ECONOMIC DIPLOMACY AND KENYA'S NATIONAL INTEREST (1963-2015)

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2017

DECLARATION

This project is my original work and has not been submitted for a degree or any other award in any other institution, college or University.

Date:..05/9/2017....................

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This project has received my approval as the University supervisor.

Date:........05/09/17..........

Prof. Philip O. Nyinguro

DEDICATION

I dedicate project to my father George Oloo for believing in the power of education.

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I acknowledge my supervisor Prof. Philip Nyinguro for his intellectual support, understanding and patience from the beginning of this study to the end of the presentation of the project. His wise counsel and professionalism helped me coordinate my scattered ideas and develop them with more focus and direction.

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TABLE OF CONTENTS

DECLARATION ii
DEDICATION iii
LIST OF TABLES viii
LIST OF FIGURES ix
ABSTRACT x

CHAPTER ONE: INTRODUCTION TO THE STUDY 1
1.1 Background to the Study 1
1.1 Statement of the Problem 2
1.2 Objectives of the Study 3
1.3 Research Question 3
1.4 Study Assumption 4
1.5 Justification of the Study 4
1.6 Definition of Key Concepts 5
1.7 Literature Review 6
1.8 Theoretical Framework 9
1.8.1 Dependency Approach 9
1.8.2 World-Systems Theory 11
1.9 Research Methodology 14
1.9.1 Sampling technique and procedure 14
1.9.2 Data collection scope 16
1.9.3 Data analysis & interpretation 16
1.9.4 Limitation of the study 17
1.10 Study Outline 17

CHAPTER TWO: DETERMINANTS OF KENYA'S ECONOMIC DIPLOMACY 18
2.0 Introduction 18
2.1 Domestic Determinants of Kenya's Economic Diplomacy 18

2.1.1 Kenya's Economy....18
2.1.2 Ideological Orientation....19
2.2 The External Determinants of Kenya's Economic diplomacy: factors and actors....20
2.2.1 Introduction....20
2.2.2 The Capitalist Ties....21
2.2.3Polarity....23
2.2.4 Multilateral and Regional Trade Arrangements....23

CHAPTER THREE: KENYA'S ECONOMIC DIPLOMACY....30
3.0 Introduction....30
3.1 Kenya's Trade policy since independence....30
3.1.1 Import-Substitution Phase....30
3.1.2 The Structural Adjustment Programme (SAPs)....31
3.1.3 Trade Liberalization....32
3.2The impact of Kenya's trade policies....35
3.3 Trade: Commodity Exports and Imports in Kenya....37
3.3.1Trend of Exports and Imports in Kenya....40
3.3.2 Kenya's key trading Partners....41
3.4 Foreign Direct Investment in Kenya....42
3.5 Aid and Aid Conditionality in Kenya....44
3.5.1 Evolution of Foreign Aid in Kenya....45
3.5.2 Aid conditionality....46
3.5.3 Sources of Aid into Kenya....48

CHAPTER FOUR: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS....51
4.0 Introduction....51
4.1 Summary....51
4.2 Conclusions....52
4.3 Recommendations....53

BIBLIOGRAPHY **55**

Annexure I: Survey Questionnaire 61

LIST OF TABLES

Table 1: Summary of EAC Market Access offer for Liberalization 27
Table 2: ODA to Kenya (1963-2014) 45

LIST OF FIGURES

Figure 1: Total trade in Goods (1963-2015) 36
Figure 2: Kenya Real GDP Growth 1963-2015 37
Figure 3: Kenya's leading export commodities in millions from 1963-2014 38
Figure 5: Trend of Kenya's exports and imports as a percentage of GDP 40
Figure 6: Share of leading exports to major trading partners (in % of the total value of exports from 1963-2013) 41
Figure 7: Share of leading imports from major trading partners (in % of the total value of imports from 1963-2013) 42
Figure 8: Kenya's Foreign Direct Investment flows as a percentage of GDP 1963-2015 . 44

ABSTRACT

This study assesses the influence of economic diplomacy on Kenya's national interest since independence. It uses library method and relies on data from official policy documents and questionnaire interviews to assess how effectively Kenya's economic diplomacy has achieved its national interest and the factors or conditions that have determined Kenya's economic diplomacy since independence. The study adopts the dependency approach and Wallerstein's world system theory in evaluating the performance of Kenya's economic diplomacy which argues that underdevelopment in the south is conditioned by development in the North. The approach assumes that the integration of the third world into the world capitalist system causes underdevelopment of the countries at the periphery of global economy. The study assumes that the dependence of Kenyan economy on the western finance capital posed a significant problem to the attainment of its national interest. Studies on trade balance (trade policies, foreign direct investments, aid and aid conditionalities) and membership to various multilateral arrangements shows that Kenya's economic diplomacy rather than achieving its goals of boasting trade and investment is locked in dependency on the developed countries. Because of the important role of economic diplomacy in meeting Kenya's national interest, this study recommends that Kenya's Economic diplomacy must seek to transform the structure of the economy and free it from the burden of debt and dependency.

ABBREVIATIONS

ACP	African Caribbean Pacific
AGOA	African Growth Opportunity Act
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
DFQF	Duty Free Quota Free
DSM	Dispute settlement Mechanism
EAC	East African Community
EBA	Everything But Arms
EPA	Economic Partnership Agreement
EPC	Export Promotion Council
EPPO	Export Promotion Programmes
EPZ	Export Processing Zones
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
FOREX-Cs	Foreign Exchange Barrier Certificates
GATT	General Agreements on Trade Tariffs
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
ICT	Information and Communication Technology
IFA	Institute of Foreign Affairs
ILO	International Labour Organization
IMF	International Monetary Fund
ITU	International Telecommunications Union
KAM	Kenya Association of Manufacturers
KIA	Kenya Investment Authority
KNBS	Kenya National Bureau of Statistics
LDC	Least Developed Country
MFA	Multi Fiber Arrangement
MFA	Ministry of Foreign Affairs

MFN	Most Favored Nations
MNC's	Multinational Corporations
MUB	Manufacture Under Bond
NAM	Non-Aligned Movement
NGO's	Non-Governmental Organizations
NTB	Non-Tariff Barriers
NTP	National Trade Policy
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PRC	People's Republic of China
PSED	Private Sector External Debt
PTA	Preferential Trade Area
SAP's	Structural Adjustment Programmes
SSA	Sub Saharan Africa
TA	Technical Assistance
TBT	Technical Barriers to Trade
UK	United Kingdom
USA	United States of America
WTO	World Trade Organization

CHAPTER ONE
INTRODUCTION TO THE STUDY

1.1 Background to the Study

The primary focus of any state is to engage other actors in the international system so that it can attain a relatively favourable position. The state as a unit conceives of its own set of national purposes which it seeks to advance with respect to the international environment. These various purposes constitute the national interest. As Nuecheterlein (1976, p.265) observes, "national interest is the perceived needs and desires of one sovereign state in relation to other sovereign states comprising the external environment". In order to pursue its national interest, a state articulates a foreign policy. The foreign policy of a state often determines, to a great extent, its identity in the international system.

One of the major priorities of foreign policy is to further economic interests of the state. This position is shared by Nuecheterlein (1976, p.248) when he states that "the four basic needs which form the underpinnings of foreign policy are defence interests, economic interests, world order and ideological interest". An important means of doing so is economic diplomacy which, according to Rana (2007), "is the process through which a country relates with other countries with the aim of maximizing its economic gain in the area of trade, investment and country branding''. Economic diplomacy has bilateral, regional and multilateral dimensions. "It requires application of tact to analyze the effects of a receiving country's economic situation on its political climate and on the sending state's economic interests".

Economic diplomacy being a very important component of foreign relations for many states, most states articulate their economic aspirations in their foreign policies. Consequently, states engage each other in order to achieve economic goals either through cooperation, whereby they form economic blocs or bilateral relations, or by the defence of their economic advantages over other states through sanctions, domestic policies or even the use of force (Osuntokun 2005).

Since independence in 1963, economic development, the need to pursue an open economic policy and the demand for foreign capital and investment flows, inter-alia foreign direct investment (FDI) and overseas Development Assistance (ODA) have influenced Kenya's foreign policy. As a developing country, economic diplomacy forms the core of the country's foreign policy.

This study has assessed how effectively Kenya has employed economic diplomacy to achieve its national interests. This effectiveness was measured through the ability to extract best value for the country's products, services, and other tradeables through negotiations, trade agreements and other diplomatic means.

1.1 Statement of the Problem

The task of maximizing gains in an exceedingly dynamic domestic and international environment due to globalization poses a challenge to the actors of international relations. Now more than ever, state and non-state actors are expected to conduct economic diplomacy, an intricate and onerous role in a world characterized by globalization and increasing economic interdependence. To stay effective and relevant in a dynamic international arena, these actors must use suitable strategies in the conduct of economic diplomacy.

Developing suitable strategies calls for inventive and an inclusive approach in the conduct of economic diplomacy in order to effectively maximize on gains. The crux is to deliver results which translate to sustainable economic development and economic growth. Strategy in this case would take a multidisciplinary approach which takes into account both commercial and non-commercial aspects of economic diplomacy. Such a multidisciplinary approach sometimes proves to be a challenging task for practicing diplomats. This daunting task eludes most actors expected to deliver results in the conduct of economic diplomacy. When one is ill prepared, the tendency is to concentrate on one aspect of the economy with the effect that others remain neglected. In order to be effective in the conduct of economic diplomacy, one needs to develop a clear understanding of what is involved.

Two sets of factors have influenced Kenya's economic performance since independence, first internal structural conditions and second, the conjuncture of global

economic forces (Makinda 1983). Internationally the state encouraged integration of the Kenyan economy into the world capitalist system. This was done by ensuring Kenya remained dependent on the developed countries economies for markets, foreign investment and technology. Attracting foreign investment thereby became Kenya's key economic objective.

However despite the various attempts by the government to entrench Economic Diplomacy as a pillar of its foreign policy, the concept is not yet well articulated although it is promoted at different levels with fragmented agencies. This has been exacerbated by uncoordinated approaches of Economic Diplomacy between Ministries of Trade, Foreign Affairs, and the Presidency. This study raises the question to what extent has Kenya's economic diplomacy been able to promote national interest? And what are the various conditions that have determined Kenya's economic diplomacy.

1.2 Objectives of the Study

The main objective of this study was to assess the effectiveness of Kenya's economic diplomacy as a foreign policy tool.

Specific objectives were:

1. To examine the extent to which Kenya's economic diplomacy has been able to promote its national interest
2. To analyze the factors or conditions that have determined Kenya's economic diplomacy

1.3 Research Question

The study was guided by this overall research question: how effective has Kenya's economic diplomacy been as a foreign policy tool? Other research questions were:

1. To what extent has Kenya's economic diplomacy been able to promote its national interest?
2. What have been the determinants of Kenya's economic diplomacy since independence?

1.4 Study Assumption

The assumption of this study was that the dependence of Kenyan economy on the western finance capital posed a significant problem to the attainment of its economic objectives.

1.5 Justification of the Study

In the wake of Kenya's growing interest in economic diplomacy, a research on the effectiveness of economic diplomacy is essential as it offers a platform to develop an understanding for a proactive and an inclusive approach to economic diplomacy which is necessary for effectiveness and maximization of the benefits of economic diplomacy. This study offers the opportunity to understand the broad dimensions of economic diplomacy as well as the practical and policy implications for strategy in the conduct of economic diplomacy. The study is also important as it provides a knowledge base to conceptualize economic diplomacy for a general understanding of the subject for the students of international business and international relations and/or studies, while opening doors for further research and academic work on economics of diplomacy.

The policy significance of this study is that it offers an implied overview of elements that may guide the development of policy and performance targets for the Ministry of Foreign affairs and related ministries and government agencies in the proactive promotion of economic development. It will also guide the foreign ministry and training institutions in ensuring that diplomats are equipped with the necessary knowledge and skills for the complex and demanding role of economic diplomacy. A greater understanding of the different strategies of economic diplomacy that countries use will assist policy makers in developing economic diplomacy strategies. Furthermore, since economic diplomacy is a vast term that encompasses different elements a clear strategy overview will aid policy makers in understanding just what constitutes economic diplomacy.

