

**The Impact of Economic Globalization and Trade Liberalization on Kenya; Period
between 1985 and 2004**

Submitted by

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Under the guidance of

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DECLARATION

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institution of higher learning.

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This dissertation has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This project paper is dedicated to my daughter Cheryl Wangechi Bosibori Kariuki born on 3rd June 2009 while my research was underway.

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LIST OF ACRONYMS AND ABBREVIATIONS

| | |
|---------------|---|
| COMESA | Common Market for Eastern and Southern Africa |
| EGCS | Export Guarantee and Credit Scheme |
| EPZs | Export Processing Zones |
| EPC | Export Promotion Council |
| EPPO | Export Promotion Programmes Office |
| Est | Estimate |
| EU | European Union |
| EAC | East Africa Community |
| FDI | Foreign Direct Investment |
| IMF | International Monetary Fund |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| KETA | Kenya Export Trade Authority |
| Ksh. | Kenya Shillings |
| MFN | Most Favored Nation |
| MUB | Manufacturing under Board |
| MNCs | Multi-national corporations |
| UK | United Kingdom |
| USA | United States of America |
| WTO | World Trade Organization |

DEFINITION OF CONCEPTS

Alternative hypothesis (H_A) – This is a proposed explanation of what the study intends to experiment or to prove. It is usually a positive statement that indicates that the variables indicated in the hypothesis are related and therefore the proposed statement is true.

Asymmetrical trade relations – Asymmetrical trade relations denote unbalanced trade relations where one party benefits more from trade than the other party. This is the opposite of symmetrical trade relations such that countries involved do not benefit equally from trade relations between them.

Core – Core means at the centre, such that developed countries are said to be in control of the world economy. The core in this study will therefore represent the developed countries.

Developed countries - Developed countries refer to countries that have achieved high levels of development according to a given criteria. This mostly encompasses economic advancement, industrialization, high levels of technological growth, advancement in political and social institutions among others. These are also referred to as the North.

Developing countries - Developing countries unlike developed countries are in the process of acquiring the desired level of progress. Their economies, production methods, technology political and social systems are not yet well established and are therefore considered to be developing. These are also referred to as the South.

Economic globalization – Globalization depicts greater global connectedness of national economies, characterized by elimination of barriers to trade and international capital transfer.

Economic globalization is mostly exhibited by increased flow of goods and services, labor, capital and Foreign Direct Investment.

Lopsided trade relations – Lopsided literary means unbalanced or uneven. Lopsided trade relations thereby exemplify a situation in which parties to trade do not benefit in the same magnitude.

Most Favored Nation (MFN) – This is a principle used by the WTO which essentially means that member countries must treat other WTO members equally by applying the same trade conditions.

Null hypothesis (H_0) – The null hypothesis is a proposition that might be falsified on the basis of observed data. In essence it represents a situation in which there is no relationship between the variables involved.

Periphery – As indicated in dependency theory, developing countries are in the periphery, which essentially means the outer side of the economic system, where they are controlled by developed countries from the core. Periphery in this study will illustrate developing countries.

Rounds (WTO) – The WTO conducts its meetings in the form of Rounds, which are essentially time periods in which trade negotiations are conducted.

Symmetrical trade relations – Symmetry denotes uniformity. Symmetrical trade relations thereby symbolize a situation in which all parties involved in trade derive similar benefits. Each country therefore gains proportionately to the country with which it trades with.

The dependency theory- The dependency theory was put forth in a bid to explain the economic disparity between developed countries and developing countries. This theory puts forth that developed countries are at the core: deriving important resources from developing countries which are at the periphery.

Trade barriers – These refer to any limits or restrictions to trade between countries. Examples include tariffs, quotas, border charges and import and export duties among other barriers.

Trade liberalization/Free trade – Trade liberalization, alternatively referred to as free trade denotes trade between countries, where restrictions or barriers to trade are eliminated thus allowing free movement of goods and services.

ABSTRACT

Economic globalization has often been viewed as the epicenter of the world's economic development. It is therefore anticipated that countries that embrace economic globalization are bound to advance both economically and socially. This is as a result of the benefits derived from increase in trade, employment, national income, productivity, foreign direct investment (FDI), foreign capital flows, technological advancement and other indicators of economic globalization.

This study sets out to scrutinize the effects of economic globalization and trade liberalization on Kenya. It examines the Kenyan economic situation a decade before and after the establishment of WTO (1985-2004). The objective is to determine whether Kenya has benefited from its membership in the WTO and the subsequent adoption of economic globalization and trade liberalization strategies.

As a developing country, Kenya faces numerous challenges in its quest for economic growth; especially in terms of developed countries' competitive advantages. This raises the question on whether WTO has engineered an equal platform where each of its members can equally benefit from international trade. This paper includes an objective of finding out whether Kenya as a developing country has benefited from WTO membership like the developed nations. The dependency theory is used to explain how developing countries are often marginalized in the world economy which tends to favor developing nations.

From the findings of the study, it can be established that the Kenyan economy has not gained optimally from Kenya's WTO membership. Indicators of globalization such as the balance of trade, GDP growth and unemployment levels among other indicators point out that it may take considerable time and effort to put Kenya at par with its developed country counterparts. Further, the World Trade Organization should prioritize the development of third world nations as it seeks to promote global trade.

CHAPTER 1: INTRODUCTION TO ECONOMIC GLOBALIZATION AND THE IMPACT OF TRADE LIBERALIZATION ON KENYA

1.1. INTRODUCTION

The onset of globalization marked the beginning of a new era, characterized by momentous changes in the world order. Among the most significant developments resulting from globalization is world trade, which along with other factors such as Foreign Direct Investment, international technology transfer and migration of labor is categorized in economic globalization.¹ The perceived effect of increased economic globalization is the emergence of free economies, consequently leading to the development of free trade among countries in the world. The widely accepted perception is that free trade highly increases a country's prospects in terms of economic development. This is exhibited in the form of increased variety of goods, increased income from trade, increased employment and technology transfer among other benefits.

While there is a general contention that free trade has greatly improved in the past century, many global analysts have concluded that free trade is a notion that countries in the North have used to improve their economies at the expense of countries in the South.² According to anti-globalization activists, there is an obvious asymmetry in trade relationships

¹ Vaidya, Ashish. (2006). Globalization: encyclopedia of trade, labor and politics. Boston, MA: ABC-CLIO, p. 17.

² Chen, John-ren. (2003). The role of international institutions in globalisation: the challenges of reform. London: Edward Elgar Publishing, p. 87.

between developed countries and developing countries, exhibited in the level of benefits that countries in the North derive from free trade as opposed to their Southern counterparts.³

Kenya like most developing nations has embarked on trade liberalization as an economic growth tactic. The country has used tariffs as its main trade policy instrument since the inception of WTO in 1995, with charges being reduced significantly.⁴ Numerous changes have been witnessed in Kenya's economy following increased trade liberalization. The trivial question however remains whether trade liberalization has impacted the country in a positive or negative manner. Is Kenya better off or worse off now that it has embraced trade liberalization? Has its membership in the W.T.O made a constructive or destructive variation in Kenya's economy?

Each of the views expressed above have received strong support as well as criticism from different social, economic and political angles. Various studies have indicated that by opening up to global markets, Kenya's economy has benefited immensely through increased trade and hence the benefits that go along with trade such as increased income, transfer of technology and foreign capital injection. On the other hand, opponents of trade liberalization maintain that Kenya is not better off in terms of economic growth despite the increased importance placed on foreign trade. In a press release dated 19th January 2000 for example, the country market research report indicated that trade liberalization reports had increased macroeconomic stability exhibited in a decline in fiscal deficit and inflation rate.⁵ The report however noted that the real GDP growth

³ Straus, Joseph . (2009). *The Role of Law and Ethics in the Globalized Economy*. London: Springer, p. 86

⁴ Sullivan, Wilson & Abiola Victor. (2003). *Standards and global trade: a voice for Africa*. Washington D. C: World Bank Publications.

⁵ Country market research (2000). *Kenya trade policy review summary – 2000*. Retrieved on January 13, 2010 from http://tcc.export.gov/Country_Market_Research/All_Research_Reports/exp_005770.asp

was almost stagnating and that unemployment remained exorbitantly high. Similarly, the balance of trade had deteriorated instead of improved.⁶

It has been argued that by liberalizing trade, Kenya has given countries in the North an opportunity to enrich themselves using the country's resources. This is further worsened by the fact that international trade organizations tend to favor developed nations while the needs of developing nations are often ignored. Notably, the World Trade Organization has played the most influential role in shaping Kenya's international trade relations. As a founder member, Kenya has been bound by the rules of the trade organization since 1995.

The World Trade Organization has been classified as one of the most influential Organizations in the development of world trade. Formed in 1995 under the Marrakesh Agreement and with 153 countries under its auspices, the Organization is considered to be taking the role of a global government, steering cooperation in trade among its member countries.⁷ Trade liberalization remains one of the greatest roles played by W.T.O.

The Organization constantly attempts to eliminate trade barriers existing among member countries so as to form a level playing ground for member countries and consequently enhance the development of its member countries' economies.⁸ The Organization also facilitates the negotiation and formalization of trade agreements and also serves as a dispute resolution body in matters concerning the Organization's agreements.⁹ As a successor of the GATT (General

⁶Country market research (2000). *Kenya trade policy review summary – 2000*

⁷ www.wto.org

⁸ Lash III, William. (2002). The limited but important role of the WTO. *CATO Journal*, Vol. 19 Issue 3, p.

⁹ Lash III, William, p. 373.

Agreement on Tariffs and Trade), WTO has been considered more effective in enhancing trade and much fairer in the implementation of the Organization's rules.¹⁰ Accession of new members has been on the rise due to its perceived benefits to the economy. The Organization however like its other Bretton Woods counterparts: the World Bank and the IMF (International Monetary Fund) has received untold criticism from analysts; who claim that the Organization is biased towards the developing nations, which are considered to be major players in the Organization.¹¹ It is this kind of disparity that leads to the query on whether Kenya is undeniably benefitting from its membership in the WTO and consequent trade liberalization efforts steered by the Organization.

This research aims at establishing the impact that trade liberalization has had on Kenya. As indicated earlier, there is a great contention as to whether or not Kenya has benefited from trade liberalization. This study is aimed at establishing the real situation on the ground in order to establish whether the theory of trade liberalization actually exists in reality and whether Kenya has indeed benefited from integrating itself in the global market. Further, in consideration to the perceived asymmetry in free trade relationships between developed and developing nations, this study will establish whether Kenya has benefited from trade in the same magnitude with other W.T.O members. The results of this study will effectively conclude whether Kenya's participation in global trade and its membership in W.T.O can be justified.

¹⁰ Ibid.

¹¹ Chen, John-ren. (2003). *The role of international institutions in globalisation: the challenges of reform*. London: Edward Elgar Publishing, p. 75

1.2. STATEMENT OF THE PROBLEM

Economic globalization more often than not spells out a world in which countries maintain mutually beneficial relationships in order to gain from each other.¹² Accordingly, it is expected that that through trade liberalization, countries gain from one another through increased access of international markets and through increased income from trade.

Economic statistics recorded in Kenya have constantly indicated that while trade in general has accelerated due to trade liberalization, the net trade remains negative. Opening the Kenyan market has led to the increase in imports which have in turn threatened local industries thus impacting negatively on the country's exports.¹³ Unemployment has been on the rise and real GDP has remained low, yet Kenya has placed great importance to free trade which is expected to improve such economic indicators.¹⁴ Why then has Kenya remained poor and way below its trade allies in the North? Does this mean that trade liberalization has not been helpful to Kenya? Was it necessary to join the WTO if the country has not recorded much improvement since then? These questions are likely to emerge when critical observations into the changes in the economy resulting from trade liberalization are undertaken. Furthermore, such questions have challenged the theory of trade liberalization which is expected to have a positive impact in a country through the improvement of trade balances, country income, employment and general living conditions.

¹² Kohler, Horst. (2002). *Strengthening the framework for the global economy*. Retrieved on November 15, 2009 from <http://www.imf.org/external/np/speeches/2002/111502.htm>

¹³ Cardoso, Tausch. (1998). *Globalization and its impact on developing countries*. New York: Lulu Publishers, p. 36.

¹⁴ Country market research (2000). *Kenya trade policy review summary – 2000*

Observations in the global trade system reveal that international trade is highly lopsided. Developed countries have an upper hand in influencing the progress of globalization which is in most circumstances tailored towards meeting the developed countries' needs at the expense of the developing countries.¹⁵ A significant number of global analysts contend that globalization has led to capitalism that is increasingly contemptuous of developing countries' needs.¹⁶ The same sentiments are echoed by social activists who argue that globalization has eroded democracy leading to selfish and domineering attitudes by the western states on their developing countries counterparts in pretense of promoting trade and consequent development.¹⁷ Western nations have been accused of unscrupulous exploitation of developing nations through taking advantage of regulatory authority which has been softened by globalization. This therefore prompts the question on whether Kenya as a developing country has gained any positive results by engaging in trade liberalization. This is especially so considering that Kenya is a member of WTO and the organization has often been criticized of making regulations that favor developed countries over developing countries.

The wheels of economic globalization are in constant motion, with major trade power organizations like the World Trade Organization (WTO) taking a leading role in enhancing the integration of global economies. The WTO is rapidly assuming the role of a global government, with over 153 nations ceding to its vast authority and power.¹⁸ The organization is to a large

¹⁵ Chen, John-ren. (2003). *The role of international institutions in globalisation: the challenges of reform*. London: Edward Elgar Publishing, p. 87.

¹⁶ Straus, Joseph . (2009). *The Role of Law and Ethics in the Globalized Economy*. London: Springer, p. 86

¹⁷ Straus, Joseph, p. 87

¹⁸ Cardoso, Tausch. (1998). *Globalization and its impact on developing countries*. New York: Lulu Publishers, p. 102

extent responsible for the development of free trade across countries, following the establishment of various rules to govern countries that fall under its patronage. The existence of the WTO has facilitated the breakdown of trade barriers with an anticipated outcome of leveling trading grounds for all member countries. The role of WTO however, as with its close accomplices such as the World Bank and the IMF has come under scrutiny from major economic analysts and policy makers.¹⁹

Various questions have been raised concerning alleged influence on the WTO and consequent inclination towards the concerns of countries in the West. In her article on US trade with Africa, Carol Thompson (2004) notes that beginning from the initial Uruguay Round that culminated in the formation of WTO, Africa stood to be the loser in rules stemming from the talks.²⁰ She further noted that WTO is dominated by the US and the EU.²¹ The rest of the world can only be considered as onlookers.

Despite the expectation that a level ground in the world trade is being established with the help of WTO and other international trade bodies, it is almost certain that international trade is highly skewed in favor of the developed nations. The existence of such a status quo only leads to further questioning on whether Kenya is a beneficiary of trade liberalization. Advanced inquiry into the matter would lead to the question on whether Kenya has been exploited by developed countries in matters of trade and general global openness resulting from economic globalization. The contentious question is: Has Kenya's membership in the WTO helped to

¹⁹ Chen, John-ren, p. 75

²⁰ Thompson, Carol. (2004). US Trade with Africa: African Growth & Opportunity? *Review of African Political Economy*, Vol , Issue no. 101, p. 457.

²¹ Thompson, Carol, p. 459

improve the country's trade relations and economic growth in general or has it made Kenya worse off?

This study examines the effects of economic globalization and trade liberalization on Kenya. It will seek to establish whether Kenya has benefited from economic globalization exemplified by the effects of trade liberalization in the country. This will be determined by the net benefits resulting from a comparison between the positive and negative impacts.

1.3. OBJECTIVES OF THE STUDY

This research will question and seek to interpret the effects of trade liberalization in Kenya; with an objective of determining whether Kenya has actually benefited from global trade integration. The benefits derived from trade liberalization and any detriments will be weighed against each other in order to establish the net benefits. Part of the task is to establish whether Kenya's membership in the WTO has been beneficial.

The second major objective is to study the various indicators of economic globalization, their perceived characteristics and whether they have been evident in Kenya. Indicators such as employment, national income and productivity, foreign direct investment (FDI), foreign capital flows, technological advancement and multi-national companies (MNC's) will help in establishing whether Kenya has benefited from trade liberalization depending on whether positive or negative changes have been realized.

WTO has often faced criticism about favoring the needs of developed countries as compared to those of developing countries. This study will seek to establish whether Kenya has benefited in a similar magnitude as developed countries during its WTO membership. This will mostly be determined by the balance of trade recorded in the period under study as compared to major players in the global economy.

1.4. JUSTIFICATION AND SIGNIFICANCE OF THE STUDY

The economic welfare of a country is of major importance because the health of the economy essentially dictates the living conditions of the citizens of a country.²² Increased income from trade for example encourages investment and consequently leads to increased employment. This improves the citizens' living standards significantly. Economic globalization is a relatively new aspect that is now considered a major influence of particular country economies. The study of the impact of economic globalization and trade liberalization on Kenya is therefore imperative in order to determine the impact these developments have had on the Kenyan economy. Findings to such enquiries will determine whether Kenya is in the right direction and whether efforts to improve economic growth are working as expected.

Economic globalization is a subject matter that has taken a fundamental position in contemporary global research. This is mostly due to the perceived benefits associated with economic globalization and trade liberalization in particular. Notably, most studies tend to concentrate on justifying the benefits of trade liberalization. Very few researchers have placed

²² Duncan. Ron and Quang Doan. *Trade liberalization, Economic Growth and Poverty Reduction Strategies*. National Centre for Development Studies: The Australian National University, p. 19-21.

emphasis on detriments resulting from trade liberalization, mostly in developing countries.²³ Furthermore, studies indicating the detriments of economic globalization and trade liberalization tend to focus on developing countries in general. The study of Kenya is very specific and will therefore elucidate the benefits and damages resulting from Kenya's participation in free trade. This way, it will be easy to explain the effect of trade liberalization on Kenya as an independent country instead of deducing such effects collectively through studies whose findings give an average view of effects of economic globalization and trade liberalization in developing countries.

Kenya's membership in the World Trade Organization more often than not typifies better economic conditions resulting from increased openness to global markets. The importance of the WTO to developing countries has however been questioned, with allegations including biasness of the organization towards the needs of developed countries being identified as a major setback towards fulfilling its role of equating the benefits from free trade derived by member countries. Is it therefore possible to justify Kenya's membership in WTO: Has Kenya gained or lost in the WTO arrangement? These are imperative questions that must be answered in order to determine the relevance of Kenya's membership in WTO. This study will involve extensive research on Kenya before the WTO (1985-1994) and after WTO (1995-2004) in order to establish its significance to Kenya. These findings will come in handy in determining whether Kenya has actually benefited from WTO membership and whether trade liberalization is an effective economic growth tool. Such findings could prove quite useful to the Kenyan government during future decision making regarding economic planning.

²³Brady, D. & Beckfield, J. (2007). The consequences of globalization for affluent democracies. *Annual Review of Sociology*, 33: 313-334., P 315.

This study is largely motivated by the disparity witnessed between the Southern and Northern countries' development. If indeed it is true that countries in the North derive benefits through exploiting the developing countries in trade, has Kenya been a victim of this? It has been emphasized that external influence is largely responsible for the increased trade liberalization efforts in developing countries so that developed nations can gain from such arrangements. This study will examine whether Kenya's trade liberalization efforts have actually benefited the country or whether developed countries have benefited more from these attempts. Such information will greatly aid in improving the current knowledge on the issues and hence provide a basis to initiate action for improvement.

The results and recommendations of this study will not only be useful to policy makers in different countries but also to international organizations responsible for facilitating economic globalization. The WTO represents international organizations which have been vested with the duty of managing globalization and world trade. The results of this study will therefore help in the identification and consequent actions with regard to any contentious issues affecting international trade organizations.

1.5. HYPOTHESES

H₁ - Trade liberalization resulting from WTO membership has influenced net trade in Kenya.

H₂ - Indicators of globalization such as net trade, GDP and employment remain relatively low despite Kenya's increased integration into the global market.

H₃ - Increased trade liberalization following the establishment of WTO has been more beneficial to developed countries as compared to Kenya.

1.6. SCOPE AND LIMITATIONS OF THE STUDY

This study is a critique of the current state of affairs resulting from globalization. The focus is therefore on globalization, with an aim of establishing how developed countries and developing countries benefit from trade liberalization. The study limits itself to economic globalization which in essence is what the WTO, which receives special emphasis in the study, attempts to facilitate. Particular interest is placed on trade liberalization, its perceived effects and the real situation on the ground.

Kenya's experience with trade liberalization is at the core of this study. Information regarding globalization and trade liberalization effects will therefore be drawn from sources referring to Kenya as a subject. Data will be limited to changes witnessed in Kenya as a result of trade liberalization, mostly through the analysis of the changes in the indicators of economic globalization. Comparison may be necessary such that data from other countries, referring to the same variables and falling in a similar time period will be used in the study. The study will focus

on Kenya as a developing country so as to determine whether it has benefited from free trade and whether better benefits could be derived from trade than it is already obtaining, given symmetrical trade relationships.

In order to simplify the study and enhance comparison, the study has been divided into two time periods; a decade before the WTO (1985-1994) and a decade after WTO (1995-2004). The information and statistics used for the study will therefore be sourced from documents containing information falling in this time period.

Study limitations include the problem of differentiating particular changes resulting from economic globalization from assorted economic factors. It is notable that the economy is influenced by various factors such that changes in economic indicators may not necessarily result from economic globalization. For example, country productivity may be influenced by increased local investment, changes in political stability of the country and natural factors that favor or frustrate agricultural productivity such as changes in climate. These factors are not directly related to economic globalization yet they may significantly affect the country's trade prospects. The figures obtained will therefore serve as illustrations and not exact changes resulting from economic globalization and trade liberalization.

