KENYA'S BOLD TRADE LIBERALIZATION MEASURES NEED SUPPORT FROM A SUCCESSFUL URUGUAY ROUND - SAYS GATT

In May 1993, in a bold move, Kenya significantly liberalized its foreign exchange and import licensing system, reversing in large measure the pattern of import control policies maintained until 1992, says the GATT Secretariat’s report on Kenya’s trade policies and practices. It is a major step toward removal of the anti-export bias that had resulted from previous import substitution policies and had led to distortions in the productive structure.

The measures should allow the transmission of international price signals for a reallocation of Kenyan resources to reflect its comparative advantage. But, cautions the report, "achievement of stable, sustained growth in Kenya will require macroeconomic discipline to support the recent bold trade and exchange liberalization measures. In turn, Kenya’s efforts would be supported by a strengthened, more open multilateral trading system that would result from a successful conclusion of the Uruguay Round."

The report points out that the frequent and contradictory trade policy shifts that have taken place since 1988 highlight the constraints dominating the Kenyan economy, and its dependence on foreign assistance. "First, the relaxation of import licensing in 1989 created difficulties for a large number of domestic industries previously protected by quantitative restrictions on imports. In many cases, the absence of competition had resulted in low-quality standards, with the result that, as restrictions were eased, consumers turned to imports."

"Second, the introduction of foreign exchange restrictions in late 1991 halted, if not reversed, earlier trade liberalization. These restrictions prevented imports of goods used as inputs in the domestic assembly
industries, as well as of finished products. Hence competition from imports was replaced by input shortages, which in 1992 threatened the operations of a number of import-dependent industries, notably machinery and transport equipment. The recent liberalization of trade and foreign exchange restrictions should provide a basis for a more appropriate allocation of resources."

"Kenya is endowed with a number of important assets, including a low-cost and well-qualified labour force, a strategic regional position and a well-developed infrastructure, as well as an exceptional climate and natural beauty. In addition, the country has traditionally been open to foreign capital. Together, these factors place Kenya in a favourable position to benefit from the opening of the multilateral trading system."

Notes to Editors

1. The GATT Secretariat’s report, together with a report prepared by the Kenyan Government, will be discussed by the GATT Council on 7-8 September 1993. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

2. The reports cover developments in all aspects of Kenya’s trade policies, including domestic laws and regulations; the institutional framework; trade-related developments in the monetary and financial sphere; trade practices by measure and trade policies by sector. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.

3. A record of the Council’s discussion and of the Chairman’s summing-up, together with these two reports, will be published towards the end of 1993 as the complete trade policy review of Kenya and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

In May 1993, Kenya significantly liberalized its foreign exchange and import licensing system. This bold move reversed in large measure the pattern of import control policies maintained until 1992.

Introduction

Since independence in 1963, until recently, the Republic of Kenya achieved an increasing standard of living for its rapidly growing population, despite a sometimes difficult environment, including low levels of development in all neighbouring countries and, during the 1980s, falls in international prices for its main merchandise exports, coffee and tea.

Agriculture is the basis of the Kenyan economy, providing about 30 per cent of GDP and 80 per cent of employment. Falling and unstable commodity prices acted against the sector, contributing to a decline in its share of GDP. Services have increased to one-half of GDP with the development of tourism, which has driven growth in finance, retail trade and related services.

In contrast, the manufacturing sector, already relatively diversified at independence, has not increased its share of the economy. A long-standing policy of import substitution behind high protection meant that manufacturing production essentially substituted for restricted imports of consumer products. Consequently, export growth of manufactured products has been marginal, although Kenya retains its position as a regional manufacturing centre supplying neighbouring countries.

Between 1965 and 1980, Kenya enjoyed strong economic growth of almost 7 per cent. This was supported by high levels of external inflows, sustained in turn by a generally favourable policy towards foreign investment. In the early 1980s, growth of GDP dipped, recovering partly in the period 1985-89; however, in the last three years, the rate has fallen markedly, to less than one per cent in real terms in 1992.

Trade and industrial policies introduced during the 1970s provided industry with considerable assistance, mostly in the form of border controls, exclusive production rights granted to joint ventures between the Government and foreign corporations, and financial support to public or quasi-public companies. Import controls were most stringent on consumer products, rendering the economy progressively dependent on intermediate imported inputs.

