7 CHAPTER SEVEN: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

This study about Kenya trade relations with India covered the period 2000 – 2010. These years are very significant in the history of Kenya as they were historical in a way and decisions taken by various political regimes shaped who the country progress from there on. This time is divided into three periods. The first period is from 2000 to 2002, the second period is between of 2003 to 2007 and the third period is from 2008 onwards. The first phase is the last years of President Moi’s term who is the second Kenyan president. The second phase is the first term of the third president Mr. Mwai Kibaki and the last phase is the second term of Mr. Kibaki’s tenure, which ran up to 2012.

The main reason why the research saw a need to conduct this study is because after going through various literatures related to trade between India and Kenya, he did not find any study made on trade between the two countries from 2000 to 2010. Considering that the world is changing fast with global issues like globalization becoming ever more important, it is vital for a study to be made to find out how a country like Kenya can assert herself in the global map. India is a country that is seen by many as moving from a developing to a developed country or at least to an economic power. It makes academic sense therefore to study how trading with a country that has 'mixed strengths' would be for a country like Kenya. The researcher is confident that this study can and should be used as a reference material in economics to study trade relations between Kenya and India in recent times.
The study therefore sheds light on the economies of the two countries by studying in depth the composition, trends and direction of trade in Kenya and India. The main focus however was on how these two nations have been trading with each other with special emphasis on the years under study.

7.1.1 Objectives of the study

The researcher had the following objectives as the main purpose of the study:-

i. To outline and analyze Kenya and India’s foreign trade policies with respect to how they traded with each other during the period under study (2000-2010)

ii. To determine and analyze balance of trade between India and Kenya and make valid recommendations based on findings.

iii. To study and analyze the composition of trade between Kenya and India with special emphasis on selected commodities.

iv. To study and analyze the direction of trade in both Kenya and India, dealing closely with their main trading partners during the period under study.

v. To find out benefits accruing from trade between Kenya and India if any, and come up with recommendation aimed at enhancing this bilateral trade.

7.1.2 Significance of the study

The researcher amalgamated data and evidence from various sources to come up with worthwhile conclusions and recommendations. The following are the expected contributions of the study.
1. There have been studies done on Kenya’s relationship with India in various fields, trade being one of them, but no detailed study has been made of trade relations during the period between 2000 and 2010. The study will therefore make assessment of trade relation between India and Kenya during the period 2000 to 2010.

2. Since Kenya and India have had a long and lasting trade relationship that can be traced over many years, the researcher will try to trace the development and growth of trade relations between these two countries. However, the emphasis will be on the years under study.

3. After evaluating trade relationship between India and Kenya during the study period, the study shall proceed to make recommendations and conclusion based on the findings. The study will therefore be significant as it shall bring to light various weaknesses of the Indo-Kenya trade relations that inhibit proper growth and draw suggestions that will help boost trade relations.

4. Though Kenya and India have been trading partners for a long time, their contribution to each other’s total trade may not be the same due to various reasons. The study is significant as it will attempt to analyze composition and direction of trade between the two countries and find out why there is imbalance in trade and how it can be made more balanced.

7.1.3 Hypotheses

The following hypotheses were formulated for the purpose of this study:
1.5.1 Differences in foreign trade policies have contributed to trade imbalance between Kenya and India.

1.5.2 In terms of Indo-Kenya trade, Kenya suffers negative balance of trade since it mostly exports agriculture based products and mostly imports industrial based products.

1.5.3 As far as trade between Kenya and India is concerned, India is the bigger contributor in terms of the value exports to Kenya as compared to what Kenya exports to India.

7.1.4 Research Methodology

This study, being qualitative and analytical in nature, employed various descriptive, theoretical and where feasible, simple statistical analytical tools to explain the facts as borne out by available data. The study sought to test the hypotheses mentioned and compute various aspects in order to get the desired conclusions.

Selection of countries

The researcher employed Purposeful Sampling method to select countries for this study. According to Patton, qualitative inquiry typically focuses in depth on relatively small samples even single cases (N=1).288 According to Purposeful Sampling method, there are certain points that guide the selection of a sample. First, the selection should not be haphazard. Secondly, the criteria for inclusion must be identified before drawing the sample. Thirdly, the researcher must be knowledgeable about the population, the sites, & the conditions of the research and lastly, there must be enough variation to substantiate arguments.

These four criteria were satisfied in choosing both Kenya and India as subjects of the study. The main purpose was to study Kenya’s foreign trade with the aim of improving or enhancing it. For the study to be more meaningful, a second country was required in order to run some comparisons of data and policies. The research therefore used the same purposeful method of sampling to name Indian as the second country.

**Selection of Period**

This being a case study, the researcher employed time based purposeful sampling method. The subcategory selected for period selection was the one based on political term in office. The assumption was that each political period in a country shapes the outlook of social and economic affairs in the country. In this case, Kenya being the primary point of focus in this study had intense political tenures worth studying.

