

Public Forum on : **Kenyan-German Perceptions on the Economy**
Dr. Sebastian Paust:
Germany's Perception of the Present Economy Situation in Kenya

Date : **Thursday, 30th October 2003**
Venue : **Serena Hotel, Allamanda Room**
Time : **4.45 - 7.15**

What is distinctive about the beginning of the 21st century is the globalization of the world economy. Technically progress has brought people, their cultures and their economies ever closer together. There has been a rapid expansion of global communication, international trade in goods and services, and global capital flows. Products, production locations, production conditions and product users – all these economic factors are subject to ever faster change today. Not only does this demand an enormously high level of adaptability on the part of national economies, it is also placing individual national economies in greater competition with one another: it is much easier than in the past for businesses, above all multinational companies, to seek out the country with the best location for their production facilities or headquarters.

This new global situation is putting even an industrialized country like Germany under a high degree of pressure to adapt. All the greater are the challenges for a developing country like Kenya.

And Kenya really does not have it easy. In the opinion of German Kenya experts, its economic situation has definitely worsened since the mid-1980s. In the middle of the 1990s, average annual growth of gross domestic product fell away from its then level of 7 percent. In 2000, there was even negative real growth on account of the drought suffered that year. The direct foreign investment that is important for the development of any country has fallen sharply, particularly following the suspension of the IMF stabilization programme and the outbreak of ethnic disturbance in 1997. Tea, coffee and horticultural products make up more than half of Kenya's exports. Falling prices for these products on the world market have reduced export earnings. In this respect, the effects of Kenya's one-sided dependence on agriculture, which generates about

25 percent of its gross domestic product and about 70 percent of its export revenues, are particularly negative. The tourism industry, which has been a pillar of growth until now, has also contracted considerably, not least because Kenya has become a target for terrorists. In addition to this, Kenya has significant foreign debts amounting to approximately 10 billion US dollars. At 40 to 50 percent, Kenya's unemployment rate is extraordinarily high. In view of the approximately 500,000 people joining the labour market each year, it is likely to rise even further as the reforms of the public sector are continued. Unfortunately, the limited consolidation of the Kenyan economy that began in 2002 has so far done little to counter this problem. The massive unemployment has led to lasting social deprivation in the country. This has resulted in a frightening rise in violent crime, which has further dampened the interest of foreign investors, including those from Germany. Kenya's transport infrastructure is in need of improvement. Another negative factor is the swift spread of infection with HIV. It is estimated approximately 14 percent of Kenyans between the ages of 15 and 49, the most economically active age group, are infected. If this is correct, it will mean a severe loss of manpower for the Kenyan economy and heavy burdens for the Kenyan insurance and health systems in the foreseeable future. The fact that per capita state expenditure on health in Kenya has fallen from 10 US dollars in 1980 to 3 US dollars in 2000 is not particularly helpful in this connection.

But I do not wish to paint a one-sided too negative picture in my comments today. For Kenya also has a great deal to offer that brightens the outlook for its future. It is even the predominant view in Germany that, fundamentally, Kenya's economy shows very interesting potential for improvement.

This lies in the following 4 areas:

1. Agriculture. What is crucial here is the extent to which Kenya succeeds in intensifying, and realizing the value of, areas of agriculture with the potential for moderate and high levels of profitability by means of the targeted promotion of the private sector. Positive initiatives are already being taken in vegetable and flower growing.

2. Manufacturing industry. Kenya has the most developed manufacturing base in East Africa. This offers interesting opportunities for development, particularly for small companies and the informal sector.
3. Tourism. On account of Kenya's coastline and unique flora and fauna, tourism too is a source of foreign currency that it will be possible to develop in the future. Of course, this will also contribute to the growth of the Kenyan food industry, construction trade and transport sector. The temporary damage caused by the terror attacks, the war in Iraq and the world economic crisis should be repairable.
4. Transport. Increasing the efficiency of the port of Mombasa and the Kenya Railways Corporation could maintain and expand an important source of revenue for Kenya as a transit country.