These policies weighed increasingly on the economy, introduced an anti-export bias and led to growing distortions in the productive structure. They were assisted by large external borrowing, which eased foreign exchange constraints. Kenya’s external debt grew eightfold during the 1970s, to reach nearly 50 per cent
of GDP in 1980. It doubled again during the next decade to over 80 per cent of GDP in 1990. Debt service increased from a fifth to a third of exports of goods and services.

The imbalances evident in the early 1980s precipitated balance-of-payments difficulties, which led the authorities to temporarily restrain monetary and fiscal policy, while tightening trade policies further. The crisis led to falling growth or absolute decline in many sectors of the economy. Agriculture was further hurt by a severe drought in 1984. Stabilization was, in this period, undertaken mainly through import contraction, without effective economic restructuring. The public sector continued to absorb a large share of aggregate resources; expansive monetary and fiscal policies were not effectively brought under control and trade policy became more restrictive in order to palliate persistent domestic imbalances.

Growth picked up in the second half of the 1980s, encouraged by a coffee boom in 1986 and increasing external inflows, channelled into both private and public investment in manufacturing and services, notably commerce and financial and business services. In contrast, agriculture grew relatively slowly, partly as a result of falling sectoral terms of trade and their impact on production incentives.

Kenya adopted a number of stabilization and adjustment programmes in the second half of the 1980s, with the aim of moving the economy towards greater stability and growth. Reforms in the agricultural sector opened opportunities for private production and marketing, and reduced the privileges of statutory marketing boards, while certain producer prices were decontrolled. Nevertheless, the price of a number of essential products remained regulated, and some worrying policy reverses were observed in late 1992 when the authorities reestablished the government monopoly on the movement of maize, the country’s staple food. Reforms also led to a notable decrease in assistance to the sector, as most input subsidies were phased out; in this context increasing prices for fertilizers translated into a decline in their use.

Policy changes in industry after 1989 included moves to open Kenya’s trade régime to imports of manufactured products, and measures to promote exports. Quantitative restrictions were progressively replaced by tariffs, which have been subsequently reduced. Unfortunately, unfavourable economic developments in 1991 and 1992 led the authorities to reverse the tariffication process with the introduction of widespread and stringent foreign exchange restrictions, critically affecting most industrial sectors.

In 1990, the economy was adversely affected by the Gulf war and its impact on tourism, regional trade and energy prices. In 1991, per capita incomes declined for the first time since 1984. Kenya was more than ever dependent on foreign assistance, a large share of which was suspended at the end of 1991 pending economic and political reforms. A drought at that time caused a fall in maize production in 1992. Furthermore, dramatic political developments in neighbouring countries brought a large number of refugees to Kenya, and caused regional food shortages.

In 1992, the balance of payments worsened. External debt service arrears exceeded SDR100 million, twice their level at the end of 1990. The situation did not improve in the run-up to the elections which took place in December 1992. Money supply increased rapidly and despite cuts in public sector investment, the budget deficit remained substantial.
Kenya in World Trade

Kenya's dependence on merchandise trade has been eroded during the last 15 years. In 1990, its share of GDP, in nominal terms, was close to 35 per cent, compared to over 55 per cent in 1974. The share of exports in GDP fluctuated around 20 per cent until the late 1970s, before falling back to less than 15 per cent as declining commodity prices had a dampening effect on export revenues. The share of imports also fell from over 25 per cent of GDP during the 1970s to about 20 per cent in 1990.

Agricultural products accounted for half of export revenues in 1990, down from two-thirds in 1988. The basket of agricultural exports changed during the 1980s; exports of coffee and tea (and mate) declined, while those of horticultural products and fish grew fairly rapidly. Kenya is one of the five largest exporters of cut flowers, and a leading exporter of fresh fruit and vegetables. This performance partly reflects liberal policies towards foreign investment, production and trade in these sectors.

Exports of manufactures are small in value, but diversified. Refined petroleum and food products account for a large part of the total. The latter have benefitted from the expansion of the horticultural sector; preserved fruits and vegetables are a sizeable element in Kenya's exports of manufactured products. Other expanding export sectors include textile and leather products, chemicals, metal products and simple machinery.

Developed countries purchased slightly above 40 per cent of Kenya's exports in 1990, down from 60 per cent in 1988, reflecting unfavourable international prices for Kenya's primary commodity exports. Exports to European countries fell from 53 to 38 per cent during 1988-90, and declined further in 1991. Japan remains a limited outlet for Kenyan products while the United States and Canada jointly accounted for 3 per cent of total exports in 1990, down from 7 per cent in 1985.