1.6 Definition of Key Concepts

National Interest

Krasner (1978) offers a method of determining national interest by examining government preferences. His definition has three components; (i) they are objectives related to general societal goals (ii) they persist overtime and (iii) they have a consistent ranking of importance. National interests for this study, refers to all attempts by the state to promote economic development and wealth of a state also connected to the motive to survive and to strengthen power.

Economic Diplomacy

Economic diplomacy as defined by (Yakop &Bergeijik, 2011) is the diplomacy that is used to acquire goals through trade and commerce. It focuses on trade relations as opposed to political or cultural relations. For this study, economic diplomacy is defined as the conduct of foreign policy in such a way as to give topmost priority to the economic objective of a nation.

Most Favored Nation (MFN)

According to the MFN principle, any advantage in relation to a product granted by a member of the WTO to any other country with respect to custom duties must be extended to all like products coming from and to all other member countries (Art.I:1 of GATT). Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

Preferential Treatment

Principle that entreat WTO Members to take or prioritize action favouring developing countries trade interests, or to refrain from new actions that prejudice those interests. This principle is operationalized as the privileged access of developing countries products to the markets of developed countries and the right of developed countries to restrict imports and to subsidize exports.

Conditionalities; for the purpose of this study means conditions attached to funds disbursed by international finance institutions.

Foreign aid is "money or other aid made available to third world States in order to help them speed up economic development or simply meet basic humanitarian needs.'

1.7 Literature Review

Introduction

To further understand economic diplomacy, a broad overview of the definition and dimensions of economic diplomacy is necessary. These aspects include the scope (domestic and international policies, legal issues, national economic interest) and players (state and non-state). In the following sections, the study will highlight these aspects.

1.7.1 Actors in Economic Diplomacy

The state has for a long time remained the main actor in international relations. However, as Bayne and Woolcock (2013) observed that in the face of globalization and increased economic interrelatedness, limited human and institutional resources limit effective participation in global economic activities and arenas. The emergence of alternative diplomatic actors within and outside the state is the reality on the ground. In addition, these new diplomatic actors often work independently from the ministries of foreign affairs.

An increasingly multi-actor participation in diplomacy, foreign economic relations and public affairs remains the prevailing situation. The current international scenario is characterized by increased participation of non-state actors, working either alone or in partnership with the state actors. This picture is also true for economic diplomacy as many actors, both state and non-state are involved.

Saner and Yiu (2003) argued that, faced with globalization and competition for foreign direct investment as well as with the growing influence of international economic standard setting organizations (WTO, ITU, ILO etc), many countries have come to expect that diplomats specialized in economic diplomacy and commercial diplomacy more effectively serve their national interests in the economic and business spheres. The authors suggested that Ministries of Foreign Affairs need to expand their institutional capabilities in dealing with non-state actors and other government

ministries and learn to manage the multiple boundaries of today's complex economic and political realities.

Saner & Yiu (2003) argues that Foreign relations are still largely in the domain of governments and diplomatic activities are carried out largely by the ministries of foreign affairs. The rising interest in economic diplomacy has also meant that foreign ministries have to actively engage in economic diplomacy. Some have transformed their role from being solely responsible for foreign economic policy to becoming the overarching coordinator of inter-ministerial foreign economic policy formulation The diplomatic missions abroad are now expected to carry undertake economic diplomacy in their day-to-day activities. They further argue that the foreign ministries are no longer enjoying the monopoly of diplomatic activities (Saner and Yiu 2003).

Pigman (2005) observes that the government departments and agencies that have economic mandates, such as international trade, agriculture, industry and finance, as well as central banks operate internationally and are players in economic diplomacy though they do not describe them such. They represent a proliferation of channels of government representation, communication, information gathering and negotiation. He notes for instance that delegations to WTO forums are mostly comprised of representatives from the ministry of trade.

Pigman (2005) adds that heads of states and governments, ministers and members of the national assembly are also engaged in economic diplomacy. They undertake official bilateral visits accompanied by businessmen and investors from their capitals to interact with counterparts in the receiving country. Their statements are laden with invitations to visit and invest in their countries and promotion of some of the major export products.

Okoth (2007) observes that the media is an important player in economic diplomacy since it plays an important role in public diplomacy, shaping public opinion and creating international perceptions of the domestic political and security situation, policies, opportunities and potentials of a state. The media and more so the internet, she argues is increasingly used to bridge distance in the wake of globalization and as a tool for learning, trade, commerce, marketing and e-conferences. Multinational

companies, private corporations, activists and lobby groups have embraced the social media and are reaching out to growing numbers of users, both with and without the knowledge of state actors.

Woolcock and Bayne (2013) outline the distinctive features of economic diplomacy as one that the foreign ministry is especially not in the lead in driving decision making –process. More often the home based ministry is responsible for subject in question. A second distinctive feature he says is the greater involvement of private sector bodies. In conclusion he argues that economic diplomacy decision making process is therefore a complex process involving different ministries each with their own set of objectives. This book is very important to our study as an understanding of the decision making process is key to our assessment of the effectiveness of Kenya's economic diplomacy for the period under study. However the book though relevant to this study, is silent on how Kenya conducted its economic diplomacy since independence.

Levy (2011) examined the United States and the PRC macroeconomic imbalances of the last decade and the diplomacy surrounding them through the lens of political economy. He posited that there are significant internal divisions within each country and that the policy outcomes that emerge may differ significantly from those that a powerful, unitary actor might impose. The central thesis of his study was that the acknowledgement of conflicting and competing approaches among important interest groups within a country can suggest very different approaches to economic diplomacy than those that might be optimal for a unified counterparty. This study offered a basis upon which this study builds on to examine the effectiveness of economic diplomacy in Kenya by focusing on the role played by interest groups rather than just the states as unitary actors.

Rana (2007) examined the necessary conditions for successful economic diplomacy and asserted that economic engagement abroad involves more than the ministries of foreign affairs, commerce and industry; it includes the business units of the country, associations industry and chambers of commerce, the financial sector, business schools and think tanks and the tourism industry. (Rana 2007p.3).

Kenya's economic diplomacy has also been a subject of several university theses. Among them are Mukollah (2013) which analyzed Kenya's economic diplomacy in East Africa. She argued that Economic diplomacy has become the Centre stage of Kenya's African affairs. She also concludes that the involvement of other stakeholders in Kenya's pursuance of economic diplomacy is an effective strategy adopted by the government in promoting its economic diplomacy. Despite the gaps, the literature provided a basis upon which the current study builds on to assess the effectiveness of Kenya's economic diplomacy in achieving its national interest.

1.8 Theoretical Framework

This study adopted the Marxist theories of dependency and world system, given their theoretical usefulness in understanding economic diplomacy and Kenya's socio-economic formation in relation with capital. This defines the structural basis upon which Kenya's economic diplomacy has been shaped, similarly an assessment of the effectiveness of Kenya's economic diplomacy could be clearly understood in an integrated structure of the core and the periphery with Kenya in the latter'

Dependency approach and Wallerstein's world-systems theory is classified as a Marxist theory within the international relations discipline. Marxist theories are rooted in the analysis of global capitalism which is argued to be the vehicle of global inequality (Scot et al 2005,p.126). Thus to Marxists the main feature of world politics is that it takes place within the confines of world capitalism. In the world-economy the most significant actors are not the states or institutions but classes, and behavior of any other actors in world politics is embedded in class relations (Smith Et al, 2008, p.6). Consequently, the world economy has divided the world into two main opposing classes, the core and periphery.

1.8.1 Dependency Approach

The dependency school view underdevelopment as a product of the international economy. It is a major challenge to the modernization theory in Latin America made popular in the west towards the end of the 19th century. Such criticism of the modernization theory was led by Andrea Gunder Frank, Baran, and Samir Amin. Dependency can be defined as an explanation of the economic development of a state in terms of the external influences--political, economic, and cultural--on national

development policies. The dependency approach argues that underdevelopment is caused by the integration of the third world into the world capitalist system. The periphery necessarily backward and underdeveloped as it is exploited and 'blocked' from developing by international capitalism (Osvaldo 1996).

Theotonio Dos Santos emphasizes the historical dimension of the dependency relationships in his definition: [Dependency is]... "a historical condition which shapes a certain structure of the world economy such that it favors some countries to the detriment of others and limits the development possibilities of the subordinate economics...a situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected". (Theotonio Dos Santos, 1971).

Writing on the underdevelopment in Chile, Gunder Frank (1969) argued that; 'the structure of dependency extends from the metropolitan centre of the world capitalist system down to the most supposedly isolated agricultural workers who this chain of interlinked metropolitan satellite relationship tied to the central world metropolis and thereby incorporated into the world capitalist system as a whole. The nature of these ties differs in time and place thus producing difference in the political consequences to which they arise. These differences rest on the tendencies of the metropolis to expropriate the economic surplus of the satellite'.

Baran (1968) observed that capitalism in the periphery is stagnant. Interestingly, this is an anti- thesis to Lenin and Hobsian theory of imperialism which argue that the export of capital to the periphery will accelerate the development of capitalism in such countries where investment is profitable.

> Writing in 1968, Paul Baran argued that;
>
> "Instead of expanding and deepening the further development of capitalism throughout the world, the task of imperialism was to slow down and to control the economic development of the underdeveloped countries, he viewed the interest of the foreign investors as freezing the international division of labour, the less developed countries continue to be producers of raw materials".

Baran's argument was that capitalism did not transform the class structure of the industrial bourgeoisie into a dynamic one dominated by it, but rather resulted into

political and social condition of wealthy comparados and powerful monopolies and large land owners to the defense of existing social order (Baran 1968). This position adopted by Baran reveals that the bourgeoisie of the periphery play a second fiddle to the bourgeoisie of the centre through the mechanism of trade and investment.

Reflecting on the contemporary world situation of dependency, Cardoso and Faletto (1973) debunked the metaphysical relation of dependency between nations and states. They argue that such relations are made concrete through the existence of a network of interests and interactions which link certain social classes to other. The above analyses set in view the question of unequal development in the social formation of peripheral capitalism. Sami Amin (1980) puts it that;

> "The peripheral economies are 'disarticulated,' that firms in the periphery are not connected to each other in the same way as firms in autocentric economy'.

Amir (1980) acknowledged that industrialization was possible but observed lack of locally controlled capital goods sector linked to the production of mass consumable goods mean the process is not self-reliant. Amir's position is not mutually exclusive because there have been some marked changes in the growth of domestic capital: Productive forces are becoming more complex, and are developing. The bourgeoisie and the state in the periphery are fastening their role in the process of accumulation. This idea was emphasized in the Cardoso's model of "associated dependent development" which argues that there's been accumulation in the periphery involving simultaneously a differentiated expansion of three sectors of the economy- private, national, foreign and public (Cardoso & Faletto 1873). This implies that accumulation of capital and some degree of industrialization in the periphery is characterised by an alliance of international and local capital (Amir 1980).

1.8.2 World-Systems Theory

World-system theory is in many ways an adaptation of dependency approach (Chirot and Hall, 1982). Wallerstein draws heavily from dependency approach, a neo-Marxist explanation of development processes, popular in the developing world. A world-system is what Wallerstein terms a "world economy", integrated through the market rather than a political center, in which two or more regions are interdependent with

respect to necessities like food, fuel, and protection, and two or more polities compete for domination without the emergence of one single center forever (Goldfrank, 2000).

In his own first definition, Wallerstein (1974) said that a world-system is a "multicultural territorial *division of labor* in which the production and exchange of basic goods and raw materials is necessary for the everyday life of its inhabitants." This division of labor refers to the forces and relations of production of the world economy as a whole and it leads to the existence of two interdependent regions: *core* and *periphery*. These are geographically and culturally different, one focusing on labor-intensive, and the other on capital-intensive production. (Goldfrank 2000). The core-periphery relationship is structural. Semi-peripheral states acts as a buffer zone between core and periphery, and has a mix of the kinds of activities and institutions that exist on them (Skocpol, 1977).

Among the most important structures of the current world-system is a power hierarchy between *core* and *periphery*, in which powerful and wealthy "core" societies, dominate and exploit weak and poor peripheral societies. *Technology* is a central factor in the positioning of a region in the core or the periphery. Advanced or developed countries are the core, and the less developed are in the periphery. Peripheral countries are structurally constrained to experience a kind of development that reproduces their subordinate status(Chase-Dunn and Grimes, (1995).