1.7. LITERATURE REVIEW

Introduction to the literature review

The foundation of a successful study lies in the understanding of the basic subject of the study. As such, the literature review section seeks to explain the various concepts which will be used in the study. This section explains the concepts of economic globalization and trade liberalization, their usefulness in the world economy and their various components. It offers a brief but precise explanation of the benefits of economic globalization and trade liberalization as well as their shortcomings. Further, the effect of economic globalization and trade liberalization on Kenya are discussed. It is also in this section that WTO, its role and principles are discussed. The challenges and criticisms of WTO are also contained in this section thus offering a better understanding of the Organization.

1.7.1. ECONOMIC GLOBALIZATION AND TRADE LIBERALIZATION

1.7.1.1 Economic globalization

Globalization is extensively broad and attempts to describe various factors and phenomena that have led to the inter-dependence of countries, giving rise to a universal village. Globalization however is multi-faceted and can be analyzed from different angles. As one of the most important aspects of globalization, economic globalization has received a greater attention from economists, political analysts and policy makers. Empirically, a huge body of literature indicates that economic globalization stimulates economic growth, reduces poverty and

generates employment opportunities.²⁴ This usually happens in the form of the four major economic flows that characterize globalization: Goods and services, labor, capital and technology.^{25,26} Economic globalization has eased the movement of each of these four economic flows. There is a notable increase in the flow of goods and services between countries through trade. Intellectual capital migration has also become a common phenomenon in the face of economic globalization, with increased movement of labor between countries. Transfer of technology and capital between countries has amplified drastically, mostly in the form of foreign lending and Foreign Direct Investment (FDI). Due to economic globalization, individual country development has been enhanced. Countries are in a position to benefit from resources available in other countries through interdependence, thus allowing for specialization. While economic globalization literature is broad and expansive, it is notable that trade liberalization is at the core of economic globalization.

1.7.1.2 Trade liberalization

Trade liberalization, interchangeably known as free trade forms a core constituent of globalization. It is a component of economic globalization which reflects the economic interdependence between countries, with increased flow of goods and services, elimination of barriers to trade, increase in foreign direct investment and increased migration of labor among

²⁴ Byrne, Peter. "Trade Liberalization for Sustainable Development in Developing Countries, p. 21-23.

²⁵ Byrne, Peter, p. 21.

²⁶ Charles, Smith. *International Trade and Globalisation*, p. 13

other trade related activities.²⁷ This is exhibited by continuous reduction in trade barriers such as tariffs, quotas, border charges and import and export duties among other barriers existing previously. A widely-accepted view among economists is that, other things held constant, countries that heavily restrict trade record slower growth and that the reduction of absolute poverty in such countries is generally sluggish as compared to countries which have embraced free trade, thus opening their markets to other countries.²⁸

Trade liberalization facilitates growth among countries through providing market for goods and services. Such markets not only increase individual country income through trade but also permit specialization. Specialization allows countries to concentrate on the production of particular goods in which they are more efficient, and import what other countries specialize in. Such goods are produced in bulk for export, and this allows countries to benefit from economies of scale, thus increasing their level of income.

Economic analysts contend that sustainable economic growth is attained when a country comes up with policies to open their economies to trade. This has primarily become the role of international trade organizations which are constantly urging countries to open up to trade. Considerable evidence indicates that countries which are outward-oriented often tend to consistently grow faster than countries which are inward oriented.²⁹ Statistics on trade liberalization indicated that developing countries that opened their economies to trade grew

²⁷ Goldberg, P. K. & Pavcnik, N. (2006). Distributional effects of globalization in developing countries. National Science Foundation, p. 5

²⁸ Duncan, Ron and Quang Doan. *Trade liberalization, Economic Growth and Poverty Reduction Strategies*. National Centre for Development Studies: The Australian National University.

²⁹ Frankel, Jeffrey and Romer, David. (1999). Does trade cause growth? *American Economic Review*, June, 2009.

faster between the 1980s and 1990s than countries which did not.³⁰ It has therefore been viewed as a path for poverty reduction: more so in the developing nations. Furthermore, trade liberalization enhances technology transfer which aids developing countries in improving production.

Trade liberalization enlarges markets for domestic products due to the availability of markets, thus increasing the country's GDP.³¹ Further, it provides an opportunity for local producers to gain from economies of scale during production. By producing in bulk, costs are reduced such that more goods can be produced due to cost effectiveness. Decreased costs for manufacturers also mean that they can compete effectively in the world market through providing cheaper and high quality products. Free trade increases competition in the domestic market, which encourages local industries to improve their production processes so as to compete with international competitors.

It is notable that international trade leads to the introduction of various goods and services from international markets. This further increases consumer choice such that competition in the domestic market increases significantly.³² While this is usually considered a threat for the local manufacturers, this could also translate into an advantage as local manufacturers become more innovative in order to compete with the imported goods.³³ Free trade encourages local industries to improve their production processes so as to compete with

³⁰ Dollar, David. (2001). *Globalization, Inequality, and Poverty since 1980*, World Bank mimeo.

³¹ Sirkin, Harold., *et al.*, p. 137.

³² Effland, Anne, et al. (2009). *World Trade organization and globalization help facilitate growth in agricultural trade*. Retrieved November 25, 2009 from <http://www.ers.usda.gov/AmberWaves/June08/Features/WTO.htm>

³³ Sirkin, Harold., *et al.*, p. 138.

international competitors. This not only improves their competitiveness but also gives them an opportunity to integrate advanced technology and sophisticated production methods: consequently improving the quantity of goods produced at any particular time.

Despite the perceived benefits associated with trade liberalization, its development has often been criticized due to perceived imbalance in the benefits received by different countries. Further, it has been blamed for the increased poverty in developing countries. In their article “Trade liberalization, Economic Growth and Poverty Reduction Strategies”, Duncan and Doan put forth that there is no empirical support indicating a positive causal relationship between trade liberalization and reduction in absolute poverty.³⁴ This is because free trade ruins local production such that developing countries become reliant on foreign nations.

The removal of trade barriers threatens local industries which suffer from decline in asset value and also from the decline in market share due to competition from foreign products. This often leads to the closure of industries which in turn reduces internally sourced national income and causes job losses. Such occurrences lead developing countries into more poverty, all in the name of trade liberalization.³⁵ A number of economic analysts put forth that the benefits of trade liberalization tend to be skewed towards the benefits of developed nations.

Developed nations drive the world economy by making major decisions regarding trade and capital flows due to their perceived dominance. It is notable that they highly influence international organizations, which are expected to work for the benefit of all member countries

³⁴ Duncan, Ron and Quang Doan. *Trade liberalization, Economic Growth and Poverty Reduction*

Strategies. National Centre for Development Studies: The Australian National University, p. 3

³⁵ Duncan, Ron and Quang Doan, p. 3-4

despite their level of economic development.³⁶ Developing countries, on the other hand, have to contend with being the weaker economies since failure to conform to the developed countries' requirements would result in poor relations, hence the unavailability of loans, aid and manufactured products from such countries. As a result of these criticisms, trade liberalization continues to face stiff opposition from anti-globalization demonstrators.³⁷

1.7.2. THE WORLD TRADE ORGANIZATION

1.7.2.1 Introduction to WTO

The World Trade Organization has taken a leading role in economic globalization, since its inception in 1995. Its role in the global economy has been considered invaluable, more so due to the organization's commitment to the elimination of trade barriers among member countries. Accordingly, WTO is seen to be taking the role of a global government, given that it controls over 95 percent of the world's trade through the 153 member countries operating under its auspices.³⁸ WTO seeks to ensure that the movement of goods and services from one country to the other is enhanced, so as to promote economic development. The WTO also acts as a mediator through solving disputes involving member countries.

The history of WTO dates back from 1995 when the Marrakesh Agreement was made.³⁹ This agreement sealed the succession of the General Agreement on Tariffs and Trade (GATT),

³⁶ Cardoso, Tausch. (1998). *Globalization and its impact on developing countries*. New York: Lulu Publishers, p. 102

³⁷ Duncan, Ron and Quang Doan. p. 3.

³⁸ www.wto.org

³⁹ Ibid.

which had been in operation since 1947, by the WTO.⁴⁰ The Marrakesh Agreement beefed up rules and regulations for member countries and also established more efficient and legally binding means of dispute resolution.⁴¹ The WTO is run by member countries and therefore any decisions made by the organization are dependent on these countries' consensus.⁴² Major decisions are agreed upon during ministerial conferences held every two years or through delegates who meet regularly to discuss various matters affecting the organization and its member countries.⁴³

The organization's agreements are negotiated in terms of rounds.⁴⁴ This approach was inherited from GATT, which through the Uruguay Round (1986-1994) established the formation of the WTO. Accordingly, WTO mostly focuses on the Uruguay Round trade negotiations as the basis for its operations. During the reign of WTO, the Doha Round whose objective was to enhance equitable participation of poor countries in trade matters was successfully launched in 2001.⁴⁵ One of the major aims of this Round was to enhance developing nations' participation into world trade and hence assure equitable development across WTO member countries. An earlier attempt in 1999 dubbed the Seattle Round was unsuccessful.⁴⁶

⁴⁰ Ibid.

⁴¹ Sawada, Michael. (2000). *The World Trade Organization*. UK: Oxford, p. 9.

⁴² Lash III, William, p. 371.

⁴³ www.wto.org

⁴⁴ Ibid.

⁴⁵ www.wto.org

⁴⁶ Shah, Anup. (1999). *WTO protests in Seattle*. Retrieved November 24, 2009 from <http://www.globalissues.org/article/46/wto-protests-in-seattle-1999>

1.7.2.2 The role and functioning of WTO

The sole purpose of the WTO is to promote sustainable trade relations among member countries so as to promote economic development in the countries involved. Among the various functions ceded to the WTO, two functions are particularly important: Overseeing the implementation, administration and operation of the organization's agreements by member countries; and providing a forum for negotiations and dispute resolutions.⁴⁷ Additionally, WTO takes up the duty of reviewing and propagating national trade policies so as to ensure coherence and transparency.⁴⁸ This role serves to ensure that countries make their trade policies as clear as possible; so that countries wishing to enter into trade agreements with such countries can clearly understand what they are getting into before making commitments. The WTO also undertakes the role of assisting developing countries in adjusting to the organization's rules and disciplines through training and technical cooperation.⁴⁹ Another function undertaken by the organization is research and analysis of global trade, which is reflected in its annual publications and research reports.

The WTO operates under five principles: Non-discrimination; Reciprocity; Binding and enforceable commitments; Transparency; and Safety valves.^{50,51}

Non-Discrimination: This principle is divided into two major components: the most favored nation (MFN) and national treatment. Under MFN, WTO members are expected to apply the

⁴⁷ Sawada, Michael, p. 6-9.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ www.wto.org

⁵¹ Sawada, Michael. (2000). *The World Trade Organization*. UK: Oxford, p. 16.

same conditions on all trade activities with member countries. This means that equal treatment is desired and any favor given to one country should also apply to another.⁵² Under the national treatment policy, member countries are expected to treat imported and locally produced goods equally. This curbs discrimination of imported products through non-tariff barriers.

Reciprocity: The reciprocity principle aims at eliminating free-riding that is expected as countries attempt to access better markets, resulting from the MFN rule. Reciprocity dictates that any negotiation undertaken by a nation must present a greater gain than what is available from unilateral liberalization.⁵³ In short, negotiations set-forth should be in a position to materialize into profitable deals.

Binding and enforceable commitments: The WTO expects that every member of the organization will abide to the commitments and concessions made during accession. A country may wish to change its bindings but only where negotiations with trading partners have been undertaken. This may require compensation for loss of trade incurred by the partners resulting from the change in binding. Any further dissatisfaction may necessitate the use of WTO dispute settlement procedures.⁵⁴

Transparency: The WTO requires the member countries to publish their trade regulations and to always maintain institutions that allow for the review of administrative decisions affecting trade. Any changes in trade policies must also be communicated to the WTO.

⁵² www.wto.org

⁵³ www.wto.org

⁵⁴ Sawada, Michael, p. 18.

Safety valves: Governments are not allowed to restrict trade in specific circumstances, under three types of provisions: articles allowing for the use of trade measures to attain non-economic objectives; provisions permitting intervention in trade for economic reasons; and articles aimed at ensuring "fair competition".⁵⁵ There are also exceptions to MFN which give developing nations, custom unions and free trade areas preferential treatment.

The WTO has been considered to be more efficient in facilitating trade than its predecessor GATT. While GATT failed in addressing most areas of the global economy, the WTO is quite comprehensive and covers extensive aspects of trade including agriculture, investment, services and intellectual property.⁵⁶ The WTO currently handles conflicts at approximately three times the rate handled during the GATT regime.⁵⁷ It is however notable that the dispute resolution mechanisms used by WTO are still based on old GATT principles, which include negotiation, conciliation, mediation and arbitration.

1.7.2.3 WTO challenges and criticisms

The function of WTO has not been without impediments. William Lash III describes the role of the WTO as important, yet limited by circumstances. He notes that WTO has a great potential for productivity but its scope is highly limited by values and agendas which are set by members.⁵⁸ The WTO is member-driven and highly relies on consensus before coming up with

⁵⁵ Ibid.

⁵⁶ Lash III, William, p. 374.

⁵⁷ Ibid.

⁵⁸ Lash III, William, p. 371.

rules to govern the member countries.⁵⁹ Getting each member of the organization to agree to proposed conditions therefore becomes challenging, such that the implementation of standards may take a considerable amount of time. There are also instances where disputes have led to serious issues between countries. The Doha Round for example has been marred by a considerable number of disagreements regarding the ongoing talks. Disagreements between exporters of agricultural bulk commodities and countries with large numbers of subsistence farmers have been prevalent. This is based on the precise terms of a 'special safeguard measure' meant to protect farmers from surges in imports.⁶⁰ Such disagreements highly threaten the future of the Doha Round.

The WTO has also experienced criticism concerning the manner in which the organization benefits member countries. The organization's undertakings have been thwarted on several occasions while some of them have received criticism from different economic and political angles. A perfect example is the destructive protests against the WTO that took place in Seattle in 1999, thereby curtailing the launch of a new Round of global trade negotiations. In a report published with Global Issues Organization, Anup Shah noted that while media perceptions implied that the protestors were against free trade, most people were actually against unfairness in the current free trade model.⁶¹ They argued that if international trade was to be beneficial to everyone, it had to be fair. Apparently, the developed nations, who also claimed that they were not benefiting from globalization, were highly left out in the Seattle ministerial conference.⁶²

⁵⁹ www.wto.org

⁶⁰ Welsey Gerald. *Economic Review*, 2008. Harvard University, p. 21.

⁶¹ Shah, Anup. (1999). *WTO protests in Seattle*.

⁶² Paulson, Michael and McClure, Robert. *WTO summit ends in failure*. Retrieved November 24, 2009 from <http://www.seattlepi.com/national/wto04.shtml>

Such confrontations tend to portray the organization in a negative way and thereby limit its operations.

Criticism about lopsidedness in WTO operations such that certain countries are favored is an issue that has raised immense concern. According to Carol Thompson (2004), "WTO is a bilateral agreement between the US and the EU, with the rest of the world required to sign on".⁶³ Thompson puts forth that the US and EU were the primary negotiators of the WTO, with U.S.A taking a lead as the major power behind WTO. The same is accentuated by Tausch Cardoso who notes that international organizations have failed developing countries by allowing major world powers to take control of their operations.⁶⁴ Opponents of trade liberalization maintain that the WTO has not played the role of uniting member nations effectively, and that developing nations are often marginalized when matters of the organization are being discussed. The contention is that the developed nations control the function of the WTO and are therefore dominant when trade standards and policies are set. It is however notable that the flawed understanding of U.S power under the GATT regime is a major source of confusion about WTO powers.⁶⁵

⁶³ Thompson, Carol, p. 459

⁶⁴ Cardoso, Tausch. (1998). *Globalization and its impact on developing countries*. New York: Lulu Publishers. p. 102.

⁶⁵ Lash III, William. (2002). The limited but important role of the WTO. *CATO Journal*, Vol. 19 Issue 3, pp. 371-374.

1.7.3. KENYA AND TRADE LIBERALIZATION

Kenya is classified as a developing nation and income from trade is therefore considerably low. Notably however, the concept of economic globalization and trade liberalization has greatly affected Kenyan trade, with numerous changes being witnessed in the country's trade policies. The objective behind such changes is to open up trade to the rest of the world and hence increase the country's income through trade. In pursuit of this, Kenya has joined a number of trade organizations and trading blocs including the COMESA and EAC. Kenya's trade regime is currently guided by market-driven principles of liberalization, under the WTO.⁶⁶ This has culminated in significant reduction in tariffs and trade barriers, thus leading to an increase in trade volumes between Kenya and other countries.

The introduction of the WTO proved to be a turning point in Kenya's trade with the rest of the world. Kenya's interests in WTO include the need for improved access to markets for primary and processed products, rules for special products that could lead to the improvement of food security, rural development and general development issues facing developing countries; special and differential treatment in the country's commitment.⁶⁷ Kenya's membership in WTO has however drawn mixed reactions on whether the organization has helped Kenya to improve the country's economy. The argument is that WTO policies seem to work for the benefit of developed nations.

⁶⁶ Ministry of Trade (Kenya). World Trade Organization (WTO). Retrieved on January 25, 2009 from http://www.trade.go.ke/index.php?option=com_content&task=view&id=105&Itemid=135

⁶⁷ Ministry of Trade (Kenya). World Trade Organization (WTO)

As a developing country, Kenya is still restricted to primary exports. This means that the country has to rely heavily on developed countries for manufactured and processed goods as well as technological supplies; which are imported. Kenya's trade balance has therefore remained negative since the volume of imports is higher than exports.⁶⁸ This is despite the fact that the trade volume has increased significantly.

Provisional statistics by the Kenya Bureau of Statistics indicate that Kenyan exports have been increasing over the past years. On the other hand, imports have risen with a higher magnitude thus leading to the deterioration of the balance of trade in the country. In 2008, for example, Kenya recorded a deficit trade balance of Ksh. 525,705 million as compared to the previous year's deficit of Ksh. 330,454 million.⁶⁹ This was despite the increase in exports from Ksh. 274,658 million to Ksh. 344,947 million, an increase of 25.59%. Imports increased from Ksh.605,112 million to Ksh.770,651 million, a 27.36% increase. Such figures suggest that Kenya's trade balances have not been favorable and therefore more effort may need to be exerted in order to improve on the country's economy.

Uganda is currently Kenya's leading trade partner, having imported Ksh.33 billion worth of goods from the country in the year 2007.⁷⁰ Uganda is followed by the United Kingdom, France and Germany which is the fourth largest trade partner to Kenya.⁷¹ Tanzania is the second largest trading partner in Africa after Uganda, having imported Ksh.22 billion worth of goods

⁶⁸ Country Statistics.org. (2009). *International trade overview*. Retrieved on January 31, 2010 from http://www.countrystat.org/country/KEN/documents/docs_en/international_trade.

⁶⁹ Country Statistics.org. (2009). *International trade overview*.

⁷⁰ Onyango, J. & Kasasira, R. (2008). *Tanzania's stance stalls integration plans in EAC*.

⁷¹ People's Daily online. (2006). Kenya shifts policy to target trade with Africa. Retrieved on January 31, 2010 from http://english.people.com.cn/200610/13/eng20061013_311464.html

from Kenya in 2007.⁷² Other big players include United Arab Emirates, United States, Netherlands, Pakistan, South Africa, Pakistan, China and Canada among others.⁷³

Conclusion

Economic globalization and trade liberalization come out as important concepts in the world's economic development. Notably, the benefits of economic globalization could prove useful in the development of any country. The literature review nevertheless notes the dangers that may result from economic globalization, hence the need to take extra caution. It is notable that organizations such as the WTO play a significant role in promoting economic globalization and trade liberalization. In the Kenyan case, it can be established that the current economic situation to a large extent results from the effects of economic globalization. As indicated in the literature review, Kenya's trade volumes have increased significantly over the years, following the adoption of economic globalization.

⁷² Onyango, J. & Kasasira, R. (2008). *Tanzania's stance stalls integration plans in EAC*.

⁷³ Encyclopedia of the Nations. Kenya – Foreign trade. Retrieved on January 29, 2010 from <http://www.nationsencyclopedia.com/Africa/Kenya-FOREIGN-TRADE.html>

1.8. THEORETICAL FRAMEWORK

1.8.1. The dependency theory

The dependency theory is the result of comprehensive studies in the world economic development trends. Commonly attributed to Argentine economist, Raul Prebisch, the dependency theory consists of a number of social science theories which postulate that wealthy nations are enriched by developing countries' integration into the world economic system; while the developing countries continue to be impoverished.⁷⁴

Dependency theorists predicate a notion of "core" and "periphery" whereby world resources flow from the periphery to the core.⁷⁵ According to this theory, the industrialized nations are the "core" of the world economy, while the poor states subsist at the "periphery", which is also the outer region of decision making and profit sharing.⁷⁶ In an insidious demeanor, the North draws cheap raw materials and labor from the South, before selling expensive finished products back to countries in the South.⁷⁷

The dependency theory attempts to construe a state of affairs in which developing countries are literally enslaved by the developed countries so that they continue to depend on them. Quintessentially, the dependency theory appears to be quite pessimistic about the possibility of improving the developing countries' predicament. It fails to explain that such countries can effectively use their resources to improve their economic situation without the need

⁷⁴ Ferraro, Vincent. (1996). *Dependency theory: An introduction*. South Hadley: Mount Holyoke College, p. 2-3.

⁷⁵ Henderson, Conway, p. 240

⁷⁶ Ibid.

⁷⁷ Cardoso, Tausch. (1998). *Globalization and its impact on developing countries*. New York: Lulu Publishers, p. 76.

to rely on countries in the North. In essence, the dependency theory emphasizes the importance of external forces on developing countries and minimizes the role of internal motivations within those very same countries. It therefore locks countries in the periphery as “once a developing country, always a developing country”; which in essence signifies that developing countries are not in a position to advance without the help of developed countries.