While Kenya's farm-based exports are shipped mostly to European countries, over 90 per cent of its manufactured exports are destined to neighbouring African countries, which provided nearly 40 per cent of export revenue in 1990, up from 25 per cent in 1988. Such exports include refined petroleum, cement, chemicals, metals and machinery, in which Kenya is a strong regional competitor, due to lower transport costs and an established infrastructure. Kenya has been the principal beneficiary of the Preferential Trade Area, which provides lower duties and payment clearing facilities to certain Kenyan products in neighbouring markets. PTA countries absorbed a third of total exports in 1990, up from 25 per cent in 1988; in 1991, Uganda overtook the United Kingdom as Kenya's largest export market.

With falling oil prices reducing the value of fuel imports, the share of manufactures in Kenya's imports rose from 65 to about 85 per cent over the 1980s. These consist mostly of high value added machinery, chemicals and other products not produced locally, as well as motor vehicles. Agricultural imports account for about 2 per cent of the total. This shift in the structure of imports was paralleled by growing reliance on imports from European countries, which increased their penetration of the Kenyan market considerably between 1980 and 1988. In the two years to 1990, however, this advance was almost completely reversed, while imports from Japan (Kenya's second largest supplier), other Asian countries and the United States increased steadily. The shift away from European suppliers was most notable in
machinery and transport equipment. The United Kingdom, however, remained Kenya's main supplier, providing over US$300 million in imports in 1990, down from US$440 million in 1980.

Exports from other African countries to Kenya did not record the expansion which might have been expected from the Preferential Trade Area. These countries mostly export agricultural products, imports of which into Kenya have been restricted apart from a few products not produced locally. Zimbabwe and Zambia are, nevertheless, important suppliers of ores and minerals, while imports from Tanzania have expanded more than tenfold, although from a low base, during the decade.

Institutional Framework

The Government of Kenya combines presidential and parliamentary systems, with the President as head of State and of the Executive. The National Assembly passes all laws, which must be approved by the President. Cabinet ministers can enact subsidiary Legal Notices, if empowered to do so by the relevant Act. These Notices do not have to be approved by Parliament.

Most executive decisions are taken by the Cabinet, acting on proposals submitted by ministries. Main economic and trade policy proposals are discussed in the Economic Sub-Committee before becoming government policy. Members of the National Assembly have not normally taken an active part in the proposal and formulation of trade-related policies.

Kenya has no independent body responsible for reviewing and advising the Government on matters of trade and industrial policy. However, two main inter-ministerial and consultative committees deliberate on trade policy, industrial adjustment and economic policy, and form the main forum for policy dialogue between the private sector and the Government. Certain other non- and quasi- governmental agencies participate in the policy planning process through submissions to the Economic Sub-Committee. Investment policies are periodically reviewed by the Investment Promotion Centre.

Trade Policy Features and Trends

Kenya became a contracting party to the GATT in 1964, by succession after independence. With the exception of Article VI on anti-dumping and countervailing duties, no provisions of the General Agreement or related agreements have been incorporated into Kenyan law.

Kenya accords m.f.n. treatment to all countries, whether or not they are contracting parties to the GATT. It extends tariff preferences on a small portion of its imports from African countries members of the Preferential Trade Area.

Many of Kenya's exports receive GSP treatment from most developed countries, and preferences under the Lomé Convention in the European Communities.
Recent evolution

In the decade up to 1989, the incidence and stringency of border controls, in the form of licensing, high and rising tariffs and foreign exchange restrictions, increased continuously. However, a process of tariffication began in the late 1980s and, since 1989, tariff peaks and dispersion have been lowered. The maximum rate of duty was 60 per cent in 1992, down from 135 per cent in 1988. Both the tariff and VAT structures have become more homogeneous, following a reduction in the number of rates. From nearly 42 per cent in 1988, the unweighted tariff average has been reduced to 34 per cent in 1992, but remains considerably higher than a decade ago.

In 1991 import licensing was, in principle, made automatic for most industrial products and the need for letters of approval from industries prior to importation was abolished. However, a large number of agricultural products still required Government approval before application could be made.

Until February 1993, and again in the period March-May 1993, import licensing was complemented by foreign exchange licensing, whose stringency varied according to the balance-of-payments situation. In late 1991 and through the early part of 1993, a severe foreign exchange shortage led the authorities to slow approving foreign exchange applications for many industrial products, as well as non-priority raw materials in late 1992, allocations ceased for some items, effectively banning all imports of some 900 agricultural and industrial products.