The differential strength of the multiple states within the system is crucial to maintain the system as a whole, because strong states reinforce and increase the differential flow of surplus to the core zone (Skocpol, 1977). This is what Wallerstein called *unequal exchange*, the systematic transfer of surplus from semi proletarian sectors in the periphery to the high-technology, industrialized core (Goldfrank, 2000). This leads to a process of *capital accumulation* at a global scale, and necessarily involves the appropriation and transformation of peripheral surplus.

On the political side of the world-system a few concepts deem highlighting. For Wallerstein, nation-states are variables, elements within the system. States are used by class forces to pursue their interest, in the case of core countries. To tackle the question why the interstate system does not fall apart due to the lack of a unifying

political structure or a homogenous culture, Wallerstein (2004, P.24) contend that "what holds the system together is the efficacy of the division of labor."

He also argues that the core-like products are those that are produced under quasi-monopolies, while the periphery products are those that are produced more competitively (Wallerstein 2004, p. 28). When the products meet on the world-market, monopolized products are in a strong position and competitive products are in a weak position. As a result, Wallerstein (2004, p.28) argues that "there is a constant flow of surplus-value from the producers of the peripheral products to the producers of core-like products." This situation is what is called the 'unequal exchange' in the world-market.

Apart from the core-periphery distinction, Wallerstein noted that the notions of universalism and anti-universalism (racism and sexism) are central to the structure of the modern world-system. Universalism means giving priority to general rules applying equally to all persons consequently, rejecting particularistic preferences (Wallerstein 2004, p.38). Wallerstein noted that these two contradictions exist in the modern world system and are essential in allocating power, work and privileges. Wallerstein (2004, p.41) concluded that "this antinomic duo is as fundamental to the system as is the core-periphery axial division of labor."

To Wallerstein, the emergence of the modern world-system gave birth to the notion of sovereign states. Modern states exist in a large circle of states called the interstate system. Wallerstein (2004, p. 43) states that "sovereignty is a claim of authority not only internally but externally that is vis-à-vis other state. However, Wallerstein noted that core states tend to overlook the reciprocal recognition of sovereignty and intervene in the internal affairs of other states. Wallerstein (2004, p.55) contends that "strong states relate to weak states by pressuring them to keep their frontiers open to those flows of factors of production that are useful and profitable to firms located in the strong states, while resisting any demands for reciprocity in this regard."

Wallerstein went further to describe the weak states as colonies. By colonies Wallerstein meant administrative units that are defined as non-sovereign and fall under the jurisdiction of another state, normally distant from it (Wallerstein 2004,

p.55). The colonies originate as a result of the expansion of the world-system when the core tries to incorporate new zones to have access to new markets and resources. The colonies are governed in the same way as the "mother country" though they are not accorded the status of a sovereign state.

Although there is this exploitative relationship between strong states and weak states, Wallerstein also talks of the significance of the relationship that exists amongst strong states. To Wallerstein (2004, p.56) "strong states are by definition rivals, bearing responsibility to different sets of rival firms." Although the states are against each other, they have a harmony of interest in holding together the interstate system, and the capitalist world-economy as a whole. The states are pushed in opposite directions in a form of anarchic interstate structure but brought together in a coherent manner by the capitalist interstate system (Wallerstein 2004, p. 56).The strong states in the modern world-system can also be referred to as hegemonic powers.

This study lends credence to the concept of dependent development in the view of the fact that after independence the elements of imperialism conducive for capitalist industrialization began to emerge. This is evident by the increase bargaining position of the local elite.

1.9 Research Methodology

To have an empirical contribution, the researcher held interviews with respondents from the Ministry of Foreign Affairs and International trade, Ministry of Agriculture, the Treasury, Kenya chamber of commerce, Export Promotion Council and Kenya Association of manufacturers. This enabled the researcher in grounding her ideas and assumptions on a specific context for empirical data. The researcher had hoped that useful information could have been gleaned from interviews with key senor government officers but due to tight schedules, some were never honored.

1.9.1 Sampling technique and procedure

A purposive sampling technique was utilized to draw up the list of prospective informants for the study. Due to the limitations of time the researcher narrowed her sample size to 20 respondents who were willing to participate in the field research and was categorized as below.

(a) Senior officials from ministry of foreign affairs and international trade

From the ministry of foreign affairs, the researcher solicited background information pertaining to the officers understanding of the economic diplomacy activities undertaken by the ministry, their rating of the ministry performance in terms of economic activities, the impact of the merger of ministry of foreign affairs and that of trade and lastly the impact of the many international events/conference Kenya has hosted in the recent past. The researcher managed to interview at least three (2) informants. The director, international trade and a senior economist. The ministry officials were resourceful on the broader foreign relations between Kenya and other countries and although cagey and selective on the matters pertaining to foreign relations, they were useful with information requested by the researcher

(b) Ministry of Agriculture

A number of officials within the Agriculture ministry were targeted and participated in this study. The researcher managed to interview two (3) people from this category of informants for purposes of convenience. They include senior assistant director-agro industries development, assistant director of agriculture and a senior director.

(c) Kenya National chamber of commerce and Industrialization

Two (2) officials were sampled and interviewed. From this group of respondents, the researcher hoped to capture the overall role of non-state actors in the economic diplomacy activities of Kenya. They are a senior public relations officer and a trade officer

(d) Kenya Association of manufacturers

A total of 2 senior officials of the Association and one member were interviewed making a total of 3 informants. The senior official were the head of policy research and advocacy and a trade policy officer

(e) Export Promotion Council

A total of four (3) staff personnel at the export promotion council were interviewed. The manager, international trade, an assistant manager and a trade officer.

1.9.2 Data collection scope

This research depended on both primary and secondary sources of data. The instruments for collecting data from the field involved oral and written evidence through face to face interviews and written questionnaires. Face to face interviews were booked in the case of the senior officials from the ministry of foreign affairs and the Ministry of Agriculture. Researcher managed to visit the Ministry of Foreign Affairs, Ministry of agriculture, Treasury, Kenya chamber of commerce, Kenya Association of Manufacturers, and The Export Promotion Council. Documentation of these sessions was made through taking

(a) Primary data

First, the study solicited data through field research that involved visitations and oral interviews conducted within the above mentioned ministries and organizations. The aim was to get the people as first level stakeholders and their first-hand information pertaining to economic diplomacy as well as assess the impacts out of the same. The study also benefited from archival data informs of agreements and protocols both bilateral and multilateral entered by Kenya and other countries and that the researcher found relevant to the study, mainly drawn from the Kenya National Archives.

(b) Secondary Research

Library research initially informed the secondary source of information for drafting of this project. Jomo Kenyatta Memorial Library at the University of Nairobi, the University of Nairobi's Institute of Diplomacy and International Studies library, University of Nairobi department of political Science and Public Administration library all were the major sources of the secondary data. However, further review focused on scholarly books, related theses, unpublished dissertations, journals, local daily newspapers and magazines, and more so the internet.

1.9.3 Data analysis & interpretation

The information collected was analyzed, synthesized, collated and the resultant data were categorized in accordance with the objectives of the study. An assessment of the objectives and the findings of the study was done and based on this categorization conclusion and recommendations for further research were made.

1.9.4 Limitation of the study

The major limitation that this study had was literature which though available was scattered in various publications and the task of consolidating them to make constructive reading was daunting. In terms of interviews, the individuals to be interviewed were hardly available in their offices and the challenge was how to get hold of them. Bureaucratic obstacles also frustrated efforts to carry out interviews leaving the option of telephone interviews.

1.10 Study Outline

This study comprises of four chapters. In chapter one, the study comprises of the introduction, the problem statement, objectives, the research questions, justification, literature review, theoretical framework and study methodology. Chapter two discuses the determinants of Kenya's economic diplomacy encompassing both the domestic and external variables such as the economy, ideology, polarity etc. Chapter three discuses the performance of Kenya's economic diplomacy by focusing on trade balance (policies, exports and imports) and aid and aid conditionalities. Lastly chapter four comprises of the summary of findings, conclusions and recommendations.

CHAPTER TWO

DETERMINANTS OF KENYA'S ECONOMIC DIPLOMACY

2.0 Introduction

To understand Kenya's economic diplomacy, it is necessary to examine factors at the domestic and systemic level that impact on Kenya's economic diplomacy. These issues emerge from both the internal and the external environments-domestic and international environment. The major aim of this chapter is to find out how individual, domestic and systemic factors have impacted on Kenya's economic diplomacy. This chapter aims at testing the hypothesis that Kenya's economic diplomacy has been influenced by leadership, ideological and systemic factors.

2.1 Domestic Determinants of Kenya's Economic Diplomacy

2.1.1 Kenya's Economy

Kenya's economy at independence and the economic system that the ruling elite opted for was an economy dominated by foreign capital. The economy relied on export of coffee and tea, the two items which provided most of the country's foreign exchange earnings. Kenya's foreign policy since independence has outlined economic development as one of the main objectives. The flow of foreign private capital and increased borrowing from foreign and international institutions required the adoption of a pragmatic and conservative approach to economic diplomacy (Kaplan 1967).

Kenya's economy at independence also included a highly developed commercial production of an increasingly diversified range of agricultural products. Production for domestic consumption centered on cereals such as maize, wheat, rice, and livestock. To a lesser extent, sugar, rice and cotton are also produced. Major agricultural exports have been coffee, tea, pyrethrum, sisal and flowers. Agriculture has been the largest sector of Kenya's economy. By 1964, just a year after independence, its annual contribution to the GDP

However, the kind of economy after independence demanded that external relations be diversified for the benefit of the country. The country's economic base is agriculture-tea, coffee, horticulture, wheat, rice, maize, sisal, pineapples, pyrethrum, dairy products and hides/skins. The economy also relies on tourism and to a little extent on industry (petroleum products, sugar milling, cement, beer, soft drinks, textiles, vehicle assembly and paper) (Sessional paper 10 1965).

Kenya's economy has been performing poorly over the years largely due to inappropriate agricultural, land, and industrial policies compounded by poor international terms of trade and stringent conditions from bilateral and multilateral partners/donors. Kenya's economic diplomacy towards these external donors/partners has been geared towards the stabilization of the economy and restoration of sustainable growth (statistical abstract 1965).

2.1.2 Ideological Orientation

Two main ideological orientations, African Socialism and the Non-alignment movement, have in the past conditioned Kenya's economic diplomacy. Kenya's foreign pronouncements, actions, intentions, agreements, technical exchanges and negotiations, while under the guidance of national interest, have been influenced by the doctrines and/or principles of African Socialism and the Non-alignment movement. However, the extent to which they have conditioned Kenya's economic diplomacy is minimal. It has been argued that Kenya was from the outset integrated into the Western economic structures as a member of the bloc's ideological axis(Makinda 1983). Even at the height of the cold war Kenya allied with the West

African Socialism

The principles of African socialism were defined in the *Sessional Paper Number 10* of 1965. In this document, the government asserts that it is committed to pursuing the goals of political equality, social justice, human dignity, freedom from want, disease and exploitation, equal opportunities and a high, growing and equitably distributed per capita income (Sessional paper 10 1965). These objectives could be achieved through African socialism, a political and economic system which has its roots in traditional African societies. African Socialism was desirable because it would draw on the best of African traditions, such as political democracy and mutual social responsibility. It would thus differ from both *laissez-faire* capitalism and Marxian Socialism.

The document asserts that in foreign economic relations, the country would practice economic non-alignment, while at the same time seek and accept foreign economic assistance and participate fully in world trade. This means that Kenya would not be drawn into the East-West rivalry that was characteristic of the first three decades of independence. Always maintaining its independence, Kenya would deal with any country or international agency which could assist it although the country (Kenya) could choose the economic methods that were adaptable to it. This thinking shaped Kenya's economic diplomacy that aimed to achieve foreign benefits in various fields of the economy.

Non-alignment

The Non-alignment movement was an external development triggered by the cold war. It was adopted by Kenya as the country's posture in international affairs. It was a movement of those countries that chose to occupy the middle ground in the rivalry (Sessional paper 1965) between the communist East and the capitalist West. As a policy, it was consistent with the demands of national survival and interests of the new state. This was a pragmatic response to uncertainty about the reliability of the then bi-polar international system and the fear that the sovereignty of the newly independent state (Kenya) could be threatened by the resurgence of neo-colonialism and imperialism. Kenya chose to remain firm and resolute in what came to be known as positive non-alignment.