Based on the above critic, it is possible to question the application of the development theory in exceptional cases where developing countries have exhibited minimal dependence on countries in the North. The development of countries such as the Asian Tigers, China, India and Brazil among others which had been previously categorized as countries in the periphery therefore disputes relevance of the dependency theory.

The dependency theory further overlooks the possibility of countries in the South benefiting from each other, such as through regional trading blocks. It is notable that regional trade has played a significant role in the advancement of developing countries' economies. As a member of the COMESA and the EAC for example, Kenya has been able to improve trade in the country and thus managed to increase productivity and reduce unemployment. Furthermore, Uganda is Kenya's largest trading partner, having consumed Ksh.33 billion worth of Kenyan goods in 2007.⁷⁸ This indicates that countries in the periphery can easily form interdependent trade relationships which would come in handy in improving these countries' economies without necessarily basing their development on the West.

⁷⁸ Onyango, J. & Kasasira, R. (2008). *Tanzania's stance stalls integration plans in EAC*. Retrieved on January 27, 2010 from http://www.tralac.org/cgi-bin/giga.cgi?cmd=cause_dir_news_item&cause_id=1694&news_id=57100&cat_id=0

1.9. METHODOLOGY

In a bid to satisfy the objectives of the study, both primary and secondary data sources will be employed. Each of these sources will play a significant role in obtaining information to validate or nullify the hypotheses set for the study.

1.9.1 Primary data

Primary data will mostly be obtained from interviews and questionnaires. The use of interviews will be limited to several government officials and economists from the country. This is because they are expected to monitor Kenya's trade operations closely and are therefore in a position to provide invaluable information regarding Kenya's benefits from WTO membership. Questionnaires will reinforce findings from interviews, given that they can easily reach a large number of people. These will be sent to various officials in the Ministry of trade, Ministry of foreign affairs and Economists.

1.9.2 Secondary data

The use of secondary data will be prevalent due to the need to explore trade statistics in Kenya. Other aspects in the literature review including the study of economic globalization, trade liberalization and the role of the WTO will require extensive use of secondary material. Sources ranging from journals to country statistics, published analyses, text books, magazines and online material will therefore be used to provide the much needed information. Secondary sources will also be invaluable in the analysis of data in order to come up with a conclusive study.

1.10. SUMMARY OF THE CHAPTER

This chapter lays a foundation for the study of effects of economic globalization and trade liberalization on Kenya. The chapter outlines the major aspects of economic globalization, with a particular interest in trade liberalization, which is essentially a specialty of WTO. The dependency theory is also introduced as the theoretical framework to guide the study. The review of literature on economic globalization portrays that this phenomena has its own benefits and limitations. While there are anticipated improvements in country economies through participation in trade, various scholars and anti-globalization campaigners state that the benefits of trade are skewed towards the benefit of developed nations, while the developing nations are often marginalized. Through a study of Kenya's trade relations and changes in economic indicators, the study will effectively determine whether the country has benefited from economic globalization and trade liberalization.

CHAPTER 2: ECONOMIC GLOBALIZATION AND ITS INDICATORS

2.1. ECONOMIC GLOBALIZATION

Globalization has been a major focus in most discussions around the world today as the world trade, human mobility and technology advancement bring countries together to form a global village. Globalization is taken to be the source of economic development in most countries of the world and is therefore highly regarded among economists and policy makers. Notably, economic globalization has taken a fundamental component of globalization, mostly due to the concept of trade and mutually beneficial relationships formed by countries with an objective of improving economic sustainability.⁷⁹

Economic globalization ideally refers to the removal of trade restriction (such as tariffs, quotas and non-tariff barriers), liberalization of capital markets and free movements of labor. It is characterized by increased trade and investment liberalization (free trade), privatization of former public services and de-regulation of many former government powers as countries seek to improve their economic position.⁸⁰ Other important characteristics include improvement of national income and productivity, the spread multi-national companies, foreign direct investment (FDI), technology transfer, foreign capital transfer and increase in employment level among other factors. According to Bhagwati (2004), economic globalization should insinuate the free flow of people, resources, technologies and goods as a result of less trade restrictions among countries in the world.⁸¹ The present scenario of globalization is based on ideal view of world

⁷⁹Byrne, Peter. "Trade Liberalization for Sustainable Development in Developing Countries, p. 17-21.

⁸⁰ Sirkin, Harold, et al. *Globality: Competing with Everyone for Everywhere for Everything.*, p. 291

⁸¹ Bhagwati, Jagdish. *In Defense of Globalization.* Oxford, New York: Oxford University Press., 2004.

where markets work efficiently, capital and technology flow freely and people have access to all the knowledge, information and the ability to take part in the market on an equivalent basis.⁸²

Experientially, the results of most contemporary studies indicate that economic globalization is highly responsible for the economic development of nations. Globalization is a source of both hope and of apprehension and most studies point to strong benefits from closer integration openness to trade, factor flows, ideas and information which powerfully stimulate progress, economic and political advancement.⁸³ Trade, technology transfer, physical and human capital transfer and the increase in FDI have especially been helpful in improving financial stability of developing countries. Economic globalization not only stimulates economic growth but it also reduces poverty through the generation of employment opportunities. On the negative side however, economic globalization is also associated with increasing disparities in wealth and power both between nations and between different groups within nations and between public and private sectors.⁸⁴

Despite the perceived benefits of economic globalization, there are negative consequences. For example, in order to gain more from trade, countries in the North have often entered into trade agreements that tend to marginalize developing countries thus creating huge economic disparities.⁸⁵ As a result, developing countries have been forced to be dependent on their developed counterparts for the provision of most essential goods and services. More

⁸² Charles, Smith. *International Trade and Globalisation.*, p. 51

⁸³ Byrne, Peter. "Trade Liberalization for Sustainable Development in Developing Countries.

⁸⁴ Sirkin., *et al.* p.292

⁸⁵ Goldberg, P. K. & Pavcnik, N. (2006). Distributional effects of globalization in developing countries. National Science Foundation, p. 79-82.

disadvantages of economic globalization can be identified through a study of the various indicators of globalization.

2.2. INDICATORS OF ECONOMIC GLOBALIZATION

2.2.1. Trade liberalization

Trade liberalization has emerged as a vital subject in economic globalization due to its perceived usefulness in facilitating economic growth. The concept of trade liberalization is used to denote the development of free trade; where countries allow unrestricted flow of goods to and from other countries. It involves the reduction of trade barriers such as tariffs, import and export requirements and labor movement restrictions.⁸⁶

Trade liberalization is often considered to be a major driving force of economic globalization. It is generally accepted that the most open nations are at the forefront of advance. It is argued that trade liberalization has increased the level of trade thus enhancing the accessibility of goods and specialization which has created better economic sustainability across the globe.⁸⁷ Most findings indicate that specialization helps in increasing output since each country can invest heavily in the production of goods and services that require minimum resources. Openness to trade further serves the purpose of enlarging markets such that there is increased market for local goods and better access to imports. There are various other factors that add into the rationale of trade liberalization as follows:

⁸⁶ Dollar, David. (2001). *Globalization, Inequality, and Poverty since 1980*. World Bank mimeo.

⁸⁷ Frankel, Jeffrey and Romer, David. (1999). Does trade cause growth? *American Economic Review*, June, 2009

To begin with, economic growth requires vast amounts of capital, embodying investment in huge amounts of cash outlays and modern technology. The international economy is a perfect source of such capital through trade. By opening up to trade, countries are in a position to improve their economic positions through investing in the proceeds of trade. Trade openness combined with country policies for example could help in the development of more industries hence creating more employment opportunities.

Secondly, trade liberalization is the best way for low income countries to tap into technologies that could be useful in advancement of agriculture which is their core source of income. Further, they can use such technology to develop manufacturing industries thus enhancing self-sustenance of these countries. Returns from investment in skills and capital are much greater in a more technologically advanced and integrated economy.⁸⁸

The fourth rationale stems from the fact that in many instances, tariffs on capital goods and intermediates yield little revenue because they do introduce distortions, raise transaction costs for producers, reduce foreign direct investment (FDI) and discourage import substituting industries from striving after competitiveness. Eliminating tariffs therefore leads to optimal benefits to investors through the eradication of unnecessary costs.

Finally, greater openness helps firms in developing countries to become a part of the international production networks and supply chains that are the main conduits of trade. Further, availability of goods from other countries increases competition such that local firms must put in

⁸⁸ Frankel, Jeffrey and Romer, David. (1999). Does trade cause growth? *American Economic Review*, June, 2009.

extra efforts to compete with foreign firms. This plays a significant role in improving local firms' productivity.

The trade liberalization idea is not without criticism based on its shortcomings. It has been demonstrated that trade liberalization apart from increasing trade has a negative effect in developing countries. It not only kills local investment and industries but also reduces developing countries into dependants of the developed countries.⁸⁹ Increased import of cheaper goods from abroad discourages investment since the expenses involved in making similar goods locally may be too high for investors to compete with imported products. In order to make profit, they must sell their goods at a higher price, yet consumers have an option of obtaining cheaper goods from abroad. Extinction of industries leads to high unemployment levels and increasing poverty levels. It also means that the country goes further from self-reliance and more into overdependence.

2.2.2. Regional trading blocks and international trade organizations

2.2.2.1. COMESA

The Common Market for East and South Africa has played a significant role in influencing trade in east and South Africa through laying down trade guidelines for member countries. COMESA was formed in 1994, replacing a Preferential Trade Area that had been in existence since 1981.⁹⁰ Among the major objectives during the introduction of COMESA was the creation of free independent sovereign states which have agreed to co-operate in developing

⁸⁹ Dollar. David. (2001). *Globalization, Inequality, and Poverty since 1980*, World Bank mimeo.

⁹⁰ www.comesa.int

their natural and human resources for the good of all their people. In regard to this, COMESA's main focus was to form an economic and trading unit which would help member countries to overcome common barriers that face them. Currently, COMESA consists of 19 member states including Kenya, Burundi, Democratic Republic of Congo, Djibouti, Egypt, Comoros, Eritrea, Ethiopia, Madagascar, Libya, Mauritius, Malawi, Rwanda, Seychelles, Sudan, Swaziland, Zambia, Zimbabwe and Uganda.⁹¹ Five countries; Angola, Mozambique, Lesotho, Tanzania and Namibia have quit the COMESA.

The history of COMESA can be traced back to two conferences of independent African States which were held in 1958 and 1960 in Accra, Ghana and Addis Ababa, Ethiopia respectively. It was anonymously agreed that independent African countries needed to unite by promoting economic co-operation which would in return lead to effective development of these countries.⁹² This is because the smallness and fragmentation of the African markets which would make it more difficult for countries to diversify and thereby compete effectively in the global markets. A preferential trade area would therefore come in handy in ensuring that the independent African countries could reduce their dependence on agriculture, increase the number of modern internationally competitive enterprises and be in a position to meet domestic demand and export requirements.

Following this proposition, the United Nations Economic Commission for Africa (ECA) proposed the formation of four regions; East, Southern, North and West Africa. Each region was then required to take the necessary steps during the 1980s to strengthen existing sub-regional

⁹¹ www.comesa.int

⁹² Ibid.

economic co-operative groupings. These steps would in return lead to the development of the African Economic Community before the end of that century. Since then, various changes have been witnessed in the relationships between African States involved, leading to the COMESA we know of today. The PTA treaty which preceded the current day COMESA was signed on December 21, 1981 in Lusaka.

COMESA is well organized, with decision making organs being created to perform certain functions within the organization. These organs include the COMESA Authority which consists of the Heads of States, the COMESA Council of Ministers, COMESA Court of Justice and the Committee of Governors of Central Banks. Elimination of trade barriers has been a major focus of the organization. By the year 2000, COMESA had eliminated internal trade tariffs and barriers that proved harmful to trade. Violation of set rules and conflicts between countries are properly handled through different organs that have been set up within the organization. States of COMESA have agreed to adhere to the following principles:

- (a) Equality and inter-independence of the member States;
- (b) Solidarity and collective self-reliance among the member States;
- (c) Inter-State co-operation, harmonization of policies and integration of programs among the member States;
- (d) Non-aggression between the member States;
- (e) Recognition, promotion and protection of human and people's rights in accordance with the provisions of the African Charter on Human and People's Rights;

- (f) Accountability, economic justice and popular participation in development;
- (g) The recognition and observance of the rule of law;
- (h) The promotion and sustenance of a democratic system of governance in each Member State;
- (i) The maintenance of regional peace and stability through the promotion and strengthening of good neighborliness; and
- j) The peaceful settlement of disputes among the member States, the active co-operation between neighboring countries and the promotion of a peaceful environment as a pre-requisite for their economic development.

2.2.2.2. EAC

The East Africa Community has its origins rooted in the need to maintain economic stability through unrestricted trade and free movement of capital and labor. EAC which consists of five countries, namely; Kenya, Burundi, Rwanda, Tanzania and Uganda was originally founded in 1967.⁹³ The organization however collapsed in 1977 as a result of Kenya's demands to occupy more seats than Uganda and Tanzania in the decision making organs; and other disagreements resulting from Idi Amin's dictatorship in Uganda, socialism in Tanzania and capitalism in Kenya.⁹⁴ It is not until July 7, 2000 that it was officially reviewed.

⁹³ www.eac.int

⁹⁴ www.eac.int

The East African Community has sought to ensure proper governance in its activities through establishing various arms in its administration. The judicial function of EAC is conducted by the East African Court of Justice and deals with the interpretation and application of laws. Any violation and disagreements between countries are also handled by this organ. The East African Legislative Assembly acts as the legislative arm, responsible for discussing matters pertaining to the Community, debating and making recommendations to the Council as may be deemed necessary in the implementation of the Treaty. The assembly also liaises with National Assemblies to discuss matters and set up committees to discuss various matters affecting the Community.

In order to promote economic sustainability, the EAC has laid down rules for member countries to allow free movement of goods, capital and human resources. Notably, there are significant reductions on tariffs, trade restrictions and restrictions to labor movement exhibited in the introduction of the East African passport which allows ease of border crossing for East Africans.⁹⁵

2.2.2.3. WTO

The World Trade Organization was formed in 1995 with the sole objective of eliminating trade barriers in order to promote global trade and hence promote economic sustenance among member states. The organization which consists of 153 member countries apparently controls 90 percent of the world's trade through the directives given to member countries. While the WTO

⁹⁵ www.eac.int

promotes trade between countries, the organization also acts as a mediator through solving disputes involving member countries.⁹⁶

The history of WTO can be traced back to the Marrakesh Agreement made in 1995.⁹⁷ This agreement sealed the succession of the General Agreement on Tariffs and Trade (GATT), which had been in operation since 1947, by the WTO.⁹⁸ Like its predecessor, WTO aims at reducing trade barriers so as to enhance trade between countries. The World Trade Organization deals with regulation of trade between participating countries through provision of a framework for negotiating and formalizing trade agreements. Further, the organization also acts as an agent for dispute resolution process, aimed at enforcing participants' adherence to WTO agreements.⁹⁹ The WTO has a vast membership of 153 members and controls 97 percent of the world's trade.

The WTO has designed five principles to ensure effective operations within the organization.¹⁰⁰ The first principle is non-discrimination, under which countries expect to be treated equally with other countries. This component of the non-discrimination principle is referred to as the *Most Favored Nation (MFN)* rule. Member countries are also required to treat imports and local goods fairly under the *National Treatment Policy* component. The second principle is reciprocity which is used as a tool to prevent free-riding. Under this principle, countries are expected to undertake trade negotiations that will only bring additional gains to the involved parties. Binding and enforceable commitments is the third principle maintained by the

⁹⁶ www.wto.org

⁹⁷ Lash III, William. (2002). The limited but important role of the WTO. *CATO Journal*, Vol. 19 Issue 3

⁹⁸ Ibid.

⁹⁹ Lash III, William. (2002). The limited but important role of the WTO. *CATO Journal*, Vol. 19 Issue 3.

¹⁰⁰ www.wto.org

WTO. This means that a country must be ready to abide to the organization's rules, concessions and commitments made during accession. The fourth principle is transparency which calls for openness about trade regulations in a country. The transparency principle maintains that all countries must keep published trade regulations and institutions which are responsible for the review of trade rules and standards. Finally, the safety valves principle allows governments to place restrictions in specific situations in a bid to promote important economic interests. Through these principles, the WTO ensures harmony among nations and also avoids potential conflicts that may arise.

The WTO's intention is to be a highly democratic organization whose rules, regulations and standards are dependent on member agreements. This characteristic has however come under scrutiny following the undue dominance exercised by developed countries over developing countries.¹⁰¹ The emergence of capitalism and domineering attitudes among major world powers has led to the marginalization of developed countries such that their involvement in the organization's decision making affairs has been sidelined. Developing countries have reacted to this by seeking active participation in the organization's major decisions; especially on matters that affect them directly.¹⁰² This was effectively portrayed during the Doha Round. Major differences arose between the developed and developing countries leading to the collapse of the talks. There were fallouts about a special safeguard measures (SSM) meant to protect subsistence farmers through the implementation of a special tariff to protect them from import surges and price fluctuations. While the major agricultural exporters wanted to remove barriers to

¹⁰¹ Kohler, Horst. (2002). *Strengthening the framework for the global economy*.

¹⁰² Goldberg, P. K. & Pavcnik, N. (2006). Distributional effects of globalization in developing countries. National Science Foundation

agricultural trade, developing countries felt that they could lose more from the agreement. The Doha round was an ambitious effort to make globalization more inclusive and help the world's poor, particularly by slashing barriers and subsidies in farming. This would be done through further trade liberalization and commitments towards strengthening substantial assistance to developing countries through new rules. In this respect, developing countries wanted to get more involved since the outcomes of the Doha Round would affect them in a significant way.

Subsequent studies have indicated that developed countries have benefited more from the WTO as opposed to their developing country counterparts. This is partly due to the fact that these countries are economic superpowers and control the world trade to a large extent. As a result such countries often take an upper hand in decision making within the WTO; thus leading to asymmetrical trade relations.¹⁰³ Consequently, it has been argued that membership in the WTO could actually be a detriment towards economic development in developing countries.

2.2.3. National income and productivity

Improved income and national productivity is considered to be one of the most notable results of globalization. This occurs as a result of increase in trade with other countries such that a country is in a position to sell more of its products than before. It also means that there is higher demand for locally manufactured goods; which increases productivity in the country thus leading to higher income levels.¹⁰⁴ Penetration into international markets is now easier due to the

¹⁰³ Charles, Smith. *International Trade and Globalisation*

¹⁰⁴ Bussmann, Margit., Soysa, I. & Oneal, J. R. (2005). The effects of globalization on national income inequality. *Comparative Sociology*, Volume 4, Issue 3-4.

elimination of barriers. This insinuates that local companies now have a larger market and are therefore bound to produce more. In the same manner, income obtained from trade is bound to increase.

Globalization results in increased investment as a result of availability of foreign capital in the form of international financing and aid. Countries can easily obtain credit facilities from other countries and organizations such as the International Monetary Fund and World Bank.¹⁰⁵ These are used to finance local projects and consequently raise the potential for increased income and productivity within a country.

Increased foreign investment in a country plays a significant role in increasing production within the country and promoting national income. The emergence of multinational companies in a country increases the government's income which can be used to support important projects within the country. Foreign investment also injects advanced technology and managerial expertise which are essential for productivity in a country.¹⁰⁶ Foreign firms have also been a reliable source of skills among local workers. Better knowledge and experience are important factors in production; hence the importance of globalization.

Contemporary studies have sought to establish the actual effects of globalization on the national income and established the existence of imbalances. Unequal income distribution is evident: both within individual countries and between countries of the world. The dependency theory is used to explain the imbalance; where developing countries highly depend on imports

¹⁰⁵ Ibid.

¹⁰⁶ Prasad, Eswar & International Monetary Fund. (2005). *Effects of financial globalization on developing countries: some empirical evidence*. International Monetary Fund.

from foreign countries.¹⁰⁷ As a result, these countries end up using up more income in obtaining goods and services, yet the income gained from exports are minimal. Globalization has led to the spread of multinational corporations which have in turn overpowered local industries in developing countries. It is further notable that most of the gains obtained by these companies are taken back to their countries of origin while the local governments only benefit from corporate taxes. Reduced income caused by the collapse of local industries not only destroys a country's potential for development but also reduces the amount of income generated within the country such that these countries become over-reliant on aid to finance their budgets.¹⁰⁸

2.2.4. Multi-national companies

It is inarguably phenomenal that the demand for business expansion has increased significantly. Most significant however is that multinational companies are growing at a tremendous rate. This can be attributed to the advancement in globalization which has led to the elimination of barriers, forming a new global culture. Companies are not only able to export their goods to foreign countries but they can also set up subsidiaries in these countries and outsource manpower. The spread of multinational companies has also been triggered by increased demand for goods and the cost-cutting potential of setting up subsidiaries near the market instead of exporting. The rapid growth of multinational companies has been received in a positive light due to the increased employment potential and economic growth prospects in host countries.¹⁰⁹ On

¹⁰⁷ Bussmann, Margit., Soysa, I. & Oneal, J. R. (2005). The effects of globalization on national income inequality. *Comparative Sociology*, Volume 4, Issue 3-4.

¹⁰⁸ Byrne, Peter. "Trade Liberalization for Sustainable Development in Developing Countries.

¹⁰⁹ Ibid.

the other hand, it has been argued that multinational corporations threaten local companies and are responsible for increased unemployment and low wages.¹¹⁰

Multinational companies are better placed in fostering economic development due to their limitless capabilities. According to Graham (2000), multinational company must possess various advantageous characteristics in order to effectively compete with local industries. These include superiority of products, processes, technologies, management skills, market access among other factors that may be useful in competing against local rivals in foreign markets.¹¹¹ Foreign companies are likely to have such advantages due to the accessibility of capital, technology, managerial expertise and economies of scale. Given that their production capacity and the quality of their products are high, multinational companies in most circumstances create a significant amount of income to the host country through taxation and other charges. The other implication of this is that multinational companies compete against local companies, often driving them out of business. This not only reduces a country's productivity but also promotes overdependence on developed countries.

