CHAPTER ONE: RESEARCH DESIGN

1.1 Research Problem

Kenya and India have had a long relationship that can be traced to the ancient times. However the account that is well documented and directly links Indians and Kenyans is that related to the construction of Kenya-Uganda railway in the late 19th century and the early 20th century. The British who were in charge of the railway line asked an Indian agent from Punjab to recruit Indian laborers to work on the railway line. The agent, though a Punjabi did not only get workers from Punjab but recruited workers from other parts of Northern India who went and started work in Mombasa. Many of the laborers, rather than voyage back to the Indian subcontinent, simply settled in Kenya, and slowly brought with them a host of hopefuls willing to start afresh a new life.  

With that settlement, the India factor would forever be part of Kenyan history, Today there are over 100,000 people of Indian origin (PIO) (who include people of Pakistani origin as well) in Kenya. This, among other factors, has prompted the Indian government to have a strong interest in Kenyan affairs and have a formidable foreign policy towards Kenya. It will be noted that during the India-African conflict in East Africa, Jawaharlal Nehru advised the Indians in Kenya to realize they were now citizens there and to take part in the national struggle for independence.

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India has been a worthy ally for Kenya and their relationship has been strong both in economic terms and diplomatic terms. Though India is not the country from which Kenya imports the maximum, it is still one of the top ranked trade partners for Kenya. India’s proximity to Kenya and its quick access by waterways and by air is a factor that encourages many interactions between these countries\(^3\). It is due to the importance of this trade relationship that this researcher decided to study the trade relationship between these two countries.

Trade links between Kenya and India strengthened after 1963 by which time both India and Kenya had attained independence. Thereafter, the trade between the two countries has grown steadily but is yet to reach its full potential. A significant increase in the volume of trade was experienced in 1980s following the signing of Indo-Kenya

\(^3\) Since 2005, the world has been dazed at the increase of piracy along Gulf of Aden by Somali pirates. While this has surely been a big issue to the world economy, there has not been significant study to show that the piracy has had adverse effect on trade between Kenya and India. The menace cannot be denied in this contest though; Kenya benefits greatly from the Mombasa seaport in many ways. First, Kenya depends a great deal on imports from countries like India, Emirates, China, EU etc and exports their products through this port. In addition, this port is one of the major import-exports hubs in the region the other one being at Dar-es-Salaam in Tanzania. The Mombasa port services countries like Uganda, South Sudan, Sudan, Burundi, Rwanda and Congo. A research paper by Luca Puddu entitled *Kenya in the Face of Piracy* and Published in Horn of Africa Bulletin of February 2010 quoted a report from BMI shipping which showed that the port of Mombasa handled 38,000 less TEUs in 2009 as compared to the previous year. However, according to a report by COMESA,(Annual Bulletin of Infrastructure Statistics 2011) in terms of international sea-borne cargo traffic, Mombasa was a great performer in COMESA sub region handling the highest growth rate in the sub-region; rising by about 16% in 2009 compared to a rise of 2.8% realized in 2008. This could mean that whereas big container transporters like Maersk slowed down on their operations to East Coast of Africa due to piracy, there were other players who were actively doing business there. Statistics suggest that piracy is now decreasing in this region due to changes in international law that allows crew to carry firearms in their vessels and also increased security support from various Navies including Canadian Navy and Indian Navy. This, according to a working paper by One Earth Future and Oceans Beyond Piracy organization entitled *The Economic cost of Somali Piracy 2012*, has increased the cost of production of goods in many countries since producers are forced to pay for the increased cost of cargo insurance, extra fuel used in speeding up of vessels, security etc. In conclusion, we can say that the India-Kenya sea route is still a viable alternative for transport of goods and the security situation there is quickly improving.
Trade Agreement in March 1981. Through the Agreement, India and Kenya accord to each other the most favored nation status.\(^4\)

Following the introduction of economic liberalization in both countries in early 1990s, the trade volume experienced a further growth. Strong trade ties have provided the basis for technology transfers between India and Kenya. For example, the National Small Industries Corporation (NSIC) has been helping Kenyan Industrial Estate Limited and Appropriate Technology Advisory Committee to develop and promote small and medium industries in Kenya. Today many Indian joint venture companies are successfully operating in Kenya and India has extended to Kenya technical assistance through consultancy services. These projects have helped Kenya to diversify its industrial production and set-up a base for development of local technology capabilities.\(^5\)

On its part, India has earned considerable goodwill and indeed financial benefits from these joint ventures. In fact, lately, almost all major tractor producers from India like Bajaj, HMT and Punjab Tractors have been making visits to Kenya for exploring markets in agricultural implements.\(^6\)

India-Kenya partnership in technology transfer for small and medium industries has been very strong in the areas of technical assistance involving the exchange of experts and know-how. The Indian National Small Industries Corporation (NSIC) helped Kenyan Industrial Estate Limited and Appropriate technology Advisory Committee to develop and promote small and medium industries in Kenya. Indian

\(^5\) Op. Cit. p. 155
government provided assistance by way of supply of machinery and equipment to start industries under the Kenya Industrial Estate Limited programme.