The period that the study covers spans from 2000 to 2010. These years are very significant in the history of Kenya and many issues were affected during that time. This time-period is divided into three sub-periods. The first period is from 2000 to 2002, the second period is between of 2003 to 2007 and the third period is from 2008 to 2010. The first phase is the last years of President Moi’s term who is the second Kenyan president. The second phase is the first term of the third president Mr. Mwai Kibaki and the last phase is the second term of Mr. Kibaki’s tenure that is supposed to run up to 2012.

2000 was selected as the starting year of this study since being part of the last period of Moi’s era, it will be important to study the overall effect the regime had on international trade. This year was ‘a normal’ year, meaning it was free from adverse influences such as government change, civil wars or serious economic fallout,
therefore it would bring out data that can be used to compare years before and after it. The same consideration was in place for the year 2010 as the year to culminate the study. After disputed presidential election of 2007 that brought shocking post elections violence (PEV) especially in the first part of 2008, Kibaki somehow settled into presidency though this time leading a coalition government. 2010 was a normal year with no major adverse influences and being part of Kibaki’s last tenure; it was taken as a good year to culminate this study.

The period is chosen so as to study if there have been any changes in the pattern, structure and composition of Kenya’s trade with India during the period of two important political regimes in Kenya. And in the light of the changed international politico-economic scenario, the study will aim to capture the context of the revealing paradigm vis-à-vis India’s trade relations with Kenya. The period is important also as it will shed light on India’s foreign policy and how it changed or affected the relationship between these two countries during the eras that shaped the Kenya’s history in one way or the other.

Data Collection

The research relied on secondary data; therefore the researcher will collected data from the following secondary sources.

- Government records: The researcher shall rely more on data tabulated by the government ministries of both countries. The Ministry of Trade and Commerce of India has data dealing with trade of the two countries and the so does the Ministry of Commerce and Industry of
Kenya. From these sources also, the researcher will gather data on joint ventures of the two countries.

• Semi-government records: The research will also gather data from semi-government sources like Institutions which are dedicated to keeping records related to the variables to be studied.

• Mass Media: The researcher shall also gather information from published scholarly journals, dealing with related topic.

• Books

• Ph.D. theses

• Reports of government, semi-government and research papers.

• Reports of International Organizations such as those of the World Bank and IMF will be used.

Data analysis and tabulation

The researcher has employed various mathematical and statistical formulae to compute the data in order to draw conclusions from the study. The researcher also analyzed the data critically and draw conclusions based on trends, composition and direction of trade.

The researcher employed various tools to tabulate, analyze and present data collected. These tools include Statistical Package for the Social Sciences (SPSS) and the MS excel sheets. Among the various methods the researcher has used to test hypothesis and make conclusion, use of index numbers of exports and imports to calculate net terms of trade and correlation matrix are the main methods used.
INDEX NUMBERS

The researcher has used Index Number method to calculate net terms of trade between Kenya and India. The index numbers shows changes in overall trade between the two countries over a period of time. The researcher has calculated the trade trends of two countries considering 20 products. The Index number calculations can suggest if it is favorable for a country to continue trading or not.

CORRELATION MATRIX

The researcher has also used correlation matrix to show the correlation between various products of two selected countries. Each matrix (table 6.16 and table 6.17) will test either exports or imports for one country. Considering that for country A (India) the products exported to Country B (Kenya) have given values of \([X_1, X_2, X_3, X_4, ..., X_n]\), the matrix show values on Y or vertical axis as well as on slanting diagonally at the main diagonal side horizontal axis on top of the matrix. Every row shows the correlation of one product, say, \((X_1)\) with another product, say, \((X_7)\). This relationship between two products gives exact correlation between two variables or products.

When values of two variables are positive, this shows that, the trade balance between the two products is favorable. In other words, when the export of one of those products increases, the import of the other product also increases and vice versa. On the other hand, when the values of two variables are negative, it shows that trading in those products together is not favorable. Thus the researcher has used correlation matrix to calculate the correlation between various products of selected countries to find out if a country is gaining much by trading with certain products and how the two countries can improve their trade composition. The higher the positive value, the more
favorable the trade would be and vice-versa. The researcher has used correlation matrix to some hypothesis.

7.2 Summary

The study is divided into seven chapters, this being the seventh. Each chapter is well thought of and written with an aim of building the case of arguing the purpose, objectives and hypotheses of the study. Here is the summary of each chapter.

Chapter 1

Chapter one gave the introduction of the study, research design and the methodology. In it, the statement of the problem, nature, objectives and significance of the study are highlighted. Sources of data used are listed in this chapter.

In introducing the study, the researcher pointed out that he sought to study about Kenya's trade relations with India covering the period 2000 – 2010. The research was prompted to undertake this study as there was no any study made on trade between the two countries from 2000 to 2010. The chapter also gives a glimpse as to why the period is important for this study. The chapter pointed to the three political regimes or periods in Kenya during this period. The first period is from 2000 to 2002, the second period is between of 2003 to 2007 and the third period is from 2008 onwards. The first phase is the last years of President Moi’s term who is the second Kenyan president. The second phase is the first term of the third president Mr. Mwai Kibaki and the last phase is the second term of Mr. Kibaki’s tenure, which ran up to 2012.