Multinational corporations bring in significant amounts of revenues to the government. Each business establishment is entitled by law to pay taxes to the government. This is often used in subsidizing and allocating sufficient budget for various programs and government agencies. It is notable that as a matter of policy in most countries, multinational companies are given higher

¹¹⁰ Graham, E. M. (2000). *Fighting the wrong enemy: antiglobal activists and multinational enterprises*. Washington DC: Peterson Institute., p. 87.

¹¹¹ *Ibid.* p. 88

payment on taxes and other billing compared to local business outlets and markets.¹¹² This further exemplifies the extent to which multinational companies could be useful to a country.

MNCs' are a major source of employment to host country citizens which enhances self-sufficiency and individual progress. This is particularly important for developing countries where living standards are still considered to be low. The creation of employment further boosts a country's economic growth through individual taxes and labor empowerment. One important element in stabilizing the economy is the opening of a country or other regions to the transnational or multi companies business' ventures.¹¹³

Multinational companies play a significant role in enhancing technology transfer to local industries. This happens in what is known as technology spillover. It may come in the form of technology transfer from multinational companies to local companies and through "catch-up" effects as companies strive to remain competitive through investing in similar technologies with multinational companies.¹¹⁴ Whenever technology transfer is witnessed, there is a definite gain in labor and capital productivity among local firms; which increases a country's income.

MNCs' are well known for their role in promoting government economic programs. The level of interest and enthusiasm portrayed by multinationals is important since it strengthens the government's economic programs through participation in important developmental projects.¹¹⁵

¹¹² Effects of multinational companies in globalization. Retrieved on March 24, 2010 from http://ivythesis.typepad.com/term_paper_topics/2008/07/effects-of-mult.html

¹¹³ Ibid.

¹¹⁴ Graham, E. M. (2000), p. 89.

¹¹⁵ Effects of multinational companies in globalization. Retrieved on March 24, 2010 from http://ivythesis.typepad.com/term_paper_topics/2008/07/effects-of-mult.html

Moreover, other opportunities like providing financial assistance and business programs to local interested parties that plan to establish a local business establishment are some of MNCs' economic support involvements.¹¹⁶ It is therefore imperative that MNCs are essential in a region's or a country's economic status.

Potential harm to local industries is a negative consequence of the establishment of MNCs in a country. MNCs overcome local industries due to their superior accessibility to better production methods, expertise, technologies and economies of scale among others.¹¹⁷ Local companies cannot cope with such competition, such that the local markets especially in developing countries are becoming smaller and smaller due to MNCs domination.¹¹⁸ This has led to increasing unemployment in host countries.

Multinational companies have been blamed for the fall in wage rates and worker oppression. Due to the high levels of unemployment in developing countries, these MNCs take advantage of skilled and unskilled labor in their host countries without necessarily compensating their workers fairly. Local companies are likely to adopt low wages as well in order to counter competition. This could be harmful to citizen's self-sufficiency and living standards. On the other hand, workers in developed countries claim that outsourcing done by MNCs has led to the rise in unemployment levels and decrease in wage levels as companies seek cheaper labor in foreign countries.

¹¹⁶ Ibid.

¹¹⁷ Frankel, Jeffrey and Romer, David. (1999). Does trade cause growth? *American Economic Review*, June, 2009

¹¹⁸ Vaidya, Ashish. (2006). *Globalization: encyclopedia of trade, labor and politics*. Boston, MA: ABC-CLIO

2.2.5. *Foreign Direct Investment*

Foreign direct investment and cross-border financial flows is a sign of increased globalization of the world economy. It is a measure of foreign ownership of productive assets in a country which include land, factories, mines and other entrepreneurial investments. It is widely believed that more foreign direct investment in a country indicates higher potential for growth within a country.¹¹⁹ Foreign direct investment has joined international trade as a motor of globalization.¹²⁰ FDI plays a significant role in enhancing a country's income through increased investment and increased mobility in factors of production. Furthermore, host countries are bound to benefit immensely from corporate taxes, increased employment for citizens and transfer of human capital and technology. It is also notable that FDI helps developing countries in releasing untapped potential such that productivity is highly maximized.

Foreign Direct Investment as a component of globalization has attracted a major outcry among critics of globalization. In their view, FDI has been the major cause of job insecurity and poor employee remuneration in most countries. The arguments are different in developed countries and in developing countries. In developed countries, opponents of globalization put forth that the emergence of FDIs has led to increased outsourcing among local companies as they seek to reduce their labor and material costs.¹²¹ As a result, citizens of these countries have lost jobs to employees from developing countries since they are more willing to take lower wages. On the other hand, developing countries' activists maintain that foreign investors take advantage

¹¹⁹ Prasad, Eswar & International Monetary Fund. (2005). *Effects of financial globalization on developing countries: some empirical evidence*. International Monetary Fund.

¹²⁰ Charles, Smith. *International Trade and Globalisation*, 3rd edition. Stocksfield: Anforme., 2007

¹²¹ Charles, Smith. *International Trade and Globalisation*, 3rd edition. Stocksfield: Anforme., 2007

of workers in developing countries thus paying them very poorly. They are also likely to influence the wage rates such that local companies start paying poor wages to their workers; a factor that highly contributes to poor living standards among citizens.¹²²

2.2.6. Technology transfer

Globalization involves the dissemination of new technologies that have tremendous influence and impact on economies, investments and living standards. Increased openness to trade has been given the accolade for promoting the transfer of technology from developed countries to less developed countries. With globalization and trade liberalization, countries can export and import various goods more easily than before. Accordingly, easy accessibility to technology implies increased income generation capabilities for benefiting countries through increased efficiency and productivity.¹²³ Developing countries have mostly benefited from technology transfer; exhibited by the increased number of industries and the ease of production.

Technology transfer is considered to be an important prerequisite for production. This results from increased innovation which in turn makes companies more competitive as compared to their peers. In a bid to outdo each other, companies must keep upgrading their technology, thus leading to better production methods and increased productivity. Competition among companies also leads to better prices of goods which promote the welfare of citizens and also increases foreign market demand for locally produced goods.

¹²² Ibid.

¹²³ Bussmann, Margit., Soysa, I. & Oneal, J. R. (2005). The effects of globalization on national income inequality. *Comparative Sociology*, Volume 4, Issue 3-4, pp. 287-312.

The transfer of technology has not escaped criticism either. Notably, increased technological transfer has led to automation of industries and the use of computers; thus displacing workers from their previous jobs.¹²⁴ Technology creates unemployment and is therefore seen as a setback towards stabilizing the living standards in developing countries. Technology also creates unfair competition among companies since it is quite expensive to acquire. This means that companies with capital capabilities are the only ones who are able to purchase expensive technologies while the weaker ones are forced to exit the market since they cannot beat competition.¹²⁵ Transfer of technology resulting from globalization has therefore been considered to be a threat to local industries.

2.2.7. *Foreign capital transfer*

In any advancing economy, capital, both in terms of physical capital and human capital is a major prerequisite for efficient economic development. Transfer of foreign capital triggered by globalization is therefore considered to be a positive occurrence. A “borderless” world has eased the transfer of capital from one country to another through foreign direct investment, financial solutions, aid and human capital transfer. Consequently, there is increased development in the industrial sector and other sectors of the economy following the availability of capital, availability of skilled manpower and managerial expertise.¹²⁶

¹²⁴ Charles. Smith. *International Trade and Globalisation*, 3rd edition. *Stocksfield: Anforme., 2007*

¹²⁵ Frankel, Jeffrey and Romer, David. (1999). Does trade cause growth? *American Economic Review*, June, 2009

¹²⁶ Prasad, Eswar & International Monetary Fund. (2005). *Effects of financial globalization on developing countries: some empirical evidence*. International Monetary Fund.

2.2.8. *Employment*

The rise of globalization leads to enhanced trade openness and higher productivity among countries of the world. Accordingly, the level of employment is expected to rise as producers demand more labor for their industries.¹²⁷ Increase in capital due to the rise of globalization as well as rising demand for locally produced goods leads to the increase in number of industries which in turn increases the level of employment. Further, there is increased movement of human capital from one country to another due to reduced border restriction. This has led to better accessibility of jobs in other countries such that employment conditions in one's own country do not prevent an individual from getting a better bargain abroad. Notably however, there is a significant current of apprehension over the implications of globalization for employment and income inequality.

The rise in globalization has led to increased technological innovation which has greatly reduced the demand for workers. Modern innovations have replaced human labor such that industries do not require as many workers as they did before.¹²⁸ Also notable is the fact that increased outsourcing has significantly affected jobs in developed countries as companies seek to reduce labor costs in order to maximize on their profits. On the other hand, workers in developing countries have to contend with low wages offered by international companies. This is a factor that may affect the world's living standards significantly. Due to reduced costs, these companies are likely to push local companies out of business; such that the employment created

¹²⁷ Bussmann, Margit., Soysa, I. & Oneal, J. R. (2005). The effects of globalization on national income inequality. *Comparative Sociology*, Volume 4, Issue 3-4, pp. 287-312.

¹²⁸ Vaidya, Ashish. (2006). *Globalization: encyclopedia of trade, labor and politics*. Boston, MA: ABC-CLIO

by the foreign investors is offset by the exit of the local industries which leads to job losses.¹²⁹ The unanswered question therefore remains whether globalization has actually improved the level of employment especially in developing countries.

Empirically, it has been indicated that foreign direct investors are more likely to demand relatively skilled labor as compared to unskilled labor.¹³⁰ Even where unskilled labor is highly demanded, the wage is significantly low for most companies. This indicates elevated income inequality since the gains from FDI are channeled towards a certain subset of workers who hold particular skills. The widening of wage differentials between skilled and unskilled workers has therefore raised a major cause of concern even when globalization is considered to be an essential component of world economic development.

Despite the arguments against globalization, proponents maintain that the overall effect on employment is positive. They maintain that there are costs of transition or adjustment during globalization, which may negatively affect certain groups of workers and geographical areas.¹³¹ These costs are more noticeable because of their negativity such that gains become diffused and less noticeable. The argument however remains that benefits to countries actually outweigh the costs.

¹²⁹ Ibid.

¹³⁰ Graham, E. M. (2000). *Fighting the wrong enemy: antiglobal activists and multinational enterprises*. Washington DC: Peterson Institute, p. 86.

¹³¹ Ibid.

2.3. SUMMARY OF THE CHAPTER

This chapter establishes the general indicators of economic globalization. It clearly outlines the changes that are expected whenever a country embraces economic globalization in a bid to improve its economic situation. The chapter exemplifies how economic globalization and trade liberalization could change a country through increased trade, employment, capital injection, technological advancement, establishment of multinational companies and foreign direct investment among other factors. Each component of economic globalization is discussed; showing the views of globalization proponents and globalization opponents.

CHAPTER 3: THE IMPACT OF ECONOMIC GLOBALIZATION AND TRADE LIBERALIZATION ON KENYA

Significant transformation has been witnessed in Kenya since the onset of globalization; more so after the inception to the World Trade Organization. This can be attributed to the relaxation of trade barriers, capital and labor movement barriers which in the past inhibited the ability of foreign investors to invest in the country. Not only has the volume of trade increased but the national income has also risen significantly over the years.

Kenya is placed among the top globalizers among developing countries. As a matter of fact, Kenya ranks in the first ten countries with the highest level of proportionate tariff cuts since 1980.¹³² This is to mean that Kenya has been following the path of integration into the world economy and the various trade reforms witnessed are proof to this. Mbui Wagacha in his paper "Analysis of liberalization of trade and exchange regime since 1980" however notes that this has not been effectively reflected in terms of outcomes and in terms of trade volume measure.¹³³ Kenya has continuously recorded a negative balance of trade. Other economic indicators such as the Gross Domestic Product (GDP) and unemployment levels have not been encouraging either. The GDP growth rates fluctuated significantly, such that ideal growth was not recorded. Further, the level of unemployment rose momentarily in the period following the establishment of WTO.

¹³² Kimenyi, Mwangi., Mbaku, John and Mwaniki, Ngure. *Restarting and sustaining economic growth and development in Africa: The case of Kenya*, p. 36.

¹³³ Wagacha, Mbui. (2000). *Analysis of Liberalization of the Trade and Exchange Regime since 1980*. Research Institute for Policy Analysis and Research, Kenya (IPAR).

3.1. A DECADE BEFORE WTO (1985 – 1994)

3.1.1. Volume of trade between 1985 and 1994

Despite the trade barriers that existed in Kenya before the introduction of the WTO, there was a notable increase in the trade volumes a decade before the WTO as indicated in table 1 below. Trade volumes increased by 88.78% between 1985 and 1990 and a further 164.83% by the end of 1994. Overall, trade volumes in ten years before the introduction of the WTO increased by approximately 399.95%. This was a significant increase, given that the WTO's rules and policies had not yet been implemented in Kenya. This however can be explained by a number of factors that led to increased volume of traded goods and services.

It is worth noting that Kenya was a member of the World Trade Organization's predecessor, GATT (General Agreement of Trade and Tariffs).¹³⁴ GATT was responsible for ensuring that trade between member countries was enhanced through the elimination of trade barriers such as tariffs. This to a large extent is responsible for the notable increase in trade volume between the year 1985 and 1994.

Following pressure for structural reforms, the government began showing interest in liberalization policy in the early 1980s. The adoption of the export-promotion strategy and a shift away from import-substitution was evident during this period.¹³⁵ "Economic Management for Renewed Growth" in Sessional Paper No. 1 of 1986 gave a promise to liberalize the country at a time when Kenyan exports had reduced tremendously.¹³⁶ Manufacturing under Bond (MUB) and

¹³⁵ "Economic Management for Renewed Growth" in Sessional Paper No. 1 of 1986

¹³⁶ Were, M., Ndung'u N. S., Geda, A., and Karingi, S. N. (2002). *Analysis of Kenya's Export Performance: an empirical evaluation*.

Export Processing Zones (EPZs) were established in 1988 and 1990, respectively. The Export Guarantee and Credit Scheme (EGCS), Export Promotion Council (EPC) and the Export Promotion Programmes Office (EPPO) for tax rebates on imported inputs were put up as export incentive schemes. The Kenya Export Trade Authority (KETA) was also revived in the same light. Labor-intensive manufactures were a target for these programs and MUB and EPZs aimed at using the abundant semi-skilled labor specializing in footwear and garment manufacture for overseas market.

VAT exemption schemes aimed at encouraging existing manufacturers were also introduced. High effective rates of protection accorded to domestic industries, exchange rate bias against exports, high cost of imported inputs, foreign exchange controls, administrative delays and high transaction costs that militated against the profitability of exports, among others however weakened the export orientation.¹³⁷

¹³⁷ Glenday, G., and D. Ndii (2000). "Export platforms in Kenya". African Economic Policy Discussion Paper Number 43

Table 1: Volume of trade between 1985 and 1994 (Ksh '000s)

| <i>Year</i> | <i>1985</i> | <i>1986</i> | <i>1987</i> | <i>1988</i> | <i>1989</i> | <i>1990</i> |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Volume</i> | 40,148,640 | 46,494,820 | 44,414,920 | 54,340,480 | 65,174,280 | 75,792,800 |

| <i>Year</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> |
|---------------|-------------|-------------|-------------|-------------|
| <i>Volume</i> | 85,507,580 | 93,942,620 | 174,564,940 | 200,722,400 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

3.1.2. Balance of trade between 1985 and 1994 (Ksh '000)

The decade before the inception of WTO was marked by a deteriorating balance of trade. It is conspicuously notable that Kenya's balance of trade was negative throughout the period and that despite the tremendous growth in exports; the imports grew at a more astounding rate thus leading to a permanent negative balance of trade throughout the period. While the exports grew by 427.73% during the ten year period, imports grew at 381.10%, a percentage growth that was very close to the growth in exports.

This indicates that while the growth in exports was favorable, the related growth in imports was too overwhelming for Kenya to eliminate the negative balance of trade. It is also notable that while the value of imports continued to rise steadily, major fluctuations in the value of exports were evident between 1985 and 1988. The trend after 1990 is however encouraging

and this could probably be explained by changes in trade policies and reduction of trade barriers in the country. Furthermore, the effects of Manufacturing under Bond (MUB) and Export Processing Zones (EPZs) established in 1988 and 1990 respectively were probably felt during these years. Exports grew steadily from 1990 with Ksh. 73.565 billion being recorded for exports; compared to Ksh. 16.228 billion recorded in the year 1985.

Table 2: Balance of trade between 1985 and 1994 (Ksh '000)

| <i>Year</i> | <i>1985</i> | <i>1986</i> | <i>1987</i> | <i>1988</i> | <i>1989</i> |
|-------------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| Exports | | | | | |
| Domestic exports | 15,701,960 | 19,159,400 | 15,068,260 | 18,354,380 | 19,997,040 |
| Re-exports | 526,680 | 577,560 | 729,040 | 683,220 | 398,020 |
| Total exports | 16,228,640 | 19,736,960 | 15,797,300 | 19,037,580 | 20,394,860 |
| Imports | | | | | |
| Commercial | 23,079,560 | 25,520,520 | 26,926,420 | 33,086,480 | 41,945,340 |
| Government | 840,440 | 1,237,340 | 1,691,100 | 2,216,420 | 2,834,080 |
| Total imports | 23,920,000 | 26,757,860 | 28,617,620 | 35,302,900 | 44,779,420 |
| Balance of Trade | | | | | |
| Balance | -7,691,360 | -7,020,900 | -12,820,340 | -16,265,320 | -24,384,560 |

| <i>Year</i> | <i>1990</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> |
|-------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| Exports | | | | | |
| Domestic exports | 24,647,200 | 32,223,580 | 34,161,700 | 72,504,140 | 83,414,480 |
| Re-exports | 233,000 | 365,760 | 683,660 | 1,060,800 | 2,228,160 |
| Total exports | 24,880,200 | 32,589,340 | 34,845,360 | 73,564,940 | 85,642,640 |
| Imports | | | | | |
| Commercial | 47,950,960 | 50,018,220 | 56,577,060 | 96,901,220 | 111,123,180 |
| Government | 2,961,640 | 2,900,040 | 2,520,200 | 4,227,160 | 3,956,580 |
| Total imports | 50,912,600 | 52,918,260 | 59,097,260 | 101,128,380 | 115,079,760 |
| Balance of Trade | | | | | |
| Balance | -26,032,400 | -20,328,940 | -24,251,900 | -27,563,440 | -29,437,120 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

3.1.3. Trade statistics with selected countries

This section examines the balance of trade between Kenya and a selected number of countries. These should effectively indicate Kenya's trade position as compared to its trading partners. Further, these sample countries will act as a basis for comparison between trade balances with developed countries and developing countries. Statistics in this section indicate that the balance of trade between Kenya and developed countries is far worse than trade with developing countries as indicated by the country's trade with Uganda and Tanzania.

UNITED STATES

The average balance of trade between Kenya and the United States of America was generally negative. This can be explained by the expansive importation of capital goods and technology from the United States. These goods are very expensive as compared to the primary exports that Kenya takes to U.S.A. It is only in 1986 that Kenya recorded a positive balance of trade with U.S.A. valued at Ksh. 385.56 million. Notably, the balance of trade between Kenya and the United States has worsened tremendously over the years; with the balance of trade recorded shifting from Ksh. -250.32 million in 1985 to Ksh. -4.696 billion in the year 1994.

Table 3: Kenya/United States balance of trade (1985 - 1994)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|-----------|-----------|------------------|
| 1985 | 1,073,400 | 1,323,720 | -250,320 |
| 1986 | 1,691,420 | 1,305,860 | 385,560 |
| 1987 | 844,440 | 2,022,160 | -1,177,720 |
| 1988 | 909,520 | 1,766,180 | -856,660 |
| 1989 | 987,000 | 3,284,160 | -2,297,160 |
| 1990 | 851,540 | 2,287,120 | -1,789,700 |
| 1991 | 1,150,000 | 2,641,240 | -1,491,240 |
| 1992 | 1,265,900 | 4,868,560 | -3,602,660 |
| 1993 | 2,730,020 | 5,868,040 | -3,138,020 |
| 1994 | 2,935,060 | 7,631,960 | -4,696,900 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

UNITED KINGDOM

Kenya highly relies on the United Kingdom to obtain capital goods and technology. As a result, Kenya's balance of trade with the UK was negative during the decade preceding WTO. The balance of trade between Kenya and the UK declined consistently since 1985. The highest deficit was recorded in 1990 when the balance of trade was at Ksh. -4.97 billion. This later improved in 1991 when the country recorded a trade balance of Ksh. -3.27 billion. The deficit further improved to Ksh. -383.94 million in 1992 before deteriorating again to Ksh. 5.236 billion in 1994.

Table 4: Kenya/United Kingdom balance of trade (1985 - 1994)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|-------------|----------------|----------------|-------------------------|
| 1985 | 2,622,540 | 3,285,100 | -662,560 |
| 1986 | 2,769,140 | 4,178,800 | -1,409,660 |
| 1987 | 2,545,060 | 4,882,320 | -2,337,260 |
| 1988 | 3,635,420 | 6,673,860 | -3,038,440 |
| 1989 | 3,967,640 | 7,020,900 | -3,053,260 |
| 1990 | 4,363,760 | 9,334,200 | -4,970,440 |
| 1991 | 5,335,960 | 8,606,640 | -3,270,680 |
| 1992 | 6,383,540 | 6,767,480 | -383,940 |

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|------------|------------|------------------|
| 1993 | 11,800,560 | 12,047,680 | -247,120 |
| 1994 | 9,916,560 | 15,152,620 | -5,236,060 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

FRANCE

Kenya's balance of trade with France remained negative between 1985 and 1994; although the margin was not as severe as with United States and United Kingdom. It is also notable that the balance of trade values kept fluctuating, owing to constant changes in the amount of imports sourced from France. The lowest deficit was Ksh. -297.24 million in 1985 while the highest was Ksh. -3.506 billion in 1989. Trade balance figures for other years are indicated in table 5.