All these vital undertakings and developments are strengthened by the fact that these two countries have common problems and understanding and so it is easier to understand the needs of each other. It is on the backdrop of South-South Cooperation that the study is based, in order to derive the benefits developing countries can get by being involved in joint economic activities.7

This study will cover the period 2000 – 2010. This is the period of the last years of President Daniel Toroitich Arap Moi’s era (2000-2002) and President Mwai Kibaki’s tenure from 2003 onwards. These years are significant for the purpose of this study due to the reasons cited below:

Kenya is an agricultural exporting and capital goods importing nation, and routinely runs a balance of trade deficit that renders it highly dependent on loans and aid to finance needed imports. The balance of trade deficit varies widely, depending upon, among other things, the market success of agricultural export commodities in a given year. Kenya's principal exports include tea, coffee, horticultural products, and petroleum products. Kenya's major imports include machinery and transportation equipment (capital goods), petroleum products, and iron and steel (intermediate and final goods).

There is no in-depth research work on Kenya’s trade relations with India worth of mention during these important years. There are a few issue based works done by various scholars and journalists which are certainly useful, but are largely peripheral and limited to narrow topical issues.

Foreign trade is a dynamic issue that changes within a very short span of time. Over the years various studies have been made on trade relation between Kenya and India or between Kenya and certain African countries, however no research has been done on trade relations between Kenya and India between 2000 and 2010.

These years are very significant in the history of Kenya and many issues were affected during that time. 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 is supposed to run up to 2012.

These phases are significance because Moi was accused mostly by the international community of impunity, embezzlement and corruption that led to a bad phase of Kenyan political and economic history. Kibaki on the other hand was seen by academics as a savior of the ailing economy, he himself being an economist.\(^8\)

Though Kenya is known to accrue much of its GDP from the service sector, foreign trade plays a vital role in strengthening its economy. And since there has been a strong relationship between India and Kenya and the proximity to the two countries is conducive of further interactions, the study will seek to find how trade trends and composition shaped during the years under study.

The study will therefore shed light on the economies of the two countries and then study in depth the composition, trends and direction of trade in Kenya and India. The main focus however will be on how these two nations have been trading with each other with special emphasis on the years under study.

1.2 Objectives of the study

The researcher has 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.

1.3 Significance of the study

The researcher will amalgamate 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.

1.4 Hypotheses

The following hypotheses have been 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.

1.5 Research Methodology

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

1.5.1 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). 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.

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Apart from India fulfilling all the conditions to support purposeful method of sampling, India is an important trading partner with Kenya for the following reasons. First, India is strategically located and therefore offers a direct connection route by both airways and waterways. This factor may be a big consideration by traders who feel that getting goods from India would reduce the cost of transportation as well as hasten delivery. Another reason why India makes a good trading partner is that both countries have many similarities in terms of economic strength of their people and other socio-economic indicators. One would expect to get better prices for goods from such a trading partner as their economic disparity is not too wide. The third reason is that Kenya and India have had a good relationship from historic times and therefore there is a good trading environment between the two countries.

1.5.2 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.

1.5.3 **Data Collection**

The research shall rely on secondary data; therefore the researcher will collect 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.

1.5.4 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 will also analyze the data critically and draw conclusions based on trends, composition and direction of trade.

The researcher has 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) 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 \([X_1, X_2, X_3, X_4, \ldots, X_n]\), 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.

1.6 Chapter scheme

The study is divided into seven chapters.

Chapter 1, that is the present chapter, gives the introduction of the study, research design and the methodology. In it, the statement of the problem, nature, objectives and significance of the study is highlighted. Sources of data used are listed in this chapter.

Chapter 2 consists of the review of related literature, which will critically examine the various books, journals, articles and theses related to the study.

Chapter 3 lays down the theoretical framework for the purpose of this study and gives definitions of terms used in the thesis.

Chapter 4 gives an introduction to the Kenyan economy, with special emphasis on the situation of the economy during the period under study. Other details about Kenya like geopolitics, population etc will also be highlighted.

Chapter 5 deals with trade policies of Kenya and India and how these policies affect trade relations between these two countries.

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, balance of trade, The chapter will also show how various trade policies and foreign policies have shaped the course of Kenya’s trade with other countries. The data will be analyzed to confirm or reject the hypotheses.
Chapter 7 of the thesis presents the summary of the research and put forward the conclusions drawn from the study based on data analysis. Suggestions and recommendations for policy action will also be presented in this chapter.

The appendices will give all additional required information and the bibliography.