Chapter 2

Chapter 2 consists of the review of related literature, which critically examined the various books, journals, articles and theses related to the study. Though
there wasn’t much literature on Kenya trade with India, the ones studied in this chapter helped to understand how a study of this nature was approached by various other scholars. Around eighteen books or important literature was studied which included books on India study with countries of East Europe, India trade with Nepal, Kenya trade with South African, Kenya trade with India etc.

Chapter 3

Chapter 3 laid down the theoretical framework for the purpose of the study and gave definitions of terms used in the thesis. In this chapter, various theories of international trade were elucidated in order to show the theoretical foundation of this study. The researcher studied the following theories in this chapter:

i. The Theory of Comparative Costs by David Ricardo
ii. Heckscher-Ohlin Theorem: Modern Theory of International Trade
iii. Porter’s Theory of Competitive Advantage of Nations
iv. The Vent-For-Surplus Approach
v. The Gravity Model of Trade
vi. The Stolper-Samuelson Theorem
vii. Product Life Cycle Theory

Each of these theories was studied in depth and its significance to the study given after each theory. Some theories were found to be more significant in the case of trade between Kenya and India but all theories were argued in details anyhow.
Chapter 4

This chapter gives an introduction to the Kenyan economy, with special emphasis on the situation of the economy during the period under study. Kenya's country profile is given with details like geopolitics, population being highlighted.

Kenya is situated next to the Indian Ocean at the East African Coast, it covers an area of 582,646 sq.km with 1,025km as the longest distance from North to South of the country and has water surface of 13, 393 sq.km. The number of persons enumerated during the 2009 Population and Housing Census was 38,610,097.

Kenya’s domestic economy is constituted by various sectors which make up the macroeconomic fabric. Agricultural sector is the backbone of the economy and performs variedly due to the significant differences in the erratic long and short rains across the ecological zones. Manufacturing sector consists of the food and non food subsectors. Transport and communication sector is considered as the life line of the economy. It consists of the sub sectors of road transport, railway transport, pipeline transport as well as aviation transport. The financial intermediation sector records robust activities where by the Central Bank of Kenya is the apex institution dealing with monetary policy operations framework, and price stability, to enhance economic growth and employment creation. Building and Construction sector plays a crucial role in the infrastructure development in the economy. This sector is inter-linked with the Housing and Transport sub sector to spur investment, growth and job creation. Tourism sector contributes to the economy in the sense of foreign exchange earner as well as employment creation.

The research found out that Kenya relies heavily on Hydro Electric Power most of which comes from the constructed dams along River Tana. To augment the short fall due to high demand, Kenya imports hydro power from Uganda. Kenya is the
most industrially developed country in East Africa. Its manufacturing sector is mostly involved in agro-processing. It is important to point out that, in Kenya’s Industrial sector, it is the informal sector that is the biggest employer as compared to the formal sector.

Finally, the chapter discusses Kenya trade and states that the current scenario of Kenya’s international trade and the balance of payments is that the merchandise trade deficit continues to increase due to a huge import bill. According to the Economic Survey 2013, the import bill grew by 5.7% while the balance of trade widened by 8.7% with deteriorated export-import ratio of 37.7% in 2012. The main principal drivers for the huge import bill were petroleum products, capital goods, food products and chemical products which together accounted for 58.4% of the total import bill.

Chapter 5

Chapter deals with trade policies of Kenya and India and how these policies affect trade relations between these two countries. The study noted that Kenya's trade policies have evolved through four phases, namely: 1) Import substitution period (1960s – 1980s), 2) The Period of SAPs and Export Promotion Schemes (1980s), 3) A Period of Export Oriented Policies (1990s) and 4) Vision 2030 and National Trade Policy (from 2004 to-date). The chapter also discusses India's trade policies from 1948 to 2000 and trade policy changes during the period under study. It was noted that the EXIM policy of 2002 to 2007 was one of the major additions to India's trade policies and was announced with the principal aim of doubling-up the volume of India’s trade in the global market.

The chapter also discusses various trade agreements signed between Kenya and India, pointing out at their purpose and effect on trade between these two
countries. The main trade agreement was signed in 1981. This Indo-Kenyan agreement had the purpose of according two countries the “Most Favored Nation” status. This resulted to a significant rise in trade volume between the two countries. In 2003, India and Kenya signed another MoU to enhance the trade relations between the two countries. The India Trade Promotion Organization and Export Promotion Council (EPC) of Kenya signed an agreement that would further facilitate the trade activities of the producers and exporters of goods and services

Chapter 6

Chapter 6 deals with trade relation between India and Kenya in the period considered, which includes, trends of imports and exports, pattern of imports and exports and balance of trade. The chapter also shows how various trade policies and foreign policies have shaped the course of Kenya’s trade with other countries especially India. The data will be analyzed to confirm or reject the hypotheses.

Based on the data gathered, it was found out that during the period under study, Kenya exported 59 categories of products to India while India exported 75 products to Kenya. India was found to have received more revenue from this trade than Kenya mainly due to the type of products it was dealing with. In total, Kenya exported products worth INR 19,853,828,278 billion while India exported to Kenya goods worth INR 104,330,138,710.72 billion.

