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"A Critical Analysis of the Economic Component of Kenya's Diplomacy: 2003 – 2007"

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Declaration

This dissertation is my original work and has not been presented for a degree in any other university.

Peris Wangari Kariuki .... Date ...26/6/2009...

This dissertation has been submitted for examination with my approval as University Supervisor.

Prof. Makumi Mwagiru .... Date 02 July 2009.....................

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Dedication

This work is dedicated to my family:
MMM junior and MMM senior

Abstract

This study has investigated the economic component of Kenya's diplomacy from 2003 to 2007. Diplomacy and its economic functions have been discussed and the relationship between economics and diplomacy examined. Economic diplomacy has been defined and its dual-level character, its pillars and principal actors looked at. An assessment of Kenya's diplomacy since independence has been made by looking at the themes that characterized it. The economic component of Kenya's diplomacy from 2003 – 2007 has been studied.

The study has used primary and secondary data. Primary data has been obtained from interviews carried out at the Ministry of Tourism, Ministry of Trade, Ministry of Foreign Affairs and Investment Promotion Authority. Secondary data comes from published books, journals, government reports and articles from newspapers.

The study established that economic diplomacy was an important feature of Kenya's diplomacy in 2003 to 2007 as the country used it to pursue its goals of economic recovery. The government sought to promote its relations with other countries especially in areas of trade, investment, overseas development assistance and tourism as ways of increasing its capital flows.

List of Acronyms

ACP	-	African Caribbean and Pacific
AGOA	-	African Growth Opportunity Act
BAT	-	British America Tobacco
COMESA	-	Common Market for Eastern and Southern Africa
DFID	-	Department for International Development
EAC	-	East African Community
EU	-	European Union
EPAs	-	Economic Partnership Agreements
EPZ	-	Export Processing Zones
IGAD	-	Inter-Governmental Authority on Development
IMF	-	International Monetary Fund
KANU	-	Kenya African National Union
KEPSA	-	Kenya Private Sector Alliance
NALEP	-	National Agriculture and Livestock Extension Programme
NEPAD	-	New Partnership for Africa's Development
NGOs	-	Non-Governmental Organizations
OAU	-	Organization for African Unity
PRGF	-	Poverty Reduction and Growth Facility
PTA	-	Preferential Trade Area
SIDA	-	Swedish International Development Agency
UNCTAD	-	United Nations Conference on Trade and Development
VAT	-	Value Added Tax
WTO	-	World Trade Organization

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Chapter One

Introduction to the Study

Introduction

Economic interests of states are one of the driving forces behind diplomacy. During the Cold War, diplomatic relations between states were dominated by security concerns. After the cold war, security factors played a reduced role and economic relations assumed a greater importance. To a great extent today, national economic performance is dependent on international factors than it was some decades ago. With the advance of globalization, governments need to choose policies that shape the interaction between the domestic and the international economy. The contours of diplomacy have changed dramatically and in order to deliver results in terms of economic welfare at home, governments have to pay more attention to foreign economic relations and thus engage in economic diplomacy.

After the Cold War, Kenya's international orientation was re-focused due to traditional allies' shifting alliances thus prompting countries like Kenya to seek new strategies of consolidating their influence in world relations. One such strategy was through seeking economic ties with emerging economic powers such as China and India. Forces of globalization also altered the conduct of Kenya's foreign affairs. Globalization created new opportunities especially in the area of communication technology and at the same time, posed economic challenges such as marginalization of weak African states. This is one way in which Kenya has responded to the challenges and opportunities that followed the Cold War and those that came about as a result of globalization.

Statement of the Research Problem

This study will examine Kenya's diplomacy from 2003 - 2007 with a view to understanding economic diplomacy as a new feature of Kenya's diplomacy. It will take a general look at the development of Kenya's diplomacy since independence and consider economic factors that shaped its development. It will then address Kenya's increased focus on economic diplomacy in 2003 – 2007 and seek to find out why there was more focus on economic diplomacy during this period.

Objectives of the Research

1. To understand economic diplomacy as a feature of Kenya's diplomacy in 2003 to 2007
2. To determine the objectives of Kenya's emerging economic diplomacy.

Literature Review

This section focuses on literature relevant to this area of study. The literature reviewed is on economic diplomacy and on Kenya's diplomacy.

Economic Diplomacy

According to Woolcock, some of the debates that have been advanced on economic diplomacy are those that consider systemic approaches to explaining economic diplomacy. Systemic approaches look at how government officials such as economic diplomats respond to opportunities or constraints posed by the position of the country in the international system at any moment in time.[1] These approaches also tend to abstract from domestic factors in shaping policy.

The realist school of thought falls under the systemic approaches and it argues that national policy is determined by relative power relationships and that diplomacy is therefore about maximizing the power of one's own nation state in relation to others. Realists tend to see economic issues as constraints on the pursuit of known national interest and would expect the relative power of nation states to shape the outcomes of negotiations. A realist approach would therefore expect negotiations to be concerned about relative gains and about one party gaining more than the other in economic negotiations.[2] Odell identifies different negotiating objectives in economic diplomacy. These are value creation in which both parties to an agreement benefit and value claiming, in which one party sets out to achieve the greatest possible gains for itself. When a government pursues predominantly value claiming strategies, it is behaving as realists would expect.[3]

The liberal school of thought falls under the systemic approaches and presents a different debate from that advanced by the realists. According to Scott, eighteenth and nineteenth century liberals saw free trade as a means of achieving national wealth because each economy would be materially better off than if it had been pursuing autarky.[4] Liberal institutionalism believes that cooperation between states can be enhanced even without the presence of a hegemonic player to enforce compliance with agreements. They believe that international relations does not have to be a zero-sum

[1] N. Bayne & S. Woolcock, *The New Economic Diplomacy*, (Hampshire: Ashgate, 2003), p24

[2] Ibid

[3] J. Odell, *Negotiating the World Economy*, (London: Cornnel University Press, 2000), p28

[4] S. Burchill, *Theories of International Relations*, (New York: Palgrave, 2001) p37

game and that mutual benefits arising out of cooperation are possible because states are not always preoccupied with relative gains. Scott sees liberalism as an 'inside-out' approach to international relations because liberals favour a world in which the endogenous determines the exogenous. The domestic free market has its counterpart in the open, globalized world economy[5]

According to Scott, the globalization of the world economy coincided with the renaissance of neo-liberal thinking. Neo-liberalism assumes that all states have mutual interests and can gain from cooperation. Neo-liberal foreign policies promote free trade or open markets and national economic interests take precedence over other interests such as morality or geopolitical ones.[6] Neo-liberals think that actors with common interests try to maximize common gains and they believe in maximizing the total amount of gains for all parties involved and their economic welfare. [7] This point of view differs from that of the realists who are more interested in one party gaining more than others.

Woolcock advances another debate under the systemic approaches based on the dependency theory which sees national economic policies as dependent on the wider global capitalistic system. It argues that those states shaping the capitalist world economy can dictate the rules of the game to others. Looking at economic diplomacy, one cannot underestimate the imbalance between developed countries and developing ones. This theory argues that developing countries will remain underdeveloped because the rich core countries including former colonial powers, will always gain more from a liberal trading order which explains trade agreements which favour developed economies at the expense

[5] Ibid, p63

[6] J. Baylis, and S. Smith, *The Globalization of World Politics*, (Oxford : Oxford University Press, 2005) p 182

[7] Ibid, p193

of developing ones.[8] According to Swainson, underdevelopment can only be understood as part of the world economic system and that the centre countries were responsible for the drain of surplus from the periphery countries, which denied the latter any prospect of internal accumulation. She argues that the weaker the ties of the periphery to the center, the greater the possibility of local development.[9]

Kenya's Diplomacy

Okoth observes that foreign policy is largely domestic in origin but externally oriented in action and therefore affected by systemic variables. Systemic variables include all actions and responses by other states which spark off foreign policy responses by the state whose foreign policy is affected by them. Once confronted by external changes, the states responds through a set of foreign policy decisions or actions; hence the diplomacy of the state.[10] He notes that the variables that affect Kenya's foreign policy are the usual traditional variables associated with foreign policy the world over. Orwa informs that after independence in 1963, Kenya had to deal directly with other sovereign and independent states and therefore had to evolve its own foreign policy. He adds that the management of Kenya's foreign policy had to be conditioned by its own environmental factors. Domestically, it had to take into account the nature of its

[8] N. Bayne & S. Woolcock, *The New Economic Diplomacy*, (Hampshire: Ashgate, 2003), p25

[9] N. Swainson, *The Development of Corporate Capitalism in Kenya*, (Nairobi: Heinemann, 1980,) p13

