, this is yet another example of MNC's dominance in an economic sector which they want to shape in a manner that promotes their own global profit making objectives. Hence in Kenya, as in many host country economies, the MNC's major objective is to maintain monopoly of the local market both as producers and suppliers of the products they manufacture locally, as well as products that are manufactured by their other subsidiaries or by the parent company. Thus, the apparent chaos of models and makes of vehicles and other machineries in Kenya, merely reflects the competing global interests of MNCs, as they are acted out in this country. But the fact that this chaos has been allowed to persist despite its negative impact on the Kenyan economy, is in itself a demonstration of the power and influence of the global corporations as well as the structural weakness and vulnerability of the host state, as shown in a subsequent discussion.

Many of the negative influences of MNCs discussed thus far, arise from the corporate industrial operations that take the form of import-substitution. However, even those MNC subsidiaries that are engaged in export-oriented processing of commodities have had similar influence on the Kenyan economy as the former. A notable example in this regard is the Magadi Soda Company, which is owned by the British MNC - Imperial Chemical Industries (ICI) Ltd.[34] Since it was established in Kenya in 1911, it has remained an export oriented company, producing local soda ash for export. What is significant for our purposes is the fact that, in all its 80 years of existence in Kenya; this MNC has never even considered the possibility of making caustic soda locally from the soda it mines from Lake Magadi. And yet, a caustic soda industry would save the country a lot of foreign exchange, now being spent on importing large amounts of this chemical for various industrial uses, such as making of soaps and textiles. But as in other cases examined earlier, ICI finds it more profitable to export caustic soda to Kenya, rather than investing in such a facility locally. Similarly, another British MNC subsidiary - Brooke Bond - remains a major exporter of Cinchona bark from Kenya to the world market to be processed for various industrial uses, including the making of quinine - the drug used in the treatment of malaria. Clearly, if Brooke Bond had invested in the local processing of Cinchona bark, it would have saved Kenya significant amounts of foreign exchange, now used to import the quinine drug and other chemical products of cinchona bark.

In the area of textile manufacturing, Kenya has through MNCs, tried since 1972, to produce for export. In a study of the export performance of Kenya's textile's industry Langdon concludes:

> Industrial dependence on foreign firms has not promoted exports. Instead, it has brought financial loss, restricted social benefits, and a new boost to import protectionism that has made exports in the future even more difficult to attain. This dependence has also led to policy to discriminate against the private domestic firms that were nevertheless achieving gains that the (MNC) subsidiaries missed. ..... Kenya has failed in its export manufacturing goals. The country has come to occupy a marginalised position in the

> changing division of world industrial production
> which is taking place[35].

It seems therefore that, despite the fact that Kenya has moved significantly from the simple import substitution of the 1960s and early 1970s to export manufacturing, as outlined by Coughlin[36], Kaplinsky is still correct in his assertion that "there is little evidence of any profound change in the economic structure".[37]

Despite reduced investment by some MNCs, greater MNC capital outflow than inflow persists and the Kenyan economic structure remains import dependent and externally oriented. In connection with capital outflow, one of the major sources of foreign exchange loss arises from the use, by MNCs of unethical business practices as one of their strategies for making quick and often enormous profits, out of a host government. Through such practices, MNCs are capable of paralysing a poor country's economy, thus making it vulnerable to all manner of external influences and manipulations. The most common of the illegal business practices that MNCs employ is the invoice manipulation, termed transfer pricing. Kenya has not escaped this kind of fraudulent manipulation by MNCs.

As far back as 1972, ILO report on Kenya had noted that there was considerable evidence of transfer pricing within the MNC-controlled manufacturing sector in Kenya[38]. Furthermore, a 1978 study on foreign exchange leakages and transfer pricing also found that there was enormous invoice manipulation by MNCs operating in Kenya[39]. For the five commodities studied, it was found that the country had lost within one year a total of Ksh. 24,331,300 through transfer pricing[40]. In the case of canned pineapples for example, it was noted that the exports of this product had increased by at least three times between 1965 and 1976 and was expected to increase by six times by mid 1980. And yet, Del Monte, the American MNC that holds monopoly over the pineapple industry in Kenya, continued to prepare balance sheets that indicated that the company was consistently registering losses and would continue to do so, despite expansion in production and export of the commodity. Thus between 1965 and 1975 for example, Del Monte paid no tax at all to the Kenyan authorities[41]. Clearly, this was a case of overinvoicing imported inputs into production and underinvoicing the pineapples at the point of export.