Partial liberalization of the foreign exchange markets, in October 1991, included the introduction of a dollar-denominated instrument that could be freely traded against domestic currency on the newly created "Forex-C" market. One of the objectives of this instrument was to encourage inflows of private capital, by ensuring the convertibility of the shilling, as well as to guarantee owners of these certificates the possibility to undertake all current account transactions.

Special measures were introduced in 1992 to encourage investment in export industries. The authorities began to provide tax and investment allowances, assistance for infrastructures; duty-free imports and waivers of exchange control to companies established within export processing zones. In 1992, bureaucratic obstacles to investment were considerably reduced through the introduction of a "one stop" system for administrative procedures.

In August 1992, the obligation to surrender all foreign exchange proceeds to the Central Bank of Kenya was abolished for exporters of "non-traditional" products, with the creation of special retention accounts for export proceeds. In November 1992, exporters of traditional products became entitled to retain 50 per cent of their foreign exchange earnings. Retained earnings were usable for imports and could be traded on the interbank market.

These developments created a partially liberalized system within the economy, in which exporters benefitted from a more liberal trading system coupled with more ready access to foreign exchange. However, the fact that the majority of agents remained subject to both exchange control and stringent import licensing could have caused the emergence of a dual economic and trading system within the Kenyan economy.
This duality was avoided by further reform of the exchange and trade system in February 1993; import licensing was no longer applied and all but certain government imports and debt service were to be effected on the secondary exchange market. These measures were largely reversed in March 1993, and foreign exchange retention by exporters was cancelled. However, the trade and exchange systems were again significantly liberalized in May 1993. Import and foreign exchange licensing were abolished and foreign exchange for imports became freely available at market rates through authorized banks. In addition, exporters were entitled to hold 50 per cent of their foreign exchange earnings in retention accounts, subject to their being used or traded within 90 days.

**Type and incidence of trade policy instruments**

Kenya's trade policy over the two decades to 1993 relied essentially on licensing, which applied to all imports and to a large share of exports, and on import duties. Foreign exchange licensing and surrender requirements also affected merchandise trade, and were the binding constraint on many items. The May 1993 liberalization measures could significantly enhance the prospects for growth in production and trade.

Most tariffs are applied on an ad valorem basis, although alternate duties cover about 10 per cent of products. Specific rates are infrequent. Variable duties were introduced in 1992 on several important agricultural products. The average tariff rate on industrial products is slightly above 35 per cent, while agricultural products are subject to duties averaging nearly 45 per cent. Tariff peaks in industry are most frequent for finished products, giving rise to substantial tariff escalation and high rates of effective protection in many sectors. Highest rates of duties are applied to imports of assembled motor vehicles, radios and other telecommunication equipment assembled locally, as well as textiles, clothing, leather and most food products.

None of Kenya's tariffs are bound in the GATT. However, Kenya is willing to consider an "appropriate" level of tariff binding in the context of the Uruguay Round.

In 1992, import licensing was, in principle, automatic for nearly 90 per cent of tariff lines with the remainder concentrated in the agricultural sector. Imports by businesses holding their own foreign exchange (some 9 per cent of licence applications on October 1992) were licensed in about ten days. For importers requiring foreign exchange, applications were considered by the Foreign Exchange Allocation Committee; in October 1992, the average lag from licence application to foreign exchange allocation was in the order of four months. These foreign exchange restrictions probably constituted the strongest barriers to Kenya's imports, with negative effects on production and exports.

Export licensing and duties apply to certain agricultural and food products in the context of self-sufficiency and diversification policies. Export licences are required for food products, in order to ensure adequate supplies for the domestic market. Export taxes apply to a number of products whose export, in raw form, the Government wishes to discourage with a view to increasing processing content. Raw hides and skins, which provided significant export revenues, have recently been made subject to an export tax.
At the same time, three schemes are in place to strengthen export incentives through the provision of duty and tax concessions. The Export Compensation Scheme provides exporters producing at least 30 per cent value added with a fixed rebate of 18 per cent of the f.o.b. value of their exports. Two other facilities provide exporters with import duty and VAT exemptions.