[10] P.G. Okoth, "Historiography of Kenya's Foreign Policy" in *Africa Review of Foreign Policy*, Vol. 1, No. 1, 1999, p66

economy, the political situation and the ideology of the governing elite. The external factors had to involve geography, national interest, military and resources balance.[11]

Okoth informs that the 1960 Kenya African National Union (KANU) Constitution and the 1961 and 1963 KANU manifesto listed four aims relating to Kenya's foreign policy. These were a commitment by the nationalists to vigilantly safeguard national interest and work with other nationalist democratic movements in Africa and other continents to eradicate colonialism, imperialism, racialism and all other forms of national or racial or foreign oppression. In addition, Kenya would join with other United Nations members to promote and consolidate international peace and the peaceful settlement of international disputes. Finally, a KANU government would work with other African leaders to foster closer association of African territories and states by promoting unity of action among the people of Africa. These documents show that moderation would prevail over radicalism in guiding the new state's foreign policy.[12] Okumu confirms this by noting that during Kenya's early years of independence, Kenya adopted an extremely moderate and cautious stance in handling its external affairs. He defines this as a quiet diplomacy or a style which avoided radical aggressiveness which it could not defend or promote.[13]

Kenya's diplomacy started taking an economic perspective in its early years of independence. Orwa observes that by 1963, Kenyan leaders saw the necessity of

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[11] K. Orwa, *Balance of Power Theory and Kenya's Foreign Policy in East Africa*, Historical Association of Kenya, August 1981, p5

[12] P.G. Okoth, "Historiography of Kenya's Foreign Policy" in *Africa Review of Foreign Policy*, Vol. 1, No. 1, 1999, p72

[13] J. Okumu, Kenya's Foreign Policy in O. Aluko (ed) *The Foreign Policies of African States*, (London: Hodder & Stoughton, 1977) p 136

upholding the pre-independence status quo in East Africa by ensuring that the colonial economic policy which had encouraged foreign private investment in Kenya remained unchanged. He further notes that Kenya's policy makers realized early that the state's economic interests lay in East Africa and that there was the need to come up with a policy which could maintain the stable atmosphere which existed in East Africa during the colonial era. Such a policy would act in Kenya's favour and enable Kenya to mobilize its resources for human and economic development.[14]

Okumu adds that for Kenya to safeguard its economic interests there was need to pursue a foreign policy that ensured cordial relations with its neighbours so as to safeguard the commercial links it had with them. He notes that one reason that led Kenya to pursue the good neighbour policy was the fact that Kenya enjoyed a strategic geographical position which gave it access to the outside world through the port of Mombasa. This position made it the gateway for Uganda's, Rwanda's and Burundi's exports and imports. There was therefore need for Kenya to safeguard this position by ensuring that its land locked neighbours continued to have access to the sea through Mombasa without compromising Kenya's interests. These countries on the other hand recognized the advantages of a good neighbour policy with Kenya due to the economic benefits they gained from it.[15]

Shaw talks about Kenya's neo-colonial relations and describes Kenya as a "sub-regional power" or a "middle power" that was able to determine continental affairs in both its interest and those of its external associates. He notes that such a state is at the

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[14] K. Orwa, 'Foreign Policy' in Ochieng' W.R.(ed), *A Modern History of Kenya: 1895-1980*, (London: Evans Brothers Ltd., 1989) p221

[15] J. Okumu, Kenya's Foreign Policy in O. Aluko (ed) *The Foreign Policies of African States*, (London: Hodder & Stoughton, 1977) p 143

centre of the periphery and is able to exert dominance in a region of the Third World. He sees Kenya as such a power in East Africa, one that has been the leading diplomatic and economic centre where most corporate branches are located.[16]

Makinda sees Kenya's external economic policy of attracting foreign capital investment and dominance of the East African market in its export of manufactured goods as independent variables that affect its foreign policy. He describes Kenya's foreign policy from independence as one that was shaped by the need to attract more foreign capital, maintain commercial links with its neighbours and ensure the security of its borders.[17]

According to Okoth, Shaw and Makinda have used the dependency approach to analyze Kenya's foreign policy. He argues in their support by stating that in dependency literature, a dependent state cannot dominate in the imperialist sense since it is dominated. However, in the process of being dominated, such a state also dominates on behalf of the metropolitan power thus making it a sub-imperial or client state and not a fully fledged imperial power.[18]

Okoth discusses another debate on Kenya's economic diplomacy revolving around realism or the conservative approach and idealism or the radical approach. According to Howell, the policy of realism operated with respect to Kenya's objectives in East Africa, while internationally, Kenya was guided by idealism.[19] This is confirmed by Orwa who

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[16] T.M. Shaw, "International Stratification in Africa. Sub-Imperialism in Southern and Eastern Africa" in *Journal of Southern African Affairs,* Vol. 2. No.2. April 1977, p145-152

[17] S.M. Makinda, "From Quiet Diplomacy to Cold War Politics", in *Third World Quarterly,* Vol.5, No. 2, 1983, p145

[18] P.G. Okoth, "Historiography of Kenya's Foreign Policy" in *Africa Review of Foreign Policy,* Vol. 1, No. 1, 1999, pp75-76

[19] Ibid, p76

explains that Kenya's position as the favoured state in East Africa under the British rule meant that it enjoyed a higher level of industrialization supplying manufactured goods to its neighbours. This led Kenya to pursue a foreign policy that could maintain its relative economically advantaged position after independence, thus maximizing its economic power in relation to the other East African states.[20]

Mwagiru observes that for Kenya, looking at diplomacy through economic lenses is not new and that back in the 1980s, there were statements to the effect that Kenya's foreign policy and its diplomacy should be based on economic considerations.[21] He adds that Kenya's diplomacy in the past had paid very close attention to the West but that attention did not help Kenya reap the dividends which its potential otherwise suggested. Since Kenya's economic diplomacy with the west can be judged to have delivered much less than it promised, then it was rational for the new government to look to other alternatives.[22]

The period 2003 - 2007 saw Kenya's diplomacy focus more on economics with emphasis on reaching out to non-traditional trade and investment partners and sources of capital. Some of these new economic partners were countries of the Asia-Pacific region. Mwagiru observes that Kenya's emerging Asia-Pacific policy has some historical continuity, in that it appears to be fuelled bilaterally, rather than multilaterally. This emerging policy seems to be founded on a strategy of dealing bilaterally with each of the

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20 K. Orwa, *Balance of Power Theory and Kenya's Foreign Policy in East Africa*, Historical Association of Kenya, August 1981, p5

21 M. Mwagiru, Foreign Policy, Economic Diplomacy and Multilateral Relations: Framing the Issues in Kenya's Emerging Asia-Pacific Policy in *Africa Review of Foreign Policy*, vol. 4, No. 1 (Nairobi USIU, 2006) p 47

22 M. Mwagiru, Foreign Policy, Economic Diplomacy and Multilateral Relations: Framing the Issues in Kenya's Emerging Asia-Pacific Policy in *Africa Review of Foreign Policy*, vol. 4, No. 1 (Nairobi USIU, 2006) p 52

states of that region. On why Kenya decided to look east, he notes that Kenya has had diplomatic relations with countries of the Asia-Pacific region since independence and that there has been a need to consolidate these relationships. He adds that given the complex character of the contemporary world, all states need to look beyond their traditional trading partnerships, and cultivate those they may have neglected, but which can yield much to the national interest. He further notes that before 2003, Kenya and its diplomacy had paid close attention to the west and since this attention did not help Kenya reap economic advantages, the focus is now shifting to the east. [23]

Mwagiru also addresses the issue of mutual relations between Kenya and countries of the Asia-Pacific region. He notes that if Kenya's diplomacy looks east towards states in the region, their diplomacy must also look out towards Kenya and the region and that such mutual relationships make possible a vertical deepening of relationships between the concerned states rather than a mere horizontal widening of relationships. He defines a vertical deepening of relationships as one in which both sides of the diplomatic matrix in question appreciate the mutual gains to be gained from common engagement. It thus enhances the standing and the clout of each partner internationally.[24] This argument is similar to the earlier debate on neo-liberalism whose position is that actors with common interests try to maximize common gains and they believe in maximizing the total amount of gains for all parties involved and their economic welfare.

This study enters the above debates by focusing on Kenya's economic diplomacy from 2003 to 2007 which tends to align itself more with the neo-liberal approach to

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[23] Ibid p50-52
[24] Ibid, p52

economic diplomacy discussed earlier. This approach assumes that all states have mutual interests and can gain from cooperation with each other. Mwagiru notes that a mature economic diplomacy is one which seeks to make the relationship between two countries a give-and-take one to avoid a situation where one party becomes entirely dependent on the other. Mwagiru mentions that Kenya's intention to pursue economic diplomacy in the past failed to take off because there was more emphasis on what the development partners could give to Kenya rather than on what could be exchanged between Kenya and its partners to maximize the gains for both parties.[25] This former approach to economic diplomacy aligned itself on one hand to the dependency debate where Kenya was dependent on its development partners and on the other hand to the realist approach where the development partners ended up benefiting more from the relationship at the expense of Kenya due to conditionalities attached to development aid and the high interest rates that aid in form of loans attracts.