Brollo - an Italian MNC that formed a joint venture with Kenya in 1971 - is another example of an MNC that has cheated the Kenya government of enormous amounts of money through transfer pricing. The 1978 study[42] found out that the machinery Brollo Italy sold to Kenya was overpriced on average by about 100 per cent. Indeed, some of the old machines sold to Kenya were obsolete and worthless in Italy[43]. More recent studies have also revealed the continuing trend in transfer pricing by MNCs operating in Kenya. For example a 1985 study[44] revealed that the overpricing ratio for MNC pharmaceutical subsidiaries in Kenya was 102 per cent. In plastics processing, for one MNC subsidiary based in Kenya, transfer pricing in 1983 was estimated to average 25 per cent[45]. Given this transfer pricing situation, Coughlin (1990) concludes that: "the net capital and income flowing out of Kenya due to official transfer pricing plus illegal transfers could have easily been between US$ 500 million and US$ 650 million in 1988, i.e. 6.7 per cent to 8.7 per cent of the nation's GDP."[46]

MNCs also effectively collude with local companies and prominent individuals to import products that Kenya has already the capability to produce locally. In such cases the source of such imports are the overseas subsidiaries or parent companies of the MNC subsidiaries operating in Kenya. There is for example, some evidence that a locally based pharmaceutical - DAWA - imports drugs from International firms based in Yugoslavia and West Germany. But when the drugs arrive in Kenya, they are given the DAWA label in order to give the impression that they are locally manufactured[47].

Indeed, indiscriminate and excessive importation of commodities that the country has an established capacity to produce has led to the collapse or near collapse of several Kenyan based companies in the late 1980. For example excessive importation of sugar in 1986, led to the collapse of two sugar mills by 1988. Similarly, East African baggage and cordage and its sister company - Kensack Kenya Ltd. had by 1989 almost been paralysed by indiscriminate importation of gunny bags, "on behalf of various well connected individuals"[48]. The former was forced to cut back on its workforce from 4,100 to 2,800[49]. The local pencil factory and the ceramics one, have also been threatened by imports[50].

Indiscriminate importation of commodities may not only be economically harmful to the Kenyan economy, but it may also have serious health effects on those who consume or are exposed to some of the MNC products that Kenya imports. In particular, agribusinesses and

pharmaceutical MNCs import toxic and dangerous chemicals, most of which have been banned in many other countries. A good example is captafol fungicides which are widely used in Kenya to control the coffee berry disease, and yet they have been shown to cause cancer[51]. Another example is a killer skin bleaching soap manufactured for the Kenyan market by a British company - W & E products. This soap is banned by EEC as it has been recognized to contain high levels of mercury. However, this dangerous soap continues to find its way into the Kenyan beauty market under such "brand names" as "Mpenzi", "Jaribu" and "Top"[52]. Indeed, even skin creams that MNCs produce locally also contain high levels of mercury and hence have negative health effects. Similarly the processed and artificial baby foods produced and promoted by such MNCs as Nestle, contribute to malnutrition and infant mortality[53].

The evidence available on MNC led industrialization in Kenya, would seem to suggest that the international firms based here have a largely negative impact on employment, foreign exchange, technology transfer, indigenisation of industry as well as the social well-being of the society.

## THE STATE ACQUIESCENCE AND MNC DOMINANCE OVER THE KENYAN ECONOMY: SOME EXPLANATIONS

Considering the conclusion made above, one wonders why the MNC subsidiaries continue to be allowed and even persuaded to operate in the Kenyan political economy, without any significant interference from the government. In other words, what factors constrain and prevent the government from effectively controlling the activities of the MNC subsidiaries operating in Kenya? In an attempt to answer this question, we shall focus on three major factors that I consider important in this respect: (i) the complex nature and structure of MNCs (ii) liberal government policy on foreign investment and (iii) weak institutional framework for bargaining and control.

## The Complex Nature and Structure of MNCs

By their very nature and structure, MNCs are complex and powerful economic entities. Some of the larger MNCs are wealthier than the average nation-state. In this connection, it has been estimated that the average growth rate of the most successful global corporations such as General Motors Corporation, Exxon Corporation, Royal Dutch - Shell Group, Mobil Corporation, British Petroleum, IBM, Unilever etc., is two or three times greater than that of the most advanced industrial countries, including the United States[54]. Other sources of power for MNCs arise from their global spread, global strategy, as well as the vertical integration of subsidiaries. Centralization of decision-making at headquarters of MNCs, makes it difficult for host governments to engage in meaningful negotiations with the subsidiaries, as the latter often tend to exonerate themselves of responsibility for any negative impact of their operations, arguing that they simply comply with directions from headquarters on product choice and techniques employed in production. This "passing of the buck" approach can be very frustrating to a host state that needs to urgently resolve problems that cannot await consultations with the MNC headquarters. Similarly through their complex global organization and integration, MNCs make it extremely difficult for host states to effectively control their activities. For example, it is through this global integration that MNCs conduct intra-company trade, whereby subsidiaries of one company sell to each other, at prices manipulated to maximize company profits and minimize government taxation and control over their operations. This intra-company trade translates itself into what we earlier termed: transfer pricing. Many governments are aware of this practice but they feel helpless to control it. The Kenya government is aware of this practice but tolerates it because of the premium put on multinational's contribution to development. According to Mr. Mwai Kibaki, then Vice President "The only solution that holds true for developing countries ... is to strike up partnerships with multinationls. ... There is moreover little that developing countries can do to prevent multinationals from engaging in transfer pricing"[55].