This was so as to pursue goals that would bring people food, education, medicine, and a better standard of life. Non-alignment did not imply non-commitment. In the government's view, it implied borrowing technology and economic methods and receiving financial assistance without commitment to any other country's political view. Positive non-alignment meant that Kenya could not stand aside when issues confronted Africa or the world. Positive non-alignment meant that Kenya had to forget about Western colonialism and imperialism so as to associate and make friends with those countries that extend an honest field of cooperation and trade. But Kenya would not exchange one master for a new one (Kenyatta 1965).

From the East, there was a danger of communism and from the West a danger of imperialism. By choosing the policy of non-alignment, Kenya would serve the interests of none other than its own national interests. Kenya intended to remain its own master forever. In Kenyatta's words:

> "We welcome cooperation and assistance, but we shall not be
> bought or blackmailed. We may be underdeveloped, and
> people may walk barefoot, our but we are a proud people – proud
> of our heritage, traditions and ancestry."(Kenyatta 1965)

2.2 The External Determinants of Kenya's Economic diplomacy: factors and actors

2.2.1 Introduction

As Rana (2007) describes economic diplomacy as the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is. The external world is made up of many actors; individuals, organizations and other states.

In this chapter, we discuss the external factors and actors that impacts on the conduct of Kenya's economic diplomacy. Important actors are the international organizations (WTO, EU). Factors include polarity and the capitalist ties.

2.2.2 The Capitalist Ties

Kenya was incorporated into the Western economy as a result of British colonialism. Kenya's domestic and international activities have always been strongly influenced by the colonial heritage left after colonialism. The colonial heritage has over the years determined the economic, political and military relations with Western (capitalist) countries in general but Britain in particular. Korwa and Ngunyi (1985) argue that the colonial policy made Kenya an industrial power and that most foreign visitors found Nairobi a better place for business than any other place in East Africa. Kenya's external policy of attracting investment can clearly be seen as a function of its capitalist heritage. Kenya grew to claim a high position in the periphery, becoming a client state that serves the wishes of the patron states, but able to dominate in the region. Kenya's foreign policy has thus been affected by the centre-periphery network.

According to Wallerstein (1974), the world can be divided into the core (centre) and the periphery. While the core monopolizes industrial production and technology, the periphery is seen as a source of labour and raw materials. The division does not end there. The periphery is divided into the core/centre of periphery and the periphery of the periphery. (Korwa and Ngunyi 1985), Kenya, as a consequence of the early capitalist ties, is the core of the periphery. This means that it is an important agent of the capitalist forces in the West. This further implies that Kenya's economic diplomacy will reflect not only its capitalist ties but also its desire to maintain the dominant position at the periphery. This network has maintained Kenya as a dependent state hence affecting its economic diplomacy. This can clearly be seen in the bilateral relations between Kenya and the countries from the West.

Dependence is used to mean a situation in which the economy of a certain country is conditioned by the development and expansion of another economy to which the former is subjected. (Santos 1970)The relation that develops between two or more economies, and between these and world trade, assumes a dependent nature. While the dominant ones can expand and can be self-sustaining, the dependent ones can do this only as a reflection of that expansion(Santos 1970) which can have either a positive or a negative effect on their immediate policies. The conduct of Kenya's economic diplomacy may, at times, have to reflect the desires of bilateral partners.

Economic diplomacy can be viewed as an externalized domestic policy. The actions or statements by a country directed to external/other actors are aimed at improving the domestic situation. The internal situation of dependent countries can only be understood if they are seen as being linked to the international economy, in which underdevelopment is a consequence and part of the process of the world expansion of capitalism.(Santos 1970)

In the world market, parts of the system develop at the expense of other parts. The sorry economic situation of developing countries like Kenya is due not to a lack of integration with capitalism but to the way in which they are joined to this system. This linkage plays a major role in the nature of a country's foreign policy. Kenya, like many other African countries, has been captured in the capitalist system due to various reasons such as trade, aid and technology. A number of scholars have argued that the technological superiority of advanced countries sets in motion automatic, persistent and cumulative forces that produce underdevelopment and perpetuate inequality (Furtado 1972), this affects economic diplomacy adversely.

The most important contribution of the capitalist ties to the economy of Kenya can be seen in the existence of Multinational Corporations, (M N Cs). These are large companies with subsidiaries in different countries (Madeley 1996). These companies often bargain with the host states in various issues including political ones which are of interest to them. At other times they may even lobby local political forces in order to influence domestic and foreign policies favourable to them.

Corporations from Europe, America and Asia dominate the Kenyan market. Their involvement can be seen in the consumer industry, hotels and travel etc. The most important M N Cs in Kenya are those established on the import substitution, producing consumer products. Foreign western companies in Kenya are very prominent in this sector. Most of them are found in the agricultural industry (Del monte, Kakuzi Limited, Unilever Kenya (British American Tobacco) and the tourist/hotel industry (Kempinski, Radisson Blu, Hilton etc). It is in such sectors that the Western firms would influence and shape the character of Kenya's economic diplomacy.

Multinational corporations impact negatively on the economy of a host country. Like a tick that drains its host of the vital blood, these companies channel the profits to their mother countries affecting the economies of the poor host countries. It has been hard for the government of Kenya to control the operations of these companies not because it doesn't want to but because it can't. According to Nzomo (1994) various factors constrain and

prevent the government from effectively controlling the activities of these trans-nationals (Nzomo 1994). These factors are identified as the complex nature and structure of the companies, the liberal government policy on foreign investment and weak institutional framework for bargaining and control.(Nzomo 1994) This implies that MNCs have a considerable impact on the economies, trade and people of a developing country like Kenya.

2.2.3 Polarity

Before the collapse of the Berlin Wall in 1989, the world was dominated by two powers, differing in ideology and orientation to issues. The US was open and pro-capitalist while USSR closed, totalitarian and socialist. This led to a rivalry that divided the world into two blocs, East and West. Foreign policy of small, dependent states like Kenya were at that time conditioned by the bloc rivalry. However, Kenya opted for the principle of non-alignment to counter the negative trappings of the rivalry. But as has been shown earlier in this study, this principle was only theoretical. Practically, Kenya's foreign policy was conditioned by the West capitalist ideology. After the end of the cold war, US, as the only super power, began to preach democracy throughout the world but with extra emphasis on sub-Saharan African states.

In Kenya, the American democratic principles culminated to diplomatic conflicts between Kenyan authorities and American diplomats. This affected Kenya's foreign policy as the Kenyan leadership under President Moi rejected most of what was suggested from outside. During Kenyatta's reign, there was no problem with the West. Western countries, and more so USA, adopted a policy of 'say no evil, see no evil, hear no evil' towards most African states. This changed with the end of the cold war.

The Post-Cold War period presented new opportunities and incentives to states to cooperate in a variety of ways. Non-state-based elements of regional and global governance too emerged to play unprecedented roles (Pierre and Ali 2007). The uni-polar world meant that political and economic developments in Kenya had to face severe scrutiny from most bilateral partners led by the US.

2.2.4 Multilateral and Regional Trade Arrangements

There are various systemic factors that condition a country's economic diplomacy. Kenya, like many other developing countries, depends on external assistance for its well being. These organizations influence a country's economic diplomacy through the conditions that they attach to the financial assistance, market opportunities at the global economy and other forms of aid that they provide to the needy countries.

World Trade Organisation (WTO) Rules and Negotiations

The World Trade Organization (WTO) system is a product of the Uruguay Round Trade Negotiations which was held between1986-1994. The WTO came into existence as an organization in January 1995.Kenya is a long-standing member of General Agreement on Tariffs and Trade (GATT) and now WTO. Its trade policy sphere is affected by the multilateral trading rules and by the negotiated reforms of tariffs and other trade policy instruments. A number of issues are of particularly interest to Kenya and are reviewed here

Dispute settlement

The Dispute Settlement Mechanism (DSM) is stipulated in Annex 2 of the WTO agreements. The WTO DSM was designed to secure the rule of law within international trade and provide all members with opportunities to exercise their rights under multilateral trade agreements. As pointed out by Alavi (2007), there are three principal obstacles to the use of DSM by countries in SSA. First, litigation costs are prohibitively high. Second, DSM has inadequate and inappropriate retaliatory mechanism for SSA in many ways: insignificant share of international trade (0.04% for Kenya); historical and colonial ties with specific developed countries; and dependence on developed countries for donor funds (duress factor). Finally, there is the lack of development component in DSM. The only instance where development considerations feature in the DSM is the S&D treatment provision which obligates panelists to consider any development issue raised by a developing country in a dispute. However, it does not instruct the panels to find whether the issue overrides WTO rules or not

The above difficulties deter developing countries like Kenya from using the DSM. Indeed apart from a few instances where Kenya has been enjoined in WTO cases as third parties, the country has resolved trade disputes through other routes. Examples include fish and fish products dispute with the EU in the mid-1990s; toilet paper and Egypt row in 2000; maximum residue levels requirement by the EU in horticulture products in 2001; increase in tariff on rice imports from Pakistan in 2005 to comply with EAC common external tariff regime; Kenya-Mauritius trade dispute on Kenya's ban on "day-old chicks) in April 2006 due to fears of Avian Encephalomyelitis (epidemic tremors).

Access for agricultural exports

Agriculture contributes about 23% of Kenya's GDP (KNBS 2011). It is also a source of employment to about 70% of the total labour force. It earns about 60% of the total foreign exchange, provides raw materials to agro-based industries and is the main source of the country's food requirements (Nyangito and Nzuma, 2005). In this regard, improved market

access for Kenya's agricultural exports through multilateral trade liberalization would have important consequences for the country.

Kenya is concerned about increased use of Non-Tariff Barriers (NTB) and Technical Barriers to Trade (TBT) by its trading partners. It is also concerned about tariff peaks in industrial countries against Kenya's primary export products and about prospect of erosion in key industrial export markets of the tariff preference it benefits under preferential schemes such as AGOA in the USA or the EU if WTO negotiations lower non-preferential tariffs.

As a member of the African, Caribbean and Pacific (ACP) group of countries, Kenya has had formal trade arrangements with the European Union since 1975 under the four Lomé Conventions between 1975 and 2000, and the Cotonou Partnership Agreement between 2000 and 2007. These agreements were non-reciprocal in the sense that even though most exports from ACP countries entered the Europe Union duty-free, imports from the EU to Kenya faced tariffs. Other members of the World Trade Organization (WTO) contested this preferential treatment of exports from ACP countries because the preferences were discriminative against them. In the Cotonou Agreement, ACP and EU members committed to negotiating a reciprocal Economic Partnership Agreement (EPA) compatible with WTO rules.

The EU-EAC Economic Partnership Agreement

Kenya and her East African Community (EAC) partner states are currently negotiating a comprehensive Economic Partnership Agreement (EPA) with the objective of contributing towards sustainable development, the gradual integration of the EAC into the world economy and fostering the structural transformation of EAC, among other objectives. The negotiations pertaining to the comprehensive EPA began in January 2008 but due to a number of contentious issues in the interim EPA, progress had been slow. Failure to sign the EAC-EU EPA negotiations agreement meant that exports from the EAC states to the EU would lose their preferential treatment and revert to the less generous Generalised System of Preferences (GSP). Products of export interest to Kenya faced higher tariffs, ranging from 5% to 22%; those from the other four EAC Partner states continued to enter to the EU under the Everything but Arms (EBA) arrangement, a component of the EU GSP that allows Least Developed Countries (LDCs) to access the EU market duty-free quota-free (Njeu and Odari). Kenya could not enjoy these preferences because she is classified as a developing country.

Predicated on the Cotonou Agreement, the EPA has two important defining principles-reciprocity and asymmetry (Institute of Economic Affairs 2008). Whereas reciprocity here refers to the liberalization of market access for goods from the EU into the EAC market, that

liberalization is asymmetric because EAC exports will gain duty-free quota-free (DFQF) access for substantially all exports to the EU immediately upon entry into force of the EPA, while only 82.6% of EU exports to the EAC will be liberalized, and this over a 25-year period (Institute of Economic Affairs 2008). The EPA contains agreements on the following issues: trade in goods; agriculture; fisheries; economic and development cooperation; and institutional arrangements and a dispute settlement mechanism.