Justification of the Study

This study will address gaps in the literature reviewed. The literature shows that gaps exist in the academic literature on Kenya's economic diplomacy, specifically within the 2003 to 2007 period. This study will fill these gaps by showing how economic diplomacy became a feature of Kenya's diplomacy in 2003 - 2007 and what were the objectives of this economic diplomacy.

Theoretical Framework

[25] M. Mwagiru, foreign Policy, Economic Diplomacy and Multilateral Relations: framing the Issues in Kenya's Emerging Asia-Pacific Policy in *Africa Review of Foreign Policy*, vol. 4, No. 1 (Nairobi USIU, 2006) p 48

This study will be guided by the neo-liberal theoretical framework which assumes that all states have mutual interests and can gain from cooperation. Neo-liberal foreign policies promote free trade or open markets and national economic interests take precedence over other interests such as morality or geopolitical ones.[26] Neo-liberals think that actors with common interests try to maximize common gains and they believe in maximizing the total amount of gains for all parties involved and are more concerned with economic welfare and international political economy issues.[27]

Free market neo-liberals believe that governments should not fight globalization or attempt to slow it down. Neo-liberal free market advocates believe that globalization is a positive force and argue that the more global the economy, the more the manufacturers of producers in a given economy can take advantage of commodities, production processes and markets in other countries. Globalization also allows the diffusion of knowledge and technology, which increases the opportunities for economic growth worldwide.[28] Neo-liberals have great faith in the market and believe that globalization will encourage further economic integration among public and private actors in the economy.

This theoretical framework will enhance the analysis of this study since it has a positive point of view towards economic diplomacy. With its assumption that all states can reap mutual benefits from economic cooperation, it will help in understanding why economic diplomacy has become an important feature of Kenya's diplomacy and how Kenya's emerging economic diplomacy has been of benefit to Kenya's economy. This

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[26] J. Baylis, and S. Smith, *The Globalization of World Politics*, (Oxford : Oxford University Press, 2005) p 182

[27] Ibid, p193

[28] Ibid, pp 194-195

theoretical framework is in support of the fact that a mature economic diplomacy is one which seeks to make the relationship between two countries give-and-take as opposed to one where one party becomes entirely dependent on the other or one where one party tends to maximize its economic power at the expense of other parties.

Hypotheses

The study will have two hypotheses:

1. Economic diplomacy has become a feature of Kenya's diplomacy
2. Economic diplomacy has not become a feature of Kenya's diplomacy.

Methodology of the Research

This study will rely on both primary and secondary data. Primary data is that which is collected afresh and for the first time while secondary data is that which has already been collected and analyzed before. In this study, primary data will be obtained through direct communication with respondents by way of oral personal interviews. The method to be used in collecting this data will be the interview method where unstructured interviews will be conducted. The interviewer will neither follow a system of predetermined questions nor will she apply a standardized technique of recording information. Instead, she will apply some flexibility by choosing to ask or omit certain questions as the situation requires. This method will be preferred since this is more of an exploratory than a descriptive study. This method also yields more in-depth information as the interviewer has the freedom to restructure questions and probe the interviewee for details as the need arises. [29]

[29] C. Kothari, *Research Methodology: Methods and Techniques*, (New Delhi: New Age, 2004) pp 95-97

Interviewees will mainly be drawn from the Ministry of Foreign Affairs and will include political officers working under the Directorate of Political Affairs, the Economics and Trade Division and the Asia and Australasia Division. The Directorate of Political Affairs has been coordinating matters to do with Kenya's changing foreign policy orientation and will therefore be in a position to answer questions on the focus of Kenya's diplomacy from 2003 to 2007. The Asia and Australasia Division has been dealing with matters of Kenya's relations with countries of the Asia-Pacific region and will be best placed to provide information on the strengthening of Kenya's relations with countries of this region and the benefits that have accrued to Kenya through these relations.

Secondary data will be either published or unpublished data. Published data will include books, newspapers, government publications, journals, and reports of international organizations such as the World Bank. Books will be obtained from libraries such as the University of Nairobi Library and the library at the Ministry of Foreign Affairs. Government publications will be mainly those on matters of Kenya's economy such as Ministry of Planning's Economic Recovery Strategy document and Kenya's Economic Survey reports by the Kenya Bureau of Statistics. Unpublished data will come mainly from Ministry of Foreign Affairs documents such as briefs, drafts of Kenya's foreign policy, reports and the Ministry's Strategic Plan. Journals obtained from the libraries will also be used, including electronic journals accessed through the internet.

The use of primary data will enhance this study by providing detailed in-depth information on the subject under study. Also, interviewing people who have been dealing with the issues of diplomacy and economics in the Kenyan context will yield information that will be a valuable input to the study. Secondary data will enhance the study by bringing in data that has been collected and analyzed before on the particular subject under study. This will contribute to the study data that the researcher may not obtain from the use of interviews. Such data is a rich source of information which the researcher will find useful in the study. The use of electronic journals in particular will provide a wide range of data that may not be available elsewhere.

Chapter Outline

Chapter one will form an introduction of the study. Chapter two will focus on a general view of economic diplomacy. Chapter three will trace the development of Kenya's diplomacy since independence. Chapter four will look at Kenya's economic diplomacy 2003 – 2007 while chapter five will give a critical analysis of the study. Finally, chapter six will give conclusions of the study.

Chapter Two

Economic Diplomacy

Introduction

This chapter discusses economic diplomacy. It first defines diplomacy and looks at its economic function. It defines economic diplomacy and points out the ways it differs from general diplomacy. It addresses the dual character of economic diplomacy by looking at bilateral and multilateral economic diplomacy. The relationship between economics and diplomacy is discussed by looking at economics as an influencing factor of diplomacy. Trade promotion, investment promotion, technology, economic aid and country promotion which are the five pillars that provide the content of economic diplomacy are also discussed in this chapter.

Diplomacy and its Economic Functions

A classical definition is that diplomacy is the conduct of relations between states and other entities with standing in world politics by official agents and by peaceful means.[1] A more recent definition is that diplomacy is concerned with the management of relations between states and between states and other actors.[2] A definition of contemporary diplomacy states that diplomacy is the mechanism of representation, communication and negotiation through which states and other international actors

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[1] H. Bull, *The Anarchical Society: A Study of Order in World Politics*, (London: Macmillan, 1995) p156

[2] R.P. Barston, *Modern Diplomacy*, (London: Longmans, 1997) p1

conduct their business.[3] The dialogue between independent states, the machinery by which their governments conduct it, and the networks of promises, contracts, institutions and codes of conduct which develop out of it is the substance of diplomacy.[4] From a world politics perspective, diplomacy refers to a process of communications that is central to the functioning of the global system. If world politics were to be characterized simply by tensions between conflict and cooperation, diplomacy and war could be said to represent its defining institutions. If conflict and cooperation are therefore placed at two ends of a spectrum, diplomacy can be located at the cooperation end representing forms of interaction that focus on the resolution of conflict by dialogue and negotiation. From a perspective of international actors like states, diplomacy can be identified as a policy instrument. All actors have goals or ends towards which their foreign policy behaviour is directed and to achieve these goals, they need policy instruments. Diplomacy provides one such instrument that international actors use to implement their foreign policy.[5] To sum up these definitions, diplomacy can be seen as an instrument of foreign policy for the establishment and development of peaceful contacts between the governments of different states through the use of intermediaries mutually recognized by the respective parties.[6]

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[3] J. Melissen, *Innovation in Diplomatic Practice*, (London: Macmillan, 1999,) p15

[4] A. Watson, *Diplomacy: The Dialogue Between States*, (London: Routledge, 1984), p 14

[5] B. White, 'Diplomacy', in J. Baylis, and S. Smith, (ed) *The Globalization of World Politics*, (Oxford : Oxford University Press, 2005) p 318

[6] J. C. Magalhaes , *The Pure concept of Diplomacy*, (Connecticut: Greenwood Press 1988) p59

The functions of diplomacy are representation; protecting in the receiving state the interests of the sending state and of its nationals; negotiating with the government of the receiving state; ascertaining by all lawful means conditions and developments in the receiving state and reporting thereon to the government of the sending state and promoting friendly relations between the sending state and the receiving state and developing their economic and cultural relations.[7]