**Sectoral trade policies**

Food security has been a government priority in agriculture, with trade policy oriented towards self-sufficiency. Although the scope of price control has been substantially reduced in recent years, administered pricing continues to apply to a part of agricultural output, including for maize, the staple food crop. In addition relatively faster increases in consumer prices have, since 1989, translated into falling real producer prices, which partly discouraged production and trade. The marketing system in place for a large number of agricultural commodities has also been a major inhibiting factor in the performance of production and trade. In the case of coffee, up to four intermediaries intervene in the marketing channel between the producer and the weekly auction, with major consequences for profitability and income distribution.

Import policy in agriculture remains fairly restrictive. Tariffs average some 43 per cent, up from 37 per cent in 1988, to mitigate the removal of quantitative restrictions. In 1992, duties on imports of some essential food cereals were replaced by variable levies. However, certain input subsidies have been phased out since 1990.

Effective tariff protection to industry remains substantial, even though import licensing has been abolished. Exclusive production rights have in principle been abolished. However, financial assistance to public or quasi-public companies continues to put pressure on public resources.

Trade policy towards the manufacturing sector was, in the past, essentially two-pronged. Products with established domestic capacity were protected by high tariffs, discretionary import licensing and restrictive foreign exchange allocation. In contrast, imports of machinery and other intermediate inputs used in industry were encouraged by priority licensing, resulting in a relatively high import-dependency ratio in industry. These measures held a substantial amount of resources in uncompetitive sectors.

**Trade Policies and Foreign Trading Partners**

The frequent and contradictory trade policy shifts which have taken place since 1988 highlight the constraints dominating the Kenyan economy, and its dependency on foreign assistance. First, the relaxation of import licensing in 1989 created difficulties for a large number of domestic industries previously protected by quantitative restrictions on imports. In many cases, the absence of competition had resulted in low quality standards, with the result that, as restrictions were eased, consumers turned to imports.

Second, the introduction of foreign exchange restrictions in late 1991 halted, if not reversed, earlier trade liberalization. These restrictions prevented imports of goods used as inputs in the domestic assembly industries, as well as of finished products. Hence, competition from imports was replaced by input shortages,
which in 1992 threatened the operations of a number of import-dependent industries, notably machinery and transport equipment. The recent liberalization of trade and foreign exchange restrictions should provide a basis for a more appropriate allocation of resources.

Kenya is endowed with a number of important assets, including a low cost and well qualified labour force, a strategic regional position and a well developed infrastructure, as well as an exceptional climate and natural beauty. In addition, the country has traditionally been open to foreign capital. Together, these factors place Kenya in a favourable position to benefit from the opening of the multilateral trading system.

Unfortunately, until 1993, Kenya had not made the considerable strides in liberalizing trade that many other countries had recorded. Kenya’s trade régime, until recently remained highly protective and discretionary. This undoubtedly discouraged the foreign investment on which Kenya is particularly dependent for employment generation and technology transfer. The simultaneous presence of stringent exchange control created uncertainties that further reduced the incentive to invest and the competitiveness of exports.

Achievement of stable, sustained growth in Kenya will require macroeconomic discipline to support the recent, bold trade and exchange liberalization measures. These measures should allow the transmission of international price signals for a reallocation of Kenyan resources to reflect its comparative advantage. In turn, Kenya’s efforts would be supported by a strengthened, more open multilateral trading system that would result from a successful conclusion of the Uruguay Round.
Wider Economic and Development Needs, Policies and Objectives

Kenya registered impressive growth performance over the period 1964-7, recording an annual average rate of growth of 6.5 per cent. However, maintaining the level of growth became a difficult task due to a number of restraints that interrupted the stable economic performance.

The 1973/74 oil crisis was the first of a number of these external shocks, resulting in substantial and progressive drop in GDP growth from a high rate of 6.7 per cent in 1964/74 to only 3.1 per cent in 1975. Other constraining factors were the 1979/80 oil price shocks; deteriorating terms of trade of primary exports upon which Kenya depends for foreign exchange earnings; increases in interest rates on international loans; debt crisis, and world economic recessions of 1975/76 and 1980/82 which were coupled with domestic droughts of 1974/75, 1979/80 and 1984.

The above situation has resulted in a fall in GDP from 6.5 per cent in 1974 to a dismal 2.1 per cent in 1991.