In addition to capital control, centralised decision-making structure and sophisticated global strategy, MNCs are major purveyors of modern technology, that many countries, especially the underdeveloped ones such as Kenya, require for national development. It is only MNCs that control the

enormous capital and physical resources necessary to continuously carry out research and develop the most advanced technology at any one time.

It is this combination of control over enormous amounts of capital, advanced technology, complex global structure and strategy, that makes the MNC the most sought after economic force, but also the most difficult to control, especially by poor countries such as Kenya.

## Liberal Government Policy on Foreign Investment

Like many other African countries anxious to attract foreign investment, Kenya has found it necessary to maintain a very liberal policy towards foreign investment. The 1964 Foreign Investment Protection Act guaranteed foreign investors the right to repatriate their profits, loans, interests on their loans and the approved proportion of the net proceeds of sales or any part of the approved enterprise. MNCs were also guaranteed protection against nationalization[56]. The Kenya government has, as a matter of economic policy remained quite consistent in its open-door approach of encouraging foreign investment to Kenya. The Sessional paper No. 10 of 1965 stressed the central role that foreign investment was expected to play in Kenya's economic development[57] and various national development plans have echoed the same message[58]. Similarly, various senior government officials have from time to time reaffirmed this policy towards foreign investment. For example, in 1980, the then Vice President and Minister of Finance, Mr. Kibaki, assured MNCs operating in Kenya that: "Kenya would continue to be a haven for foreign investment"[59]. This assurance was reaffirmed in 1988 by Kibaki's successor, Dr. Karanja who in encouraging British investors to invest more in Kenya stressed that the "Kenya government valued free enterprise"[60]. And in early 1989, the project manager of the Investment Promotion Centre reaffirmed that "the government has gone out of its way to encourage foreign investment and has through the 1964 Act provided liberal guarantees for protection of foreign investment and repatriation of profits made in such investments[61]. This Liberalism has left the government vulnerable to foreign investors who take advantage of the easy terms of entry to dominate the economy.

This problem is compounded by the structural weakness in the existing institutions for negotiations and control of MNC's operations. It is this institutional framework that is examined below.

## Institutional Framework for MNC Control

At various stages in the post-colonial period, the Kenya government has set up various institutional machineries which have been charged with the noble responsibility of negotiating with and/or controlling foreign investment. Here we examine some of these institutions, and assess their performance as instruments of negotiating and controlling MNCs operating in Kenya.

(a) **New Projects Committee (NPC)**

The first attempt by the Kenya government at developing an institutional machinery for controlling MNC activities in the country was instituted in 1968, when an ad hoc Interministerial committee, the New Projects Committee (NPC) was set up. Its role was to evaluate proposals and negotiate with potential investors. NPC was therefore expected to be "the main technical organ through which the government will administer legislation to regulate the establishment of industrial capacity"[62]. The 1978-83 Plan describes NPC as an evaluating and negotiating body that would "coordinate the evaluation of all industrial projects. The establishment of new projects as well as the importation of machinery and equipment will be undertaken only on the recommendation of this committee"[63].

NPC however never acquired the legal mandate necessary to enable it to act as an effective mechanism for controlling foreign investment. It remained as an ad hoc committee. In this connection, Gachuki & Coughlin have noted:

> The New Projects Committee was only nominally a committee. Except for its Chairman, it had no fixed membership. The Committee members sometimes changed from day to day. In several cases when the committee sat in negotiation for two or more days, different people sat in the committee each day[64].

Furthermore, a detailed study of NPC role in negotiations involving six multinational subsidiaries seeking to invest in Kenya, revealed that this institution remained powerless and ineffective:

> While existing, the NPC had no decision-making powers whatsoever.