The economic component of diplomacy cuts across its different functions. The function of representation entails a large measure of public relations, explaining the policies of the sending state to the receiving state and the priorities of the receiving state to the sending state.[8] Such policies and priorities are often of an economic nature, for example they could be related to trade or development assistance issues. Representation as a constitutive element of diplomatic activity can be seen as the set of acts of a diplomatic agent that have representational character, that is, simply affirm the presence or the commitment of the state he or she is acting on behalf of. It entails the presence of the diplomatic agent in official functions of the receiving state, the agent speaking on behalf of his country or even committing his state vis-à-vis the authorities of the host state.[9] Protecting in the receiving state the interests of the sending state and of its nationals entails specific interests of states which have to do with the discharging of the obligations of the receiving state to the sending state.[10] Examples of interests of the

[7] L. Dembinski, *Diplomatic and Consular Law*, (Bern: Lang 1992), p13

[8] M. Mwagiru, *Diplomacy: Documents, Methods and Practice*, (IDIS, Nairobi, 2004) p56

[9] J. C. Magalhaes , *The Pure concept of Diplomacy*, (Connecticut: Greenwood Press 1988) p104

[10] Ibid, p123

sending state in the receiving state are those of an economic nature. The sending state could have firms operating in the receiving state, as well as nationals who have been employed or who are doing business there.

Negotiation is the single most important function of the diplomatic machine. It covers a variety of activities from simple consultations to detailed negotiations on specific issues. Broadly speaking, it entails contacts between states to arrange the resolution of common or reciprocal interests. In a narrower sense, it is a discussion between states with the goal of reaching an agreement about any specific problem.[11] Negotiations dealing with economic matters are often conducted between states. These could involve consultations touching on trade, investments, cooperation in technology and tourism.

Information gathering and reporting normally focuses on areas such as the state of the economy, scientific research or the likely results of an election which is then reported to the ministry of foreign affairs.[12] Information on the state of the economy of the receiving state is important as it allows the sending state to determine which areas of economic cooperation it will focus on. Promoting friendly relations between the sending and the receiving state has to do with cultivation of friendly ties on the policy level or what would be called networking.[13] When promotion is mentioned, the promotion of economic relations is underlined. This is because economic relations between states are one area in which the factor of completion and the need for a specific action by the

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[11] Ibid, p111

[12] G.R. Berridge, *Diplomacy: Theory and Practice*,(London, Prentice Hill, 1989) p41

[13] J. C. Magalhaes , *The Pure concept of Diplomacy*, (Connecticut: Greenwood Press 1988) p36

interested state within other states is felt most acutely. Promotion of economic relations entails expanding trade, investment and development assistance between countries.

Economics and Diplomacy

Within these functions of diplomacy, the economic component is becoming increasingly important for states. Trade provided the first motivation for inter-state contacts and agreements. An example is in the spread of colonialism in Asia, following Vasco da Gama's journey to India in 1498 and Europe's discovery of the riches of the East Indies. In both cases, the flag followed trade.[14] Today, there is economic interdependence between the states of the world which means that economics is becoming an important aspect of diplomacy. The decisions taken within one economy increasingly affect others whether or not those who make such decisions take into account the consequences beyond the borders of their own economy. With the increase in global trade, the repercussions of economic decisions taken by a states economic partners and competitors are too great for any government to ignore. The involvement of states in economic matters makes it difficult for them to maintain a laissez-faire attitude to economic activities in the world outside.[15]

One of the key reasons why countries enter into diplomatic relations is to promote their economic interests through the promotion of trade, investment, aid and technology transfers. At regional levels, neighbouring countries form economic blocs to enable them address economic challenges together. Regional integration provides larger regional

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[14] K. Rana, *Inside Diplomacy,* (New Delhi: Manas, 2000) p98

[15] A. Watson, *Diplomacy: The Dialogue Between States,* (London: Routledge, 1984), p 179

markets which boosts industrial production in the member countries. At the multilateral level, governments value the endorsement of international economic institutions such as the World Bank and the International Monetary Fund since such endorsement attracts foreign investments and trading partners and may be necessary to release the flow of funds. This economic component of diplomacy exists both at bilateral and multilateral level. States continue to negotiate with each other bilaterally on a state to state basis but groups of states typically negotiate multilaterally under the auspices of intergovernmental organizations.[16] The economic component is higher at the multilateral level and it operates within the context of rules of multilateral diplomacy as practiced in international organizations. International organizations can communicate their interests and deploy their resources to influence the outcome of negotiations. Some even have a greater ability to influence diplomatic process at a global level than smaller states.[17]

Another feature of the economic component of diplomacy can be seen in the increasing involvement of governments in the management of national economies and a widespread recognition of the need for international cooperation in the promotion of economic growth which are reflected in an intermeshing of external and internal policies.[18] In Kenya, the government's economic policies have always laid the basis for its international relations with other countries. The overall goal of Kenya's national economic policy is the achievement of rapid economic and social development. For example, the 1965 Sessional Paper No. 10 stated that Kenya's economic policy would be

[16] B. White, 'Diplomacy', in J. Baylis & S. Smith, (eds) *The Globalization of World Politics*, (Oxford : Oxford University Press, 2005) p 321

[17] Ibid, p328

[18] Ibid, p204

best achieved through economic non-alignment – which entailed establishing economic relations with any state regardless of its ideological orientation or political and economic systems.[19] In 2003, the governments Economic Recovery Strategy for Wealth and Employment Creation which focused on reviving the economy by identifying key policy actions necessary to spur the recovery of the economy.[20] Kenya's diplomacy during the period 2003 to 2007 was primarily meant to serve as a tool for achieving the government's priority goal of economic recovery by spearheading Kenya's engagement with the rest of the world in cooperation efforts aimed at economic development.

Even with the growing importance of the economic component of diplomacy, it is not greater than diplomacy itself and is only one aspect of it. In addition to promoting a country's economic interests, diplomacy also promotes political, cultural, environmental, educational and other diverse interests of states. The economic component of diplomacy should therefore be one of its important aspects and should not be seen as overriding the larger diplomacy.

Defining Economic Diplomacy

In order to define economic diplomacy, it would be necessary to first dispose of some misleading assumptions associated with the term diplomacy. The first is that it is conducted only by diplomats or people from ministries of foreign affairs. The second is that diplomacy applies to informal negotiation and voluntary cooperation, but not to rule-based and legal commitments like those characteristic of regimes such as the World

[19] K. Orwa, 'Independent Kenya's External Economic Relations' in R.Maxon & W.R. Ochieng, (eds), *An Economic History of Kenya*, (Nairobi: East African Educational Publishers, 1992) p390

[20] Government of Kenya, *Economic Recovery Strategy for Wealth and Employment Creation*, (Nairobi: Ministry of Planning and National Development:, 2003) pvii

Trade Organization. The third one is that diplomacy is elitist, conducted by an establishment of privileged officials while the fourth one is that diplomacy is secretive and opaque.[21]

None of these assumptions apply to economic diplomacy, whose scope and content is much broader and more purposeful than what is implied from these assumptions associated with diplomacy. Economic diplomacy goes wider than foreign ministries and diplomats. It is conducted by all government departments, agencies and ministries which have economic responsibilities and which operate internationally. It is also widely conducted at multilateral levels within international organizations. Economic diplomacy is not only the preserve of closed circle of officials within the ministry of foreign affairs. Other departments such as ministries concerned with issues of trade, finance, planning and regional cooperation are also directly involved in economic diplomacy. Also, a wide range of non state actors such as multinational corporations and non-governmental organizations actively participate in it. Economic diplomacy is neither secretive nor opaque since matters of economic cooperation between states are conducted openly and are available for public information and scrutiny.