Market Access

Market access issues make up a significant portion of the EPA. As indicated above, all exports from EAC except arms and ammunition will continue to enter the EU duty-free quota-free. On the other hand, 82.6% of European exports to the EAC (by value, not tariff line) will be liberalized in phases over a period of 25 years. Table 1 provides a breakdown of the market liberalization. It shows that 17.4% of the products that are excluded from the reduction schedule include mostly agricultural and other goods that are of strategic value to EAC member states. Further, 65.4% of items of the reduction schedule already face an MFN rate of zero. Essentially, only 17.2% of imports from the EU will be liberalized, and the majority of these are intermediate rather than finished goods. The aim of this arrangement was to allay concerns that liberalized EU imports would hamper development efforts in the EAC region.

Table 1: Summary of EAC Market Access offer for Liberalization

Category of Products	No. of tariff lines	EAC CET Tariff lines	Period	Tariff phase down and rate	% of trade (in value	Rationale used in negotiations
Exclusion List	1,323	-	-	Will not be opened up to EU imports	17.4%	Protection of agriculture, food security and rural development, industry and regional integration
Raw material/ capital goods	1,950	0%	T0[1]	2010- Tariff already at zero so no further reduction	65.4%	Already zero rated under EAC Customs Union
Intermediate products	1.040	10%	(T0+7) to (T0+15)	14.6%	Tariff phase down at annual incremental rate of 10% of tariff at T0	Industrial inputs which EAC Industries import from EU but which are not at the moment produced in EAC
Finished products	960	25%		Tariff phasedown at annual incremental rate of 5% of tariff at T0	2.6%	Non-strategic products in the context of EAC industry and agriculture sector development
Total EAC trade to be liberalized					82.6%	

Source: Ministry of Foreign Affairs and International Trade, Kenya

[1]T_0=year of entry into force of the EPA after ratification by both EAC and EU

Trade Concerns under EPAs for Kenya

i) Agricultural subsidies:

Some observers are apprehensive about the EU's commitment to prevent subsidized agricultural products from being exported to the EAC, considering the pervasive subsidization allowed by the EU's agricultural policy.

ii) Ratification:

For the EPA to come into full force, it will have to be ratified by all five EAC member states, the EU Parliament, and all EU member states. This multiplicity of ratifying authorities is already delaying the implementation of the agreement. The EU has indicated that in the event that the EAC states do not ratify the agreement in time, then all EAC states will revert to the GSP. Of the EAC states, Kenya stands to lose the most as she is classified as a developing country.

iii) Development Matrix:

One of the advantages of the EPA is that the EU commits to support EAC members states in improving their trade infrastructure and capacity. A development matrix has been drawn up noting the projects that the EU has undertaken to support. All the projects that have been earmarked for EU support are hard infrastructure projects such as improvement of road and pipeline networks, and bolstering of the energy and ICT infrastructure. Even though the text of the agreement indicates that the EU will support enhancement of soft infrastructure issues such as capacity building on SPS and TBT issues, the commitment is not in definite Euro amounts as is the case with the hard infrastructure.

v) Liberalization:

The decline of some industries due to liberalization in the 1980s and 1990s has been the basis of opposition of the EPAs, with the fear that imports from the EU would wipe out the manufacturing industry. A contrary view to this opinion is that the value of imports from countries like China and India has already overtaken that of imports from the EU, but Kenyan manufacturing has scarcely been affected (Ronge 2006).

Africa Growth and Opportunity Act (AGOA)

Since its enactment in 2000, the Africa Growth and Opportunity Act (AGOA) has been the centerpiece of the commercial relationship between the United States and Africa. This unilateral preferential law has provided Sub-Saharan African countries with the opportunity to export a wide array of goods to the United States duty-free and also quota-free. Kenya was

among the first Sub-Saharan Africa countries to qualify for preferences under the Africa Growth and Opportunity Act.

More than 90 percent of the exports from Kenya to the U.S. have benefited from AGOA and the Generalized System of Preferences. The bulk of Kenya's exports under AGOA are in the textile and apparel sector, comprising more than 70 percent of total exports. Among AGOA-eligible countries, Kenya is the second largest exporter of these products to the U.S and it has a market share of 23.2 percent (Paez, Kimenyi, & Mekalia 2010).

According to Wang, Wei & Liu (2015)before AGOA was signed into law the balance in trade of goods (exports -imports) between Kenya and US was valued at $127.3 million. Less than a year to the 2015 AGOA expiry date, trade balance gap multiplied eight fold. The AGOA has had positive impact on the Kenyan economy. On employment, there is an estimated 32,516 direct jobs at EPZ as of 2012 and another estimated 190,000 employed Kenyans in different sectors (.134 Whereas trade between Kenya and US increased from $163Million to $875Million in 2000 and 2010 respectively, US foreign direct investments in Kenya (stock) was $259 million in 2012 (USTR) (Blonigen 2012). AGOA has attracted a significant increase in FDI in the export processing zones (EPZs) and specifically the textile and apparel sector. Given that most of these firms are foreign owned, it is expected that programmes that transfer skills and technology to the local people be put in place.

However an analysis of the 15 years existence of AGOA shows that Kenya has not fully utilized the preferential programme (Groot et al 2007). The exports to the US have been dominated by a single item (i.e. textile and apparel) up to 70 percent of all the total exports. Some of the constraints that hinders Kenya's higher utilization rate of AGOA include; trade logistical challenges, stringent requirements to the US markets, inadequate financing for exporters, value addition related challenges, the demand of export items to the US market is higher than the capacity to produce(Keller & Yeaple 2013). Kenya can mitigate these challenges to increase the utilization of AGOA maximally. Some of these suggested measures include diversification and sensitization of products as earlier indicated; increased recognition and empowerment of the handcraft sector; quality assurance; capacity building of exporters; establishment of an association of exporters to curb rogue exporters and ease of doing business.

CHAPTER THREE
KENYA'S ECONOMIC DIPLOMACY

3.0 Introduction

This chapter explains the trade pattern of Kenya and the external world. It contains trading policies in Kenya, values of the major exports and import of commodities, performance of foreign direct investment, major trading partners in terms of export and import and the aid and aid conditionalities since independence. This chapter aims at testing the assumption that the dependence of Kenyan economy on the western finance capital posed a significant problem to the attainment of its economic policy objectives.

3.1 Kenya's Trade policy since independence

Trade policies are essential in the international trading system. According to Murshed (1997), trade policies enhances the macroeconomic position of the economies in the various ways; it encourages regional trading blocs, for instance the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) of which, Kenya is a member; may act as the substitutes or the complements of the monetary or fiscal policies depending on the nature of the economy and the policy depicts the fairness of trade among countries.

At independence in 1963, the new Kenyan government inherited a trade and industrial policy from the colonial rulers that was largely aimed at import substitution. Manufacturing in Kenya dated from the early twentieth century, but had not developed much beyond processed agricultural goods; the market remained limited, and there was little local capital or skilled management. Following independence, the government pursued a policy of attracting foreign investors to produce for the domestic and regional market. The country's trade policies and reforms have undergone through some phases since independence: first is the import-substitution (1960s and 1970s), then followed by the structural adjustment programmes (SAPs) and finally in 1990s there was the liberalization of trade.

3.1.1 Import-Substitution Phase

The import- substitution reform was aimed at enhancing the industrial development of the economy and the government was to play a leading role in formulating protectionist policies and guidelines that could enhance manufacturing industries especially those producing goods for export (Were et al. 2009). As a result, there was improved economic growth and trade balance was favourable and the exchange rate appreciated.

By 1980, however, the price of coffee had subsided and the earlier terms of trade gain had reversed. By this point Kenya's import substitution policy had essentially run its course: imports of consumer goods were low, which meant there were little room for future substitution and thus poor prospects for future growth.

Additionally, the few trade links Kenya had—notably with Tanzania and Uganda as part of the East African Community (EAC)—were evaporating. The EAC, which had been an important source of demand for Kenyan manufactures, collapsed in1977, as Tanzania tightened its borders and import demand in Uganda waned due to internal instability. With the already small export market shrinking, pressure for reform grew as the fault lines in the economy, which had been masked by the temporary influx of foreign exchange during the coffee boom, began to reassert themselves

3.1.2 The Structural Adjustment Programme (SAPs)

The Structural Adjustment Programme (SAPs) period was channeled to most of the developing economies by the International Monetary Fund in the beginning of 1980s. The reforms aimed at enhancing export promotion instead of the import- substitution policy with more use of tariffs on imports (Were et al. 2009). The reforms were aimed at improving the economic stability of the country (Rono 2002). Kenya signed its first Structural Adjustment Loan with the World Bank in 1980, which was conditional on the government adopting more liberal trade and interest rate regimes as well as amore outward-oriented industrial policy. A number of government documents outlined a new direction toward openness and liberalization in Kenya's trade policy.

However, in practice few of these changes were actually adopted. Many of the quantitative import restrictions—which had been the primary means of protection—were replaced with tariffs, but these tariffs often remained prohibitively high. In 1982 the government turned to the IMF for further funding, vowing once again to pursue greater liberalization, yet failed to substantially implement promised reforms. Tariffs on some goods were further liberalized, but for other items import controls were reintroduced. The SAPs failed to achieve the intended objective of improving exports and reducing imports so that there may be favourable external trade balance. This failure was as a result of the government failure to own up the policies because the

policies were not domestically formulated and could not consider the economic characteristics of the economy (Rono 2002).

3.1.3 Trade Liberalization

In the early 1990s, the trade liberalization policies were put in place at the global level and Kenya was not left behind in the adoption of these policies. Following the country's unfavorable macroeconomic performance like the fall in the economic growth and increased budget deficit, the country needed to adopt the liberalization policies. In this case, the trade quotas were reduced, exports and imports tariffs were reduced and exchange rate stated to float (Were et al. 2009). The floating exchange rate system aimed to improve exports as exchange rate transactions could be accessed by many exporters and hence improved trade. The policies aimed at 'export led growth' to improve the economy but the experience in Sub-Saharan Africa, including Kenya was that the minimized regulation and less government intervention did not enhance balanced growth as there was no proper system to promote peoples' welfare countrywide (Weeks 2001)

In the first half of the 1980s, despite its liberalization rhetoric, the government made only limited attempts to reform the Kenyan economy. The share of imports not subjected to quota restrictions did increase from 24 percent in 1980 to 48 percent and average tariffs decreased by about 8%, but this had little impact on Kenya's trade (Swamy, 1994). The government only followed through on policy reforms when it was compelled to do so by outside pressures, and was quick to abandon liberalization in the face of other economic priorities. In an effort to counter the foreign exchange crisis of 1982–1984, Kenya uniformly raised all tariffs by a full 10 percent.

In the second half of the decade, however, again under pressure from donors, Kenya began a more concerted and sustained effort at significant trade liberalization. This involved shifting import restrictions from quotas to tariffs, and subsequently decreasing tariff levels. In 1987, quantitative restrictions affected 40 percent of all importable items; by July 1991, import licenses were only used for health or security reasons (Swamy, 1994). The shift from licenses to tariffs caused an initial increase in some of the higher tariff bands, but over the course of the early 1990s these were lowered substantially. By 1997/1998 the trade weighted average tariff had fallen to

12.8 percent, and all tariffs were below 50 percent. While there were still some policy reversals during this period (notably when tariffs were raised in 1993 to cover a government revenue shortfall), the trend throughout the late 1980s and 1990s was clearly toward import liberalization.

Closely correlated with the decrease in quotas and tariffs Kenya pursued in the late1980s and early 1990s was the loosening of foreign exchange restrictions. Up until this point, the government strictly controlled all foreign currency transactions. Foreign exchange restrictions had been arguably a greater constraint on trade than direct quotas and tariffs, as import demand was dependent on the availability of foreign exchange allocations. In 1991 the government introduced the tradable Foreign Exchange Bearer Certificates, known as Forex Cs, which was a first step toward liberalizing foreign exchange restrictions. Through a series of reforms over the next few years the restrictions on the foreign exchange market were eased, and by 1994 Kenyans could freely trade in foreign exchange. This meant the availability (or lack thereof) of foreign exchange no longer determined the quantity of imports.

In addition to the import liberalization reforms, Kenya introduced a variety of export promotion platforms to help spur greater trade, all essentially aimed at eliminating the tariffs paid for the inputs of processed exports (Mwega and Ndung'u 2001). The first of such policies was the manufacturing-under-bond (MUB) program, which began in 1988. This platform allowed for the duty free import of factory plant and equipment, as well as raw materials, for manufacturers producing for export. The MUB program had some limited success, as by 1993 there were over 70 bonded manufacturers. By the late 1997, however, most of these factories had shut down, due primarily to a reduction in Kenya's garment quota for the U.S. market and the appreciation of the exchange rate and wages of the mid-1990s (Glenday and Ndii, 2003).