> Decisions involving major concessions were at times made at high political levels long before they were submitted to NPC. Firms with the right political connections by-passed the NPC and had their glossy agreements, complete with high powered approval, land as fait accompli on the desks of the relevant ministry and/or parastatal officials. In such cases, the formal mechanics of the approval process become irrelevant. (Emphasis Added)[65]

The ineffectiveness of NPC had also been acknowledged in the 1974/75 Implementation Report of the Treasury which stated:

> Enactment of legislation to control productive capacity has not been undertaken. The New Projects Committee does not provide an adequate mechanism for controlling new investment.[66]

NPC was abolished in 1985 and nothing was created to replace it.

**(b) Industrial Survey and Promotion Centre (ISPC) / Industrial Promotion Department (IPD)**

In 1970, the government set up under the Ministry of Commerce and Industry ISPC, which was later renamed IPD. The 1979-1983 Development Plan states that the ISPC/IPD was envisaged to serve as: "the principal instrument for providing consultancy services in industrial development."[67]

On the positive side, IPD had relatively better technical manpower than NPC. Even then the manpower was inadequate and inexperienced "in dealing with MNCs' complex business and investment processes, and lacked the necessary financial resources to evaluate many project proposals in detail"[68].

In addition, the effectiveness of IPD was hampered by lack of an institutionalised approval system, which meant that:

> .... there was no requirement that project proposals be submitted to it for evaluation. This undermined its role in evaluating

> projects. ... the frequent side-stepping of the IPD hindered the thoroughness of the project evaluation and the ability of the government to defend Kenyan interests. The projects ... selection was based on inadequate criteria and the agreed terms and conditions usually did not ensure that the projects would achieve their economic goal[69].

**(c) Capital Issues Committee (CIP)**

Also set up in 1971, was the Capital Issues Committee, within the Treasury. The role of CIC was to vet all issues of capital stock with a view of cutting down on capital outflow from Kenya[70]. Among other things, CIC was to play the role of encouraging MNCs subsidiaries in Kenya, to issue a proportion of their share capital on the Nairobi Stock Exchange in order to promote higher level of local "ownership" of MNC dominated industrial sector. CIC success has been limited.

Even Swainson who views CIC as "probably the single most important instrument of nationalist control of foreign capital in Kenya by the mid 1970s"[71], acknowledges that the success of this institution had been hampered by "political intervention from some top politicians"[72]. Similarly, in his assessment of ICIC Langdon has noted:

> the Capital Issues Committee .... (does) not represent an important control on the multinational sector. ....(as) no subsidiary singled out the committee as a major constraint in organizing its own operations[73].

Furthermore, even where bargaining occurs between CIC & MNCs "the committee does not push subsidiaries toward decentralized locational patterns in Kenya toward greater employment creation or toward wider local linkage effects - all moves which might result in a more equitable sharing out of the profits of the MNC sector. Rather the committee has emphasized growth per se and larger shares for a few African insiders"[74]. Nyong'o goes a step further to explain the cause of CIC's ineffectiveness:

> the Kenyan bourgeoisie supposedly in control of the state through such bodies as the CIC, may not have a consistent "community of interest" or the required

> political cohesion as a class to systematically use such a body in their collective interest. MNCs therefore exploit the divisiveness among indigenous fractions of capital and easily buy them off with directorships on MNC boards of management, and influence members of CIC through bribes[75].

Indeed, the available evidence would seem to indicate that CIC has failed miserably in controlling capital outflow from Kenya, as table No. 2 below indicates.

TABLE II: INTERNATIONAL INVESTMENT INCOME FLOWS (KENYA POUNDS M) 1981-88

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Inflows | 16.9 | 20.0 | 24.5 | 32.7 | 35.5 | 29.8 | 30.6 | 7.0 |
| Outflows | 106.4 | 109.7 | 139.9 | 171.8 | 204.2 | 222.9 | 262.8 | 304.6 |

Source: P. Coughlin: "Industrialization in Kenya: Moving to the Next Phase? (Unpublished Paper, 1990) p. 8, c.f. Riddell et.al Manufacturing Africa (James Curry, London & Heinmann Postmouth, 1990), p. 246.

### (d) Related Industrial Institutions

There are other government institutions that were not created with the specific purpose of negotiating with and/or controlling MNCs but with the broader objective of promoting industrialization in the country. Such institutions include: Industrial and Commercial Development Corporation (ICDC), Industrial Development Bank (IDB), the Kenya Industrial Estates (KIE), Development Finance Company of Kenya (DFCK), the Kenya Bureau of Standards (KBS), Kenya Industrial Research and Development Institute (KIRDI) and the Central Bank.