Economic diplomacy can therefore be defined as diplomacy concerned with economic policy questions. This includes the work of delegations to conferences sponsored by bodies such as the World Trade Organization; bilateral relations between countries on issues such as trade, investment and development assistance and issues of regional integration where countries come together to form economic blocs. Economic

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[21] N. Bayne & S. Woolcock, *The New Economic Diplomacy*, (Hampshire: Ashgate, 2003) p6

diplomacy is also concerned with monitoring and reporting on economic policies and developments in foreign countries and advising the home government on how best to influence them. Countries therefore use it to further their national interests through the use of tools such as trade, investment and aid. They also participate in deliberations at multilateral bodies in order to safeguard their economic interests through for example, negotiating for better terms of trade.[22] This is directed at building national economic strength to enhance national well-being and to ensure continued freedom from dependency on other states. To promote national well-being and build economic strength, the state must concern itself with maximizing profit for its economy by gaining more advantageous terms for transactions with foreign economies. To reduce the danger of foreign coercion, it must strive to diversify the sources and destinations of its nation's imports and exports to avoid dependence on selected foreign economies that may conspire against it.[23]

Economic diplomacy employs a wide range of instruments ranging from informal negotiation and cooperation between states, through soft types of regulation such as codes of conduct, to the creation and enforcement of binding rules or regimes such as those existing in international organizations. In economic diplomacy, progress is usually made by persuasion and mutual agreement rather than by confrontation. Economic diplomacy is defined more by the issues that provide its content. These issues are trade, investment, official development assistance, money, information and their regulation.[24]

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22 J.T. Rourke, *International Politics on the World Stage*, (Connecticut: Dushkin Publishing Group, 1993) p29

23 C.W. Freeman, *Arts of Power: Statecraft and Diplomacy*, (Washington DC: USIP ,1997), pp45-46

24 J. Odell, *Negotiating the World Economy, (*London: Cornnel University Press, 2000), p11

The Dual-level Character of Economic Diplomacy

The two broad levels of economic diplomacy are the bilateral and the multilateral levels.[25] Bilateral relations between states form a major part of economic diplomacy. Bilateral economic diplomacy consists of either informal economic dealings between two states or formal bilateral trade of investment treaties. At the bilateral level, important links between states are made and states sign agreements for cooperation in numerous areas ranging from education, health, air services to sports. Bilateral links contribute to building up more complex agreements at a multilateral level.

The multilateral dimension of economic diplomacy involves an interaction between more that two states which can happen either at a regional level where neighbouring states come together under the umbrella of a regional economic group or at a higher level where intergovernmental organizations are involved. Regional bodies present the benefits such as access to larger regional markets which boosts the performance of industrial sectors and provides employment. Regional integration in developing countries is a vehicle for economic development and thus a solution to the problem of dependency. For economies that are too small to attract meaningful investment in today's globalized economy, where mass production is vital to reduce unit costs, regional integration enables individual states to benefit from economies of large scale production.[26] The multilateral level of economic diplomacy also incorporates

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[25] N. Bayne & S. Woolcock, *The New Economic Diplomacy*, (Hampshire: Ashgate, 2003) p15

[26] Economic Commission for Africa, *Assessing Regional Integration in Africa: Rationalizing Regional Economic Communities*,(Addis Ababa, 2006) p45

regimes such as the World Bank, the World Trade Organization and the International Monetary Fund whose membership is open to all countries.

Countries operate at both the bilateral and multilateral levels of economic diplomacy and may choose to use different levels which are suitable for specific policy issues. For example, bilateral agreements will suit two countries that have common interests in a specific area, such as value adding in agricultural products for export. Such countries may seek to benefit from each others experiences. Participation at a multilateral level may entail regional economic cooperation where neighbouring countries become members of an economic bloc to take advantage of benefits of regional integration such as increased market size for their products and economies of large scale production. This enables industries to make use of their excess capacity and promote employment which helps boost the performance of the industrial sector. Integration also leads to a redistribution of income in favor of low income states where some commodities can be produced cheaply, and enables development projects to be pursued jointly thus eliminating duplication of expensive resources.[27]

Pillars of Economic Diplomacy

The five pillars that provide the content of economic diplomacy are trade promotion, investment promotion, technology, economic aid and country promotion. Trade promotion is an important aspect of economic diplomacy and all countries today pay strong attention to it. International trade is the exchange across national borders of goods, services and factors, and the impact of this trade on domestic and global

[27] V.S. Makhan, *Economic Recovery in Africa: The Paradox of Financial Flows,* Palgrave, Macmillan, New York, 2002, p80

economies.[28] International trade can have a positive effect on economic growth and development since a country is able to earn revenue from selling products in whose production it has a comparative advantage over other countries. The notion that free trade which is unhindered by government restrictions is welfare enhancing is one of the most fundamental doctrines of modern economics. The general argument in favour of free trade is that it allows the expansion of the size of markets allowing the global economy to take further advantage of economies of scale and in the process enhances global efficiency in production and exchange.[29]

One aspect of trade promotion is export promotion which entails a careful analysis of a country's global exports and comparing these with its imports from other trading partners.[30] Any mismatch between a country's total exports to a particular trading partner and what it imports from it is worth investigating as this may indicate some competition from the other country, some kind of preferences enjoyed by it, non-tariff barriers that ones country's exports face, or a lack of adequate knowledge of the market by a country's exporters. In such a situation, the officer in charge of trade promotion should take into account the advise from ones own foreign trade ministry or chambers of commerce. Such a study is useful in providing insights into products that may be missing from one's country to the other country either because trade has not been initiated or because manufacturing capacities have not been created at home.

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[28] J. Markusen et al, *International Trade: Theory and Evidence*, (New York: McGraw Hill International Editions, 1995,) p4

[29] A. Charlton & J. Stiglitz, *Fair Trade for All: How Trade Can Promote Development*, (Oxford: Oxford University Press, 2005) p11

[30] K. Rana, *Bilateral Diplomacy*, (Geneva: Diplo foundation, 2002) p112-117

Another aspect of trade promotion is helping local companies to export to the home market especially when such companies approach diplomatic missions for information and assistance. The missions can also play an important role in supplying domestic export associations and exporters with market data gained from contacts with local importers, visits to trade shows and dialogue with major players like department stores. The missions can also assist domestic exporters in gaining market entry for their products in the local market.

The second pillar is investment promotion which entails the use of foreign direct investment as a mechanism for increased economic efficiency and growth stimulation. Foreign investments affect the volume of trade in host countries. When the products manufactured by a country are being imported in sizable quantities, then the country begins to look into the possibility of setting up facilities within the importing country.[31] Foreign investments also positively impact the host country's technology by introducing new technological innovations. Multinational corporations are an important aspect of international investment. These are firms that own, control or manage production facilities in several countries. In the process, the foreign firm provides its foreign affiliates with management and technological expertise as well as providing employment opportunities in the host country.[32]

Investment promotion is a priority of economic diplomacy and recipient countries compete to attract foreign direct investment into their economies while investing countries seek destination countries for their investments. Diplomatic missions are

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[31] D.A. Ball & W. McCulloch, *International Business: The Challenge of Global Competition,* (California: Irwin McGraw Hill, 1996) p39

[32] D. Salvatore, *International Economics,* (New York: John Wiley and Sons, 2001) p407

important actors in investment promotion since they have knowledge of the situation on the ground in the countries in which they are located and are able to establish intimate ground level contacts. Cooperation between a diplomatic mission and a home agency that is charged with attracting foreign investments can achieve much in the area of investment promotion. Lack of coordination between the two can lead to a mismatch in promotional efforts. Foreign investors are interested in how the conditions that the target country offers are superior to what they get elsewhere. Home agencies often use diplomatic missions to follow up on investment applications whose proposals are under examination at home by using a line of communication via the mission. The mission reaches out to the investor and offers to help in overcoming delays in clearance. This helps reduce the number of investment projects that disappear between the proposal stage and the actual implementation.[33]

Investment promotion can be done using two methods that complement one another. The first is attracting potential investors through publicity, distribution of promotional materials, organizing and participating in investor conferences and seminars and other forms of outreach. The second method involves identifying decision makers within the foreign companies being pursued, holding meetings with them, providing clarifications on issues and helping them overcome doubts that they may have. By using the two methods, a diplomatic mission can create a list of target companies that will be persuaded to invest.[34] In addition to attracting potential investors, the mission can pursue foreign companies that already have existing investments in the home country to get them

[33] K. Rana, *Inside Diplomacy*, (New Delhi: Manas, 2000) p121

[34] K. Rana, *Bilateral Diplomacy*, (Geneva: Diplo foundation, 2002) p112-117

consider other avenues. Using foreign partners to market success stories to potential investors is another way of attracting potential investors.