In pursuing these aims, Kenya will be helped by the commitment and know-how of its people. Kenya possesses great potential for self-help: self-help activities, in which women especially play a major role, are strongly developed and in the past were able to compensate for many failings of the former government. But Kenya also possesses an extensive pool of management and entrepreneurial skills that is clearly above the African average. There is an urban middle and upper class with a modern identity.

Finally, the whole of Kenyan society still places great emphasis on education. I therefore come to the conclusion that Kenya has comparatively good economic chances. It simply needs to find ways of exploiting them. This can only be done if the new Kenyan government succeeds in putting the necessary political and economic conditions in place for an economic recovery. In particular, apart from uncompromising action to combat corruption, in the economic field this will involve the following 5 points:

1. Enhancing the efficiency of public owned enterprises.
2. Promoting private investment, mainly from abroad.
3. The systematic, but sensitive, privatization of publicly owned companies.
4. Increasing the transparency of the competitive bidding procedures for public contracts and
5. Improving the country's transport infrastructure, particularly in trams and railways.

Germany is prepared to help Kenya do this. Our development cooperation work is focused on the promotion of the Kenyan agricultural sector, reproductive health, which also includes the battle against AIDS, the use of regenerative energies and support for good governance. Germany's assistance for the road building sector and primary education will soon come to an end because other donors are active on a larger scale in these areas.

The new Kenyan government gives cause for hope that, as regards development policy, relations with the international donor community can be normalized again and development cooperation placed on a new and constructive basis. The structural and institutional reforms that have been announced relating to good governance, the constitutional reform, the

reform of the justice system and the measures to fight corruption, will create the preconditions for a renewed expansion of German and international development work, enabling us to increase it to earlier levels. To this end, Germany intends to double its budget for development cooperation with Kenya over the next two years to 50 million EUROS.

Germany's businesses have been aware of Kenya's interesting economic prospects for decades. German direct investment in the country amounts to roughly 150 million US dollars. In Nairobi alone, there are about 40 branch offices and local agencies representing large and medium-sized German companies. German companies therefore have an important role to play, even though British companies still dominate the market on account of Kenya's historic ties with the UK. At the same time, more of the tourists who travel to Kenya – about 24 percent of the total – come from Germany than any other country. The most important German export goods for Kenya are chemical products, motor vehicles and electrical technology, while Kenya mainly exports horticultural products and coffee to Germany. After a temporary fall in trade, an intensification of Kenyan-German commercial relations is expected again in 2003. The reopening of the German Office for Foreign Trade in Nairobi is a positive symbol of the excellent prospects for the economic links between our countries in future and should markedly improve the quality of business information about Kenya available in Germany.

Nevertheless, Kenya's economic future is not solely dependant on internal conditions. The external framework is just as important, above all access to other markets for Kenya's export products.

Regrettably, the most recent WTO Conference in Cancun collapsed without reaching agreement. In my opinion, it is in the interest of both the industrialized and the developing countries to work hard for the WTO negotiations to be restarted as soon as possible. I am aware that, as "big players" on the world market, the industrialized countries have to make the first move: above all, the removal of export, many are still isolating themselves and failing to appreciate the great opportunities that would result if the regional markets around them were better integrated. The prestigious London Centre for Economic Policy Research (CEPR) recently argued that South-South trade offers the developing countries opportunities for growth just as important as access to the sales markets of the industrialized countries.

I welcome the fact that Kenya is a committed member of the WTO. I also welcome the fact that Kenya is cooperating with Tanzania and Uganda in the East African community and is a member of the Common Market for Eastern and Southern Africa. In particular, the plans for Kenya, Tanzania and Uganda will open up promising future prospects for Kenyan business. Kenya has the most developed economy of these three states and justifiably expects this move to create better sales opportunities for its products. It would therefore be desirable for the projects that have been announced, a customs union and a common currency, to be implemented rapidly. Finally,

I trust you will allow me the liberty of an optimistic look into the hopefully – not too distant future: the heads of state of the South East Asian countries have just agreed to form a common market modeled on the example of the

EU by 2020. Why should the states on the African continent assembled in the African Union not bring themselves to take a similarly innovative step and, by doing so, put the conditions in place for a blossoming of their economies?