Calculation on terms of trade between India and Kenya showed that India was doing better than Kenya and had index number of above 100 in most of the years except in the years 2001-2002 and 2002-2003 where India recorded negative numbers due to low growth of exports to Kenya. Kenya on the other hand had numbers below
The relative differences in the Indo-Kenya Trade policies have affected trade between the two countries.

Kenya’s foreign trade policies during ‘Kenyatta Administration’, ‘Moi Administration’ and ‘Kibaki Administration’ have been more traditional in nature, promoting primary products rather than tertiary or secondary products unlike the stance taken by India's trade policies.

India’s trade policies especially, after 1991 to 2000 and trade reforms during the period of 2000-2010 have benefitted India’s trade, especially its trade with Kenya.

Trade agreements and MOUs signed between Kenya and India has helped to strengthen trade and economic relations between the two countries.

Foreign trade policies adopted by two countries differed mainly due to difference in each country's endowments.

Both data collected from various sources and calculations on correlation matrix (table 6.16 and table 6.17) showed that there were trade imbalances between Kenya and India. In case of Kenya, during 2000 to 2010, the trade balance was not favorable. (Ksh.-113277 million in the year 2000 and Ksh. -537588 million in the year 2010), whereas, In case of India, the trade balance again was not favorable (Rs. -277302 crores in the year 2000-01 and Rs. -518202 crores in the year 2009-10).

Kenya has been exporting mostly agriculture based products viz., medicinal plants, leather, sheep, lamb, nuts, cloves, tea, raw skin of sheep, wool, raw hides and skins and others.

There are very few products like manganese ores, copper waste, and aluminum waste which are non-agricultural products, though they are also primary goods from the mining sector.

From the correlation matrix, most of the agricultural products shows either negative values or very low values (table 6.17). For example, correlation
In case of non-agricultural products, export from Kenya, the correlation matrix values show the positive result. However these values are relatively weaker hence, there is potential to increase export of such products as Ferrous Waste, Manganese Wastes and Aluminum wastes. This can be seen from few examples from the correlation matrix. Values of export of sheep/lamp (+0.591933) and leather products (+0.564739) is more favorable to Kenya. This means these products have greater potential hence Kenya can increase their exports.

Kenya has been importing various industrial based products like electrical machines, motorcycles, synthetic staples, bars and rods, accessories and others. Out of 20 selected products, Kenya imports only one agricultural based product i.e. groundnut oil.

The correlation matrix values for Indian exports show that India is at a better position to continue trade with Kenya (table 6.16). For example, correlation matrix values of motorcycle and electrical machines = +0.8102; Correlation matrix value of copper plates/sheets and electrical machines = +0.817524

Kenya mostly exports low value agricultural based products and imports high value industrial based products, which has resulted in negative trade balance in Indo-Kenyan trade relations.

Cumulative values of total export from Kenya to India and from India to Kenya showed that Kenya exported a total of INRs. 19,853,828,278 billion worth of products while India exported INRs. 104,330,138,710 billion worth of products. Therefore, in terms total value of exports, India is the biggest contributor in the Indo-Kenya trade.

From these findings which includes data from various sources, researches calculations and various methods to test hypothesis, the research was able to conclude that all the hypotheses were found to be true.
7.4 Conclusions

From the foregone analysis, the researcher concludes that India and Kenya have had a long lasting relationship but their contemporary economic relations are of recent times. The trade’s turn over between the Kenya and Indian has been nothing but rapidly increasing when considering the period under study. However, for most of the period if not all 10 years under study, the balance of trade turned favourably for India. Further analysis of the terms of trade as well as the gains from trade, it is clearly pointed out that India enjoyed favorable Net terms of trade. This is on the account of the factors in regards to Kenya’s exports to India being wholly primary goods i.e. basic crude raw materials which commanded low prices as compared to India’s exports to Kenya which were manufactured i.e. secondary goods that attracted high prices.

Another consequent reason as to why India enjoyed favorable trade relations in comparison to Kenya, Kenya is still largely a monocultural economy that is heavily dependent on its agricultural sector for internal and external markets. However, it must be noted that there has been in recent times, attempts made towards a change of attitude in terms of diversification for export base commodities so as to further promote the export trade with India as well as the global market in general.

Other factors that support the skewness of the trade relations in favor of India are such as those that are aligned to the classical dissertation of Ricardo for the theory of Comparative Advantage. India, as compared to Kenya, enjoys a comparative advantage in Capital Goods, Human Resource; home to an Advanced pool of Technology, a strong Currency Value and Market Mechanisms i.e. Kenya has a big appetite for Indian commodities. Conversely, this results to favorable terms of trade for India which has been evident from the foregone analysis in the current study.
Consequent upon the constricted base of Kenya’s exports, this translates to exports to India that are limited to a few commodities. It therefore calls for India to enlarge significantly, her capacity to import of those commodities that Kenya demonstrates competence to export at internationally aggressive prices. To promote this, if necessary, Memorandum of Understanding (MoUs) or any other instruments could be employed so that India’s imports from Kenya’s non-traditional exports could be increased significantly. However, the two governments must be cautious so as not to adversely perpetuate the trade balance against either country in the long term to counter to the mutuality objectives articulated by the two countries.