The third pillar is economic aid or aid diplomacy which is a key component of economic diplomacy. Aid is a regular feature of north-south economic relations and is of particular importance to the new and less developed states. They see aid as one way of taking greater account of their economic difficulties than the operations of a free market can be expected to do. [35]Developing countries short of their own funds turn to capital surplus countries to provide funds. Aid is frequently used to influence economic policies in recipient countries such as where countries place economic conditions on aid, which shapes investment policy.[36] Ministries of finance handle aid flow management in aid-receiving countries whereas ministries of foreign affairs are facilitators in the process. The political relationship between countries provides the framework for aid cooperation and the ministry of foreign affairs should keep an eye on the volume of flows by concerning itself with overall conditions that govern aid. Thus, aid issues become intertwined with broader diplomacy.[37]

The administration of foreign aid plays an important part in the work of many donor country embassies where the host country is a recipient. These missions are involved in the aid administration and coordination and are found suitable since they are in the field and thus serve as the natural vehicle for coordination on the ground.[38] Some missions have as part of their staff specialists from the domestic aid management agency

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35 A. Watson, *Diplomacy: The Dialogue Between States*, (London: Routledge, 1984), p185

36 J. Hart & J. Spero, *The Politics of International Economic Relations*, (New York: Routledge, 2000) p167

37 K. Rana, *Inside Diplomacy*, (New Delhi: Manas, 2000) p125

38 G.R. Berridge, *Diplomacy: Theory and Practice*, (London: Prentice Hill, 1995) p50

when the country concerned is a major aid provider. The usual trend, one which Kenya follows is for aid issues to be handled by specialist teams sent from home, for each round of negotiations. The embassy has the responsibility of keeping good working contacts with the aid administration agency of the donor country, and to advise the specialists at home on wider political issues, when these come up, such as the application of political conditions to aid. For example, it has been the experience of many developing countries to receive *demarches* from European ministries of economic cooperation on matters relating to human rights in the aid-receiving country. Aid therefore becomes a pressure point in the name of humanitarian and other concerns.[39]

The fourth pillar of economic diplomacy is cooperation in technology. Diplomatic missions find "technology harvesting" as a challenging activity to implement mainly because they are not end-users of technology and possess no specialist knowledge. Public or private home enterprises seeking technology inputs are the best placed to engage in this work.[40] Missions can however play a facilitator role in the process. By gaining insight into the technology achievements of the target country and understanding the needs in the home country, the diplomat, even though not a technical specialist, can get ideas which can be applied into the home country's system, to assist in evaluation of prospects for technology collaboration between the two countries. The mission can use domestic agencies, like industry associations to articulate their technology needs and use the mission as a channel for initial prospecting. Using science and technology agreements between two countries can also create opportunities for cooperation in technology.

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39 39 K. Rana, *Bilateral Diplomacy,* (Geneva: Diplo foundation, 2002) p121

40 K. Rana, *Inside Diplomacy,* (New Delhi: Manas, 2000) p120

The fifth pillar of economic diplomacy is country promotion which entails the enhancement of the image of the home country. It supports all the pillars discussed above and blends into image building as well as tourist promotion.[41] The way one's nation is perceived by others affects state-to-state links in all dimensions, including economic ones. Missions, foreign ministries and diplomats are considered responsible for the projection of a correct image of their country – even if in reality, their capacity to radically or immediately influence their country's image perception abroad may be limited. Proactive diplomacy demands that even in adverse situations, serious attention is paid to the country image. Tourist promotion is a specialized area in its own right, but is relevant to economic promotion because there is a synergy between attracting tourist visitors and offering the country as a business destination. Naturally, business goes easier when one finds the country and its people attractive. Foreign investors who invest in a country are most likely to have visited the country as tourists at some point. Countries have seen that in the process of attracting Foreign Direct Investment, it is appropriate to blend promotion of tourism and business. Good tourism experiences by visitors easily translate into good country images.

Principal Actors in Economic Diplomacy

Most classical definitions see diplomacy as the exclusive domain of ministries of foreign affairs. However, traditional state-to-state diplomacy has become fragmented and made more complex by the participation in international economic relations by a growing number of non-state actors. Alternative diplomatic actors have emerged within and

[41] K. Rana, *Bilateral Diplomacy*, (Geneva: Diplo foundation, 2002) p112-117

outside the state and often act independently from the ministry of foreign affairs. Non-state actors like business diplomats and transnational economic NGO diplomats have added to the traditional domain of economic diplomacy a supra-territorial relations component thereby partially undermining the sovereignty of states in conducting international economic relations.[42]

State Actors

State actors include government ministries, the executive and the legislative branches of government. Ministries responsible for specialized policies are increasingly involved in policy exchanges with counterparts from other countries. Such ministries, like those involved with finance, planning and trade deal with specialized issues of international economic policy and are directly in touch with ministries and departments of other countries. These specialized ministries have gradually eroded the monopoly of the ministries of foreign affairs in handling foreign economic affairs. Faced with this proliferation of diplomatic activities by other ministries, most ministries of foreign affairs have transformed their role from being solely responsible for foreign economic policy to becoming the overarching coordinator of inter-ministerial foreign economic policy formulation.[43] The executive and legislative branches of government are actors in economic diplomacy due to the role of the executive in negotiating economic agreements and the role of the legislature in the ratification of economic agreements between states.[44]

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[42] L. Yiu & R. Saner, *International Economic Diplomacy: Mutations in Post-Modern Times*, (Netherlands Institute of International Relations, 2003) p2

[43] R. Coolsaet, *The Transformation of Diplomacy at the Threshold of the New Millenium*, (Belgium: University of Ghent) 1998) pp3-5

[44] N. Bayne & S. Woolcock, *The New Economic Diplomacy*, (Hampshire: Ashgate, 2003) pp 45-46

The power of veto by the legislature will oblige the negotiators in the executive to ensure that the legislature is fully informed to the point that the latter could be said to be engaged in the negotiations themselves.

Non- State Actors

Examples of non- state participants in economic diplomacy to be discussed are trans-national enterprises, business interest groups, transnational Non-Governmental Organizations, and international organizations. Transnational enterprises are important non-state actors operating in a global scale in developed, developing and transition economies. With the increased volume of such transnational business, there is an emergence of diplomatic functions in transnational enterprises which makes them actors in economic diplomacy. Driven by the need to deal more effectively with international and national regulatory bodies, these enterprises have had to take up diplomatic functions such as lobbying governments to adopt certain economic policy positions to promote their business agenda. Transnational enterprises draw on competencies which allow them to manage both local and international stakeholders. Diplomatic competencies allow them to handle external stakeholders which ensures continuation and structural cohesion within its diverse web of headquarter and subsidiary companies.[45]

Business interest groups are actors that can impact economic policy directly via lobbying, either at company, sector association or confederation level, or indirectly via market decisions. For example, a business organization may approach its national

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[45] L. Yiu & R. Saner, *International Economic Diplomacy: Mutations in Post-Modern Times*, (Netherlands Institute of International Relations, 2003) p14

government with the argument that, if the regulatory or tax burden on its business is not eased, investment and jobs will move elsewhere. The government will have to assess whether this threat is real or simply being used to reduce cost. This type of interaction between the state and a business entity can be referred to as 'state-firm' economic diplomacy.[46] It is based on the premise that companies hold the most important keys to the creation of wealth and so the state is forced to negotiate with the business world. Business firms have therefore become important actors in economic diplomacy.

Economically oriented NGOs focus on economic policy, international economic development and global business practice. Such NGOs operate at international level as transnational NGOs and propose their own economic policy solutions at international arenas. They are also involved in implementing technical cooperation projects in developing economies, thereby complementing national governments. They also follow closely the process of treaty making at international organizations. They therefore seek ways to influence the economic agenda at international governance bodies by putting forward their policy recommendations and lobbying in the corridors of power.[47]

International organizations can be seen as actors in economic diplomacy. One of the roles of multilateral and intergovernmental organizations is defining industry standards which become mandatory for global companies. For example, according to the World Trade Organization's trade rules, price dumping is not allowed. This makes a global company's price dumping strategy illegal. Through multilateral agreements signed

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[46] C. Jonsson & R. Langhorne, *Problems and Issues in contemporary Diplomacy*, (London: Sage Publications, 2006) p9

[47] L. Yiu & R. Saner, *International Economic Diplomacy: Mutations in Post-Modern Times*, (Netherlands Institute of International Relations, 2003) p16

at the World Intellectual Property Organization, a company's patents might be protected from infringement. [48]

Conclusion

The economic component of diplomacy is an important aspect in the functions of diplomacy as states are involved more in relations of an economic nature. Economic diplomacy differs from most conservative definitions of general diplomacy which tend to constrain diplomacy to the confines of ministries of foreign affairs and to diplomats assigned to it and to present it as secretive and opaque. Economic diplomacy has a scope and content that is much broader and more purposeful than what is implied from the assumptions associated with diplomacy as it goes beyond foreign ministries to involve a wide range of government departments and non state actors. Economic diplomacy is conducted both at a bilateral and a multilateral level and states interact at the two levels when dealing with specific economic policy issues. Countries conduct their economic diplomacy through engaging in trade, investment promotion, aid disbursement, technology transfers and country and tourism promotion. These are the pillars which provide the content of economic diplomacy.

