RESTARTING AND SUSTAINING GROWTH IN KENYA

In January this year, the Institute of Economic Affairs (IEA), Institute of Policy Analysis and Research (IPAR), Kenya Institute of Public Policy Research and Analysis (KIPPPRA) and MA Consulting organised a major national conference to discuss the issues and challenges of restarting growth in Kenya. Taking off from a EAGER Research study, the conference congregated over 350 representatives from private sector, government and the civil society, to discuss the future of Kenya's economy. In the same month, the IEA held a forum on Economic Challenges which also focussed on the conclusions of the East African Community Treaty. In this issue of The Point, we bring you highlights of the emerging issues from the two meetings.

BACKGROUND: KENYA'S ECONOMY IN PERSPECTIVE

Kenya's economic performance has been declining rather sharply since independence. Annual GDP growth rates have dropped from an average of 6.7% in the 1960s and 70s to an all time low of 2% in the 1990s. Per capita income has declined from US $350 in 1980s to US $280 in 1999 with about 50% of the population living below the poverty line. Agriculture, the most important sector to the economy that contributes about 25% of the GDP has also had a dismal performance with annual growth rate in GDP averaging 2% in the 1950s compared to an average of 4% in the 1980s and 6% in the 1960s. Manufacturing, has also registered a steady decline from 9.1% in the first decade of independence, to 4.8% between 1980—89 and a mere 3.0% between 1990 and 1995.

Consequently, Kenya has experienced a fall in the gross investment in the economy and lost her competitiveness as the first choice investment destination.

The reasons that explain this progressive decline in Kenya's economy are varied, ranging from choice of inappropriate...
development strategies; collapse of infrastructure; unstable and conflictual macroeconomic environment; an overheated/uncertain institutional and political environment; decline in regional markets especially after the collapse of the East African Community, poorly managed policy transition.

Kenya’s worst economic performance has been in the decade of the 1990s with annual GDP growth rate averaging about 2%. It is indeed ironical that this dismal record has taken place when Kenya’s economy is being liberalised—a policy move that was intended to stimulate productivity. It has been argued that the gains that could have been made through macroeconomic policy liberalisation have been cancelled by other hidden costs that have increased the transaction costs such as infrastructure, inefficient bureaucracy and political uncertainty.

The objective of economic growth is only easily attainable within a context of a functional and predictable institutional and political arrangement. The political tensions of the 90s and the dwindling creditability of government have greatly depressed investor confidence.

It is important that Kenya’s resolves the constitutional and succession crises which have militated against long term investments.

WHAT ARE THE DETERMINANTS OF GROWTH

Given the background of the economic performance above, it is instructive to isolate the factors that best co-relate with economic growth in Kenya. Granted that Kenya has operated largely under a protectionist economy, the realisation that globalisation is a policy fact and not a choice has led to the partial deregulation and liberalisation of the economy especially in the 90s. The East African market is the principal market for the export of manufactured and processed goods from Kenya. The loss in 1976–77 of the East African markets also marked a decline in Kenyan exports and an upsurge in manufactured exports arose with the establishment of the COMESA and EAC.

So, because of Kenya’s relative advantage in the manufacturing industry, the access to regional markets is the most important export platform. Researchers however, do not discern a direct link between the growth performance of Kenya to the changes either in trade policy regimes or trade performance. Notwithstanding the above, access to regional trade markets would certainly promote private investment significantly thereby adding to the overall growth rate.

The lack of capital is a major constraint to economic growth and development. This in turn relates to low incomes, which do not allow for substantial savings, hence the unavailability of credit. A stable macroeconomic environment allows for industrial production and the subsequent creation of jobs that give fair wages to enable for savings to be mobilised for increased investment. The growing unemployment aggravates dependency hence reduces the amounts available for saving. Whereas there is yet no empirical evidence of the degree of linkage between the personal savings rate and growth rate, the implications of savings on private investment have been established (and are discussed herein below).

Developing human capital enhances international competitiveness, which is imperative for Kenya since the population is largely indigent. A well-educated technical workforce is the product of a competitive education system, which is largely a government domain. The provision of educational resources to schools and tertiary institutions has the potential to produce effects on economic growth with enhanced incomes, as the skills will be relevant to the industry.