Ikiara in his study of these government institutions shows their performance to be poor due to similar superstructural problems as those identified for the negotiating machineries:

> Though most of these institutions state the right national objectives, the implementation of the objectives is often poor as they tend to be ignored in the actual operations of the institutions. The development finance institutions have mainly financed unviable projects without critical assessment of their priority in the economy. This has led to over-investment in some sectors while under-investment in some key sectors exist. ... There is a serious lack of coordination among various government institutions even when they are handling related industrial issues. This has reduced the overall impact on the existing institutions" ... although various institutions have been established, they have not been effectively used for faster industrial growth and in the right direction[76].

Referring to those institutions such as KIRDI that bear the responsibility of developing appropriate technology for indigenous industrialization, Ikiara observed:

> The policies and institutions affecting technological development in Kenya's manufacturing sector have evolved disjointly, often in response to a crisis. As a result, Kenya does not have a systematic and comprehensive policy to govern the transfer of technology and to guide the development of local technological capability. ... The institutions for gathering and providing information about technological capabilities in the country or available from abroad are, moreover chaotically organized and leave many gaps in needed information. ... Other institutions ... are not consistently inspired and coordinated to search for ways to stimulate the development of indigenous technological capabilities[77].

The dire need of a well formulated technology policy cannot be overemphasized. Calestous Juma in his study of the classic white elephant - Kisumu based Power Alcohol Project - which had as of 1989, cost an estimated Ksh. 1 billion, underscores this fact. Noting that the project has for all practical purposes collapsed, he emphasises that the failure of the power alcohol project should serve as "an illustration of the urgent need for technology policy as a tool for long term, sustained industrial development"[78].

## NEGOTIATIONS WITH MNCs - THE POLITICAL FACTOR

Detailed case studies have been conducted on the process and outcomes of negotiations between the Kenyan State and various MNCs[79].

Without exception, these studies concur on the fact that the outcome of many of these negotiations work to the advantage of MNCs who end up with too many concessions and guarantees and very few or no controls over their business operations. Some companies, such as Del Monte and Firestone have managed to secure extremely favourable agreements that among other things, guarantee them complete monopoly over production and marketing of the commodity they produce. This is hardly surprising, given the policy and institutional framework (described above) within which MNC - state negotiations take place. It seems to me that since the government is fully committed to creating favourable operational conditions for foreign investment, it would be contradicting its own policy stance, if it was seen to be creating obstacles for MNCs during negotiations. Consequently, such negotiations as take place have largely been in response to the MNCs proposals and requests for concessions. The outcome of such negotiations then becomes predictable:

> The MNCs'projects were usually approved as described in their proposals. The government has abided strictly by the terms of most of these agreements. It has even allowed the provisions of badly formulated agreements to override its own concerns[80].

While acknowledging the power of MNCs and the institutional weakness of the government negotiating machineries, as important factors in determining the outcome of negotiations with international firms, it is ultimately the political environment that facilitates MNCs dominance over the Kenyan economy and society. Indeed, the very ineffectiveness of the negotiating machineries, largely reflects on the existing political interests. More often than not, such interest seem to sabotage rather than strengthen and support the very negotiating institutions they helped to create. The very fact that Kenya has no legislation specifically governing negotiations with foreign investors"[81] is not due to any special disability but due to political preference. Furthermore, many of the case studies on negotiations with

MNCs[82] have shown that the final outcome of such negotiations reflected the sentiments of key political decision makers rather than the recommendations of the formal project approval machinery. The case of Firestone for example, clearly shows how NPC was completely usurped of its role, ending up virtually rubber stamping an agreement arrived at between Firestone and high level government officials[83]. In this connection, Langdon observed:

> In the final stages of negotiations -- Firestone officials skilfully outmaneuvered the committee; met privately with the two key ministers involved and convinced them to approve the company's own formula (Emphasis added)[84].

Among the many generous concessions contained in the agreement included: (i) Firestone's virtual monopoly over the tyre market in Kenya which meant total ban on import of tyres, (ii) unrestricted import licenses (including availability of necessary foreign exchange) for construction materials, equipment, machinery, spare parts or raw materials (iii) exemption from import and customs duties and any other tax for items imported by the company (iv) unrestricted export licenses and total exemption from export duties (v) freedom to use its own pricing formula in the sales of its protected products and (vi) a commitment by the government to ensure that its departments, including the armed forces, purchase tyres from Firestone (E.A.) Ltd., and also ensure that the firm secured monopoly rights to supply tyre products to any enterprise established in Kenya for the assembly of motor vehicles. Similar concessions and privileges have been granted to Del Monte, Pan African Paper Mills Ltd., and Rift Valley Textiles (RIVATEX), among others.