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[48] N. Bayne & S. Woolcock, *The New Economic Diplomacy*, (Hampshire: Ashgate, 2003) pp 61

Chapter Three

Kenya's Diplomacy since Independence

Introduction

This chapter provides a thematic review of Kenya's diplomacy since independence. It will address the main themes of Kenya's foreign policy which have cut across the three administrations of Presidents Kenyatta, Moi and Kibaki. These themes have been pillars of Kenya's diplomacy since independence. It will focus on the areas of continuity in Kenya's foreign policy themes throughout the three administrations. The major themes to be addressed are enhancement of cooperation with neighbouring countries; strengthening foreign economic relations; conflict management; and support for regional economic blocs. In this chapter, the terms Kenya's diplomacy and Kenya's foreign policy will be used interchangeably.

Kenya's Post Independence Diplomacy

At independence, Kenya adopted a foreign policy approach that has sometimes been perceived as a "wait and see" policy. This cautious style of diplomacy was carefully construed in a way whose result was to see no evil, hear no evil and speak no evil.[1] Kenya took up a moderate and cautious stand in handling her external affairs, maintaining a low profile on many of the burning issues in Africa and elsewhere. This style of diplomacy is described as quiet diplomacy through which Kenya was able to

[1] M.Mwagiru, 'Kenya's Diplomacy of Conflict Management in Conflict Resolution in Africa', *South African Yearbook of International Affairs*, 2006, p2

avoid radical aggressiveness which she could not promote or defend.[2] Kenya therefore sought to conduct a foreign policy of not rocking the regional or international boat. It was concerned largely with celebration of its statehood and being seen to champion widely accepted principles such as respect for the rule of international law and good neighbourliness.[3]

The 1963 KANU manifesto listed four aims relating to Kenya's foreign policy. These were a commitment by the nationalists to vigilantly safeguard national interest and work with other nationalist democratic movements in Africa and other continents to eradicate colonialism, imperialism, racialism and all other forms of national or racial or foreign oppression. In addition, Kenya would join with other United Nations members to promote and consolidate international peace and the peaceful settlement of international disputes. Finally, a KANU government would work with other African leaders to foster closer association of African territories and states by promoting unity of action among the people of Africa.[4] Kenya's post-independence diplomacy was therefore conditioned by the commitment to safeguard its national interest; to work with other nations to eradicate colonialism and imperialism; to join with the members of the United Nations to promote international peace settlement of international disputes and to work with African leaders to promote African unity. Based on these commitments, the principles of enhancing peaceful co-existence with neighbours and friendly relations with all nations; resolution

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[2] J. Okumu, Kenya's Foreign Policy in O. Aluko (ed) *The Foreign Policies of African States*, (London: Hodder & Stoughton, 1977) p 136

[3] M.Mwagiru, 'Kenya's Diplomacy of Conflict Management in Conflict Resolution in Africa', *South African Yearbook of International Affairs*, 2006, p1

[4] K. Orwa, 'Foreign Policy' in Ochieng' W.R.(ed), *A Modern History of Kenya: 1895-1980*, (London: Evans Brothers Ltd., 1989) p221

of conflicts by peaceful means and promoting economic cooperation have stood out as key themes in Kenya's foreign policy since independence.

Enhancing Cooperation with Neighbouring Countries

At independence, one of the foreign policy aims of KANU's manifesto emphasized cooperation with neighbouring countries. It was necessary for Kenya to foster cooperation with its neighbours since as a young country it needed a peaceful environment that would enable it to map out its path for national growth and development. One of the areas in which Kenya needed to cultivate good relations with its neighbours was in the matter of national boundaries. It was important for Kenya to ensure that there were no border disputes with its neighbours as this was a potential source of conflict. Kenya had territorial claims laid against it by some of its neighbours. Before the East African region was partitioned among the European powers, western Kenya up to Nakuru had been Uganda's. Most of North Eastern Province and much of the Eastern Province stood claimed by Somalia while the border with Ethiopia equally remained unclear. Kenya's territory was threatened by secessionist movements and border disputes based in Kenya's North Eastern Province and it was therefore important to have the principle of territorial integrity as part of its foreign policy.[5]

Territorial integrity is the power of a sovereign state to exercise supreme authority over all persons and things within its territory. Respect for the territorial integrity of member states of the OAU are clearly stipulated in the charter and African states have maintained that boundaries acquired at the time of independence are to remain

5 J. Okumu, Kenya's Foreign Policy in O. Aluko (ed) *The Foreign Policies of African States*, (London: Hodder & Stoughton, 1977) p 141

unchanged.[6] The African states' acceptance of the artificial boundaries drawn by the colonial powers was based on the argument that allowing changes of boundaries of a state would lead to similar demands among other contested boundaries and such demands would spread throughout Africa possibly leading to border conflicts. There was also the concern that giving in to demands of a secessionist group would trigger similar demands all over Africa.

The Kenya – Somalia border dispute involved attempts by inhabitants of the North Eastern Province to secede at the behest of the Government of Somalia, so as to become an integral part of that country. Since independence in 1963, Kenya has persistently invoked the principle of territorial integrity vis-à-vis Somalia, which since 1960 invoked the principle of self-determination for the Somalis in the Northern Frontier District of Kenya.[7] The matter was finally resolved in 1967 through the good offices of the Organization of African Unity after three years of fighting between Kenya and Somalia. Kenya's political leadership realized that caution and cooperation with other nations was the key to resolving these problems and this was achieved through treaties and agreements.[8]

The theme of cooperation with neighbouring countries was also driven by the fact that Kenya enjoyed a strategic geographical position which gave it access to the outside world through the port of Mombasa. This position made it the gateway for Uganda's,

[6] K.G. Adar, 'Merits and Demerits of Foreign Policy Options in the Horn of Africa: Kenya in Perspective', in K. Cheluget, (ed), *Kenya's Quarter Century of Diplomatic Relations, Issues, Achievements and Prospects,* (Nairobi: Government Press, 1990), p19

[7] K.G. Adar, *Kenya's Foreign Policy Behaviour Towards Somalia: 1963-1983*, (Lanham: University Press of America, 1994) p160

[8] J. Okumu, Kenya's Foreign Policy in O. Aluko (ed) *The Foreign Policies of African States*, (London: Hodder & Stoughton, 1977) p 143

Rwanda's and Burundi's exports and imports. There was therefore need for Kenya to safeguard this position by ensuring that its land locked neighbours continued to have access to the sea through Mombasa without compromising Kenya's interests. These countries on the other hand recognized the advantages of a good neighbour policy with Kenya due to the economic benefits they gained from it.[9]

This theme of cooperation with neighbouring countries recurred during the period of Moi's presidency. This theme which had been pursued under the Kenyatta presidency came to be President Moi's cornerstone policy in regard to nearby countries. Kenya stood to gain more from it because it was more economically advanced than its neighbours and wanted to safeguard its economic interests by upholding friendly relations with its neighbours so that it could remain their major trading partner. Relations between Kenya and Uganda during the early years of Moi's presidency during the Obote II period, 1980-1985, were relatively tranquil. During Museveni's presidency, relations between Kenya and Uganda were cold, and even on two occasions, the two countries had been on the verge of war, with troops amassed at the borders. Kenya's bone of contention seemed to be the government's perception that Museveni wished to dominate the politics of the region. Moi handled the challenge posed by Uganda by attempting to maintain good relations, bearing in mind that Uganda was Kenya's leading trading partner. The election of Benjamin Mkapa as president of Tanzania in 1995 was a turning point that normalized relations between the three East African countries. He was able to bring together the three East African presidents in Arusha, where the secretariat of the East African Cooperation

[9] Ibid, p145

was launched.[10] During Kibaki's presidency from 2003 to 2007, the three East African countries enjoyed good neighbourly relations under the spirit of the East African Cooperation whose success they are all committed to.

Kenya's relations with Ethiopia were cordial from independence. This peaceful coexistence was necessary because a Kenya – Ethiopia pact was needed to counter Somali aggression. When Moi came to power in 1978, he pursued the policy of cooperation with Ethiopia initiated in 1964 which was meant to deter Somalia's claim on Kenyan and Ethiopian territories. The period 1980 to 1983 was marked with conflict and cooperation between Kenya and Somalia. In 1981, the two presidents, Moi and Barre issued a joint communiqué stipulating their commitment to promote better understanding between the two countries. Barre's move was influenced by his concern over Somalia's diplomatic isolation in Africa because of its territorial claims on neighbours.[11]

Promoting Foreign Economic Cooperation

At independence, Kenya needed to safeguard its economic interests by pursuing a foreign policy that had a theme of promoting foreign economic relations. There was need to attract foreign capital into Kenya by promoting trade and investment. Kenya's diplomacy therefore started taking an economic perspective in its early years of independence. By 1963, Kenyan leaders had accepted the necessity of upholding the pre-independence status quo in East Africa. The colonial economic policy which had

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[10] J. Rono, 'Kenyan Foreign Policy' in Wright S., (ed), *African Foreign Policies,* (Boulder: Westview Press, 1999), p104-105

[11] K.G. Adar, *Kenya's Foreign Policy Behaviour Towards Somalia: 1963-1983,* (Lanham: University Press of America, 1994) p180

encouraged foreign private investment in Kenya would remain unchanged.[12] Kenya's policy makers realized early that the state's economic interests lay in East Africa and that there was the need to come up with a policy which could maintain the stable atmosphere which existed in East Africa during the colonial era. This policy would act in Kenya's favour and enable Kenya to mobilize its resources for human and economic development.