Within the purview of human development too must be the provision of health services that directly impact upon morbidity and mortality whose aggregate costs are borne by the society while reducing the efficacy of the workforce. An appreciable rise in quality of life in general would be expected to produce a more efficient and skilled labour force.

A rational tax policy that does encourage the use of Kenyan resources is essential for sustained growth. Tax policy should encourage the establishment of industry within the country, allowing for locally manufactured goods to be competitive by not being subjected to rates that make the same goods regionally and internationally uncompetitive. The extremely protectionist regime hitherto pursued
by the government was doubly harmful to local industry because it made local manufactures uncompetitive while limiting the scope of manufacturing due to foreign exchange restrictions.

Industrially led economic development is dependent upon the availability of utilities and other infrastructure. Kenya’s transportation and communications network has been characterised by rapid deterioration due to poor management and lack of expansion. As a whole, this has added greatly to the cost of business in Kenya. Port facilities in Kenya are not only archaic hence inefficient, but the operating officials are both incompetent and corrupt. So the present concentration on tax incentives alone have not provided the climate needed for export-oriented investments.

Research and economic models reveal that the single most influential factor that positively determines growth in Kenya is private sector investment. A study reveals that every 1% increase in private sector investment as a share of GDP leads to 0.8% increase in real economic growth. This explains the decline in Kenya’s real growth over the epochs as policies and related factors stifled private investments.

Despite the increased public sector investments i.e. through central, local government and parastatals in the 1980’s and 1990’s, there was no corresponding significant rise in growth rates because the private investments dwindled on account of the absence of a facilitative policy. So, whereas public sector investment supports private sector investments, for instance, through the development of infrastructure, the private sector is obviously more efficient in resource allocation. However, a 1% increase in public sector investment leads to 0.5% increase in private investment.

Besides focused and efficient public sector investments, private investment is in turn influenced by export opportunities regionally and internationally and a favourable exchange rate policy. All the above factors are dependent upon are mutually reinforced by a trade facilitating policy. A 12% of GDP Private Sector investment rate could raise the real economic growth rate to 5% annually. However to achieve the desired growth rate in the 6% -9% range, greater quantity and quality public sector investment would be required to augment the direct contribution to growth and improve the efficiency of capital investment. The reforms in the macroeconomic realm should be informed by the fact that the private sector investment is the engine of economic growth in Kenya.

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**a. Trade and Business Competitiveness**

The compelling issues in trade and business competitiveness are around the country’s deteriorating infrastructure. No doubt the rail, roads and ports infrastructure do not support industrial production and movement. Kenya’s transportation and communications network is strictly rooted to the colonial pattern of linking major urban centres. The road infrastructure has besides rapid deterioration experienced little expansion by the government. As a whole, this has added greatly to the cost of business for Kenyan industry. **Infrastructural expansion and modernisation** must be embarked upon to augment Kenya’s competitiveness and restore appreciable growth.

Kenya’s enhancement of competitiveness also depends upon the integration of technology into the production and delivery of goods and services. In this regard, technological leverage in the manufacturing industry bears the as yet unexploited potential to render locally produced goods competitive in both cost and quality in the export markets. Besides this export potential, the adoption of cutting-edge technology would facilitate the expansion of the range of goods available for local consumption too. This integration of cutting edge technology into overall economic planning will essentially effect a paradigmatic shift in the development strategy detailed in policy.

While a greater part of Kenya’s large human resources could as well be devoted to research...
and products development in the agricultural, manufacturing and information technology industries, a structurally conducive environment for intellectual property must be put in place to protect patent holders from infringements upon their intellectual property rights.

Kenya's competitiveness could further be enhanced by focusing beyond its traditional strengths in labour intensive manufacturing and agriculture into the service industry and the capital markets. Given Kenya's strategic location, it would serve as an entry point hence the hub of the East and Central African capital markets and insurance industry. While the economic infrastructure is not well developed, it still has advantages over that of Kenya's neighbours. So, the consolidation of this advantage and the development of the banking, insurance, medical and capital markets would provide Kenya with a new avenue of growth.

b  Management for Growth: Kenya's Development Epochs

To a large extent, the management of the economy since independence has not been satisfactory. This statement remains true even as the development plans and Sessional Papers show the desire for sustained growth. Throughout this period, government policies have greatly influenced growth or the lack of it. Taking Kenya's first development epoch as the period 1963 – 1971, the Sessional Paper No. 1 of 1965 declared the commitment to the Africanisation of the economy and the public service. The document stated the commitment to social justice, political stability and sustained per capita income growth. More generally, the government was committed to the use of domestic resources and the establishment of financial institutions.