Table 5: Kenya/France balance of trade (1985 - 1994)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|---------|-----------|------------------|
| 1985 | 543,480 | 840,720 | -297,240 |
| 1986 | 280,100 | 3,074,280 | -2,794,180 |
| 1987 | 267,020 | 1,961,780 | -1,694,760 |

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|-----------|-----------|------------------|
| 1988 | 349,440 | 2,177,380 | -1,827,940 |
| 1989 | 426,560 | 3,933,280 | -3,506,720 |
| 1990 | 606,560 | 2,835,800 | -2,229,240 |
| 1991 | 807,080 | 3,014,120 | -2,207,040 |
| 1992 | 935,880 | 3,099,040 | -2,163,160 |
| 1993 | 1,457,640 | 4,249,000 | -2,791,360 |
| 1994 | 1,635,800 | 4,644,480 | 3,008,680 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

CANADA

The balance of trade between Kenya and Canada can be said to be more favorable when compared to other selected countries. Table 6 indicates that Kenya indeed managed to record a positive balance of trade with Canada in 1986 and 1989. The average balance of trade with Canada was however negative during the ten years preceding WTO. Furthermore, the trade balance deteriorated significantly between 1991 and 1993, before improving in 1994.

Table 6: Kenya/Canada balance of trade (1985 - 1994)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|---------|---------|------------------|
| 1985 | 104,780 | 244,260 | -139,480 |
| 1986 | 170,060 | 131,540 | 38,520 |
| 1987 | 118,520 | 217,440 | -98,920 |
| 1988 | 166,800 | 175,980 | -9,180 |
| 1989 | 200,160 | 112,700 | 87,460 |
| 1990 | 217,100 | 314,120 | -97,020 |
| 1991 | 206,420 | 488,160 | -241,740 |
| 1992 | 229,600 | 426,000 | -196,400 |
| 1993 | 596,160 | 803,400 | -207,240 |
| 1994 | 578,340 | 531,020 | 47,320 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

UGANDA

Uganda is currently the largest trading partner for Kenya.¹³⁸ As indicated in the table below, Kenya maintained a steady supply of exports to Uganda between the year 1985 and 1994. This explains the positive balance of trade that Kenya has maintained in its trade with Uganda. While the balance of trade fluctuated during the ten years, the positive balance was maintained; with a stunning Ksh. 10.014 billion being recorded in the year 1994.

Table 7: Kenya/Uganda balance of trade (1985 - 1994)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|-----------|---------|------------------|
| 1985 | 1,341,480 | 51,700 | 1,289,780 |
| 1986 | 1,372,800 | 43,100 | 1,329,700 |
| 1987 | 1,206,300 | 18,200 | 1,188,100 |
| 1988 | 1,553,000 | 25,320 | 1,527,680 |
| 1989 | 1,243,000 | 21,260 | 1,221,740 |
| 1990 | 1,225,960 | 26,280 | 1,199,680 |
| 1991 | 2,076,740 | 53,040 | 2,023,700 |
| 1992 | 2,374,500 | 155,300 | 2,219,200 |

¹³⁸ Onyango, J. & KAsasira, R. (2008). *Tanzania's stance stalls integration plans in EAC.*

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|------------|---------|------------------|
| 1993 | 6,519,520 | 319,700 | 6,199,820 |
| 1994 | 10,200,280 | 185,840 | 10,014,440 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

TANZANIA

Though not a strong trading partner like Uganda, Tanzania has maintained good trading relations with Kenya. The country imports a significant number of products from Kenya, hence the positive balance of trade recorded between Kenya and Tanzania. There was been a steady improvement in the balance of trade between Kenya and Tanzania, with the most favorable balance of trade being recorded in the year 1994. Overall, the balance of trade improved by 5433.29 percent.

Table 8: Kenya/Tanzania balance of trade (1985 - 1994)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|---------|---------|------------------|
| 1985 | 315,260 | 34,260 | 281,000 |
| 1986 | 487,720 | 44,240 | 443,480 |
| 1987 | 311,920 | 68,760 | 243,160 |

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|-----------|-----------|------------------|
| 1988 | 435,660 | 120,880 | 314,780 |
| 1989 | 488,460 | 245,260 | 243,200 |
| 1990 | 594,280 | 250,160 | 344,120 |
| 1991 | 1,016,980 | 225,720 | 791,260 |
| 1992 | 1,495,680 | 288,960 | 1,006,880 |
| 1993 | 5,083,700 | 488,800 | 4,594,900 |
| 1994 | 8,514,180 | 1,090,720 | 7,423,460 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

3.1.4. Kenya's GDP growth rates (1985-1994)

Kenya's GDP growth rate has been very erratic and it is therefore quite challenging to effectively determine the trend. Commendable growth in the GDP was witnessed during the early years of independence. Notably, the average annual growth in GDP between 1975 and 1985 was 4.9%. Average GDP growth further rose to 5.9 percent between the year 1985 and 1989. This was before the GDP growth rate started deteriorating; finally reaching an astonishing -0.095 in 1993; the lowest GDP growth since Kenya's independence. The percentage growth however rose considerably in 1994 and 1995, with the GDP growth rate (constant prices) being 2.531 percent in 1994 and 4.287 percent in the year 1995.

Table 9: Kenya's GDP growth rates (in constant prices) between 1985 and 1994

| <i>Year</i> | <i>1985</i> | <i>1986</i> | <i>1987</i> | <i>1988</i> | <i>1989</i> | <i>1990</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>GDP growth rate (%)</i> | 4.073 | 6.982 | 5.811 | 6.091 | 4.554 | 4.134 | 1.339 | -1.08 | -0.095 | 2.531 |

Source: Kenya Economic Statistics and Indicators >

<http://www.economywatch.com/economic-statistics/country/Kenya>

3.1.5. Employment data (1985 – 1994)

The level of employment in the beginning of this period can be said to have been sustainable. This may be explained by the fact that the number of citizens joining the workforce was limited by educational qualifications and the fact that population was relatively low at the time. The unemployment levels however started rising and reached a high of 35 percent in 1994.

Table 10: Kenya's unemployment levels (1985 – 1994)

| <i>Year</i> | <i>1985</i> | <i>1986</i> | <i>1987</i> | <i>1988</i> | <i>1989</i> | <i>1990</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Unemployment (%)</i> | 9.7 | 16.2 | 16.2 | 14.1 | 14.1 | 23.6 | 23.6 | 23.8 | 23.8 | 35 |

Source: Annual Statistical Abstracts (1985 - 1994) - Kenya National Bureau of Statistics

3.2. A DECADE AFTER WTO (1995 – 2004)

The emergence of WTO was deemed to be a beam of hope for developing countries around the world, more so due to the increased accessibility to international markets. Trade was expected to rise considerably and so were other indicators of economic advancements such as national income, foreign direct investment and employment. True to these expectations, increased activity has been witnessed in the Kenyan economy; with volumes of trade and national income rising significantly after the establishment of WTO in 1994. Trade statistics indicate that the volume of exports have indeed increased from the period before WTO.

3.2.1. Volume of trade between 1995 and 2004

The establishment of WTO marked the beginning of a new era both in trade and overall economic development. It was unanimously anticipated that member countries would highly benefit from the Organization through increased access to international markets. As expected, trade volumes in Kenya rose considerably in the period following the establishment of WTO, as indicated in table 11. The volume of trade rose by 129.3 percent between 1995 and 2004.

Table 11: Volume of trade between 1995 and 2004 (Ksh '000)

| <i>Year</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>1999</i> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| Volume | 252,507,402 | 286,686,162 | 311,118,677 | 318,969,190 | 328,959,562 |

| 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------|-------------|-------------|-------------|-------------|
| 382,330,931 | 437,698,105 | 426,993,417 | 464,997,413 | 578,995,981 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

3.2.2. Balance of trade between 1995 and 2004

A number of issues arise in the study of Kenya's balance of trade following the introduction of WTO. To begin with, the balance of trade has continued to deteriorate over the years. It is notable that the trade balance in Kenya has generally been negative since the year 1994. This has been witnessed through a consistent increase in the margin between imports and exports transacted between the year 1995 and 2004. Despite increased trade in the country, the value of exports continued to outdo the value of imports thus leading to a negative balance of trade.¹³⁹ This has had implications on the usefulness of the increased national income since a large amount of the same is spent on importing goods to the country.

The balance of trade showed a sign of improvement in 1996 when it rose from -57.83 billion recorded in 1995 to -50.286 billion. The balance of trade however deteriorated by 38.56% in 1997, giving way to a steady deterioration of the balance of trade in the period after the inception of WTO. By the year 2001, the balance of trade had worsened from -57.83 billion in 1994 to -147.59 in 2001, approximately 155.21% decline. This was followed by great improvement in 2002 when the balance of trade rose to -88.43 billion. The improvement

¹³⁹ Were, M., Ndung'u N. S., Geda, A., and Karingi, S. N. (2002). *Analysis of Kenya's Export Performance: an empirical evaluation*

however was not sustained and Kenya's balance of trade began deteriorating again. A value of -98.69 billion was recorded in 2003, followed by a dispiriting -149.41 billion in 2004. Given this trend, it can be deduced that the balance of trade balance worsened in the ten years following the establishment of WTO.

Various explanations have been given to try and explain the deteriorating balance witnessed in Kenya. The bottom line however is that imports highly surpass exports due to the fact that Kenya as a developing country mostly exports primary goods and imports most of the capital goods used in the country.¹⁴⁰ Capital goods are generally expensive and their costs therefore overshadow the value of exports from the country, thus explaining the deterioration in the balance of trade. Further, trade reform attempts in Kenya have not been able to yield the desired results for the country. According to Kimenyi, Mbaku and Mwaniki (2003), achievements witnessed from the various attempts to liberalize trade in Kenya have been limited. Conclusive studies indicate that the possible beneficial effects of trade reforms have often been lessened by macroeconomic policy slippages caused by various influences. Trade reforms over the years have proceeded at an uneven pace with periods of rapid opening up but which are often followed by stagnation and reversal in trade liberalization.¹⁴¹ The trade volume openness which is measured as the value of imports plus exports as a percentage of GDP has also not showed a clear trend.¹⁴² The drop in the 90s for example can be attributed to the fall in imports and exports

¹⁴⁰ Were, M., Ndung'u N. S., Geda, A., and Karingi, S. N. (2002). *Analysis of Kenya's Export Performance: an empirical evaluation*.

¹⁴¹ Shrivastava, Parlo. (1988). "Industrial development in Kenya." *Journal of International Studies* 25(4): 283-284. p. 283.

¹⁴² Ibid. p. 285.

following the inflationary period. Various factors continue to impact on implemented trade policies and this is why Kenya's trade balance has been negative in most circumstances.

Table 12: Balance of trade between 1995 and 2004 (Ksh '000)

| <i>Year</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>1999</i> |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Exports | | | | | |
| Domestic exports | 93,123,680 | 113,925,980 | 114,459,460 | 114,445,460 | 115,405,540 |
| Re-exports | 4,215,260 | 4,274,020 | 5,985,700 | 6,735,220 | 7,153,440 |
| Total exports | 97,338,940 | 118,200,000 | 120,180,540 | 121,180,540 | 122,538,980 |
| Imports | | | | | |
| Commercial | 1,499,09,880 | 162,884,382 | 185,282,597 | 190,538,118 | 199,808,182 |
| Government | 5,258,600 | 5,601,780 | 5,390,920 | 7,520,538 | 6,592,400 |
| Total imports | 155,168,480 | 168,486,162 | 190,673,517 | 197,788,650 | 206,400,582 |
| Balance of trade | | | | | |
| Balance | -57,829,540 | -50,286,162 | -70,228,357 | -76,608,110 | -83,841,602 |

| <i>Year</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Exports | | | | | |
| Domestic exports | 119,763,714 | 121,433,882 | 131,394,055 | 136,708,767 | 15,906,1312 |
| Re-exports | 14,763,348 | 26,156,013 | 37,889,318 | 46,444,780 | 55,729,423 |
| Total exports | 134,527,062 | 147,589,895 | 169,283,373 | 183,153,548 | 214,790,735 |
| Imports | | | | | |
| Commercial | 240,472,752 | 285,106,882 | 254,006,317 | 278,838,408 | 360,940,964 |
| Government | 7,331,116 | 5,001,328 | 3,703,726 | 3,005,457 | 3,264,282 |
| Total imports | 247,803,868 | 290,108,210 | 257,710,043 | 281,843,865 | 364,205,246 |
| Balance of trade | | | | | |
| Balance | -113,276,806 | -142,518,315 | -88,426,670 | -98,690,318 | -149,414,511 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

3.2.3. Kenya's balance of trade with selected countries

UNITED STATES

The balance of trade between Kenya and the United States of America was negative during the ten years following the establishment of WTO. It is notable that the value of imports from the U.S rose at a high rate during this period. This insinuates that despite the increased value of Kenyan exports, the imports were overwhelming and therefore the balance of trade continued to deteriorate. While the value of imports rose by 58.89 percent during the ten year period, exports rose by an overwhelming 122.87 percent.

Table 13: Kenya/United States balance of trade (1995 – 2004)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|-------------|----------------|----------------|-------------------------|
| 1995 | 2,632,480 | 6,461,140 | -3,828,660 |
| 1996 | 3,173,820 | 8,801,920 | -5,628,100 |
| 1997 | 3,374,820 | 14,109,769 | -10,734,949 |
| 1998 | 3,053,440 | 16,509,274 | -13,455,834 |
| 1999 | 2,750,098 | 13,189,749 | -10,439,651 |
| 2000 | 2,800,550 | 10,083,679 | -7,283,129 |
| 2001 | 3,381,418 | 38,967,183 | -35,585,765 |

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|-----------|------------|------------------|
| 2002 | 3,345,256 | 14,647,562 | -11,302,306 |
| 2003 | 2,738,568 | 14,388,324 | -11,649,756 |
| 2004 | 4,182,903 | 14,400,163 | -10,217,260 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

UNITED KINGDOM

Kenya's overall balance of trade with the United Kingdom improved during the ten years after the establishment of WTO. This can be owed to the steady improvement in the value of exports from Kenya to the United Kingdom. The country actually managed to record a positive balance of trade in 2003. This however was not maintained and Kenya's balance of trade with the UK deteriorated again in the year 2004.

Table 14: Kenya/United Kingdom balance of trade (1995 – 2004)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|------------|------------|------------------|
| 1995 | 9,718,620 | 19,610,240 | -9,891,620 |
| 1996 | 12,327,200 | 22,264,520 | -9,937,320 |
| 1997 | 13,878,360 | 21,556,903 | -7,678,543 |

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|------------|------------|------------------|
| 1998 | 16,217,294 | 24,354,543 | -8,137,249 |
| 1999 | 16,990,508 | 23,122,775 | -6,132,267 |
| 2000 | 18,610,404 | 25,135,769 | -6,525,365 |
| 2001 | 16,381,840 | 21,988,580 | -5,606,740 |
| 2002 | 19,500,359 | 21,137,786 | -1,637,427 |
| 2003 | 21,232,642 | 19,621,242 | 1,611,400 |
| 2004 | 21,588,416 | 27,123,809 | -5,535,393 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

FRANCE

Following the relaxation of international trade barriers after the establishment of WTO, the volume of trade between Kenya and France increased significantly. The balance of trade however remained negative throughout the period, with the worst value being Ksh. -8.613 billion, recorded in 2004. Despite the increase in exports to France, the value of imports increased at a higher rate thus limiting Kenya from attaining a positive balance of trade.

Table 15: Kenya/France balance of trade (1995 – 2004)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|-----------|------------|------------------|
| 1995 | 1,836,820 | 6,974,340 | -5,137,520 |
| 1996 | 1,979,940 | 8,257,900 | -6,277,960 |
| 1997 | 2,569,460 | 7,110,083 | -4,540,623 |
| 1998 | 1,884,080 | 8,031,865 | -6,147,785 |
| 1999 | 2,288,663 | 6,735,408 | -4,446,745 |
| 2000 | 2,135,432 | 8,297,076 | -6,161,644 |
| 2001 | 2,256,385 | 10,698,746 | -8,442,361 |
| 2002 | 2,358,206 | 9,712,405 | -7,354,199 |
| 2003 | 3,054,330 | 8,956,819 | -5,902,489 |
| 2004 | 3,580,857 | 12,193,488 | -8,612,631 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

CANADA

Kenya's balance of trade with Canada remained negative a decade after the establishment of WTO. Despite the fact that the margin between the exports to Canada and imports to Kenya was quite small, exports exhibited a gradual decline towards the end of the period thus worsening the balance of trade. On average, the value of imports rose despite the fluctuations recorded during the period.

Table 16: Kenya/Canada balance of trade (1995 – 2004)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|---------|-----------|------------------|
| 1995 | 620,160 | 639,700 | -19,540 |
| 1996 | 647,980 | 1,792,160 | -1,144,180 |
| 1997 | 592,200 | 1,592,948 | -1,000,748 |
| 1998 | 612,840 | 1,393,139 | -780,299 |
| 1999 | 432,004 | 1,734,794 | -1,302,790 |
| 2000 | 472,364 | 985,625 | -513,261 |
| 2001 | 346,459 | 1,598,704 | -1,252,245 |
| 2002 | 432,701 | 1,183,219 | -1,640,067 |
| 2003 | 411,193 | 2,051,261 | -1,640,068 |
| 2004 | 417,439 | 2,197,400 | -1,779,961 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

UGANDA

There were constant fluctuations in the balance of trade between Kenya and Uganda. It is however notable that trade between Kenya and Uganda increased within the ten year period.

There was a significant increase in the value of imports, although this was countered by the

adjacent rise in exports to Uganda, such that the balance of trade during the period generally improved. The most favorable balance of trade was Ksh.18.499 billion recorded in 2001.

Table 17: Kenya/Uganda balance of trade (1995 – 2004)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|------------|-----------|------------------|
| 1995 | 14,016,760 | 160,640 | 13,856,120 |
| 1996 | 17,500,660 | 29,700 | 17,470,960 |
| 1997 | 16,341,360 | 467,212 | 15,874,148 |
| 1998 | 17,358,200 | 59,738 | 17,298,462 |
| 1999 | 18,558,122 | 307,012 | 18,251,110 |
| 2000 | 17,161,872 | 515,402 | 16,478,451 |
| 2001 | 19,183,315 | 683,421 | 18,499,894 |
| 2002 | 14,272,349 | 664,421 | 13,607,928 |
| 2003 | 12,334,100 | 1,037,601 | 11,296,499 |
| 2004 | 15,701,204 | 1,010,666 | 14,690,538 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

TANZANIA

There was a considerable increase in the volume of trade between Kenya and Tanzania. Both countries increased their exports to each other at a high rate. This was despite the fluctuations witnessed between the years. Notably however, the balance of trade between Kenya and Tanzania deteriorated towards the end of the period; before improving again in 2004 as indicated in table 17.

Table 18: Kenya/Tanzania balance of trade (1995 – 2004)

(Ksh '000)

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|-------------|----------------|----------------|-------------------------|
| 1995 | 11,008,760 | 622,000 | 10,386,760 |
| 1996 | 13,653,580 | 927,980 | 12,725,600 |
| 1997 | 13,935,560 | 864,566 | 13,070,994 |
| 1998 | 13,745,420 | 610,046 | 13,070,994 |
| 1999 | 11,397,470 | 480,050 | 10,917,420 |
| 2000 | 8,723,567 | 927,724 | 7,795,843 |
| 2001 | 9,327,535 | 584,791 | 8,742,744 |
| 2002 | 9,219,812 | 802,666 | 8,417,146 |

| YEAR | EXPORTS | IMPORTS | BALANCE OF TRADE |
|------|------------|-----------|------------------|
| 2003 | 8,138,945 | 1,367,610 | 6,771,335 |
| 2004 | 11,167,053 | 2,009,673 | 9,157,380 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

3.2.4. Kenya's GDP growth rates between 1995 and 2004

Kenya's GDP growth rate (constant prices) reached 4.287% in 1995 after recording poor growth since the 1992 slump. This however did not last since the GDP growth declined systematically, reaching 0.22 percent in the year 1997. There was considerable improvement in 1998 when the GDP growth rate increased to 3.3 percent in 1999 before dropping again to 0.599 percent in the year 2000. It is notable that the GDP growth rates fluctuated highly during this period because the country later recorded 4.726 percent in 2001, 0.299 percent in 2002, 2.785 percent in 2003 and finally 4.618 percent in the year 2004.

Table 19: Kenya's GDP growth rates (Constant prices) for 1995-2004

| <i>Year</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>GDP growth rate (%)</i> | 4.287 | 4.011 | 0.22 | 3.33 | 2.407 | 0.599 | 4.726 | 0.299 | 2.785 | 4.618 |

Source: Kenya Economic Statistics and Indicators >

<http://www.economywatch.com/economic-statistics/country/Kenya>

3.2.5. Employment data (1995-2004)

The level of unemployment remained high even after the establishment of WTO. In 1994, the level of unemployment was estimated at 35 - 40 percent. By 1998, the unemployment level reached 50 percent before dropping to 40 percent in 2001. The unemployment level is currently at 40 percent (2008 est). The high level of unemployment can be attributed to the growing population, such that the available jobs are not adequate to accommodate all citizens.