## MNCs IN THE KENYA POLITICAL ECONOMY: SOME EXPLANATIONS

In this essay, I have focused the analysis on the nature as well as the impact of MNC investment. I have argued that MNCs have not made significant contribution to the country's industrial growth and development but have instead tended to aggravate certain aspects of the social, economic and political condition of the country.

Various explanations have been advanced to explain why this situation exists and continues to persist. Perhaps the most dominant explanation has been the one that situates the problematique of the Kenyan political economy in the context of the relationship between the Kenyan state and the MNCs. This relationship was originally conceived by Steven Langdon, and termed as symbiotic one[85].

Within the framework of a symbiotic relationship, senior state bureaucrats, politicians and well connected businessmen - a group Langdon terms: African Insiders - establish a mutually beneficial relationship with the MNCs of "give and take". In return for the privileges and concessions the "African insiders" accord the MNCs, they are individually assured of a share in the MNC economic largesse, through their appointments into the senior managerial positions, directorships as well as shareholding in many of these MNC subsidiaries.

Thus for example, one of the major reasons, why Firestone won the bid to establish a tyre factory in Kenya was because:

> Firestone agreed to use African distributors exclusively for its tyres and to give the government some control over appointment of those distributors. Firestone was also willing to bring prominent Africans on its managerial staff, including a cabinet minister defeated in 1969, and one of the chief negotiators on the New Projects Committee (Emphasis added)[86].

Longdon further explains that symbiotic relationships is largely based on informal contacts and agreements worked out between individuals within the state system, and MNCs. Invariably therefore, political (economic) corruption becomes an important factor of a symbiotic relationship[87]. As the African bourgeoisie gains access to higher income through its "friendship" with MNCs, the latter also establish informal influence on state decision-makers[88].

Indeed MNCs operating in Kenya have clearly employed the highly acceptable and politically useful policy of Africanisation to gain easy access to government officials and by-pass established rules. Nyong'o rightly terms this MNC strategy of africanising its top posts as a form of corrupting public officials who very often are both leading state bureaucrats as well as directors of MNC subsidiaries or distributors of MNC products[89]. Such strategically

placed and prominent individuals who share in the economic benefits and privileges granted by the MNCs, are likely to defend and promote policies that protect the interests of these MNCs. This trend which was well documented by Langdon in 1987[90], has remained consistent up to now. Lonrho for example, which has been the largest multinational investor in Kenya since the early 1970s, has maintained a highly successful symbiotic relationship with African leaders, both in Kenya and elsewhere in Africa[91]. Lonrho's dominance and influence on the political economies of African States, has come as a result of its successful political strategy, of "buying" the friendship of key African leaders through various forms of economic bribery.

For example, Lonrho ensures that its appointee for the most senior management position in any given African country, is someone closely related (by Kinship or politics), to the head of state of that country[92]. Hence in Kenya during the late President Kenyatta's regime, Udi Gecaga, the then son-in-law of the late president, was appointed as the Chairman of Lonrho East Africa. But Lonrho's political alliances are kept flexible and pragmatic; which is why this MNC was able to quickly adjust to the change from the late President Kenyatta's leadership to that of President Moi. Perhaps the most dramatic of the changes in political alliances that occurred then was the unceremonious dismissal of Udi Gecaga from his powerful position of Chairman of Lonrho East Africa. This was the same Gecaga who was among the few African Lonrho executives, who saved Tiny Rowland, the managing director and chief executive of Lonrho worldwide, from loosing his position and control of the company, during the 1973 "boardroom crisis"[93]. And yet, Mr. Rowland was later to regard Gecaga as "a mistake I truly regret" and a double crosser. And Gecaga's successor, Mark Too, once showered with praise for what Rowland considered to be his popular and simple matter-of-fact approach to issues was demoted as soon as he lost favour with the President in 1991[94]. In addition, in the early 1980s, Lonrho donated, free of charge to the Kenyan state, 1,000 acres of land in Eldoret, for the siting of Moi University and was among the key guests at the University's first graduation ceremony. Some have argued that this was another of Lonrho's schemes of cultivating friendship with the current Kenyan leadership, but the Lonrho boss denies it arguing that the gesture was simply in support of President Moi's good record in expanding Kenya's university education to which Lonrho had already been contributing anyway[95]. The point however is that Lonrho has been fairly successful in cultivating close and cordial relations with the current political leadership in Kenya.

And because of that, the Lonrho business empire in Kenya continues to expand and prosper. Mr. Rowland confirmed this recently in an interview in which he was full of praise for the current Kenyan leadership for facilitating Lonrho's expansion and prosperity[96].