Nearly all sectors of the economy have experienced decreasing rates of growth. The agricultural value added at current prices increased by 4.5 per cent in 1991 compared with a rate of 6.8 per cent in 1990. Growth in physical output of the manufacturing sector declined significantly to a rate of 3.8 per cent in 1991 compared to 5.3 per cent in 1990. This was mainly due to the global recession, limited availability of foreign exchange, inflationary pressures, and uncertainties of supply resulting from the Gulf crisis.

The macro-economic imbalances triggered by the oil shock of 1973 and the debt crisis of 1982 have produced a series of government policy initiatives such as structural adjustment and stabilization measures. These policy measures have taken the form of devaluation, increased solicitation of international support, reduction in direct participation of the Government in economic activities, and budget rationalization as a means of realizing savings through the more efficient use of resources. The Government is also committed towards the future reduction of aggregate consumption expenditure through the introduction of cost sharing in education and health, streamlining the civil service and discontinuing free veterinary services.

Sessional Paper No. 1 of 1986 proposed the following aspects to be specifically considered as basic components of the country's development strategy:
- Budget rationalization programme as a means of increasing productivity and realizing savings through efficient use of resources.

- Rural focus programme in the context of improved economic balance between rural and urban sectors.

- Agricultural intensification programme aimed at achieving food security, income growth, employment creation and export expansion within agriculture.

As indicated in the Sessional Paper referred to above the following set of goals will guide the Government’s economic development policy to the end of the century:

- Renewed economic growth with a target of 5.6 per cent for GDP from 1984 to 2000;

- Accelerated employment creation especially in the private sector to ensure that all Kenyans can participate in a growing economy;

- Rising productivity in all parts of the economy, public and private, so that all workers can enjoy rising real incomes;

- Provision of basic needs for all Kenyans, firmly based on rising employment, productivity and incomes so that private households can provide for themselves most of the food, shelter and clothing, and even part of the water, education and health needs of the country;

- Food security based on increased productivity in the production of both food and export crops;

- Improved rural-urban balance to ensure that the benefits of economic growth are spread widely throughout Kenya and

- Gradual structural change from an agrarian into an urban-based industrial economy, with agriculture and small-scale industry and services leading the way for the next seven years as modern industry is restructed to play its essential development rôle

Implementation of these goals is taking shape with a strategy containing the following major elements:

- Emphasis on family planning to reduce the rate of population growth so that the expanded resources generated by economic growth can improve the lives of all Kenyans;

- Continuation of mixed economy as Kenya’s instrument for development with increasing activity by the private sector;

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Government’s direct investment in development being guided by a programme of budget rationalization;

Development of money and financial markets;

Development of rural market centres, towns and small cities to encourage the creation of productive non-farm employment opportunities in rural areas;

Strengthening the operations of the District Development Committees, county councils; and local government Authorities so as to administer the programme for rural-urban balance;

Encouragement of informal sector (Jua Kali) and other small scale industry and services;

Increase the production of major export crops - coffee, tea and horticultural through a combination of crop intensification on existing land and modest area expansion;

Through research, extension and marketing programmes - increase the production of food crops - especially maize, wheat, and other cereals, milk and meat, to achieve food security;

Maintenance of a flexible exchange rate that ensures sufficient rewards for exports of goods in which Kenya enjoys true comparative advantages and for efficient import substitution;

Maintenance of form prices which ensure adequate returns to both small and large agricultural producers in order to promote greater food security and a more rural-urban balance;

Liberalized import policies, relying more on tariffs and less on licensing restrictions, in order to improve the efficiency and competitiveness of domestic industries;

Wage policies that contribute to price stability, encourage employment creation, and limit disparities between wages in the modern and informal sectors;

Interest rate policies that provide positive incentives to savers and promote efficient allocation of credit among borrowers;

Liberalization of price controls so that prices of goods and services are more reflective of market forces and real scarcities of finished goods as well as production costs.

The External Economic Environment

Kenya has over the years experienced a trade deficit only offset to a limited extent by surpluses on its invisible account. The current account shortfalls have over the years been met by considerable inflows of official donor assistance. With the donor assistance withheld since November 1991, and rising food imports due to unfavourable weather conditions that grossly affected agricultural output, the current account

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deficit will continue to be larger despite possible increase in tourism receipts. The halt in donor assistance has drained the foreign exchange reserve. At the end of 1991, the reserve stood figures. Meanwhile, in 1990, Kenya’s public and publicly guaranteed long-term debt stood at US$4810 million. The slow-down of world economic activity during the second half of 1990 continued into 1991, and for the Kenya the situation was even worse through 1992 because of donor assistance embargo. The short Gulf war accentuated the recessionary trends that emerged in 1990. Trading prospects of non-oil developing countries Kenya being one of them continued to suffer from low commodity prices and failure of the Uruguay Round of GATT negotiations to come to a fruitful conclusion. Success in Uruguay Round is essential if developing countries like Kenya are to expand their exports of agricultural products and textiles to the industrialized countries.