In a nutshell, all the important conclusion from the study are thus elucidated below:

7.2.1 In the pursuit for sustainable economic growth and development, Kenya has gone through a series of trade policy episodes since her independence in 1963. This discourse will highlight the various trade policies undertaken by Kenya through the years under the three different Presidential Administrations. The first one was the Kenyatta Administration, which began when Kenya earned her Independence in 1963 and stretch to 1978 at the time of his death. The second was the Moi Administration which spanned from 1978 to 2002. And the last was the Kibaki Administration, 2002 to 2013.

7.2.2 The Moi regime is considered as the worse in the history of Kenya in terms of governance and development. During this period the trade policies of the Kenyatta Administration continued. It is during this time that the Kenya economy experienced its worse trade turbulent storms.
7.2.3 The Kibaki Administration frantically implemented many comprehensive reforms that aimed at promoting and improving the environment for export led growth within the framework of regional and multilateral trade agreements.

7.2.4 The Kibaki Administration emphasized on foreign trade as the drive for economic growth and development. It is also useful to indicate that this is the period in which part of the study is based on.

7.2.5 The British Colonial masters used Kenya as a source of Agricultural products and other raw materials intended for their manufacturing sector and also as a ready market for their finished goods.

7.2.6 The British colonialists jealously protected Kenya by use of inward looking policies from external competition especially the Asian market with countries like Japan and India exporting finished goods to Kenya. This was the birth of the Import Substitution Policy in the evolution story of the Kenyan trade policy formation.

7.2.7 The impact of Import Substitution Policy (ISP) was much experience in the Second Development Plan of 1970/71 to 1974/75. The various sub sectors that expanded from this inward looking approach include textile, food and beverage and tobacco.

7.2.8 In order to promote the agenda of domestic trade, the Kenyatta Administration planned on empowering the ‘Mwanainchi’ – the people, by disbursing loans to small traders and engaging them in training programs.

7.2.9 The growth rate for Agricultural sector slowed down and consequently exposed the weak incentive system of Import Substitution Policy and its diminishing opportunities of efficient import substitution.
7.2.10 The Kenyatta’s Import Substitution Policy was strongly biased against exports and conversely import substituting industries had a lower capacity of creating new jobs and brought into play inappropriate capital intensive equipment which caused the manufacturing sector to depend heavily on large doses of imported equipment and raw materials.

7.2.11 The Moi Administration entered the second phase of Kenya’s trade policy evolution with a failing economy that was greatly driven by Import Substitution Policies.

7.2.12 The Government had to promote nontraditional exports, liberalize its market systems, and introduce reforms in the International Trade regulations.

7.2.13 In the Fifth Development Plan period (1984-88), the role of private investment was focused upon in the light of the need for industrial development. In as much as the government planned to support export oriented industries, a key policy was developed on the promotion of nontraditional products for export markets.

7.2.14 The progressive liberalization process of the trade policy coupled with the macroeconomic reforms and regional integration led to a surge in exports from 1988 to 1992.

7.2.15 The policy reforms of liberalization in Kenya during the Moi Administration are generally accepted to be seeking to enhance trade liberalization, and, to inculcate institutional reforms in the government in regards to privatization and governance.

7.2.16 The financial sector reforms that were instituted undertook to eliminate the distortions in the credit market. Attractive interest rates had the objective of facilitating the efficient use of the available credit resources.
7.2.17 The reforms on the Capital Market Authority were aimed to further liberalize the financial markets.

7.2.18 The institutional change oriented policy reforms focused on the Parastatal (an organization or industry, having some political authority and serving the state indirectly) sector reforms. Many of these state bodies were poorly managed which required subsides from the government from time to time and hence resulting in budget deficits.

7.2.19 In the Sixth Development Plan of 1989-93 emphasis was placed on the process of trade liberalization.

7.2.20 As the Seventh National Development Plan of 1993-97 was rolling in, all restrictions on current account and capital accounts were lifted. This resulted in the dramatic rise in the exports from 13% of GDP in 1992 to over 20% of GDP in 1993-96.

7.2.21 The trade policy under the Kibaki Administration picks up from a long autocratic political rule of President Daniel arap Moi. President Kibaki inherited a trade regime that had undergone progressive liberalization and one that had experienced limited success in stimulating economic growth.

7.2.22 There was a significant burst of export activities between the years 2002 and 2004. With the exception of exports to the Australia and Oceanic trade regions which had a negative growth, the rest of the export destinations recorded a sudden burst in export increase.

7.2.23 It was observed that in 2002 the total exports were valued at KSh. 169,241 million while in 2004, it stood at KSh. 214,793 million. This recorded a surge of 26.9% increase in total exports.
7.2.24 There is a steady rise in exports from the year 2000 with an export value of Ksh. 134,527 millions through to Ksh. 2,719,133 million 1921.3%.