The government did recognise that it had to surmount resource limitations in domestic capital, trained manpower and foreign exchange. In recognising the limitations on one side against it's potential on the other, there was a realistic view of the overall macroeconomic atmosphere leading to the emphasis on facilitating small scale agricultural production as the best option in the transition to industrialisation and growth. This pro-growth strategy ensured an average growth rate of 7% annually during this epoch. Other highlights of this period were the establishment of the Central Bank of Kenya in 1966 and the issue of the Kenya shilling.

The second epoch was that of the 1972-1980 period, which unlike it's predecessor in which industrial protection and import substitution were emphasised, also focused upon the protection of foreign exchange reserves. A natural corollary of this conservative foreign exchange policy was the introduction of trade impeding regulations and limitations of access to foreign exchange for capital imports and travel. Manufacturing was stifled by the unavailability of foreign exchange and the requirements for licensing. This combination of poor macro-economic management, underdeveloped infrastructure, trade restrictions, red tape, tax policy and poor governance made Kenya an unattractive investment destination. As the decade closed there was a rise in inflation and an increase in budget deficits, which stood at 14% in 1980 as opposed to 4% in 1970.

The third development epoch (1981-1992) began with a growing formalisation of effective control of imports through foreign exchange allocations by the Central Bank. Despite the palpable lack of positive effect, the government persisted in foreign exchange controls. Attempts made at replacing the fall in private investment by public capital formation merely aggravated the budget deficits.

As shown by Table 1 in the first development epoch, coffee and tea exports, most of which was produced by small-scale agricultural producers, were the driving forces in the export markets in Kenya. Notice that Kenya's exports excluding tea and coffee amounted to only 14% of the total exports.

Table 1 which shows the statistics for trade patterns over the development epoch earlier, shows that Kenya's exports have largely
comprised agricultural products and that it consistently stayed at about 85% of total exports save for the period 1981—92 when export’s other than tea and coffee were only 8.2%.

The major policy initiative of the fourth epoch is the Sessional Paper No.1 of 1986 on Economic Management for Renewed Growth, which reflected the realisation that a policy reorientation was necessary. This Paper expressed the desire to shift towards transparent licensing for foreign exchange access and tariff rationalisation.

The government sought to encourage exports through the Export Processing Zones (EPZ) and the Manufacturing Under Bond (MUB) programmes to ease the shortages in foreign exchange. There were also indications that the traditional exports could not be indefinitely relied upon to provide substantial quantities of foreign exchange due to the fall in commodity prices occasioned by the availability of alternatives and increased competition. On the other hand, the long emphasis on import substitution as an industrialisation strategy had led to the rise of industries dependent on protection from competition by the use of tariffs.

The 33% devaluation of the Kenya shilling vis a vis the US dollar marked the first important development of the 4th epoch (1993 – 1999). Key reforms in the capital markets allowed foreigners to hold equity within limits at the Nairobi Stock Exchange subsequent to the repeal of the Exchange Control Act. Since then, treasury Bills have been the government’s primary source of liquidity management.

Policy pronouncements in the 8th National Development Plan (1997-2001) intend to effect the transformation of the country into a newly industrialising country by the year 2020. The declared strategy is the reliance upon agriculture and industry as complementary engines for faster economic growth.

Savings, which are estimated at 17% of GDP, are to be raised to 30%. Further to the increase of savings, the government recognises its role as being the facilitation of the private sector to deliver sustained growth. A novel addition in this plan is the argument for the diversification and intensification of the Research and Development efforts of the Private Sector to assist industrial and technologic advancement.

Whereas the Plan’s pronouncements are largely progressive, there is only a little recognition in it of the capacity of service industries to generate exponential growth in augmenting industrial manufacturing efforts by incorporating the large pool of the country’s human resources.

c Revitalisation of Agricultural Productivity

Agriculture plays a leading role in Kenya’s economic development. Contributing about 25% of GDP, it employs about 75% of the labour force and is the major foreign exchange earner. The sector is dominated primarily by the production of a few commodities, 6 of which account for 68% of the agricultural GDP, and 17% of the total GDP.