Table 20: Kenya's unemployment levels (1995-2004)

| <i>Year</i> | <i>1995</i> | <i>1996</i> | <i>1997</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Unemployment (%)</i> | 35 | 35 | 35 | 50 | 50 | 50 | 40 | 40 | 40 | 40 |

Source: Annual Statistical Abstracts (1995 - 2004) - Kenya National Bureau of Statistics

3.3. SUMMARY OF THE CHAPTER

This chapter exhibits Kenya's economic position in terms of trade volumes, balance of trade, GDP growth and unemployment data. From the data collected, it has been established that Kenya is not at par with developing countries and that its balance of trade still remains negative. This is despite the increased volume of trade which has been witnessed in the 20 years included in the study. The chapter further establishes that the economy is still unstable; judging from the fluctuating export volumes, the unstable GDP growth figures and rising unemployment levels. This is despite the fact that the establishment of WTO was expected to bring significant transformation in the country's economic condition.

CHAPTER 4: DATA ANALYSIS

Introduction

It is evident that the effects of globalization took charge of the Kenyan economy following the introduction of the WTO; and that the concept of trade liberalization is mostly responsible for the increased movement of goods, services and capital between WTO's member countries. As a result, there were grand changes in the indicators of globalization in the ten years following the establishment of WTO. The facts obtained during this study moreover substantiate that anticipated effects of globalization were evident in the decade preceding the introduction of WTO. This is indicated by the significant changes in globalization indicators during this period. It is notable that globalization indicators such as trade volumes, exports and imports changed more significantly in the decade preceding the establishment of WTO as compared to the decade following its establishment.

Method

The data analysis method used for this section is Spearman's rank correlation coefficient. Further, the use of graphs is highly emphasized for ease of comparison of data.

Spearman's correlation

The Spearman's rank correlation coefficient acts as a measure of statistical dependence between two variables. Often denoted as ρ (rho), the correlation coefficient assesses how well the relationship between two variables can be described using a monotonic function. Where each variable is a perfect monotone of the other, the correlation coefficient is either +1 or -1. +1

signifies a direct positive relationship between the variables while -1 denotes a direct negative relationship between the variables under study¹⁴³. The formula for Spearman's rank correlation coefficient is as follows:

$$\rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$$

Where:

ρ → rho (Spearman's correlation coefficient)

\sum → Sum

d → Difference between rank columns

n → Number of variables

In order to obtain the Spearman's rank correlation coefficient, the values of the first variable under study are ranked in an ascending order and each value is given a number starting from 1. The lowest value is ranked 1, the second lowest is ranked 2, and so on, leaving the largest value with the highest rank. Ranks are then given to the values of the second variable in an ascending order but without having to arrange the values as with the first variable. The differences between ranks d_i are obtained, squared and then summed to get \sum . The formula shown above is then used to obtain the Spearman's rank correlation coefficient.

¹⁴³ Henderson, P. W. (2004). *Statistics simplified*. New York: McGrawHill, p. 123.

4.1. ANALYSIS OF KENYAN ECONOMIC DATA: - BEFORE WTO AND AFTER

4.1.1. Trade as a factor of GDP

It is notable that Kenya's volume of trade has grown significantly since the introduction of WTO. This is associated with the increased trade openness between WTO member countries and the overall effects of globalization. The palpable question however would be; has this growth in trade volumes played a role in improving the country's economic situation as evidenced by the gross domestic product (GDP)?

The GDP level in a country is calculated as follows:

$$Y = C + I + E (X-M) + G \text{ }^{144}$$

Where:

Y = GDP

C = Consumer Spending

I = Investment made by industry

E = Excess of Exports over Imports

G = Government Spending

Given this formula, it is possible to deduce that the volume of trade in a country dictates the GDP growth. In essence, an increase in the volume of exports should ideally lead to an improvement in the GDP of a country.¹⁴⁵ In Kenya's case however, the GDP did not improve proportionately with the rise in exports. This insinuates that other factors such as increased

¹⁴⁴ Wilson, A. (2001). *Introduction to Economics*. London: SAGE.

¹⁴⁵ Ibid.

imports, government expenditure and reduced investment could have affected Kenya's GDP growth potential.

The relationship between the increase in trade volumes and GDP growth recorded in Kenya after WTO may be established through spearman's correlation as follows:

| Year | Volume of trade | GDP | Trade volume rank (Y_i) | GDP rank (X_i) | $d_i(Y_i - X_i)$ | d_i^2 |
|------|-----------------|-------|-----------------------------|--------------------|------------------|----------------|
| 1995 | 252,507,402 | 4.287 | 1 | 8 | -7 | 49 |
| 1996 | 286,686,162 | 4.011 | 2 | 7 | -5 | 25 |
| 1997 | 311,118,677 | 0.22 | 3 | 1 | 2 | 4 |
| 1998 | 318,969,190 | 3.33 | 4 | 6 | -2 | 4 |
| 1999 | 328,959,562 | 2.407 | 5 | 4 | 1 | 1 |
| 2000 | 382,330,931 | 0.599 | 6 | 3 | 3 | 9 |
| 2001 | 426,993,417 | 4.726 | 7 | 10 | -3 | 9 |
| 2002 | 437,698,105 | 0.299 | 8 | 2 | 6 | 36 |
| 2003 | 464,997,413 | 2.785 | 9 | 5 | 4 | 16 |
| 2004 | 578,995,981 | 4.618 | 10 | 9 | 1 | 1 |
| | | | | | | $\Sigma = 154$ |

$$\rho = 1 - \frac{6 \Sigma d_i^2}{n(n^2 - 1)}$$

$$\rho = 1 - \frac{6 * 154}{10 (10^2 - 1)}$$

$$\rho = 0.067$$

These results indicate that the increase in exports and the rise of GDP in Kenya have a very low correlation. It shows that despite the significant increase in the value of trade, Kenya's GDP has not been increasing at the same pace. Furthermore, the GDP levels fluctuated highly during the ten years following the introduction of WTO. These results may also prove that the growth in exports has been overpowered by the growth in imports. Consequently, the balance of trade value (X-M) has remained negative; such that considerable improvement in the GDP has not been witnessed.

4.1.2. Exports versus Imports

The introduction of WTO spelled improved economic growth through increased domestic production and increased exports. Accordingly, it would be expected that more favorable balances of trade would be recorded in developing countries due to the improvement in exports and reduction in the value of imports. The trends in Kenyan exports and imports after the establishment of WTO could be established using spearman's correlation as follows:

| | Exports | Imports | Exports rank (Y_i) | Imports rank (X_i) |
|------|------------|-------------|------------------------|------------------------|
| 1995 | 97,338,940 | 155,168,480 | 1 | 1 |

| | | | | | | |
|------|-------------|-------------|----|----|----|--------------|
| 1996 | 118,200,000 | 168,486,162 | 2 | 2 | 0 | 0 |
| 1997 | 120,180,540 | 190,673,517 | 3 | 3 | 0 | 0 |
| 1998 | 121,180,540 | 197,788,650 | 4 | 4 | 0 | 0 |
| 1999 | 122,538,980 | 206,400,582 | 5 | 5 | 0 | 0 |
| 2000 | 134,527,062 | 247,803,868 | 6 | 6 | 0 | 0 |
| 2001 | 147,589,895 | 290,108,210 | 7 | 9 | -2 | 4 |
| 2002 | 169,283,373 | 257,710,043 | 8 | 7 | 1 | 1 |
| 2003 | 183,153,548 | 281,843,865 | 9 | 8 | 1 | 1 |
| 2004 | 214,790,735 | 364,205,246 | 10 | 10 | 0 | 0 |
| | | | | | | $\Sigma = 6$ |

$$\rho = 1 - \frac{6 \sum d_i^2}{n(n^2 - 1)}$$

$$\rho = 1 - \frac{6 * 6}{10(10^2 - 1)}$$

$$\rho = 0.963636364$$

These results indicate an almost perfect correlation between the growth of exports and imports in Kenya. In essence, this indicates that as Kenya's exports increased as a result of trade liberalization, the value of imports increased at almost the same rate. This could be used as an explanation for the persistent negative balance of trade recorded in Kenya. It could also mean that the WTO has not helped Kenya in increasing imports to the desired level; and that the increased access to the Kenyan market has led to an upsurge in the value of imports. The ever-rising value of imports overshadows the improvement in Kenya's exports thus making it

impossible for Kenya's balance of trade to become positive. Another implication is that since goods from developed countries tend to be cheaper, they are preferred to the more expensive local goods.¹⁴⁶ Consequently, local industries are at a risk of extinction and this could affect the growth of exports vehemently thus making it harder for the balance of trade to improve.

4.2. OBSERVATION OF CHANGES ON INDICATORS OF GLOBALIZATION IN KENYA

4.2.1 Trade volumes

Observations

The data collected in this study clearly reveals that Kenya's trade volumes increased tremendously following the introduction of WTO. This satisfies the anticipated effect of increased trade volumes after the establishment of WTO following the elimination of trade barriers. On average, higher trade values were recorded in the period following the establishment of WTO as compared to the period preceding its establishment. Notably however, the percentage increase in trade volumes was quite low in the decade following the establishment of WTO. A sharper trend as indicated by fig. 1 was witnessed in the decade preceding the WTO as opposed to the trend recorded in the decade following the establishment of WTO (fig. 2). Numerically, trade volumes increased by 365.73% in the ten-year period preceding the establishment of WTO

¹⁴⁶ Hudson, M 2003, *Super imperialism: the origin and fundamentals of U.S. world dominance*. Australia: Pluto Press.

while a 129.3% change was recorded in the following decade. This generally means that the largest percentage increase in trade volumes was recorded before WTO was established.

It is important to note that the increase in trade volumes after the introduction of WTO, as indicated in fig. 2 was more gradual than in the preceding decade. In the period preceding the WTO, the volume of trade increased gradually since 1985 before rising sharply between 1992 and 1994. This sharp rise was actually the main reason for the high percentage increase in trade volume recorded during this period.

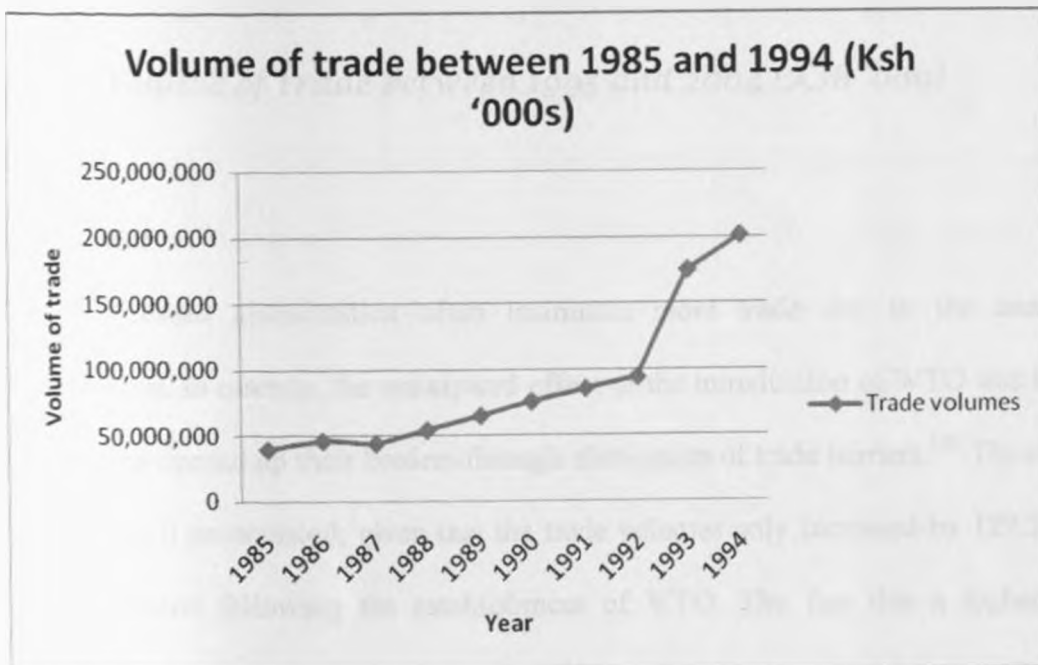


Fig 1: Volume of trade between 1985 and 1994 (Ksh '000s)

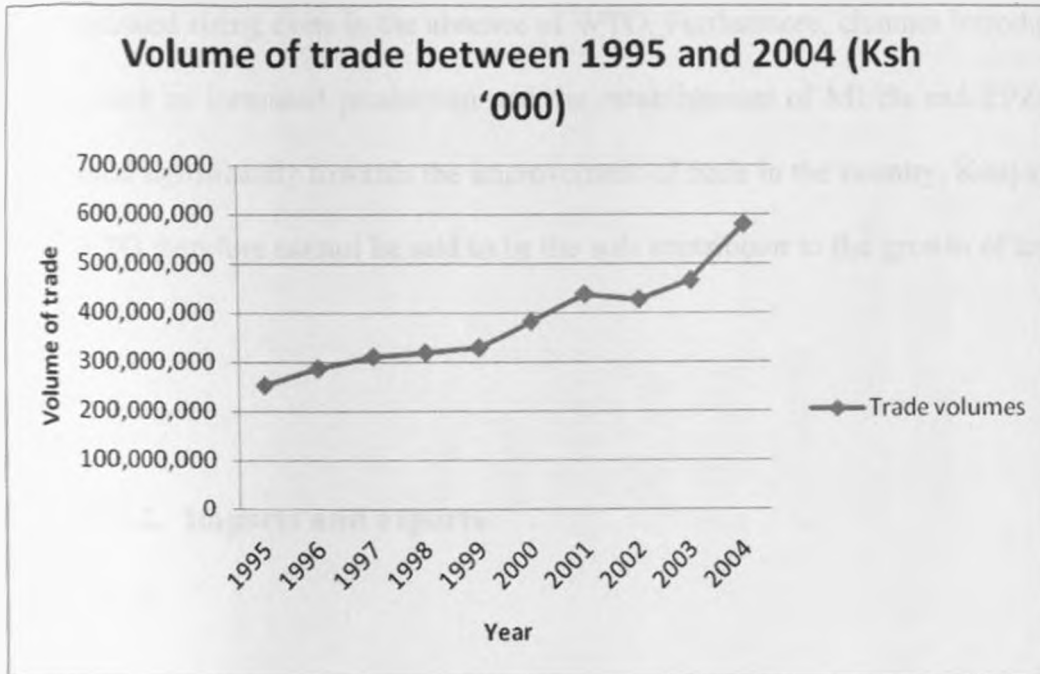


Fig 2: Volume of trade between 1995 and 2004 (Ksh '000)

Implications

Increased globalization often insinuates more trade due to the concept of trade liberalization. In essence, the anticipated effect of the introduction of WTO was increased trade as countries opened up their borders through elimination of trade barriers.¹⁴⁷ The effects however were not well pronounced; given that the trade volumes only increased by 129.3% through the ten-year period following the establishment of WTO. The fact that a higher increase was recorded in the decade preceding the WTO almost overrules the associated effects of globalization following the establishment of WTO. It signifies that Kenya's trade volumes could

¹⁴⁷ Chen, John-ren. (2003). *The role of international institutions in globalisation: the challenges of reform*. London: Edward Elgar Publishing.

have continued rising even in the absence of WTO. Furthermore, changes introduced within the country such as increased production and the establishment of MUBs and EPZs in the 1980s contributed significantly towards the improvement of trade in the country. Kenya's membership in the WTO therefore cannot be said to be the sole contributor to the growth of trade volumes in Kenya.

4.2.2. Imports and exports

Observations

There was a significant rise in imports and exports; both in the decade preceding the WTO and the decade following the introduction of the Organization. Notably however, a more significant change was recorded in the period preceding the introduction of WTO. While the value of exports rose by 373.45 percent in the decade before WTO, the value went up by 120.66 percent in the decade following the introduction of WTO. Similarly, the value of imports rose by 360.85 % and 134.71 % respectively. In both decades, the value of imports remained significantly higher than the value of exports. Fig. 3 and Fig. 4 the gradual rise in exports and imports, with the exception of 1987 when the exports fell and 2002 when there was a decline in the value of imports.

Comparison of Imports and Exports between 1985 and 1994 (Ksh '000s')

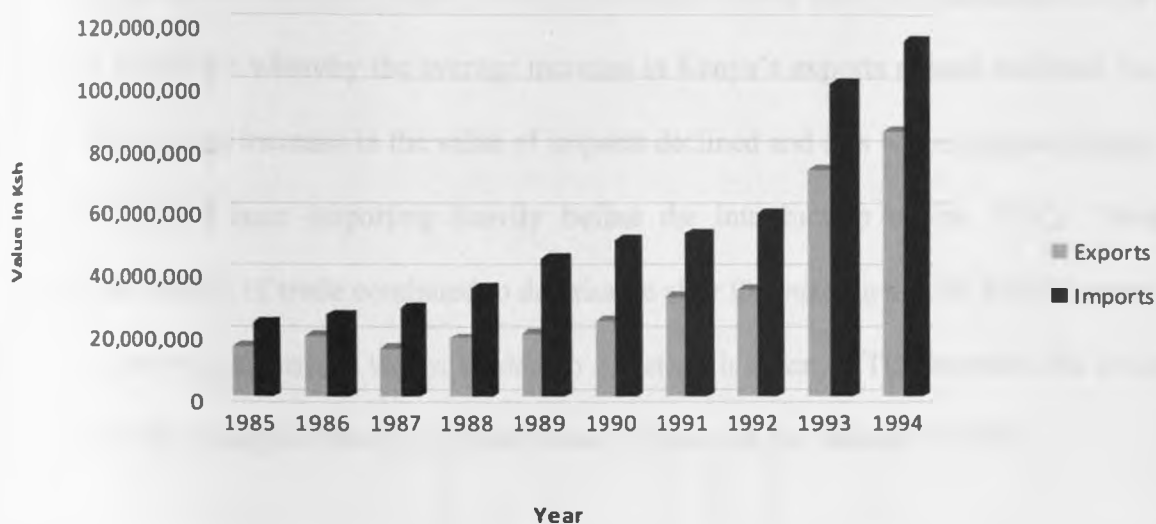


Fig 3: Comparison of Imports and Exports between 1985 and 1994 (Ksh '000s')

Comparison of Imports and Exports between 1995 and 2004 (Ksh '000s')

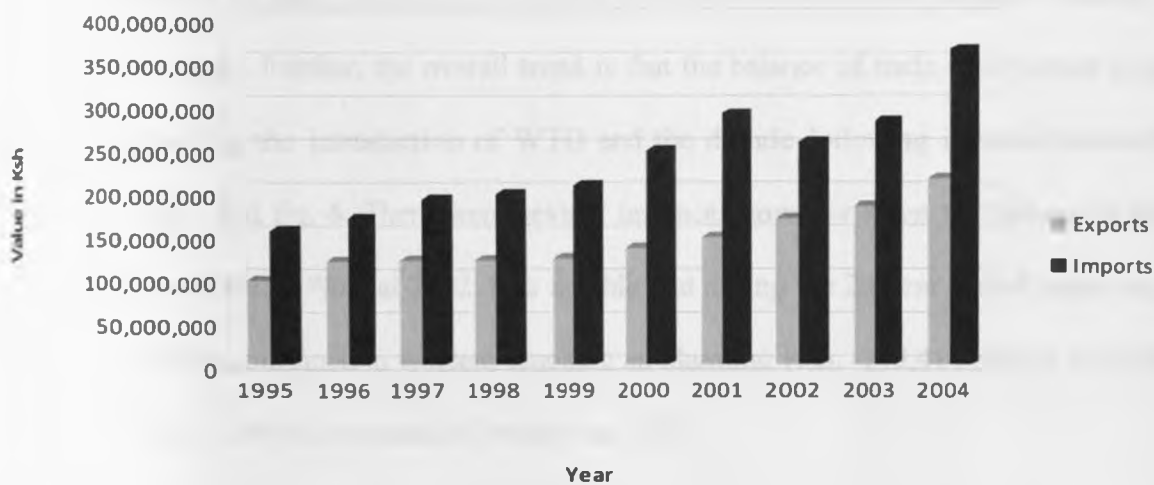


Fig 4: Comparison of Imports and Exports between 1995 and 2004 (Ksh '000s')

Implications

This trend indicates that limited changes in trade occurred after the introduction of WTO. It portrays a situation whereby the average increase in Kenya's exports abroad declined. On the contrary, the average increase in the value of imports declined and this was a positive change for Kenya, which had been importing heavily before the introduction of the WTO. Notably however, the balance of trade continued to deteriorate after the introduction of WTO because the changes in export and import values tended to offset each other. WTO therefore did not help Kenya's exports to outgrow the imports and hence improve on the balance of trade.

4.2.3. Balance of trade

Observations

The balance of trade (Exports – Imports) remained conspicuously negative during the entire period of study. Further, the overall trend is that the balance of trade deteriorated both in the decade preceding the introduction of WTO and the decade following its establishment as indicated by fig. 5 and fig. 6. There were several instances however when the balance of trade improved such as 1991, 1996 and 2002. It is notable that during the 20-year period under study, the balance of trade continued to worsen; reaching an alarming Ksh. -149.414 billion in 2004 as compared to Ksh. -7.69 billion recorded in the year 1985.

The negative balance of trade can be explained by the fact that Kenya as a developing country is not well endowed with capital and technology; factors which are considered crucial

for economic development.¹⁴⁸ As a result, the country ends up importing most goods that require high levels of capital and innovative technology to produce.