7.2.25 The total Africa exports for the 10 years stood at Ksh. 1,270,905 million contributing 46.74% followed by the exports to Europe valued at Ksh. 778,070 million with 28.61% and then exports to Asia at Ksh. 453,638, which was 16.68%.

7.2.26 Considering the total imports for the 10 years, Kenya has imported from the Asian region imports worth of Ksh. 3,009,292 Million which was 54.66% contribution of the total imports. This is closely followed by the Far East region with a 32.37% contribution to the total imports valued at Ksh. 1,781,993 million. Europe and the Middle East follow closely with contribution percentages of 24.61% and 22.29% respectively.

7.2.27 The volume of exports expanded by 204.62% to stand at Ksh. 409,793.7 million in 2010 as compared to Ksh. 134,527 million in 2001. The balance of trade under the 10 year period, was observed to have widened from a deficit of Ksh. 113,277 million recorded in 2001 to a deficit of Ksh. 537,588.30 million translating to an 374.58% increase.

7.2.28 In case of India, the years between 1947 to 1951 posted trends of high imports than there were exports as far as India and the rest of the world is concerned.

7.2.29 The exports from India to Kenya in the year 2002-03 increased by 22.1% from Rs. 209018 Crores to stand at Rs. 297206 Crores. This increase is attributed to the EXIM policy 2002-2007 which concentrated aggressively promoting India’s exports.

7.2.30 A similar trend is also recorded in the year 2004-2005 where by the Exports from India to Kenya increased by 27.9 % from Rs. 293367 Crores to Rs.
375340 Crores. Considering the imports from Kenya to India, a similar trend is observed in 2002-2003 to record a 21.2% increase in imports and an increase of 39.5% in 2004-2005.

7.2.31 The volume of exports and imports in 2000 of India stood at Rs. 203571 Crores and at Rs. 230873 Crores respectively while in 2010 they recorded a volume of Rs. 845534 Crores and Rs. 1363736 Crores respectively.

7.2.32 There were several trade agreements and memorandums of understanding that India and Kenya have put on paper. These documents have all had the objective of increasing the trade activities between the two countries.

7.2.33 The first trade agreement between Kenya and India was signed in 1981. In 2003, India and Kenya signed an MoU to enhance the trade relations between the two countries. The India Trade Promotion Organization and Export Promotion Council (EPC) of Kenya signed an agreement that would further facilitate the trade activities of the producers and exporters of goods and services.

7.2.34 Kenya adopted inward looking policies using the import substitution strategy with the objective of preventing the import of capital inputs to ease the negative balance of payments, increase the domestic control of the economy and address unemployment.

7.2.35 On the other hand, India opted for heavy-industry development with an objective of producing the basic inputs necessary to enable the growth of domestic manufacturing sector.

7.2.36 In the case of Kenya, the Import Substitution Policy did not have much impact as it created few jobs, mainly because of the inappropriate use of capital
intensive technology which resulted in the industrial sector being heavily
dependent on imported equipment and raw materials.

7.2.37 In the case of India, a planned economy was embraced as early as 1951 with a
very strong import substitution policy directed towards industrialization.

7.2.38 Since the New Economic Policy of 1991, the export sector of the Indian
economy has expanded extensively. There has been an equivalent growth of
imports as well as exports, with the exports surging a little more than the
imports and thus improving the balance of payments situation.

7.2.39 In considering the trade relations of India and the East Africa from the Pre-
Colonial to the Colonial era. The Europeans relations with Africa started with
trade and these relations were concluded in the late nineteenth century with the
formal end of colonialism.

7.2.40 At India’s independence in 1947, the country had a backdrop of colonial
pillage and this set up the tone for the country to be impoverished, with a
backward rural economy that was predominantly an agricultural which
employed primitive production techniques.

7.2.41 At independence, Kenya's economy was skewed towards promotion of rapid
economic growth through public investment, encouragement of smallholder
agricultural production, and incentives for private often foreign industrial
investment. The government was eager to shed of the dependence tag as it had
just dealt away with the colonial government.

7.2.42 The period under study, the years 2000 to 2010 begins during the 9th Plan
(1998-2002) through the 10th Plan (2002-2007) and it ends in the beginning
years of the 11th Plan (2007-2012) of the Five Year Plans process in the Indian
development story. Having considered the performance of the trade balance of the first 2 years in the 9th Plan, it is of significance to stress that during the 9th Plan, the exports perked up by 5.6% as compared to the target of 11.8% while the imports improved by 4.1% as compared to the projected 10.8%.

7.2.43 The terms of trade between India and Kenya for the period under study i.e. 2000 to 2010 show the following: The index numbers for import and export in terms of value are presented in accordance to the currency as well as the Net Terms of Trade. As can be seen from the table 6.4 in page 211, the Net Terms of Trade for the years 2001-02 and 2002-03 showed negative terms of trade for India for both years. The Net Barter Terms of Trade were below 100 - the base year index. This means that the terms of trade for India were unfavorable since India had to pay a higher quantum of exports in return for the same value of imports. This was on account of the percentage decrease of -49.22 and -50.86 respectively.