Despite this important role of agriculture the sector’s profile in policy documents has been fairly low – certainly not commensurate with the contribution it makes to our country’s economy. The objectives of poverty alleviation and industrialisation will only be realised if the policy marginalisation of the sector ends. Funding has decreased drastically from 10% in

| Table 1: Trade Patterns in Policy Regime Periods: Trade as share of GDP |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Policy Regime Period       | Imports of goods & services | Imports of goods            | Exports of goods & services | Exports of goods           |
|                            | 1962-71                     | 30.9%                       | 28.0%                       | 30.6%                      | 19.8%                      | 14.0%                      |
|                            | 1972-80                     | 33.9%                       | 30.3%                       | 29.8%                      | 19.8%                      | 13.3%                      |
|                            | 1981-92                     | 28.1%                       | 24.7%                       | 24.9%                      | 14.4%                      | 8.2%                       |
|                            | 1993-98                     | 36.7%                       | 30.5%                       | 32.5%                      | 20.1%                      | 13.2%                      |

Source: Trade Liberalisation and Growth in Kenya
1980s to 4% in 1990s of total government expenditure. Most of this allocation is also more towards recurrent budget and not development programmes.

The performance of the sector in the 1990s has been dismal with annual growth in GDP averaging 2% compared to an average of 4% in the 1980s and 6% in the first decade of independence. The production of most commodities showed general decline with the most affected being coffee, cereals (maize, wheat and rice) industrial crops, cotton and milk production in the livestock sector.

Export within the agricultural sector has performed fairly well over the years but the decline in production in the 1990s indicates constraints, which need to be removed. The increase in production in tea is due to increase in hectarage rather than an increase in productivity per se.

**Specific Agricultural Products**

**E Maize**

The cost of producing maize in Kenya for most surplus producers in the North Rift is between Kshs. 600 and 800 per bag. Costs vary but few surplus producers can justify production costs of over ksh1000 per bag in spite of efforts to demand upto Ksh. 1,800 per bag. Imports can be landed at just under Ksh. 1000 per bag. The best farmer produces at up to half the cost per bag of the least efficient. The cost of maize production ranges from a low of Ksh 500 per bag to over Kshs 1500 per bag in the more marginal areas.

**E Coffee**

Coffee production has declined by more than 50% between 1988 and 1998. The decline within the cooperatives has been more pronounced at about 61% within the same period. Coffee quality has also been adversely affected. Prices are ¼ of what they were one year ago, while poor management of institutions and organisations in the sector is prevalent. Production costs are 1.5 times that of countries producing similar type of coffee which is attributed to the high costs used in control of both the coffee berry and leaf rust disease and the wet processing method of coffee. The self-regulatory system of coffee industry by the CBK after liberalisation has failed. This combination of the commercial and regulatory functions by CBK compromised its regulatory functions, thereby causing conflict of interests. Liberalisation was poorly timed, wrongly sequenced, not critically monitored and lacked preparation of the stakeholders.

**E Tea**

Tea production has expanded tremendously to over 200 million kgs and is projected to reach 310 million kgs by 2005 if the present growth rates are maintained. Increase in production has caused congestion in factories affecting efficiency. Poor management, government interference in KTDA, poor infrastructure, delayed payments to farmers are some of the problems facing the tea industry currently.

**E Horticulture**

Horticulture has grown considerably mainly due to the expansion of exports. These are dominated by cut flowers that account for 52% of total value. In 1999, 95,000 tons of horticultural products were exported. Of these 45,000 were flower and the remainder consisted largely of fruits.

Horticultural production is carried out on less than 50,000 sq miles. The sector is self-regulating because it was never institutionalised at birth and is now completely run by private sector. Exports have gone up by between 15-20%. Kenyan export quality is fairly high, and for some products higher than South Africa and Israel. However, Kenya continues to face competition from other countries especially Morocco for French beans and Israel for fruits and flowers.