Export processing zones (EPZs) were introduced in 1990. Kenya provided generous incentives to attract new firms manufacturing for export, including corporate tax holidays, waivers for import tariffs, and exemption from numerous business regulations. Despite these incentives, initially very few firms stepped forward to participate in the EPZ program. In 1997, of the total 70 built-up units available in the country's five developed EPZ parks, only 22 were occupied by operational enterprises

(Glenday and Ndii, 2003). More recently, however, the program has shown greater success: today there are over 40 EPZs in Kenya, employing close to 40,000 workers and producing over 10 percent of the country's exports, up from approximately 3,000 and 1 percent, respectively, in the 1990s (Kenya Export Processing Zones Authority, 2008; Glenday and Ndii, 2003). The great majority of firms operating within EPZs in Kenya produce garments for export to the U.S.

In 1993, the Ministry of Finance began a third export promotion policy known as the Export Promotion Programmes Office (EPPO), a duty drawback scheme which fully refunds import taxes paid on inputs used in the production of exports. Unlike under the MUB and EPZ programs, firms do not need to be solely exporters to take advantage of the EPPO system, companies producing partially for the domestic market and partially for export can also reap the benefits. Largely attributable to this flexibility, the EPPO program was significantly more successful than Kenya's other two export promotion platforms. Over two-thirds of eligible exports benefited from the EPPO scheme, representing 35 percent of total merchandise exports over the 1993–1998 periods (Glenday and Ndii, 2003).

Throughout the 1980s and 1990s, thus, Kenya's trade policies evolved from import substitution toward outward orientation. Though it was by no means a straight forward journey, by the end of the period the country had a relatively low and harmonized tariff structure and numerous policies aimed at supporting the growth of exports. In 2000, recognition of the bottlenecks to trade resulted in a broad, draft National Trade Policy (NTP) to address these needs and spur investment. Previously, trade policy instruments were contained in different documents and laws administered by various institutions. The NTP was adopted in 2009 to create a consolidated policy framework and an environment conducive to facilitation of trade, analysing trade constraints, honouring multilateral and bilateral trade commitments and keeping up with international best practices in trading activities.

Traditionally, Kenyan economic diplomacy has mostly centered on export promotion. In this regard, the government assists the private sector by providing information about opportunities in world markets and giving specialised assistance in the design and implementation of market programmes and sales campaigns abroad. The EPC is

the major agency in promoting Kenya's exports. Its mandate is to co-ordinate and harmonise export development and promotion activities by providing leadership to all national export programmes. As the lead institution in the development and promotion of exports, the EPC gives an outward orientation to an economy in which exports face stiff global competition. The agency aims to consolidate existing export markets; enlarge the export supply base by assisting new exporters; and increase the competiveness of Kenyan exports (Murimi 2011).

The growing need for investment promotion is exemplified by the formation of Kenya Investment Authority (KIA), in the mould of the EPC. This investment promotion agency seeks to encourage and facilitate private investment for local and foreign investors (Incentive packages concerning facilitation, production and competitiveness currently target foreign investors and those producing for export. Consequently, the task of diplomats and government officers charged with promoting these activities is to provide Kenyan representation at trade forums, foster friendly relations that enhance trade, engage in trade negotiations, and lobby for acceptance of the government's objectives in order to promote exports and investments.

However, globalization drives the level of international trade by influencing policies and hence a country may not independently and holistically formulate and implement policies that best suit the respective aim of improving trade but has to adhere to the international requirements (Kriesler and Nevile 2003). In summary, the trade policies in Kenya have aimed at improving the level of exports hence trade balance. The gradual shift in policies from import substitution, structural adjustment programmes and the liberalization policies have had different achievements. However, the policies have faced various challenges like globalization of economies in enhancing exports and reducing imports.

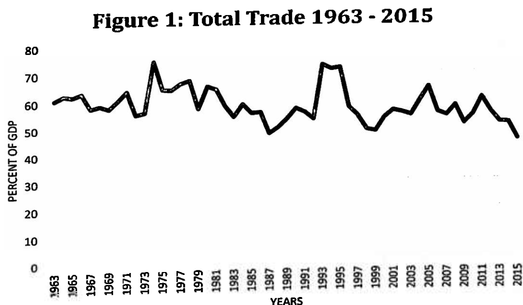
3.2The impact of Kenya's trade policies

Impact on trade

Figure1 presents Kenya's total trade in goods as a percentage of total goods period 1963–2015. Imports and exports declined sharply in the early 1980s, during Kenya's first period of halfhearted structural adjustment. Imports climbed steadily during the late 1980s following the stronger implementation of liberalization programs, but fell

off during the recession of the early90s. Exports experienced almost no growth up until 1992, very basic evidence that Kenya's trade liberalization had not been successful up to that point. Export growth did pick up with the implementation of the more successful EPPO export promotion scheme in the mid-1990s. Import growth resumed as Kenya came out of the recession and foreign exchange restrictions were eliminated in the mid-1990s.

Figure 1: Total trade in Goods (1963-2015)

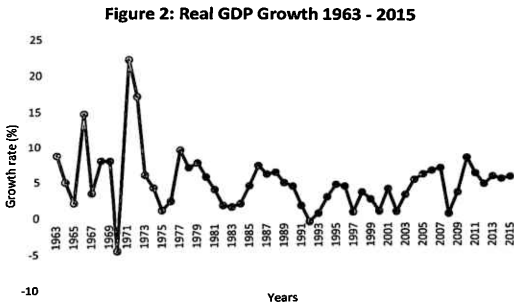


Source: Author, computed based on the Republic of Kenya, Economic Survey data for various years

Impact on growth

After having experienced several years of strong growth during the early years of independence, Kenya's economy performed poorly during the trade liberalization era. Figure 2 presents Kenya's real GDP growth for the period 1963–2015. Growth was quite volatile but followed a general downward trend; after having averaged over 7 percent in the 1970s, average annual growth slipped to 4.2 percent in the 1980s, and finally fell to only 2.2 percent during the1990s. Kenya experienced a depression during the early 1990s, brought on by a severe, drought, high inflation, and foreign aid suspension, among other causes.

Figure 2: Kenya Real GDP Growth 1963-2015



Source: The GDP measure is based on SNA93 which Kenya adopted in 2004.

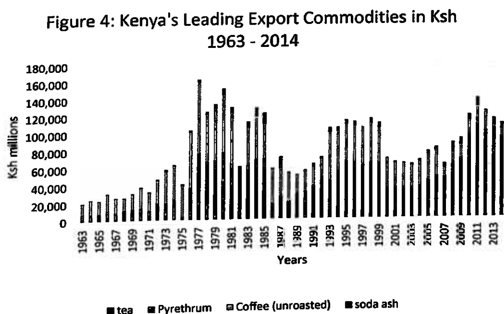
Of course, this sluggish growth cannot be attributed solely to Kenya's trade policies. As outlined above, the era of trade liberalization coincided with numerous macroeconomic shocks, including privatization, exchange rate reform, and domestic trade liberalization. These other determinants of economic growth undoubtedly had strong impacts on Kenya's performance, both independently and in interaction with one another.

3.3 Trade: Commodity Exports and Imports in Kenya

The importance of trade in the economy of this country is underscored by its high contribution to the G D P. The most important commercial commodities in Kenya have been agricultural produce; food, drink and tobacco. Others have been furnishings, shoes and leather goods, motor vehicles and their spare parts; general wholesale and general retail; industrial hardware, building materials and timber. Trade between African countries (such as Kenya) and foreign trading partners such as the UK has been one-sided.

Kenya's major exports are mostly tea, horticulture and coffee which are agricultural goods while main imports are especially intermediate capital inputs: crude oil, petroleum products and transport equipment (Branson 1986). The agricultural products have low demand elasticity and are easily subjected to high shocks in the foreign market. Besides, Kenya also exports cement and Soda ash among other commodities though in a smaller quantity. The main commodity exports are shown in the figure 3 below;

Figure 3: Kenya's leading export commodities in millions from 1963-2014



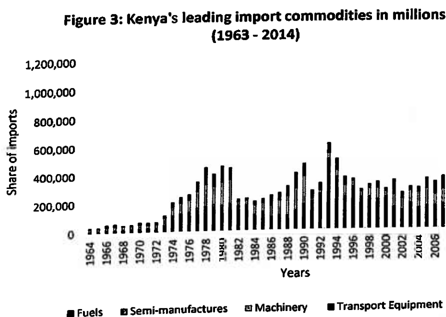
Source: Author, computed based on the Republic of Kenya, Economic Survey data for various years

From the figure 3, tea and horticulture (pyrethrum) are Kenya's leading exports and they have been increasing overtime though at a lower rate. In 2007, export in tea accounted for Kshs. 46,754 millions and had increased to Kshs. 104,648 million by 2013. Also, horticulture was leading in 2007 and was amounting to Kshs. 56,808 millions and by 2013; it was second to tea with the total value of Kshs. 89,339 millions. Other leading exports are coffee, cement and Soda ash. Kenya's export value amounted to a total of Kshs. 261,685 millions in 2007 and in 2013, it was Kshs. 322,660 millions (Republic of Kenya 2014). Therefore, there is need for the country to improve on the export so

that it may in-crease the level of competitiveness in the international market. On the other hand, the figure 4 below shows the country's major imports as from 1963-2014. The imports are mostly for consumption and manufacturing purposes.

From the two figures 3 and 4, it can be observed that there is increasing imports as compared to exports hence increasing trade deficit. In this case, the Central Bank of Kenya noted in 2012 that the monetary policy measures were being put in place to minimize imports of machinery and equipments that were being directed to roads and energy sector (Republic of Kenya 2012: 15). Besides, there was an anticipation of the improvement in the weather condition that was favourable in food production and hence reduce also some food imports hence reduce the increasing trade deficit.

Figure 4: Kenya's leading import commodities in millions from 1963-2014

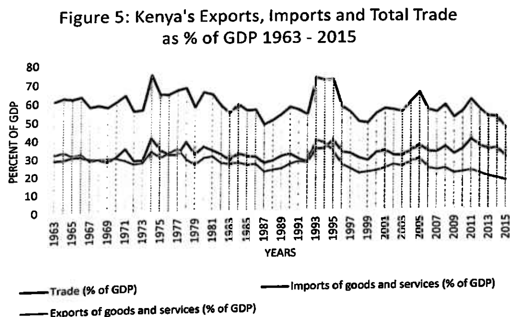


Source: Author, computed based on the Republic of Kenya, Economic Survey data for various years

3.3.1Trend of Exports and Imports in Kenya

Kenya's exports have been decreasing while imports are rising having an unfavorable effect on the country's competitiveness in the foreign market. The figure 5 below shows the level of trade balance in Kenya's exports and imports from independence as the percentage of GDP.

Figure 5: Trend of Kenya's exports and imports as a percentage of GDP



Source: Author, computed based on the World Bank (2014) data

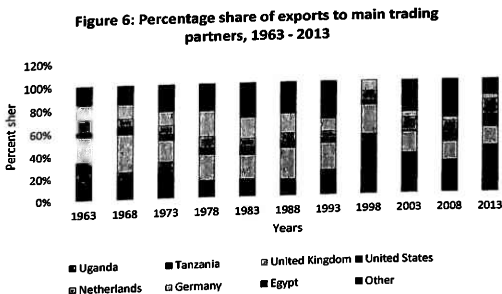
From the figure, Kenya's exports in 1963 were approximately 33 percent of GDP and it was fairly steady until 1977 where it was approximately 35 as the percentage of the GDP. From 1977, the exports declined to 21 percent of GDP in 1987 as a result of the external shocks like drought which affected adversely agricultural production, but it improved again to 39 percent in 1993 which was the highest in five decades. The improvement was as a result of the favourable weather conditions. In 2012, the percentage of exports as a percentage of GDP was approximately 27 percent. On the other hand, Kenya's imports had been fluctuating since independence. In 1963, the level of imports as a percentage of GDP was 30 percent and it remained fairly steady until 1974 when it rose to approximately 41 percent. The rise in imports value was exacerbated by the increase in the global price of oil which took place in 1973. The

trend was fairly stable until 2012 when it increased to an estimated level of 45 percent. This increased in import is mostly attributed to imports of intermediate goods, capital goods and some consumer goods. Therefore, the government should minimize on the imports but increase the level of exports of goods and services that could enhance favourable trade balance.