7.2.44 In the subsequent years, India had favorable net barter terms of trade. To begin with, in the year 2003-04, the index number of net barter terms of trade stood at 127.83. The 27.83% increase from the previous year was accounted to two factors interacting simultaneously i.e. there was a 162.21% increase in export value index and a 6.37% marginal rise of import index value. However this trend displayed negative growth when the net barter terms of trade stood at 108.95 in 2004-05 to indicate a 7.95% increase compared to the base year. This is attributed to the increased import values of up 101.1% over the previous year.
7.2.45 India’s trade pattern during the years 2004-05 to 2009-10 displayed improving net barter terms of trade with an exception of the year 2007-08 when the net barter terms of trade posted negative growth of 9.44% even though the terms were favorable for India as compared to the base year. Nevertheless, from the year 2006-07 to 2009-2010 India displayed high performing net barter terms of trade. The index numbers were 175.84, 184.17, 272.56 and 317.60 respectively.

7.2.46 The above trend is attributed to an increase in export value from 83.17% in 2006-07 to 216.60% in 2009-2010 whereas the import value was marginally increasing in some years and decreasing in others. However, the period under study closes with the net barter terms of trade falling from 317.60 to 195.20 a decrease of 38.54% attributed to the increase of index numbers of import values from 1,854.46 to 3,193.87 which showed a big increase of 72.23%.

7.2.47 For Kenya, both the categories of exports to, and imports from, India have displayed strong fundamental growth during the period under review. To begin with, the total value of exports in 2000 stood at Ksh. 143,527 million which was 4.95% of the total trade of the period under review while in 2010, the value of exports was Ksh. 409,793.70 million which was 15.07% of the total value of trade in the same period. This indicated an expansion of trade from 4.95% in 2000 to 15.07% in 2010.
7.2.48 On the import side, vibrant growth is seen with imports at Ksh. 240,804 million in 2000 while in 2010 imports stood at Ksh. 947,381.9 million. It is observed that in 2002 the growth of imports posted a negative trend from 5.28% to 4.69%. Further analysis confirms that imports exceed the exports in the period under review thereby indicating a negative Balance of Trade.

7.2.49 The cover ratio expressing the total exports to total imports indicates that in 2002 it stood at 65.7% as the highest while in 2010 it was at 43.3% as the lowest. A higher Cover Ratio indicates a smaller difference between imports and exports while a lower Cover Ratio indicates larger difference. This suggests that since 2006, the Kenyan economy has been importing more as compared to the period 2000 to 2005 hence confirming that the economy depends more in imports for growth as opposed to exports resulting in a negative balance of trade.

7.2.50 Kenya’s traditional exports include those that are from the Agricultural sector i.e. Tea and Coffee being the most strongly performing goods. A later entry to this category is the Horticulture industry. Additionally, other categories of exports include the natural resources, animal and vegetable, manufactured goods, machinery and equipments.

7.2.51 The composition of the Domestic Exports from Kenya are largely divided into 7 categories. These include (i) Food and Beverage that is constituted by both primary and processed items; (ii) Industrial Supplies that are of Non-food nature comprised of primary and processed; (iii) Fuel and Lubricants of both
primary and processed kinds; (iv) Machinery and Other Capital Equipments; (v) Transport Equipments that entails Passenger, Industry and Non-Industry; (vi) Consumer Goods both of durable and semi-durable natures; and lastly (vii) Goods Not Elsewhere Specified.

7.2.52 In the year 2000 Food and Beverage assumed increased importance in the country’s exports to all countries accounting for 56.27%. While on the other hand, Industrial supplies and Consumer Goods Not Elsewhere Specified assumed an increasing importance accounting for 19.14% and 15.07% respectively in the same period. It is to be noted that the other categories together accounted for 9.53% of the total exports for that year.

7.2.53 There was significant change in the exports as regards to the year 2001. As can be seen, Food and Beverage recorded a significant decrease in exports from 56.57% to 49.18%. There was a positive change in share improvements as regards to Industrial Supplies, Fuel Lubricants, and Consumer Goods not Elsewhere Specified all contributing 22.68%, 10.23% and 16.75% respectively.

7.2.54 Trends of declining exports continued to abate from 2004 to 2010 of the review period especially from the Food and Beverage category. As noted, in 2004, the exports stood at 47.20% indicating a drop from the previous year and this trend was consistent to 2007 and 2007 where the exports recorded lowest mark of 40.3% and 40.4%.

7.2.55 There was a steady rise in total exports from Kenya beginning with a value of Ksh.134, 527 millions in 2000 to close with a value of Ksh.409, 794 millions in 2010. This indicates a 204.62 % increase in the total exports during the same period. However, it is important to noted that in 2008 and 2009, the
exports experiences a marginal increase and this was attributed to the marginal increase of exports to the Africa i.e. Ksh.162, 541 million in 2008 and Ksh.165, 732 million in 2009; as well as a decline in exports to Australia & Oceanic zone which posted a drop from Ksh.3, 284 million in 2008 to Ksh.2, 130 million in 2009.