The challenges to the sector are many. First, the

Reasons identified as responsible for the general decline in the agricultural sectors are:

- Poor policy
- Poor governance i.e. shift towards liberalisation without a corresponding review of specific laws governing sector
- Confusing role of government
- High input costs
- Marketing
- Poor extension and research services
- Prohibitive rates of tax
- Lack of credit
- Limited value addition
- Poor development and promotion of exports
EU requirement on the levels of maximum residual levels (MRU) allowed on imports keeps on changing making it difficult to implement. The process of setting up a Green House is too long. The exchange rate regime is also unpredictable and largely unfavourable thus hurting exporters. The surcharge for fuel freight is too high. Infrastructural collapse is making production areas inaccessible leading to loss of produce and deterioration in quality. It also reduces the usage of refrigerated trucks on these roads. Added to inadequate public research, lack of market information, limited access to planting materials, inadequate cargo capacity, the problems besting the sector are enormous.

**Recommendations for the Agricultural Sector**

Kenya Agriculture in the future should be characterised by focusing on competition through investment in productive potential and removal of taxes on domestic products. The sector should facilitate stakeholder’s participation and there must be realisation that government is not the most important sector for economic growth. Without growth in the agricultural sector there will be no social economic growth.

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**Government**
- Land reform and taxation on idle land.
- Implement the Environmental Bill.
- Stabilise exchange rate regime.
- Improve on infrastructure.

**Private Sector**
- Reduce costs or die.
- Use latest technology to increase efficiency and reduce costs.
- Organise and make government talk with you.

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**d. Other Growth Areas**

Other critical areas for Kenya’s long-term development were identified as technology, micro-finance, fiscal management, service industry and the manufacturing industry.

1. **Technology**

   The restarting and sustenance of economic growth in Kenya must factor in technology as a significant variable. Starting with agriculture, there is need to integrate technology in irrigation and research to improve yields of both food and cash crops. Additionally, there must be the use of cutting-edge technology to add value to agricultural products and also increase the overall returns from exports. The agricultural sector would be better placed to guarantee domestic food security by the use of ideas developed from research to increase returns on the fixed area of arable land against a growing population.

   Technological leverage in the manufacturing industry bears the potential to render Kenyan goods of high quality at competitive prices especially in the export markets. Besides, the use of technology in processing would expand the range of goods available for export and for local consumption and facilitating value addition. Most of the telecommunications infrastructure is for the moment concentrated in urban areas in general and Nairobi in particular.

   Liberalisation would cease the existing barriers to entry and this would prompt the investors to establish a countrywide network of communications by cable within a year. Putting this together with Kenya’s strategic location in the Eastern and Central African arena, the country would be an entry point to the rest of the region as the leading information technology centre.

   The factoring in of technology into overall economic planning will essentially require a paradigmatic shift in the development strategy especially in agriculture, information industry and the airwaves. The paradigm shift ensures movement from an industrial into a post-industrial society.

   A greater part of Kenya’s large human resources should be devoted to research and development. Research in areas such as biotechnology in which Kenya’s capacity is presently grossly underdeveloped must be supported as a prime growth area with potential lucrative returns. On the other hand, a structurally conducive environment for high technology development must itself be supported by a legal and administrative regime that is friendly to intellectual property rights and promotes the recognition and protection against the
infringement on such rights. While patent holders are protected from infringement upon their rights, local researchers must also be protected and encouraged to register appropriate patents from the results of their research and design.

2. Micro Finance

Due to the fact that only about 20% of Kenyans are presently served by the conventional banking institutions, micro-financial institutions represent their only option for modest saving and access to credit. In pursuit of this end, the Kenya Rural Enterprise Programme (K–REP) has adopted the Grameen Bank model in order to fill this quantitative gap by establishing financial services associations at the village level.

However, in spite of the efforts of the K-REP, the scope and reach of micro financing institutions has potential for expansion especially in rural areas and among the urban poor. Further schemes should be developed to enable credit to be provided for a diversity of commercial activities beyond mere trading. It is time government took microfinance institutions outside the conventional and general regulatory legal regime of other commercial banks.

3. Fiscal and Monetary Policies

Whereas Kenya has experienced varying rates of economic growth, the greater problem has been the sustenance of low levels of growth. The principal requirement here is for an independent central bank and for government to limit the discretionary power of bureaucrats to alter policy.

Short-run macroeconomic policies should complement and be compatible with long-run growth targets and objectives. In this regard, policy needs to support investment in the export sector as well as a favourable exchange rate. Related to the exchange rate policy is the question on the interest rate differential which influences the real exchange rate due to short-term capital flows. A more long-term focused domestic debt management strategy should be designed. This will entail the reduction of short-term debt instruments. The current interest rate structures encourage short-term investments in government securities with an adverse effect on the development of the financial sector.