3.3.2 Kenya's key trading Partners.

The trading levels of Kenya with other countries may not result to the objective of economic growth and the other benefits that are designed from trade. This is because of the barriers of trade that may exist between and among countries. Such barriers according to Veenstra et al. (2011: 182) include inefficient/ failure in the market system, different cultural practices, absence of trust among countries and inefficient government systems. Despite the existence of the barriers, trade enhances growth and development within and among countries. According to this study, Kenya's trading activities ranges within East Africa and Africa as a whole, USA, Europe and Asia. The figure 6 shows the total value of exports with major trading partners;

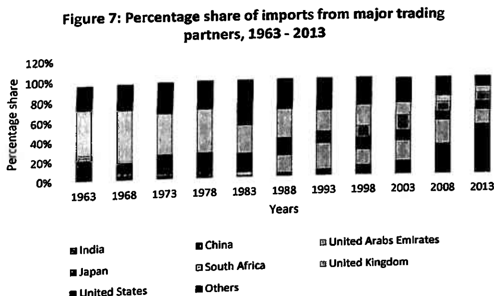
Figure 6: Share of leading exports to major trading partners (in % of the total value of exports from 1963-2013)



Source: Author, computed based on the data from the Republic of Kenya, Economic Survey.

The total value of exports from *1963* to *2013* grown to Kshs. *502,287million.* The country's value of imports has continued to rise. This rise is due to continued development in the infrastructure activities, where construction and manufacturing inputs are mostly imported. The share of the imports of goods and services is shown in the figure 7 as follows;

Figure 7: Share of leading imports from major trading partners (in % of the total value of imports from 1963-2013)



Source: Author, computed based on the data from the Republic of Kenya, Economic Survey.

From the figure 7 above, the value of the total imports for the period 1963 to 2013 shows that the country imports more from Asia which is led by India then China. The total value of imports in 2013 was Kshs.1,413, 316millions. It is therefore observed that imports are more than exports at a higher margin.

3.4 Foreign Direct Investment in Kenya

Foreign direct investment (FDI) in Kenya is defined as investment in foreign assets, such as foreign currency, credits, rights, benefits or property, undertaken by foreign national for the purpose of production of goods and services, which are to be sold either in the domestic market or exported overseas (Investment Promotion Center Act, Chapter 518). The Central Bank of Kenya keeps records of FDI transactions.

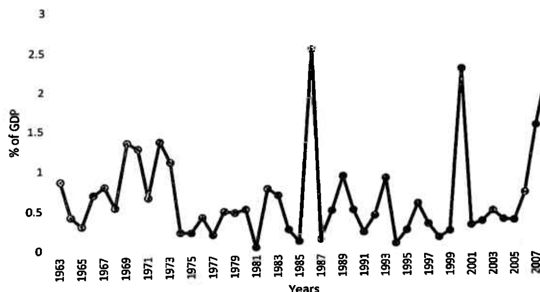
Kenya like most of other African countries has recently liberalised the investment environment. Until 1995, all foreign investments flowing into the country were subject to approval by the Central bank. The Investment Promotion Act of 2004 clearly spells out the government commitment to attracting FDI in Kenya. This was necessitated by the realisation that FDI in Kenya was declining during the last decade, while it rose in other countries in the region (Kenya, 2006). In addition, increased competition among African countries in the global FDI also necessitated Kenya to address the domestic impediments to foreign investments. According to the Investment Act of 2004, foreign ownership is only restricted for insurance industry, telecommunication industry, and companies listed on the Nairobi Stock Exchange, to seventy-seven, seventy and seventy-five per cent, respectively.

Kenya's FDI inflows have been subject of fluctuations particularly in the last decade (see Figure 8). Analysis shows that Kenya has lost its competitiveness in attracting investment. Kenya has also lost in terms of retaining the stock of investment. The loss in Kenya's investment competitiveness is the result of many inter-connected factors such as negative perception by investors about political instability, poor governance, corruption, inadequate infrastructure, insecurity, crime, theft, and policy instability. Private investment which was growing at an average of 10% between 1985 and 1989 only grew by 0.4% between 1997 and 2001 (Central Bank of Kenya, 2006).

Kenya has since recovered, but it only recently surpassed its former peak. Figure 8 shows Kenya's FDI as a percentage of GDP. When compared with Kenya's domestic savings rates, Kenya's FDI signals a vulnerable current account because of weak domestic savings and investment.

Figure 8: Kenya's Foreign Direct Investment flows as a percentage of GDP 1963-2015

Figure 9: Foreign Direct Investment, net inflows, % of GDP 1963 - 2015



Source: Author, computed based on the data from the Republic of Kenya, Economic Survey for various years

3.5 Aid and Aid Conditionality in Kenya

Development aid comprises those resources provided by donors to recipients, which fits the definition given by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). It comprises both direct financial aid and technical cooperation or technical assistance (TA). The latter consists largely of grants to nationals of aid-receiving countries for education or training, often conducted outside the national's country, and the cost of consultants, advisers, administrators, teachers, and so on, hired to work in the aid-recipient country, as well as equipment furnished to facilitate the transfer of skills, technology and experience (OECD 2005).

3.5.1 Evolution of Foreign Aid in Kenya

Kenya followed a capitalist, open market approach during years when the governments of most other sub-Saharan African countries were bringing much of industry under state control and otherwise heavily intervening in their economies. Kenya's political and economic interests were clearly allied with the West, and OECD countries – most notably the UK, as the former colonial power were keen to maintain this allegiance (Mwega 2009). By consequence, total aid to Kenya rose steadily in nominal terms from Independence until around 1990, in which year more than $1 billion was provided in development aid (Table 2). The whole section will keep referring to the table for in depth analysis of the trends depicted by aid flow into Kenya.

Table 2: ODA to Kenya (1963-2014)

Year	NET ODA RECEIPTS IN USD Millions	Year	NET ODA RECEIPTS IN USD Millions	Year	NET ODA RECEIPTS IN USD Millions
1963	55,590,000	1981	448,150,000	2000	512,720,000
1964	56,710,000	1982	484,600,000	2001	471,230,000
1965	72,130,000	1983	396,100,000	2002	392,810,000
1966	55,410,000	1984	408,430,000	2003	523,000,000
1967	36,710,000	1985	426,660,000	2004	660,240,000
1968	60,710,000	1986	442,960,000	2005	759,200,000
1969	55,810,000	1987	557,220,000	2006	946,700,000
1970	57,350,000	1988	832,030,000	2007	1,326,780,000
1971	66,850,000	1989	1,059,700,000	2008	1,365.960,000
1972	71,860,000	1990	1,181,290,000	2009	1,776,200,000
1973	94,970,000	1991	916,460,000	2010	1,628,570,000
1974	116,580,000	1992	883,140,000	2011	2,474,230,000
1975	124,820,000	1993	914,390,000	2012	2,653,000,000
1976	154,600,000	1994	676,630,000	2013	3,312,000,000
1977	160,760,000	1995	731,850,000	2014	2,665,000,000
1978	245,610,000	1996	595,020,000		
1979	348,340,000	1997	448,620,000		
1980	394,790,000	1999	310,470,000		

Source: DAC of OECD: Kenya-Net Official Development Assistance and official aid received

The primary motivations for providing aid are developmental (to promote economic growth and poverty alleviation in poor countries),commercial (to cement commercial and financial relations with the aid recipient, opening markets, assuring opportunities for investors, contractors and suppliers from the aid-giving country) and political (to maintain the allegiance of governments that are politically aligned with the aid-giver; a particularly prominent feature of aid relationships during the "Cold War" era. (Maizels and Machiko 1984).

Kenya, since her independence in 1963, was a logical candidate to receive aid for all of the above reasons. First, the government's management of the economy was prudent and the economic track record was relatively good, at least through the 1970s, and, despite a mixed record on economic policy reform and macroeconomic outcomes in the 1980s, still relatively better than most of SSA. Kenya was for many years a relatively attractive locale for foreign investment, at least within the SSA context, especially for consumer goods industries targeted at the East African market prior to the collapse of the East African Community (EAC) in 1997. And throughout the years of the Cold War, Kenya consistently aligned itself with the West both economically and politically. However, the end of the Cold War in 1989, which essentially eliminated the geopolitical motivation for aid, coincided with a weakening of economic reform efforts and deterioration in economic performance in Kenya in 1989-92 (Hazlewood 1991).

3.5.2 Aid conditionality

The symbolic end of the Cold War in 1989 with the fall of the Berlin Wall was followed by abrupt change of regimes in a number of former Communist countries. For the most part the Cold War had kept the focus of Western donors on supporting allies and undermining leftist regimes in Africa. Kenya was seen as a stable country in a turbulent region where Uganda and Sudan had experienced civil wars, and Somalia and Ethiopia (at different times) had received military aid from the Soviet Union. Kenya was a pro-market capitalist state. After the Cold War the West began applying a somewhat tougher standard to the behaviour of former non- Communist authoritarian regimes in terms of human rights and democratization (Mosley et al 1991),

Through much of 1990 and 1991, the United States, particularly U.S. Ambassador Smith Hempstone complained, sometimes publicly about human rights abuses. Hempstone warned the Moi regime in May 1990 that future aid money would likely be concentrated on nations supporting human rights and democratization. The United States was beginning to back up his words, holding up funding: first $5 million in August 1990, then $25 million in November specifically pending human rights reforms. In the months leading up to the freeze in late 1991 on new funds, donors were often inconsistent, sometimes increasing funding, sometimes slowing it down; some donors praising the regime, others condemning it. It was only after dramatic mass public protests that they finally united, temporarily, to cut off funds.

The freeze of aid in 1991 therefore followed a poor reform record in relation to multi-partyism, human rights and political governance and it sparked a downward trend in external assistance. According to the World Bank (1998), donors conditioned a resumption of aid to the early implementation of political reform, which included greater pluralism, the importance of the rule of law and respect for human rights, notably basic freedoms of expression and assembly, and firm action to deal with issues of corruption. President Moi surprised his supporters in December 1991 and approved the return to multi-party elections just a week after donors at a consultative meeting in Paris froze new funds to Kenya pending economic reforms. (Brown 2001) notes that despite this move, aid deteriorated to883,140 in 1992 and continued to dwindle for about USD 100 million for three consecutive years.

This did not last for long since in 1996, donors accused Kenya of backsliding on agreed reforms leading to proliferation of more aid conditionalities. In mid-1997, the International Monetary Fund (IMF) suspended the ESAF programme due to unsatisfactory handling of the Goldenberg scandal. The World Bank also closed the Structural Adjustment Facility without releasing the second tranche. In 2000, drought related emergency relief activities accounted for an increase in donor aid from 603.75 in 1999 to 784.33 in 2000 (Brien and Ryan 2001)

Moreover, the IMF imposed another freeze in 2002, ostensibly for economic reasons but with the claim that Kenya is unable to root out corruption in its governance system, followed by protracted negotiations with the Kenyans to restore aid. In

February 2003, the European Union warned in a statement that its aid to Kenya was in jeopardy and said that institutions created to fight corruption had been impeded in their operations. In the same year, following a successful CG meeting in which donors were pleased with Government of Kenya's commitment to fight severe corruption there were commitments to disburse aid with conditions such as: implementing reforms spelled out in the ERS, completing the new constitution, combating corruption, pursue civil service reforms, privatization of state owned enterprises, trade reforms, and separation of policy formulation from regulation in the management of financial institutions (Wafula 2006).

3.5.3 Sources of Aid into Kenya

Kenya has received heavy inflows of aid in the past, with gross ODA inflows rising from an annual average of around US$ 200 million in the 1970s to over US$600 million in the 1980s and to slightly over US$1 billion in 1990–96 (KNBS 2000). (These last two figures include a significant amount of forgiveness of previous ODA debt.) Kenya has succeeded in attracting aid from all members of the donor community, both bilateral and multilateral. While ODA flows have diminished somewhat in recent years, at the peak in the early 1990s net aid inflows reached almost US$40 per capita, and were equivalent to 14% of GDP and to approximately 45% of the government budget (KNBS 2000). Since 1980 a significant proportion of this aid has come in the form of balance of payments support for structural adjustment—16% in 1980–96. While the share of bilateral assistance provided in this form was lower, for the World Bank over the same period it accounted for 43% of total lending (KNBS 2000).