It is however quite difficult to ascertain the extent of Lonrho's (or any other MNC's) political influence, in Kenya. In part this is because the existing policies are already so conducive to MNC's economic growth, that blatant political meddling, similar to the one that in 1978 led the former President Nyerere of Tanzania to nationalise Lonrho assets in that country, may not have been necessary in Kenya. But even in Kenya, especially in the 1970s, Lonrho has been subject of political debate and criticism in some quarters, for alleged undermining of government policy on Africanisation and indigenisation of the economy, while at the same time financing its business acquisitions through heavy local capital borrowing[97]. The political significance of these allegations lies in that, for the takeovers and local capital borrowing to have taken place, Lonrho must have prevailed upon some key policy makers to facilitate this.

In addition to the state - MNC symbiosis, the explanation provided by Peter Coughlin[98] also merits consideration in the search for viable development strategy for Kenya. Coughlin suggests that, part of the problem in Kenyan political economy arises from the fact that the bulk of the nation's politicians and senior bureaucrats do not have major economic interests in manufacturing. Rather, their investments are in farming, transport, services, small scale trading and real estate. Some also get very rich through access to import licenses. Their short-term interests thus favour keeping imports cheap, and not fostering local manufacturing industries. This would then partly explain why Kenyan manufacturing is largely controlled by MNCs, with all the negative implications noted above.

An additional source of the problem is of course the fact that Kenya remains highly dependent on income derived from the sale of traditional exports of coffee, tea and pineapples. This despite the fact that international market prices for primary commodities have always been unpredictable and generally low. Coughlin is therefore accurate in his assertion that "MNCs and the markets of the North cannot be relied upon as the main engines for industrialisation. The MNCs are (also becoming) hesitant about investing in Kenya; and undue export optimism is no substitute for an industrialization strategy.[99]

# CONCLUSION AND RECOMMENDATIONS

MNCs are clearly unreliable agents for Kenya's industrialization. In addition to their negative impact discussed above, MNCs often do not show appreciation for the favourable investment environment the government has created to facilitate their profit making. Indeed, some of the MNCs operating in Kenya have periodically expressed various forms of dissatisfaction with the local investment climate and demanded improvement. In the 1980s and 1990s some have gone as far as disinvesting from Kenya[100] while others have threatened to close their factories if their demands were not met[101]. It is particularly notable that these expressions of dissatisfaction tend to coincide with the period of foreign exchange shortages, when the government must restrict foreign exchange outflow to prevent national economic collapse.

Kenya is then caught in a bind, whereby MNCs are making it obvious that it is Kenya that needs them more than vice versa. And indeed, the reality of the global economic situation at the present time shows that Kenya and other African political economies have become highly dependent on the international capitalist system, especially since the 1980s[102].

As noted at the beginning of this chapter, Kenya like other African countries, is in the midst of a debt crisis and is further threatened by a shift of western capital and technology to Eastern European countries. Under the circumstances, and despite the unfavourable impact of MNCs on the political economy, Kenya need to devise some short term strategies that would reduce the negative effects of MNCs operations, and increase the benefits accruing from such investment, without frightening away these foreign investors. This is obviously a tricky balance to attain but it can be done, if there is a strong political will on the part of the Kenyan leadership and policy implementors. For example, the existing institutional machineries for controlling MNCs can be made to function more effectively, by appointing well qualified independent consultants/experts to manage them without interference from key political figures. Such experts could then ensure that MNC projects approved are of benefit not just to the investor and a few local people, but to the country as a whole. Such consultants could also play the role of scrutinising and regulating foreign exchange flows, the quality and relevance of technology transferred to Kenya and the quantity and quality of imported commodities. Such controls could among other things, reduce on the MNC's practice of transfer pricing and other forms of foreign exchange losses and reduce on the chaos of makes and models,

especially in the motor vehicle industry. In addition, it would hopefully encourage indigenous capitalists to invest their money in local industrial production rather than spending it on importing manufactured goods. The government could also encourage MNCs to develop and utilize local technologies and raw materials for their industrial production. Similarly, the effectiveness of existing industrial institutions such as ICDC, IDB, and KIE, could be greatly increased by simply ensuring that the activities of these institutions are well coordinated and harmonized in a manner that enhances their complementarity and eliminates duplication of efforts.

At the same time, the Kenya government should continue to strengthen its economic links with other African countries especially the PTA states and the SADCC grouping, as a strategy of economic empowerment and reduction of economic dependence on the international capitalist market which is likely to be even more dominant after the formation of the European Common Market in 1992.

In the final analysis however, as already noted, any meaningful restructuring of the economy and the eradication of undue external influence by such forces as MNCs, will require strong political will and sustained long term commitment of the Kenyan leaders and the society at large.