Elimination of corruption and restoration of government creditability are dispensable to the efficient collection of tax. The tax policy must be rationalised and made progressive as opposed to the incumbent tax system, which is punitive and leads to reductions in private investment and suppression of consumer spending.

Granted that the Kenya Revenue Authority is mandated to effect the collection of tax on the government’s behalf, a natural corollary hereof is that the collection of taxes from corporations and individuals must be uniformly conducted. Evasion of due taxation could only be reduced by the institution of legal proceedings against all offending corporations and persons, so that the overall tax burden is equitably borne.

While the government cannot absolutely do without tax revenues, it must apply innovative ways of earning revenue in addition to strategically aligning the tax regime to support industrialisation. The implication therefore is that the government must disabuse itself of the notion that taxation is only meant for revenue collection hence the rates of taxation should remain high. Instead, there is empirical evidence that despite major reductions in average duty rates due to trade liberalisation, revenue yields have increased. Taxation must be used to increase trade rather than stifle it altogether.

Finally, the link between taxation and service delivery is non-existent because despite being among the most heavily taxed countries the quality of service from the central government and local government does not provide good value for money. In the circumstances therefore, the motivation for tax evasion is high. Public money auditing ought to be more transparent and government must direct resources to financing growth rather than in meeting recurrent expenditure and other wasteful enterprises.
With regard to the external tariffs, the impetus for regional trade necessitates the harmonisation and rationalisation of taxes on goods and raw materials to ensure that Kenya does not lose to the competition on the variable of cost. This requires the examination of the tariff arrangements within the region before the setting of domestic rates so that Kenyan industry is not left at a competitive disadvantage regionally.

Progressive taxation ought to be adopted with regard to products of technology such as computers and other information equipment since these are central to a quality service industry. The rates of taxes levied on such knowledge workers’ tools of trade should not be as prohibitive as they are now. For instance, a favourable level of personal computer ownership must go hand in hand with the sustenance of growth in the service industry. Kenyans must be encouraged to acquire productive resources as computers through progressive taxation on such items.

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4. Capital Markets and the Service Industry

The financial architecture in Kenya is palpably weak given that a majority of the banking institutions are foreign owned. There is therefore a fundamental need to restructure this sector to serve the needs of the local people by encouraging the development of competently managed local financial institutions to compete alongside the foreign institutions.

Focus should be directed at making Kenya a regional capital markets and insurance sector leader. Recognising also that Kenya’s infrastructure is better developed, the country may become a regional medical referral centre and establish facilities for global educational opportunities, which are lacking in most of Africa now.

In the realm of finance, the insurance and pensions industries hold the key to the future with respect to the financing of long-term growth. The money availed from the premiums and the remittance by workers to the National Social Security Fund provide huge resources that could be used to develop the financial infrastructure in Kenya to generate sustained growth.

The Nairobi Stock Exchange (NSE), has had little growth over the years evidenced by the fact that upon its establishment, there were 54 publicly quoted companies while there are only 56 quoted companies some four decades later. Due to this very slow development, the NSE has hitherto been unable to support long-term growth. The rethinking of its role has now begun and its contributions to Kenya’s growth will be felt, as there are plans for the NSE’s cross-listing with the Johannesburg Stock Exchange, which is the largest and most advanced in the continent. This expansion of the market’s reach is part of Kenya’s entry into the global village.

However, the mobilisation of savings through the NSE will be determined by the return on capital because even local investors have options in the global market hence will direct their funds where returns are highest and the risks lower.

The reform of the pensions industry itself depends on the government to expedite the expulsion of incompetent and corrupt officials in the National Social Security Fund (NSSF) to safeguard workers money and the development of proper regulations and rules. Mobilisation of funds could also be aided by legislation that compels all workers to have retirement funds accounts.

There are very weak and poorly capitalised insurance companies in Kenya that have not kept pace with global trends. As such, they cannot compete against international insurance companies where the latter have all the advantages of strong corporate organisations, huge pool of funds and most importantly, diverse service lines. Against this backdrop, the local insurance firms need to merge locally and create new products and services to face the certain competition that is coming to this market.