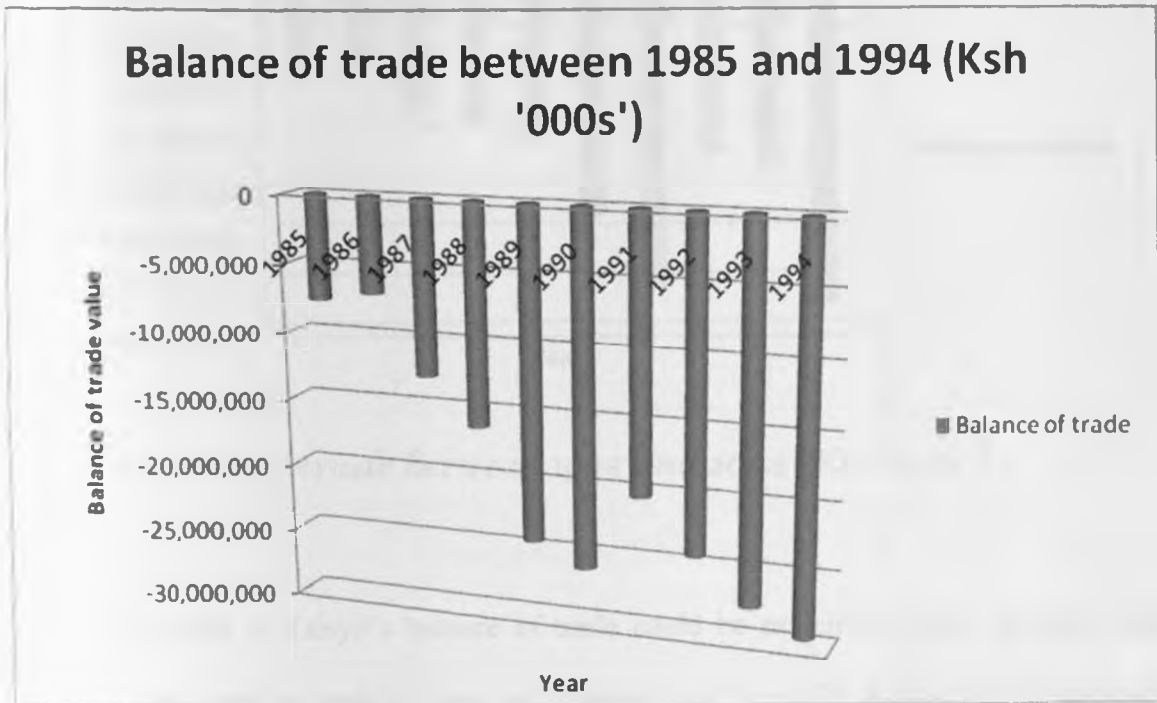


Fig 5: Balance of trade between 1985 and 1994 (Ksh '000s')

¹⁴⁸ Were, M., Ndung'u N. S., Geda, A., and Karingi, S. N. (2002). *Analysis of Kenya's Export Performance: an empirical evaluation.*

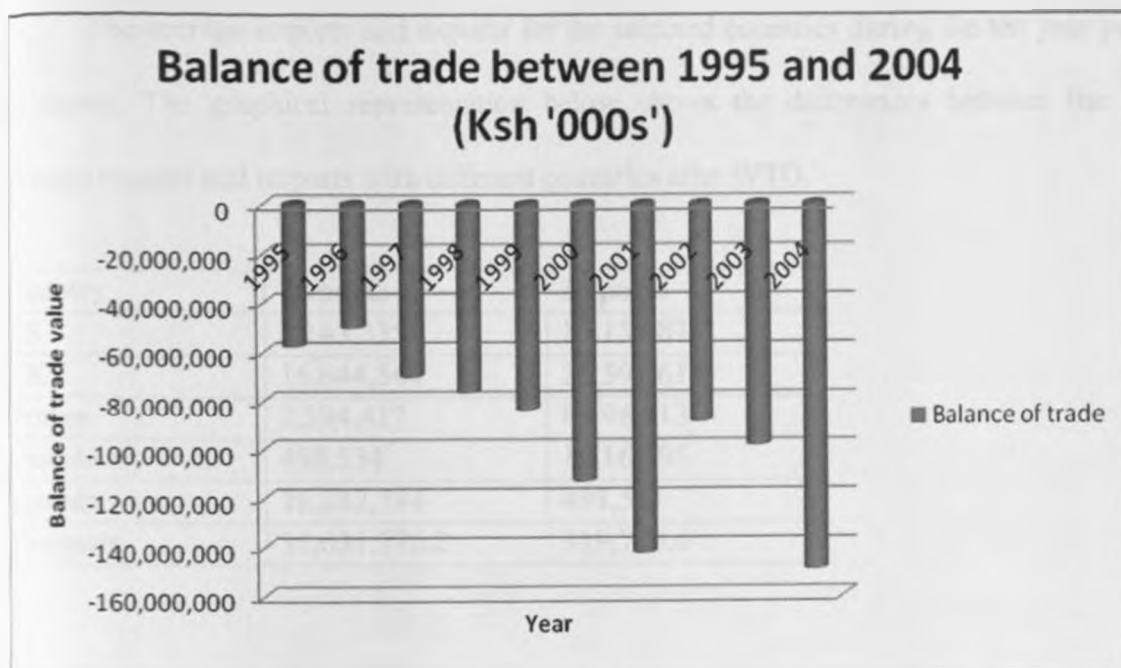


Fig 6: Balance of trade between 1995 and 2004 (Ksh '000s')

The trend in Kenya's balance of trade could be explained further through examining Kenya's trade relations with the selected countries. Fig. 7 and fig. 8 illustrate the comparison of Kenya's exports and imports; and the comparison of Kenya's balance of trade with selected countries respectively. It serves as a useful illustration for the difference between Kenya's trade with developed countries and developing countries following the establishment of WTO. It is apparent that developed countries; namely the United States of America, United Kingdom, France and Canada benefited more from trade with Kenya; with the most unfavorable balance of trade occurring between Kenya and the US. On the other hand, Kenya greatly benefited from trading with the developing countries included in this study (Uganda and Tanzania).

The average imports and exports for the selected countries during the ten year period are as shown. The graphical representation below shows the differences between the Kenya's average exports and imports with different countries after WTO.

| Country | Imports | Exports |
|----------|--------------|------------|
| US | 3,143,335 | 15,155.876 |
| UK | 16,644,564 | 22,591.617 |
| France | 2,394,417 | 8,696.813 |
| Canada | 498,534 | 1,516.895 |
| Uganda | 16,242,794 | 493,581 |
| Tanzania | 11,031,770.2 | 919,710.6 |

Comparison of average imports and exports for selected countries (1995-2005)

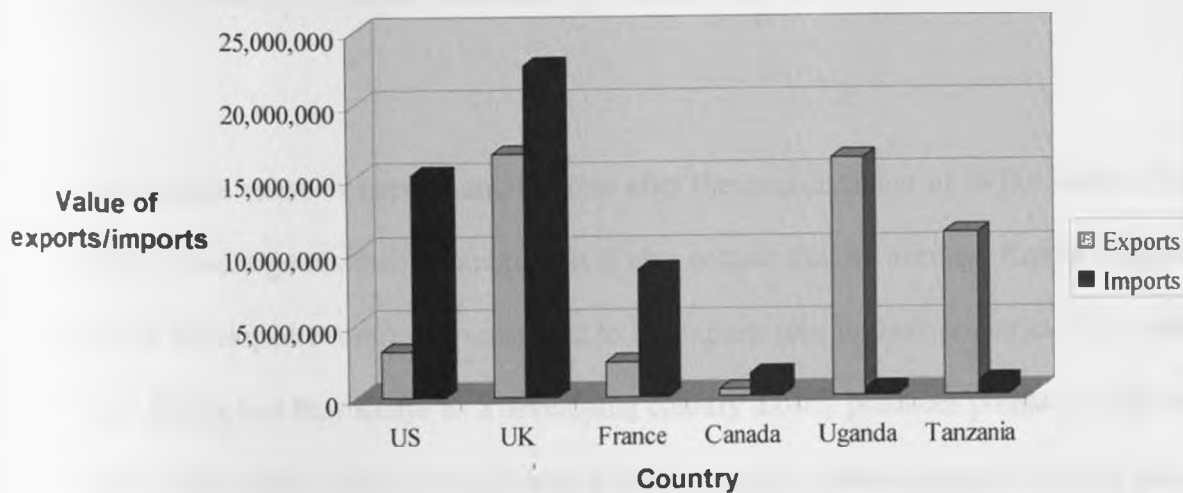


Fig 7: Comparison of Kenya's exports and imports with selected countries, a decade after the establishment of WTO

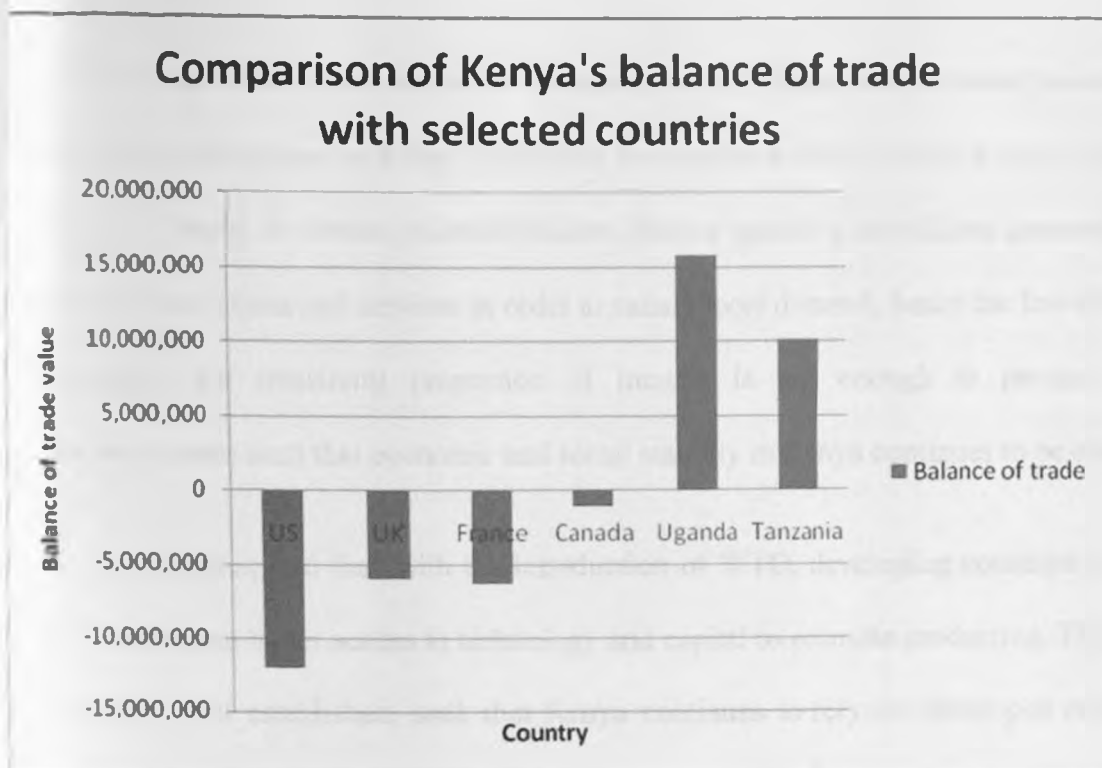


Fig 8: Comparison of Kenya's balance of trade with selected countries

The average value of exports and imports after the establishment of WTO indicate that Kenya imported more goods than it exported. It is also notable that on average, Kenya imported more from the developed countries as compared to the exports sent to these countries. This could be explained by the fact that Kenya as a developing country mostly produces primary goods and a few manufactured goods whose value is not as significant as the more expensive capital goods from developed countries. On the contrary, exports to developing countries (in this case Uganda and Tanzania) composed a large share of the country's exports; an indication that trade with other developing countries could also be useful in improving Kenya's economy. Imports from these countries were also minimal as compared to developing countries.

Implications

The observations made above are an indication that Kenya has continued to over-rely on foreign goods and services and that the country has not been able to develop local industries to the desirable levels. It further exemplifies that Kenya spends a significant proportion of its income to import goods and services in order to satisfy local demand: hence the low GDP levels. Consequently, the remaining proportion of income is not enough to promote national development issues such that economic and social stability in Kenya continues to be elusive.

It was anticipated that with the introduction of WTO, developing countries like Kenya would benefit from better access to technology and capital to promote production. This however has not been well established, such that Kenya continues to rely on developed countries for various goods. This over-reliance on developed countries has hampered potential development of industries that could produce the same goods within the country, given the right capital and technology. In essence, the government may find importing easier than investing in modern technology and helping local investors to acquire capital.⁴⁹ This could however end up being more expensive in the long-run such that the balance of trade remains negative for a long time. In conclusion, the role of WTO in improving Kenya's balance of trade has not been optimally felt.

The comparison of Kenya's trade with selected countries serves the purpose of exemplifying the disproportionate trade among WTO member countries. Naturally, the establishment of WTO typified a situation in which all member countries would have equal

⁴⁹Hudson, M 2003. *Super imperialism: the origin and fundamentals of U.S. world dominance*. Australia: Pluto Press., p. 184.

opportunities to trade with each other and hence promote economic development. However, this was not substantiated, ten years after the establishment of WTO. It is obvious that developing countries have been sidelined within WTO, as indicated by Kenya's case. As the major decision makers, developing countries set rules that force developing countries to eliminate barriers to trade in their countries, such that developed nations gain more access into their markets.¹⁵⁰ On the contrary, the developed nations do not open their markets fully to the developing nations such that they only export a limited amount of goods to these countries. This lopsidedness within the WTO has to a large extent contributed to the poor development of third-world countries. Upcoming industries in developed countries for example have been overpowered by cheap imports from developing countries due to the high level of competition. As a result, developing countries like Kenya will continue to rely on primary exports which indeed cannot match the more expensive secondary imports and capital goods from developed countries.

4.2.4. Gross Domestic Product (GDP)

Observations

The trend in the Gross Domestic Product, both before and after the introduction of WTO appears to be quite erratic. In essence, it would be intricate to determine whether Kenya's GDP growth rate actually improved over the years. Notably, any improvements recorded were

¹⁵⁰ Chen, John-ren. (2003). *The role of international institutions in globalisation: the challenges of reform*. London: Edward Elgar Publishing., p. 43

countered by subsequent depreciations; thus discrediting the hypothetical improvement in Kenya's economic growth.

In the decade preceding the WTO, the trend in GDP growth was mostly negative; with improvements being witnessed in various years such as 1986, 1988, 1993 and 1994. These improvements however were not significant since they were mostly followed by deteriorating GDP growth rates. A continuous drop in the GDP levels was witnessed between 1988 and 1992 when the GDP dropped from 6.091 to -1.08 percent. Thereafter, the GDP rose to -0.095 % in 1993 and later reached 2.531 % in 1994.

While the GDP improved greatly in certain circumstances after the introduction of WTO, it is notable that such improvements were followed by deep surges; making the GDP growth trend difficult to predict. In 1996 for example, the GDP growth fell sharply from 4.011% to 0.22%. This later improved to 3.33 percent before declining again to a low of 0.599 percent in the year 2000. The same fluctuating trend is witnessed in the following years where the GDP shoots to 4.726 percent in 2001, drops to 0.299 percent in 2003, and finally rises to a high of 4.618 percent in 2004.

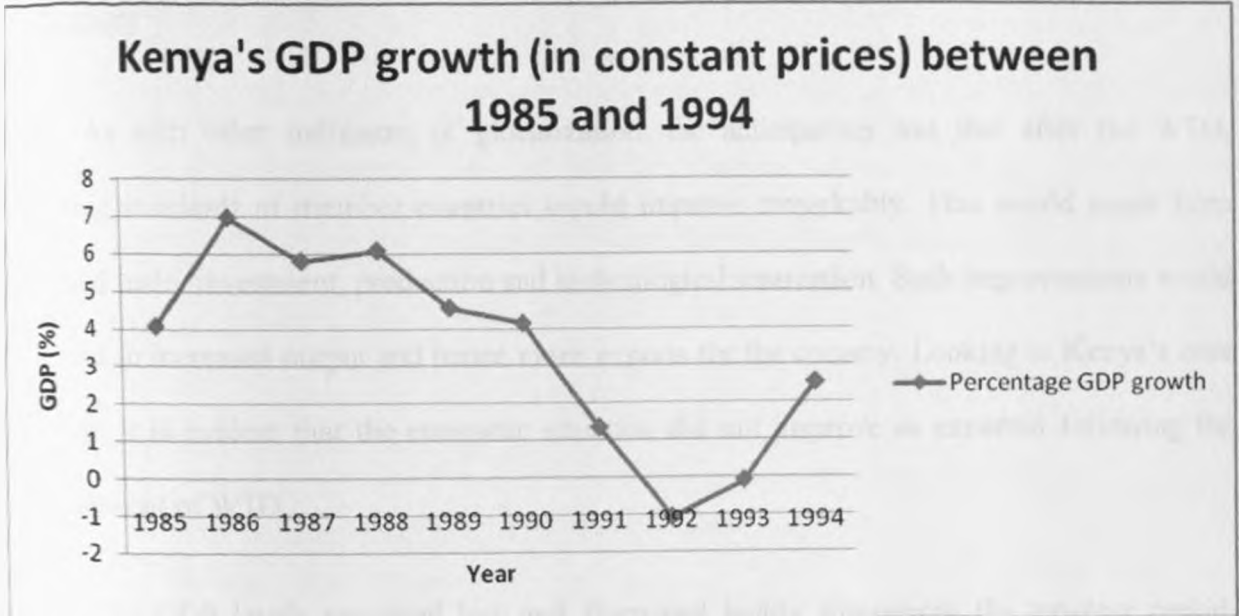


Fig 9: Kenya's GDP growth (in constant prices) between 1985 and 1994

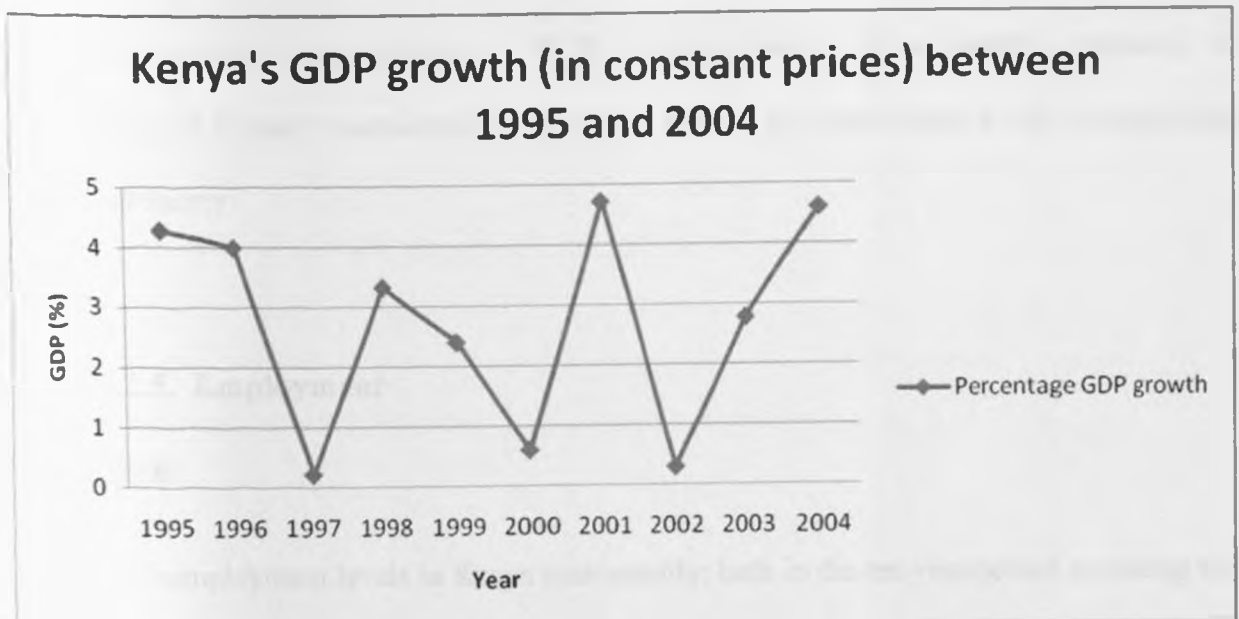


Fig 10: Kenya's GDP growth (in constant prices) between 1995 and 2004

Implications

As with other indicators of globalization, the anticipation was that after the WTO, economic standards of member countries would improve remarkably. This would result from increased trade, investment, production and technological innovation. Such improvements would then lead to increased output and hence more exports for the country. Looking at Kenya's case however, it is evident that the economic situation did not improve as expected following the establishment of WTO.

The GDP levels remained low and fluctuated highly throughout the ten-year period. Unlike in the decade before the establishment of WTO where a gradual decline was observed before the GDP improved in 1993 and 1994, the sharp fluctuations witnessed during the ten-year period following the establishment of WTO is an indication of an unstable economy. It exemplifies that Kenya's membership in the WTO did not play the expected role of improving Kenya's economy

4.2.5. Employment

Observations

Unemployment levels in Kenya rose steadily; both in the ten-year-period preceding the introduction of WTO and the decade following the introduction of WTO. The graphs portray a situation in which unemployment levels either rose or remained constant between the years. There are only two instances (1997-1998 and 2000-2001) when a decline in unemployment levels was recorded. Fig. 13 portrays a stair pattern where unemployment increases every few

years. The constant figures can be explained by the fact that unemployment estimates are not done each year and that determined estimates can be used for several years before new estimates are done.¹⁵¹ Overall however, unemployment continued to be prevalent following the establishment of WTO. There was a slight drop from 50% to 40% which prevailed from the year 2000 to 2004. Nevertheless, 40% is a high unemployment value.