7.2.56 The domestic exports grew steadily all through the period under review to record a total of Ksh.2, 383,804 millions. A significant chunk of this growth is contributed by the traditional export commodities of Tea and Horticulture which accounted for 22.39% and 21.15% respectively.

7.2.57 The highest recorded exports are in 2008 with Ksh.5, 131 millions while the lowest was in the year 2000 with Ksh.2, 953 millions.

7.2.58 The highest performing exports is Tea with a total exports valued at Ksh.533, 677 million accounting for 22.39% of the total exports. Coffee, Tobacco and Beer follow in that order each accounting for 4.61%, 2.77% and 0.44% of the total exports.

7.2.59 The performance of exports herein is led by Petroleum products accounting for 2.47% while Soda Ash stood at 2.23% and Fluorspar at 0.42% of the total exports considering the period under study.

7.2.60 The Medical and Pharmaceutical Products accounts for 1.49% of the total exports while the Insecticides and Fungicides accounts for 0.36%. It is of importance to state that beginning from 2001 the Medical and Pharmaceutical
products had a very gradual but steady growth in exports i.e. from Ksh.1, 570 millions to Ksh.5.862 millions in 2010.

7.2.61 It is clearly evident that the most frequent products exported every year on average from India to Kenya bear the frequency of 10 and comprised of a total of 2 products with a combined percentage of 3% of the total number of products. It is also clear that 38.8% of the products were exported once on average in the same period.

7.2.62 Kenya exported 59 products while India exported 75 products in the period under study. It is further observed that in the top 20 products for export, 70% of the Kenyan exports were Agricultural while 100% Non-Agricultural products for the Indian exports.

7.2.63 As regards to the Indian exports to Kenya, it is observed that up to the year 2005 and just as the trend was with Kenya’s exports to India, the commodity values were below the INRs 5 billion per year mark.

7.2.64 In the year 2006, the commodity values of Indian exports grew exponentially with a 93.73% change in increase value of INRs. 12,401,880,435.87 billion and further to close at INRs. 22,536,495,470.80 billion for the year 2010 and with a cumulative export value of IRs. 104,330,138,710.72 billion for the period under study.

7.2.65 As regards to negative growth in export values, it is to be understood that negative growth in export values was below the export value of the previous year and therefore attracting the negative status. In light to the Kenyan exports
to India, negative growth was seen in the years 2003 with -8.66%, 2005 featuring a negative growth of -7.37% and 2009 spotting a negative growth of -7.74%. On the other hand, India featured a onetime entry of negative growth in the year 2007 with a 2.89% valued at INRs. 12,044,085,995.30 Billion, down from INRs. 12,401,880,435.87 billion in 2008.

7.5 Recommendations

While analyzing Indo-Kenya Trade relations, the researcher found out that India was better placed than Kenya. This was due to various reasons which broadly included, socio-economic and geographical conditions, which greatly varied between the two countries. In order to strengthen trade relation between these two countries, the research recommends the following:

7.4.1 Kenyan economy is more traditional and hence need to be industrialized. In the process of industrialization modern industries must be promoted by the Kenyan Government.

7.4.2 The government may not be fully equipped to quickly move to modern industries as such due to various other reasons like availability of capital, modern technology, market for the finished products etc but it can start by setting up various small scale industries in various parts of the country to encourage manufacturing or at least processing of raw materials at the grass root level.
7.4.3 As far as setting up of modern industries, Kenya could successfully pursue this path if it can have collaborations with the Indian government since India has more experience in industries and could provide capital as well as technology to Kenya.

7.4.4 Kenyan economy is agricultural based. To be better in agriculture, Kenya should employ more mechanization, invest in agriculture research to find better crops and promote diversification in horticulture crops.

7.4.5 The Kenyan Government needs to promote structural adjustment policies in the economy, which may help the economy to grow, as it has been seen in Indian economy.

7.4.6 Kenya needs to improve the infrastructure sector rapidly to enhance production and transportation of goods and services. The basic infrastructure that needs to be improved are the roads and railways so that the country can have a good connectivity in all areas. Then the power sector should also be improved so that electricity can reach all rural areas and towns and lastly industrial infrastructure should be installed or improved in various parts of the county.

7.4.7 Though Kenya and India have had long trade relations, a lot has been happening in the world of economics and international trade. For the two countries to compete in the world trade arena and enhance bilateral trade ties, they should periodically review their trade agreements or sign more MOU for this purpose.
7.4.8 Human resource position in Kenya is relatively at a lower position. Therefore, the Kenyan Government must plan the Human Resource Development, which is a base for economic development.

7.4.9 Indian exports are diversified, whereas Kenyan exports are not. Therefore, the Kenyan Government must have diversified crops and industries. The non-traditional commodities must be promoted.

7.4.10 In recent years, India has shown more interest in increasing trade with African countries. Kenya has been one of the countries mentioned by India as a focus country in this engagement. Kenya should therefore take advantage of this move by the Indian government and aggressively pursue avenues of improving and increasing trade with India.