Kenya has received approximately three-fourths of its total aid from bilateral donors, with no distinct trend toward greater reliance on either multilateral or bilateral donors. The share of multilateral aid increased moderately in the 1980s, primarily due to the large disbursements of World Bank adjustment lending, but the bilateral share rose again in the 1990s with the decline in new adjustment lending after 1991 (Wafula 2006..Bilateral aid has been predominantly in the form of grants—72 per cent of the total—with the share of grants actually increasing in recent years, whereas multilateral aid has been predominantly in the form of loans—86 per cent. The principal source of multilateral loans has been the World Bank Group (WB),

accounting for almost 80 per cent of total loans in the 1970-2004 period, with the African Development Bank (AfDB) accounting for 11 per cent.

While the overall shares of multilateral and bilateral aid sources have not changed markedly over time, there have been significant changes within the two categories. The World Bank, which accounted for 20 per cent of total flows in the 1970s and 1980s, has seen its share of total disbursements reduced to 16 per cent in the 1990s, due to the growing importance of certain bilateral donors, the significant reduction in disbursements for balance of payments support since the early 1990s, and a shrinking portfolio of project loans. The other principal multilateral agencies, the AfDB and the European Commission (EC), have each contributed a much smaller share of Kenya's ODA (Randel & German 2000).

In addition to those already mentioned above, it has received aid from Australia, Austria, Belgium, China, Ireland, Korea, Spain, Switzerland and various Middle Eastern governments and aid agencies. Among the most notable trends within the bilateral group has been the decline in the share of the United Kingdom, which was Kenya's leading development partner in the immediate post-Independence years of the 1960s and early1970s. The nominal value of UK aid has risen only modestly over the years, from an average of US$37 million per annum in the 1970s to US$62 million per annum in the 1980s, falling back to US$55 million per annum in the 1990s and US$ 57 thereafter. Over this same period Japan's annual average ODA to Kenya increased from insignificant levels in the early 1970s to US$60 million per annum in the 1980s and to US$170 million per annum in the 1990s and dropped to US$ 150 million after 2000 (MOFA 2005). This is not an unmixed blessing however, since Japanese aid (and the French) has a higher share of loans to grants (60 per cent loans in the 1990s) than the rest of Kenya's ODA.

Another significant trend has been the declining share of many medium-sized donors, including the Scandinavian countries, Canada and the Netherlands. Sweden's aid actually fell in nominal terms, from an average of US$25 million per year in the 1980s to US$23.5 million per year in 1990-96. The trend was even more pronounced for Norway (with which Kenya actually broke diplomatic relations during 1990-95)

whose aid disbursements fell from US$25 million per annum in the 1980s to US$2.5 million per year in 1992-96 (KNBS 2000).

In conclusion the dependence of African governments on aid – as a way to increase their budgets and to deliver goods and services or other political promises they have made to their populations – makes governments unwilling to take stronger policy positions or chart a development strategy outside of the purview of donors. They are often afraid of risking reductions in aid that could undermine their political support and/or cost them the next election

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.0 Introduction

This study set out to assess the effectiveness of Kenya's economic diplomacy in meeting the national economic interest. The study provided an overview of its broad dimensions, highlighting the actors and the determinants of Kenya's economic diplomacy. It also provided insights on the performance of Kenya's economic diplomacy by analyzing trade and investment policies and their implications both within the bilateral and multilateral system.

4.1 Summary

This project sought to assess the effectiveness of Kenya's economic diplomacy in achieving national interest by raising two research questions, namely: To what extent has Kenya's economic diplomacy been able to promote its national interest? What have been the determinants of Kenya's economic diplomacy since independence? These questions were posed under the assumption that the dependence of Kenyan economy on the western finance capital posed a significant problem to the attainment of her economic objectives.

This study found that to a large extent Kenya's economic diplomacy has been able to promote its national interest. There is general positive impact on trade, however these has not translated to meaningful economic growth for the country. Despite all the efforts by government to boost the volume of Kenyan exports, the balance of trade remains in favor of foreign trade partners. On Foreign direct investment, analysis shows that Kenya has lost its competitiveness in attracting investment. Kenya has also lost in terms of retaining the stock of investment. The loss in Kenya's investment competitiveness is the result of many inter-connected factors such as negative perception by investors about political instability, poor governance, corruption, inadequate infrastructure, insecurity, crime, theft, and policy instability.

Sound economic procedures and a record of realism in foreign strategy and territorial affairs have put Kenya to a position of relative administration that makes it exceptionally versatile to worldwide changes. Since independence in 1963 this has

taken the form of 'positive lack of bias' in outside relations. In following this strategy the nation has shunned ideological and geopolitical organizations together; seeking neutral co-operation without respect for other countries political or economic inclinations, while avoiding open military confrontation. This posture expresses itself particularly in Kenya's economic dealings.

At independence, it acknowledged the difficulty of separating itself from the economic and political ties arising out of its colonial past. Now, however, it must recognize shifts in the global economic power structure. Hence despite dependence on foreign markets for its primary exports, sources of imports or aid, and the rapid changes taking place in the international arena, Kenya always avoids any form of external pressure from any one country or group of nations. It has traded with former members of the USSR, with Asia; and with European and North American countries, in order to create an economy not wholly reliant on any one bloc. In this way Kenya maintains its objective of preserving the structure it built to its own design, based on the precepts of African socialism and drawing on whatever influences it considered appropriate to its particular circumstances. This is especially true of its assumption of free market policies.

4.2 Conclusions

In conclusion the following have been noted, that there is low access to international markets due to tariff peaks and escalation of tariff barriers and technical barriers to trade despite continued participatlon in the multilateral regional and bilateral trade agreements. Confirming the study assumption that Kenya's dependence on the western finance capital posed a significant problem to the attainment of her economic policy objectives.

Exports remains concentrated both in traditional market destinations and primary products with COMESA being the leading market destination for Kenyan products followed by the EAC and the European Union. There is lack of trade centers or warehouses in priority export markets. The country lacks sufficient branding of its products and services for sale to the international market and for the few available ones, the —Made in Kenya products and resources are not well defined and packaged.

Other challenges include limited resources to missions abroad, lack of adequate technical expense stationed in missions abroad, limited funds from the government to open up missions in potential market countries and a weak partnership with the private sector. In conclusion, Interviews conducted by the study informed that the renewed focus by the government on economic diplomacy though has been effective in that it has brought with it tangible economic benefits, economic diplomacy benefits has not been fully exploited.

4.3 Recommendations

From the foregoing findings, the following recommendations are suggested:
Kenya's Economic diplomacy must seek to transform the structure of the economy and free it from the burden of debt and dependency. This can be done by developing capacity to identify the diverse nature of economic opportunities that the country can effectively reap the maximum benefits in pursuit of economic interests and goals. Kenya should consider setting up a task force to identify products for which the country has a comparative advantage in producing and to diversify its export base. Targeted incentives could be considered to nudge exporters toward producing new products.

In addition, promotion of research and development in the area of economic diplomacy could be a useful strategy not only to inform policy decisions but also to proactively impact the bilateral and multilateral engagements. Also designing a framework of information sharing between the Kenya's Ministry of Foreign Affairs, economic departments, diplomatic missions, companies, other institutions with an economic component; constantly updating the macroeconomic information sheet on Kenya; Facilitating dialogue and information exchange with other central and local public institutions, as well as with the business community. This includes ensuring appropriate coordination among institutions in promoting Kenya's economic interests.

Build domestic and regional supply chains. Measures such as conditional incentives for exporters that procure raw materials and intermediate inputs from beneficiary countries in key regional economic communities should be considered. As a regional leader, Kenya should aggressively pursue the growth of intraregional and intra-

continental trade and the development of regional supply chains, as platforms for strengthening international export competitiveness

Enhance competitiveness. A number of measures should be implemented to reduce transaction costs and increase productivity. Among the key issues are infrastructure development, better transportation systems, trade facilitation and worker training. Kenya should eliminate constraints such as high cost of energy and poor infrastructure that place her exports at a comparative disadvantage absent the preference. An improvement of production capacity will also enable Kenya to expand the basket of exports from raw agricultural commodities to higher-value goods that will reap higher revenues, and will be less vulnerable to the vagaries of international commodity markets and weather.

The study is however not conclusive, it would be interesting to see the dimensions and implications of economic diplomacy as identified in this study taken up for further research. The influence of political diplomatic appointments in the effectiveness of economic diplomacy would also be an interesting area. This is because, a good number of Kenyan envoys especially the head of missions are not diplomats by profession but are connected to the appointing authority. In Kenya for example, ambassadorial positions are usually given to politicians from the ruling party who lost their parliamentary seats but are still loyal to the government. While some of these envoys proceed to carry out their diplomatic duties effectively, some are a big disappointment and further research is needed to ascertain the pros and cons of political diplomatic appointments and how it can influence the effective conduct of economic diplomacy.

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ANNEXURE I

SURVEY QUESTIONNAIRE

CONFIDENTIAL INFORMATION

The answers to the survey questions are confidential and the identity of the respondent or the institution will not be revealed.

What is the research on economic diplomacy about?

This survey is part of research on economic diplomacy conducted by Modester Achieng from University of Nairobi, Department of Political Science and Public Administration as a fulfillment of the degree of Master of Arts in International Relations.

The aim of the survey is to assess the effectiveness of Kenya's economic diplomacy in meeting its national interest. (the interests at stake, the dimensions and the determinants). This survey is an important part of the research, because it allows an insight into the situation, thus the necessary actions for the development of effective economic diplomacy.

It shall take 10 to 15 minutes to fill out this questionnaire.

Personal Information

1. Name (Optional): ________________________________
2. Age: ____________________ (Years) ________________
3. Gender: Male/Female______________________________
4. Qualification: ___________________________________

Employment Details

5. Designation (Level): ______________________________
6. Total service: ____________ (Years)

Please provide a brief account of your understanding of economic diplomacy.

Do you think that Kenyan economy needs economic diplomacy? If yes explain

Has Kenya has seen real benefits of economic diplomacy in terms of overall economic development?

Please name the institution(s) that would, in your opinion, be best suited to promote the economic interests of the country

Are you familiar with the economic diplomacy activities conducted by the ministry of Foreign affairs and International trade?

How would you rate Kenya's performance in terms of trade, foreign direct investment and management of aid flow?
Since the merger of MFA and IT, do you think Kenya has benefited in terms of increased trade volumes?

Kenya has paid host to several international conferences in the year 2016 such as the WTO 10th Ministerial conference, UNCTAD etc, How have these events translated to concrete benefits for the Kenyan economy?
In what sectors of agriculture has Kenya sought foreign technological expertise?
How successful have agricultural programmes initiated by foreign entities and countries been in Kenya?
How has Kenyan Farmers gained from economic diplomacy?

Lack of readily available modern technologies has been a key contributor to low agricultural production. What is the ministry doing to improve this situation?

The EU is the biggest market for Kenya's agricultural exports, yet there have been regulatory issues between Kenya and the EU on certain agricultural exports. How has the government responded to these issues? And has it in any way affected Kenya's export to EU?

What challenges do Kenyan companies face when exporting and investing

In your opinion, are there shortcomings in the institutional architecture that support internationalization of Kenya's businesses?

what are the main obstacles for SME's to internationalization?

What linkages exist between the Kenya Chamber of Commerce and the bilateral chambers of commerce in the East African Region and Internationally?

Do you have any (descriptive) suggestions that could improve the chamber of commerce's economic diplomacy activities?
Have you enjoyed concrete benefits in terms of achieving business contacts, increasing trade and investments for the Kenyan Manufacturers? If yes, to what extent?

To what extent is KMA included in the economic negotiation that government undertakes be it bilaterally or multilaterally?

How would you rate export of Kenya's manufactured goods to foreign markets?

What are the major challenges facing KMA in its effort to engage in economic diplomacy and how do you think these challenges can be solved?

What challenges do Kenyan companies face when exporting and investing
Are there shortcomings in the institutional architecture that support internationalization of Kenya's businesses?

What are the main obstacles for SME's to internationalization?

How would you rate value addition of Kenya's manufactured goods?

EPC was objectively formed to address the bottlenecks to Kenyan Exporters such as policy and regulatory issues, market information etc. To what extent has EPC achieved this objective?