Outside the financial industry, Kenya’s continued development of the tourism sector is important. However, it must be borne in mind that security for the visitors is an indispensable part of marketing the country. Safety in the country in general must go hand in hand with...
increased security in the sites chosen by visitors. An expansion of the scope of tourist attraction sites beyond the parks, beaches and animals is critical. This could involve novel ideas about cultural tourism, research, adventure and sports tourism, which are currently undeveloped. Such segmentation would allow for the tourist seasons to be fairly spread out over the year. In the expansion of the scope of tourism, the domestic market must be focused upon to develop the local consumer interest in the industry through standing packages targeting Kenyans.

Technology could also be tied-in to the development of tourism by developing the capacity for providing brochures over the internet, the sale of airline tickets and accommodation on-line. In addition to the above, the road and railway infrastructure must be improved both by efficiency and reach to match the forecast tourist arrivals, and ensure comfortable travel.

5. Manufacturing Industry

It has been noted that there has been some correlation in the performance of the manufacturing sector and the performance of the national economy. This sector registered an average growth rate of 9.1% between 1963-1973, 4.8% between 1980-1989, and 3.0% between 1990 and 1995. Significantly, the growth rate of the economy dropped in a more or less similar pattern over the same period.

This momentary rise followed by steady decline is attributable largely to the Import Substitution Strategy (ISS) adopted at independence. In the second decade after independence, policy concentrated upon the promotion of manufactured exports and the establishment of highly protected import substitution industries. Taking together this insular nature and the collapse of the EAC, industrial growth decelerated in the 1980’s to the extent that the share of imports in domestic supply had fallen substantially, leading to disinvestments. The manufacturing sector contributes less than 14% of real (monetary) GDP, largely due to the limited value addition taking place within the sector.

Generally, the growth in manufacturing in the last three decades has been higher than that in agriculture. Also, for most of the period, the growth of employment in manufacturing has exceeded that in other sectors of the economy.

Key issues within this sector could summarily be identified as poor and deteriorating infrastructure, erratic supply of electric power, underdeveloped communications infrastructure, irrational taxation of products and inputs, problems in financing and interest rates and a generally prohibitive taxation.

e. Globalisation and Regionalism

The 21st century heralds an era in which all trade and investments take place within a global context hence competition for markets is the norm. Kenya must enhance its position within the East African Community and focus beyond COMESA and into the world market. The implication of this is that international trade arrangements must be re-examined critically.

The first among these would be the renegotiated Lome convention, which comes into force in the first quarter of 2000. It must be noted however that both the government and the private sector did not respond promptly in the development of a position while the treaty was being renegotiated. Participation in the shaping of such treaties is critical if the Kenyan perspective is to be taken into account while the new architecture is established. Equally crucial is the need to ensure that the treaties do not perpetuate the relationships that characterise developing countries as mere producers of agricultural and unprocessed goods.

Secondly, the roles of the World Trade Organisation in the regulation/direction of trade in both goods and services ought to be better understood. This understanding by both the government and business professionals will enable the country to assert its rights vis-a-vis other members in situations of unfair practices such as the dumping of goods, unfair competition due to covert subsidies and in the application of the mechanisms of arbitration in disputes. Having internalised the modes of operation of WTO rules, the country may then properly make decisions regarding such initiatives as the African Growth and Opportunity Act (AGOA) and the TRIPS regime.
In sum, the global market presents opportunities to which Kenya must tap into but the competition requires that the technology applied for industrial production and delivery within the services industry be on the cutting-edge. Otherwise, the fast pace of movement of capital, expertise and the products of research may aggravate the hiatus between Kenya and the rest of the developed world, thereby affecting the ability to grow.

REGIONAL TRADE AND THE EAC

For the desired growth to be attained and sustained in Kenya, there has to be more trading both in the regional and international arena. Admittedly though, even with a liberalised trade environment, Kenya must first intensify its regional trade levels while concomitantly exploiting the world market.

The significance of regional trade to Kenya is evidenced by the fact that Kenya’s manufacturing exports have primarily been absorbed by her East African and COMESA partners. So, the access to these markets bear great potential for growth especially as regional integration efforts are fairly advanced.