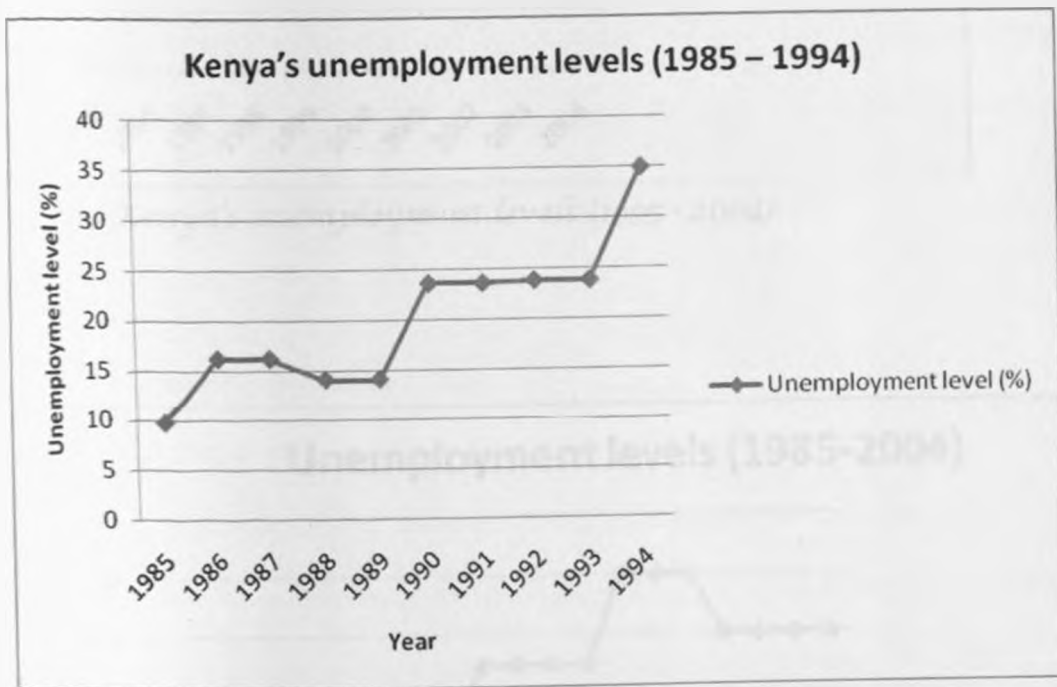


Fig 11: Kenya's unemployment levels (1985 - 1994)

¹⁵¹ Kenya National Bureau of Statistics

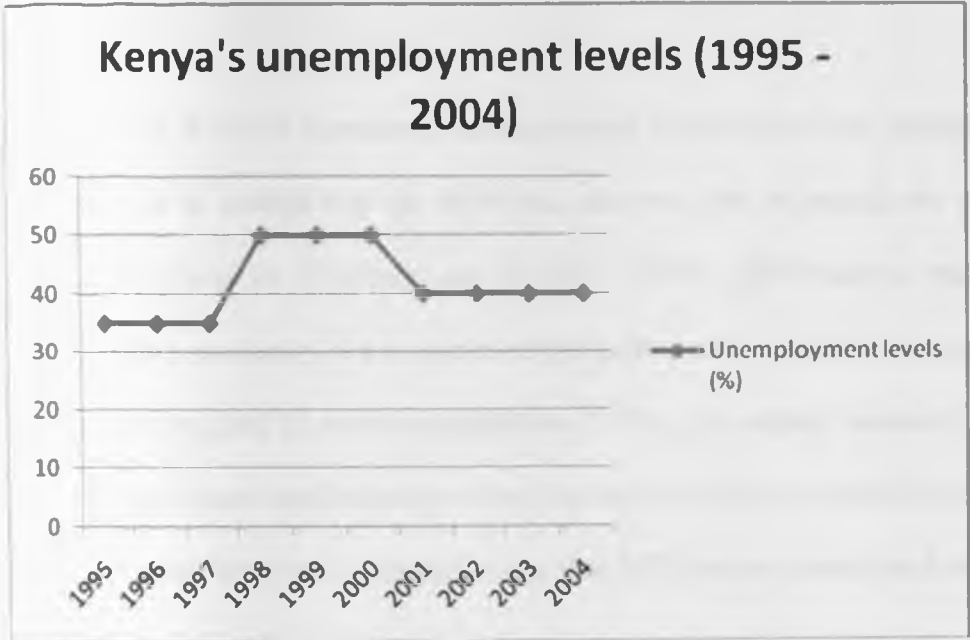


Fig 12: Kenya's unemployment levels (1995 - 2004)

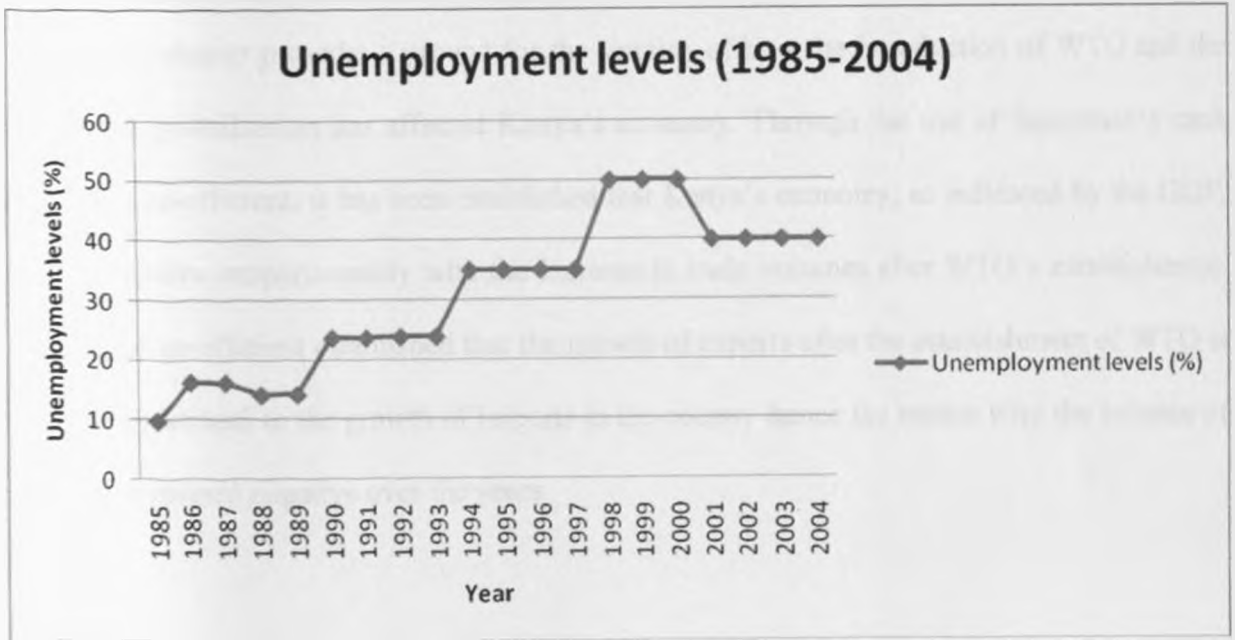


Fig 13: Kenya's unemployment levels (1985 - 2004)

Implications

While Kenya's increasing unemployment levels have been blamed on the ever rising population, it is notable that the WTO has not been able to contain the rising unemployment levels. According to Goldberg and Pavcnik (2006), globalization brings about increased employment in a country due to increased production and market for local goods such that more workers are required to enhance production.¹⁵² On the contrary however, job creation through increased investment and industry revival has not been able to counter the growing population in Kenya. It would therefore be correct to say that WTO has not contributed effectively towards the improvement of employment levels in Kenya.

4.3. SUMMARY OF THE CHAPTER

This chapter provides a ground for the scrutiny of how the introduction of WTO and the consequent globalization has affected Kenya's economy. Through the use of Spearman's rank correlation co-efficient, it has been established that Kenya's economy, as indicated by the GDP, did not improve proportionately with the increase in trade volumes after WTO's establishment. Further, the co-efficient established that the growth of exports after the establishment of WTO is almost proportional to the growth of imports in the country hence the reason why the balance of trade has remained negative over the years.

¹⁵² Goldberg, P. K. & Pavcnik, N. (2006). *Distributional effects of globalization in developing countries*. National Science Foundation, p. 35

The use of graphical representations as an analysis tool also makes the comprehension of Kenya's economy and how it has changed over the years easier. Changes in the various factors of globalization indicate that globalization and trade liberalization have definitely taken toll on Kenya's economy. Notably however, changes occurring after the establishment of WTO were not as anticipated since optimal adjustments were not witnessed in the Kenyan economy.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

The effects of globalization have definitely been felt in Kenya: both in the economic and social aspect. Most notable is the fact that trade has been at the core of globalization as a result of increased trade liberalization. Barriers to global markets reduced significantly following the onset of globalization such that trade between different countries has become easier. As would be expected, changes in trade volumes, GDP levels and employment levels among other indicators of globalization were witnessed during the study period. Further, WTO as an emissary of globalization influenced Kenya's economy considerably. The findings of this study have ascertained that:

- Trade liberalization resulting from WTO membership has influenced net trade in Kenya.
- Indicators of globalization such as net trade, GDP and employment remain relatively low despite Kenya's increased integration into the global market.
- Increased trade liberalization following the establishment of WTO has been more beneficial to developed countries as compared to Kenya. Ideally, Kenya like other developing countries has not derived optimal benefits from the process of globalization and trade liberalization.
- Developing countries stand to benefit more from economic globalization if they unite and partner in trade.

5.1. ECONOMIC GLOBALIZATION AND THE IMPACT OF TRADE LIBERALIZATION ON KENYA.

This study has established that despite its membership in the WTO, Kenya's balance of trade remained highly unfavorable, GDP levels fluctuated highly and unemployment levels deteriorated significantly through the study period. Further, it has been ascertained that Kenya gained less from its WTO membership as compared to its developed counterparts. This is portrayed by the more unfavorable balances of trade recorded with developed countries as compared to the developing countries. It is an indication that the developed countries gain more from the World Trade Organization. As earlier established, developed countries have an upper hand in the running of international trade Organizations such that decisions to break trade barriers tend to favor them at the expense of the developing countries. Consequently, countries like Kenya may not have easy access to developed countries' markets as these countries have on their own domestic markets.

The World Trade Organization is the core deliberation in this study. It nevertheless important to note that other factors resulting from globalization and individual measures taken by the Kenyan government played a crucial role in shaping the country's economy. In an attempt to improve the economy, it is notable that Kenya participated in other trade organizations such as EAC and COMESA which most definitely improved its access to foreign markets. It is also notable that Kenya has made various trade liberalization attempts through reducing tariffs and other trade barriers, besides making attempts to attract foreign investment into the country. Endeavors to improve on exports were also witnessed where Kenya focused on improving production through the establishment of Export Processing Zones (EPZs) and Manufacturing

under Board (MUB), Export Guarantee and Credit Scheme (EGCS), Export Promotion Council (EPC), the Export Promotion Programmes Office (EPPO) and the Kenya Export Trade Authority (KETA). All these efforts could have contributed to the economic figures obtained in this study and therefore all the changes recorded cannot be attributed to WTO.

It is quite conspicuous that each of the globalization indicators changed tremendously over the 20-year period under study. Different trends were evident in each of the mentioned indicators of globalization as follows:

Trade volumes

Kenya's trade volumes generally increased during the ten-year period preceding the establishment of the WTO and in the decade following the WTO. This may be attributed to the increase in production resulting from higher levels of capital, increased production, foreign direct investment and technology advancement. The effects of economic globalization and trade liberalization however remain at the epicenter of this improvement. Globalization and the consequent increase in trade openness, capital transfer, human movement and FDI can be said to be the underlying factor in the increasing trade volumes recorded after the establishment of WTO.

Kenya not only eased existing trade barriers but also participated in a number of regional and international trade organizations in order to gain a wider global market. Kenya's membership in the WTO clearly made a lasting mark in Kenya's economy and is highly responsible for the increased trade volumes in the country. Under the WTO, Kenya was expected

to open up its market to member countries in accordance to the organization's guidelines. In a similar way, Kenya could easily access goods and services from other member countries. Consequently, larger volumes of goods were transacted.

Trade data indicates that following the establishment of WTO, the trade volume rose from 200.722 billion in 1994 to 578.996 billion in 2004. This is an indication that Kenya's membership in the WTO had an impact on the trade, thus leading to an increase in the volume of trade in Kenya. This is also attributed to increased trade openness as a result of globalization and trade liberalization. In the same context however, it is notable that the volume of trade improved more in the ten-year period preceding the establishment of WTO as compared to the decade after the establishment of WTO.

While the volume of trade increased by 399.95 percent before the establishment of WTO, a 129.3 percent change in the trade volume was recorded in the decade following the establishment of WTO. It can therefore be concluded that despite the absence of WTO, Kenya was still doing well in terms of improving its trade volumes. Accordingly, Kenya's membership in the WTO may not primarily be the reason behind the rising trade volumes, ten years after its establishment. Moreover, with the anticipated changes resulting from increased globalization, anyone would expect to notice a significant change following the establishment of WTO.

Balance of trade

Kenya's balance of trade figures remained conspicuously negative during the entire study period. It is an indication that Kenya imported more than it exported thus leading to an unfavorable balance of trade over the years. As indicated in the trade data, there was significant deterioration in the balance of trade over the years. Further, the balance of trade recorded between Kenya and the developing countries was worse than the balance of trade with developed countries. This goes on to show that developed WTO members could be having more access to the Kenyan market thus leading to an upsurge in imports. On the other hand, Kenya's access to the global markets could be more limited such that the value of exports is highly restricted. Such findings further insinuate that the establishment of WTO has not augured well with developing countries' development objectives. Instead, the economic situation in developing countries has continued to regress.

Besides the lopsidedness of the World Trade Organization, it is also notable that over-reliance on developed nations and poor endowment in capital and technology is highly responsible for Kenya's negative trade balances. As a developing country, Kenya suffers from under-development due to the fact that the country cannot access expensive capital goods and technology, essential for the production of goods locally. Accessibility to financing is also a major challenge. As a result, the country ends up importing most of the manufactured goods; which are often more expensive than the primary exports that Kenya produces. In regard to this, the establishment of WTO raised the hope of better access to such amenities and easier accessibility to international loans and grants. It is however apparent that this has not been done

to the optimal magnitude and that Kenya has not been able to improve its balance of trade despite the associated increase in trade volumes.

GDP

Kenya's GDP levels exhibited a fluctuating pattern: both before and after the establishment of the WTO. There were instances when the GDP growth was commendable in the ten-year decade preceding WTO. However, most of these improvements were followed by overly low GDP levels; thereby discrediting the theoretical progress expected in Kenya's economic growth following the establishment of WTO.

On average, GDP growth demonstrated a negative trend in the ten-year period before the establishment of WTO. This is because even where positive growth was recorded; this was soon followed by negative growth. The growth in GDP levels after the establishment of WTO was not any better, given that exaggerated fluctuations were witnessed during this period. The graphical presentation of GDP growth (Fig. 10) portrays a very volatile trend and it is therefore difficult to determine whether the GDP growth recorded during this period actually advanced. This is because even as the growth improved in various years, deep surges followed thereby undermining the improvements.

It is important to note that the level of GDP did not improve with the rise in trade volumes. It is widely accepted that as the value of exports in a country increase, the GDP is also expected to improve since trade is a component of GDP. This study has established that Kenya's

GDP continued to fluctuate following the establishment of WTO; despite the associated rise in trade volumes.

Being an important indicator of the economic performance of a country, it is worthwhile to note that a favorable GDP portrays a healthy economy. Sharp fluctuations witnessed in the Kenyan GDP levels however insinuate that the economy was unstable during the period of study. The fact that GDP did not improve consistently with the increase in trade volumes also suggests that there are other factors in the economy that could have hampered this growth. An example is the growing value of imports which have threatened local industries thus limiting local investment. Further, rising imports would also mean that a significant amount of income obtained in Kenya is used to pay for goods obtained abroad; thus impacting on the GDP levels. Given that the establishment of WTO was a beam of hope for developing countries in Kenya due to the anticipated improvements in their economies; it is true to state that Kenya's membership in WTO cannot be justified. The benefits of the Organization were not optimally felt, ten years after its establishment.

Unemployment

The unemployment levels in Kenya generally deteriorated over the years. This depreciation has been blamed on the rising population recorded in Kenya; which has not been countered by a proportional increase in job opportunities within the county. While the country's unemployment levels rested at 9.7 in 1985, the unemployment levels had risen to 40 percent by

the year 2004. When WTO was formed in 1995, the unemployment level was at 35 percent. This later rose to 50 percent in 1998 before dropping to 40 percent in the year 2001.

While the percentage rise in unemployment was much higher in the period preceding the establishment of the WTO, it is apparent that Kenya's membership in the WTO did not play a significant role in reducing the unemployment level in the ten years following its establishment. Furthermore, the unemployment level was 14.29 % worse at the end of the ten year period following the establishment of the Organization, as compared to the value recorded when it was first established (35% - 40%). It is therefore precise to state that during the ten-year period, the establishment of WTO did not help Kenya in improving unemployment levels despite the anticipated improvement in job creation following the increased accessibility to global markets, foreign direct investment.

5.2. POLICY RECOMMENDATIONS

Decisions to join international trade organizations must be thoroughly scrutinized

Trade organizations are meant to offer mutual benefits to participating members: such that every country gains from the trade relationship. This study has however established that Kenya as a developing country has not benefited in the same magnitude as the developed members of the WTO. Kenya like any other country is obviously sidelined as far as international trade relations are concerned. The trade statistics collected in this study clearly indicate that developed countries: including the United States, United Kingdom, Canada and France have gained more from Kenya resulting from increased trade openness, compared to what Kenya has gained from them.

Developing countries have not succeeded in influencing the outcome of trade negotiations in the WTO despite the fact that they make up three-fourths of the membership.¹⁵³ Their dependence on the developed countries (mostly the US and EU) makes it difficult for them to influence major decisions since they may compromise their trade relations with these countries. This strongly implies that in future, Kenya must re-evaluate the anticipated benefits before making decisions to participate in international trade organizations. Failure to do this could highly jeopardize the country's economic maturity as developed countries continue to exploit Kenya's vulnerability as a developing country.

¹⁵³ Goldberg, P. K. & Pavcnik, N. (2006). Distributional effects of globalization in developing countries. National Science Foundation, p. 78-81.

Developing countries should unite in order to develop economically

Over-reliance on developed countries has been one of the major causes of under-development in third world countries including Kenya. This study reveals that developing countries can indeed flourish economically by working together. Through forging working trade relations, it is possible for developing countries like Kenya to succeed in economic development without necessarily relying on developed countries. In Kenya's case for example, the largest amount of exports goes to neighboring Uganda. This is an indication that high revenues must not necessarily originate from developed countries and that by increasing trade between them, developing countries can advance economically. This kind of success however can only be achieved if the developing countries are ready to work together in order to eradicate poverty and promote economic development.

Dollar (2007) notes that there exists many trade barriers among developing countries; which must be eliminated in order to enhance economic development in these countries.¹⁵⁴ Furthermore, eliminating such barriers would open up agricultural trade among developing countries and thus disregard the Doha Round talks which addressed agriculture and the plight of developed countries. Dollar observes that developing countries may never advance under WTO because most talks aimed at addressing various trade issues among member countries are never done to completion.¹⁵⁵ Further, developed countries are given priority in the Organization's

¹⁵⁴ Dollar, D. (2007). *Developing countries need to open markets to each other*. Retrieved on June 17, 2010 from <http://www.america.gov/st/econenglish/2008/June/20080608133223xjvrreP0.136944.html>

¹⁵⁵ Ibid.

matters, such that developing countries are often sidelined.¹⁵⁶ Developing countries thus have a lot to gain from better access to each other's markets. This will enable more efficient firms to expand production, achieve economies of scale and encourage more specialization. The end result would be economic stability; gained without being overly reliant on developed countries.

There is need for increased investment in local industries

The findings of this study indicate that Kenya has imports more than it exports to foreign countries. Further, the study clearly establishes that Kenya's balance of trade favors developed trade partners at the country's expense. Accordingly, there is dire need to improve on the country's level of exports so as to ensure that Kenya's balance of trade is more favorable. Kenya must develop local industries in order to improve the country's self sufficiency and hence reduce the amount of imports. This can only be done through investing in the Kenyan private sector and the manufacturing industries so that some of the imported goods can be produced locally. By promoting local industries through providing capital and investing in modern technology, the country will not only improve on the country's balance of trade in the long-run but it will also benefit from increased national income and employment levels within the country. Self sufficiency will also ensure that the country does not over-rely on developed countries for the supply of goods.

Subsequent studies have indicated that most developing countries exports primary goods such as agricultural products and mined products and later import the finished products from the

¹⁵⁶ Cardoso, Tausch. (1998). *Globalization and its impact on developing countries*. New York: Lulu Publishers, p.

developed countries.¹⁵⁷ In Kenya's case for example, coffee beans are exported to other countries before being imported back as refined coffee for consumption. The outcome of this is that Kenya gains less when it exports the coffee beans and loses more when it imports the more expensive refined coffee. Accordingly, developing industries to process the coffee locally would ensure that the local demand is met cheaply and that more income is gained from exporting refined coffee. This example applies to other primary products which are often exported for a low price as raw materials and later imported expensively as finished products.

It is worthwhile to note that such developments would cost the country dearly due to the huge financial, capital and technological outlays required for the same. Further, the country may need to re-organize its budget such that investment in local industries is given more priority; thus sacrificing some of the country's projects. It may also mean that the country may accumulate huge debt levels from developed countries and international monetary bodies used in the developments. However, the overall outcome would highly favor the country's development efforts and improve economic stability of the country in the long-run.

Local industry protection should be emphasized

It can be conclusively established that a combination of various factors of economic globalization are responsible for the increased trade in Kenya. Among these factors, the rise in foreign direct investment (FDI) is one of the most noteworthy factors in explaining the rising value of exports from the country. While FDI is taken as a means of improving the country's

¹⁵⁷ Cardoso, Tausch. (1998). *Globalization and its impact on developing countries*. New York: Lulu Publishers, p.

employment levels and national income through increased production, diligent care must be taken in order to protect the local industries.

Local industries may eventually succumb to competition from international companies if protection measures are not taken. Furthermore, these international companies are financially stable and use sophisticated inputs, machinery, technology and manpower as opposed to local industries. Ideally, they are in a position to produce goods more cheaply. Businessmen may then find it cheaper to import the cheaper goods than to buy locally; hence threatening the sustainability of local industries. Stringent measures must therefore be undertaken to ensure that foreign firms and goods do not dominate the country.

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