## NOTES

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3. *Ibid.*, (January 2, 1991) p. 2

4. *Sunday Nation*, (Nairobi, October 23, 1988) p. 4

5. *The World Bank and UNDP, Africa's Adjustment and Growth in the 1980s* (World Bank, Washington D.C. 1989) p. 3

6. *Daily Nation*, (December 28, 1990) p. 19

7. *The Weekly Review*, (Nairobi, Dec. 21, 1990) p. 24

8. See for example some of the assessments of SAP made by the executive secretary of ECA, Adebayo, Adedeji, *Daily Nation* (January 3, 1989) March 8, 1989) p. 10, (July 27,1989) p. 13, (August 9, 1989) p. 6, and (December 31,1989) p. 10. d.f. *The Weekly Review* (March, 24, 1989) p. 33 and *Finance* (Nairobi, 16-31 July, 1990) p. 19

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13. *The Weekly Review*, op.cit.

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27. *Daily Nation*, (Nairobi, December 27, 1988) p. 10

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64. D. Gachuki and P. Ikiara "Structure and safeguards for Negotiations with Foreign Investors", pp. 106 & 107

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66. David Gachuki, "Negotiating with Foreign Investors: Some Kenyan Experiences", Paper presented at the conference on Kenya's Industrialization Strategy August 4-8, 1986, (Nyeri, Kenya) p. 4

67. Ibid., p. 5

68. D. Gachuki & Coughlin, "Structure and safeguards for Negotiations" p. 107

69. Ibid.

70. Nicola Swainson, *The Development of Corporate Capitalism in Kenya* 1918-1977, p. 209

71. Ibid.

72. Ibid., p. 210

73. S. Langdon, "The MNC in the Kenya Political Economy" in R. Kaplinsky (ed) *Readings on the MNC in Kenya*, p. 180

74. *Ibid.*, p. 182

75. Peter Anyang' Nyong'o, "The Possibilities and Historical Limitations of Import-Substitution Industrialization in Kenya" in Coughlin and Ikiara, (eds) *Industrialization in Kenya*, p. 22

76. G. Ikiara, "The Role of Government institutions in Kenya's Industrialization" in P. Coughlin & G. Ikiara (eds.) *Industrialization in Kenya*, p. 247

77. *Ibid.*, Discussion Paper, Industrial Research Project, (University of Nairobi, 1987) pp. 72 and 73

78. Calestous Juma, "Investment Strategy and Technology Policy: Empirical Lessons from Power Alcohol Development in Kenya" Discussion Paper, Industrial Research Project, University of Nairobi, 1987).

79. A good example is D. Gachuki and Coughlin, "Structure and safeguards for Negotiations with Foreign Investors" op cit.

80. Ibid., p. 108

81. Ibid., p. 92

82. Ibid., pp. 95-103

83. Ibid., p. 105

84. S. Langdon, "The MNC in the Kenya Political Economy" in R. Kaplinsky (ed.) *Readings on the MNC in Kenya*, p. 173.

85. For an elaborate discussion of this and other issues relating to MNCs in the Kenyan political economy, see S. Langdon, *Multinational Corporation in the Political Economy of Kenya.* (London: McMillan 1981)

86. *Ibid.*,

87. *Ibid.*, p. 194

88. Ibid. p. 189

89. P.A. Nyong'o, "The Possibilities and Historical Limitations of Import Substitution Industrialization in Kenya" Op. Cit. p. 42

90. S. Langdon, "The Multinational Corporation in the Kenya Political Economy" Op. Cit. pp. 134-200.

91. S. Cronje, M. Ling and G. Cronje, *Lonrho: Portrait of a Multinational* (London: Julian Friedman, 1976) and N. Swainson, *The Development of Corporate Capitalism in Kenya* pp. 273-284.

92. S. Cronje et.al, *Lonrho: Portrait of a Multinational*, Op. Cit.

93. N. Swainson, *The Development of Corporate Capitalism in Kenya*, p. 280.

94. *Finance* (November 1-15, 1990) p. 45

95. *Ibid.*

96. *Ibid.*, pp. 42-46

97. Lonrho's declared debt to Kenya in 1975 was estimated at Kenya Pounds 8,614,000. See also N. Swainson, *The Development of Corporate Capitalism in Kenya* p. 218.

98. P. Coughlin, "Industrialization in Kenya: Moving to the Next Phase?" op. cit. pp. 14-15.

99. *Ibid.*, p. 15.

100. See for example, *Daily Nation*, March 29, 1990, p. 10 and *Kenya Times*, April 5 & 6, 1990, p. 10.

101. See for example, *Daily Nation*, February 16, 1990, p. 10.

102. See for example, *The Weekly Review*, November 19, 1982 p. 23.