Perhaps in pursuit of regional markets for manufacturers and processed goods on the one hand, and services on the other, the East African Community might be the most appropriate launch pad. The rationale for this derives from Kenya’s relative advantage in the manufacturing industry which grants it access to regional markets and thereby promote private investment significantly. Further facilitation of regional trade will require the rationalisation of tariffs among the trading partners and the progressive reduction of taxes for goods across the national borders. In the latter case, Kenya must take the lead to inspire the confidence of her East African Community partners that the benefits of regional trade do not accrue to a single member.

Due to the policies pursued after independence and into the 1980s, Kenyan manufacturing industry is not entirely internationally competitive. For the short term therefore, the East African region is essentially Kenya’s prime export market for manufactured goods. The lack of international competitiveness for Kenyan goods is mostly on account of cost inherent in the use of outdated technology and an unfriendly taxation policy for capital imports.

The treaty’s broad objectives range from the promotion of a single market and investment area, environmental protection, the creation of an enabling business environment, the development of regional infrastructure and the sustenance of security and peace. Despite its wide-ranging remit, the treaty is thus far only a document whose provisions must be made real through the implementation and follow-through by the signatory governments. From the Kenyan perspective, the immediate opportunities inherent in the treaty are to promote competitiveness and cross-border trade coupled with the advantage of economies of scale in a market of some 80 million people.

It is acknowledged that whereas oriented programmes of the treaty could move faster as they do not necessarily involve the use of resources, the development of linking infrastructure is imperative if the free market is to be mutually beneficial. Infrastructural development within the EAC partners is a priority and will have to be achieved through the mobilisation of resources (internal and external).

Besides the assurance of public support for the political and economic adjustments expected to arise from the full implementation of the treaty, the programme for the establishment of the customs union under article 75(7) of the treaty will also be the subject of critical scrutiny.

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<td>1962-71</td>
<td>30.9%</td>
<td>6.1%</td>
</tr>
<tr>
<td>1972-80</td>
<td>15.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>1981-92</td>
<td>9.8%</td>
<td>1.6%</td>
</tr>
<tr>
<td>1993-98</td>
<td>21.1%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>
However, the suspicions hitherto felt will be addressed by the provisions for the progressive implementation through negotiated protocols.

Table 2 shows that in the first development epoch, when the East African Market was open, Kenya’s exports amounted to 6.1% of the GDP 30.9% of the total exports. The ensuring epoch marked a reduction both in the share of the total exports and as a share of GDP to 4.1%. It should be recalled that the period 1972—80 marked the dissolution of the East African Community. Thereafter, as exports to Uganda and Tanzania declined sharply, the share of exports to both countries as a proportion of GDP reduced as well to a low 1.6% in the 1987-92 period. Thereafter, as the formal negotiations for the re-establishment of the EAC begun and trade between the countries picked up, the share of Kenya’s exports to its EAC partners as a share of GDP rises to 5.3%. The figures confirm that the primary market for Kenya’s manufactured products for the near future are her EAC partners and other COMESA countries and this is sufficient reason for enthusiasm for the EAC. With regard to the apprehension on account of the possibility of loss of revenue due to the suspension of tariffs, Kenya’s experience shows that liberalisation of the markets does not at all lead to a contraction of revenues. Instead, the government earns more because liberalisation substantially increases the volume of trade and this is reflected in the governments revenues. So, the difference of the EAC partners about the suspension of tariffs altogether can be reduced by Kenya’s experience. The EAC must proceed to regain the losses that accrued on account of having abandoned the initial economic union.

The Place of Leadership
For Kenya’s plans for economic recovery and growth to be realised, there must emerge to strong and committed leadership which is not only credible but also visionary. Kenya presently lacks a clear vision of what country it intends to be. We lack the image of the country we would like to become. In the absence of this, it becomes difficult to integrate towards a common destination and direct efforts and resources of various sectors. In conclusion, the consolidation of markets and the reduction and ultimate removal of tariffs presents great potential for Kenya and its neighbours to grow and sustain such growth.

Reference:
Table 1, 2 and 3 are referenced from: Glenday G. and Ryan T.C.I., *Trade Liberalisation and Growth in Kenya*, (paper prepared under Equity and Growth through Economic Research—USAID), October, 11 1999 and revised in January 19, 2000), Pg. 15
Reference has also been made to the other research papers presented at the Conference.

The IEA has a complete report of the Conference which is available on request.

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