**Major trade trends in imports and exports**

Despite all the above mentioned hardships engulfing the economic performance both locally and internationally, in 1991 Kenya had an overall improved trend in trading activities. Export earnings increased by thirty-one per cent in 1991 over 1990 figures. The rise was occasioned by a sharp increase in exports of gold and other related jewellery, transport equipment, animal and vegetable oils and fats as well as inedible crude material. For the first time since 1986, all export categories in 1991 registered some increase in quantities exported. While exports recorded the highest growth rate in recent years, the rate of growth of imports fell from 13.7 per cent in 1990 to 3.9 per cent in 1991. High world prices and the depreciation of the Kenyan shilling dampened domestic demand for imported goods. Government imports were down 2.1 per cent while commercial importswere up by 4.3 per cent.

**Development in the terms of trade and commodity prices**

Kenya’s economic mainstay has over the years remained under the auspices of agricultural sector and partly the industrial sector. These two sectors are heavily dependent on imported inputs such as fuel, fertilizers, machinery and spare parts which are purchased with foreign exchange mainly generated from exports of coffee and tea and earnings from tourism. Kenya’s terms of trade have been unsteady and often unfavourable due to unpredictable commodity prices in the world market. There has been a substantial fall in the prices of coffee as opposed to the escalating prices of fuel.

Fluctuations in terms of trade will continue since, primary commodity exports are subject to the uncertainties of world demand and competing country supplies. The Kenya Government has however emphasised the need for diversification and enhancement of value added strategies to commodities in order to lessen this vulnerability in the long-run.

**Problems in external markets**

Currently Kenya’s exports consist mainly of traditional commodities i.e. coffee, tea, pyrethrum extract, sisal, wattle extract, horticultural produce and soda ash, which constitute nearly fifty per cent of total exports. When petrol and petroleum products are excluded from the total exports this percentage rises to over sixty per cent. These products, especially coffee and tea are subject to price fluctuations in the
world market, with all the associated harmful effects that are inherent in such changes. Over the last few years the prices of these commodities have been on a downward trend. Further, the existence of international quotas in the case of coffee compounded the domestic production and marketing bottlenecks and generated falls in coffee export volumes. Likewise, cement exports, once Kenya’s largest manufactured export, have decreased continuously during the 1980’s in the context of international oversupply and falling prices.

Kenyan products that are potentially internationally competitive (manufactured items) more frequently face tariff barriers. The tariff escalation in most developed and developing countries severely restricts the ability of a small country to develop its export potential for goods with higher value added.

The widespread use of specific and discriminatory measures affecting Kenyan agricultural products in developed countries also hinders the development of trade. These measures include the use of reference prices, seasonal tariffs, tariff quotas licensing for surveillance purposes and seasonal specific levies.

Some of Kenyan products also face countless protectionist barriers in developed markets with measures concerning technical standards, prices and quantity controls.

Kenya’s economy is heavily dependent on imported inputs such as fertilizers and other chemicals for the agricultural sector; raw materials for the manufacturing sector and petroleum. The prices of these inputs are dictated by the suppliers. In order to be able to import all these items it is important that Kenya generates the required foreign exchange through exports of both goods and services. Unfortunately, it is the developed countries who have a bigger say in the determination of the prices for our export products. This seriously restrains our ability to export at prices commensurate with the real value of our goods.

**General Trade Policy Objectives**

Kenya’s current trade and industrial policy objectives are articulated in the Sessional Paper No. 1 of 1986 on Economic management for Renewed Growth. In particular, it is expected that industry must be restructured to become far more productive and attain rapid growth in order to serve the following basic aims:

- to enhance the rôle of markets and the private sector;
- to reform incentives in order to encourage growth, investment, employment and exports;
- to rationalize public expenditure and restructure parastatals; and
- to reduce regulations and controls on economic activity.

These trade policies are made in the context of the country’s general development policies, the purpose of which is to influence both domestic and foreign trade to ensure a positive contribution to both economic development and growth.
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