Kenya's choice for a mixed economy that encouraged foreign investments meant that it was going to maintain close ties with the western countries with Britain being Kenya's leading trading partner. The post-colonial period witnessed a phase of expansion of foreign capital in Kenya, characterized by the importation of productive capital from advanced capitalist countries. The expansion of foreign firms after 1963 was marked by the consolidation of existing enterprises and by the entry of new firms from both British and non-British sources. Several British firms invested in Kenya by means of taking over existing firms. Lonrho is an example of such a firm and between 1966 and 1973 the multinational corporation acquired about fifty subsidiaries in Kenya. Another firm was the British American Tobacco Company (BAT) which consolidated its monopoly hold over cigarette manufacturing by purchasing the Rothman's subsidiary in 1966.[13] One political measure taken to ensure inflows of foreign private capital at independence was the passing in 1964 of the Foreign Investment Protection Act by Parliament. This Act guaranteed foreign investments against nationalization and made it the responsibility of the government to compensate any firm that was nationalized. The Act also provided incentives for foreign investors such as transfer of profits and payments for patents and

[12] K. Orwa, 'Foreign Policy' in Ochieng' W.R.(ed), *A Modern History of Kenya: 1895-1980*, (London: Evans Brothers Ltd., 1989) p221

[13] N. Swainson, *The Development of Corporate Capitalism in Kenya*, (Nairobi: Heinemann, 1980,) p214

brand names. Foreign firms investing in the industrial manufacturing sector were also guaranteed monopoly in their areas of operation.[14]

Under this broad theme of economic cooperation, Kenya adapted the principle of non-alignment. Kenya saw the division of the world into two antagonistic blocs as constituting a hindrance to the development of economic welfare. Kenya rejected this world system which led to the adoption of the principle of non-alignment in international affairs. This was a principle by which Kenya asserted its right to independence and sovereignty and would enable it to be an actor in international politics without losing its identity.[15] The perceived threat of neo-colonialism which was a potential danger to political independence made this principle attractive especially due to the inability of the new states to defend their sovereignty with military force.[16] For Kenya, this principle denoted a policy designed to avoid involvement in the cold war. Non-alignment was also viewed in relation to Kenya's quest for economic development.[17]

Like any other newly independent country, rapid economic development became a priority for Kenya and to achieve this, there was need to look both East and West without an alignment to any of the political blocs. President Kenyatta pointed out that Kenya's policy of positive non-alignment was in line with her objective of economic development since Kenya had chosen to spread its commercial and trade contacts to

[14] D.K. Orwa, *'The Effect of Foreign Policy on National Development: The Case of Kenya'*, in E. Chole, W. Mlay & W.O. Oyugi, (eds), The Crisis of Development Strategies in Eastern Africa, (New Delhi: 1993) p86

[15] K. Orwa, 'Foreign Policy' in Ochieng' W.R.(ed), *A Modern History of Kenya: 1895-1980*, (London: Evans Brothers Ltd., 1989) p222

[16] K. Orwa, 'National Security: The African Perspective' in B.E. Arlinghaus (ed) *African Security Issues*, (Boulder: Colorado 1984,) 205

[17] E.M. Mogire, *From Conflictive to Cooperative Interactions: A Study of Kenya-China Relations, 1963 to 1991*, (Nairobi: IDIS Thesis, 1993) p51

countries with whom such activities had been either non-existent or negligible. Sessional Paper No. 10 of 1965, entitled "*African Socialism and its Approach to Planning to Kenya*" stated that Kenya placed no ideological barriers on trade and that trade should be conducted on the basis of economic considerations.[18] Through this policy, Kenya hoped to benefit from economic assistance from both the East and the West. In pursuance of the non-alignment principle, Kenya established diplomatic relations with countries from the socialist bloc in order to reap economic benefits from them.

There was a continuation in the theme of economic cooperation during Moi's presidency. One of the ways in which it manifested itself was through efforts made by the government to cultivate friendly relations with the west. During the early years of Moi's presidency, Kenya's relations with most western nations were cordial, cemented by the stable political situation, a healthy economy, and favourable conditions for Western multinational corporations. Kenya received economic assistance from the West, both at the multilateral level through the European Union and the World Bank, and on a bilateral level from individual countries.[19] For example in 1980, Kenya offered the United States air and naval facilities, referred to as military bases in return for economic and military aid. The United States conscious of the Soviet military buildup in Ethiopia and Somalia, provided Kenya with military hardware and Kenya reciprocated by supporting the United States publicly in the fight against communism.

[18] G.A. Barre, *The Foreign Trade of Kenya: A Perspective*, (Nairobi: TransAfrica, 1984) pp21-24

[19] J. Rono, 'Kenyan Foreign Policy' in Wright S., (ed), *African Foreign Policies*, (Boulder: Westview Press, 1999, p107

By granting military facilities to the United States, Kenya drifted into Cold War politics by joining in the efforts to contain Soviet influence and advance American interests in the Persian Gulf. It in effect, became part of the worldwide American defence network aimed to challenge Soviet expansionism.[20] Kenya's ruling elite in the 1980s was supportive of Kenya granting these facilities to the U.S. Unlike Kenya's ruling elite in the 1960s and 1970s which was committed to pursuing the principle of non-alignment, the 1980s elite was eager to have its voice heard in the world and was convinced that identifying with the United States presented liberation from traditional British ties. Another reason behind the granting of these facilities was that at the start of 1980, Kenya was experiencing serious economic problems and needed food and foreign exchange. Early that year, President Moi went to the United States to seek development aid and famine relief and the United States gave food aid to Kenya through a programme known as the Surplus Food Disposal Programme, later renamed Food for Peace.

1988 saw a change in Kenya's relations with the west as the government became hostile to changed western perceptions. This change in perceptions came about with the end of the Cold War and the rapprochement between the superpowers which culminated in the United States as the sole superpower in 1990. Western countries started looking more critically at governments in developing countries that they had previously supported.[21] They began pushing the countries to adopt principles of good governance, multiparty systems, democracy, free and fair elections, privatization and transparency and

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[20] S.M. Makinda, "From Quiet Diplomacy to Cold War Politics", in *Third World Quarterly*, Vol.5, No. 2, 1983, p312-315

[21] J. Rono, 'Kenyan Foreign Policy' in Wright S., (ed), *African Foreign Policies*, (Boulder: Westview Press, 1999), p107

accountability in the management of public resources. The west, particularly the United States became critical of Kenya with the main accusations being on the deterioration of human rights, corruption and poor governance. During Kenyatta's era, Kenya had limited confrontation with the U.S. on human rights violations since the U.S. policy makers were more preoccupied with the Cold War when security considerations were rated much higher than democracy and human rights.[22]

The government's interpretation of this situation was that the Western powers had adopted aggressive policies towards it and it acted in retaliation. An example of its retaliatory action was 1990 when Kenya severed relations with Norway following Norway's granting of political asylum to Kenyan dissidents and extensive adverse media coverage on Kenya that appeared to have the consent of the Norwegian government. This saw a stop for Norwegian development assistance to Kenya. Relations between Kenya other Scandinavian countries that were active in rural development programmes were also negatively affected. By 1990, economic aid became tied to political and economic reform programmes in recipient nations Kenya included. At the 1991 Paris Consultative Group Meeting bringing together Kenya's bilateral and multilateral donors, conditionalities were placed on all aid to Kenya and all aid suspended for six months pending economic and social reforms in the country. In a stark example of a political conditionality forcing an African government to change course, Moi accepted multi-party democracy in Kenya and promised to commit to the improvement of human rights condition in Kenya.[23]

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[22] B.R. Moegi, *Kenya- U.S. Relations: An Interplay of National Interest*, 1963 to 1991, (Nairobi: IDIS Thesis, 1993) p196
[23] Ibid, pp 198-191

The theme of foreign economic cooperation has been dominant during Kibaki's presidency. The biggest task that faced the government at the time it came to power in 2002 was Kenya's economic recovery. Kenya's diplomacy during the period 2003 to 2007 took an enhanced economic perspective and was meant to serve as a tool for achieving the government's priority goal of economic recovery by spearheading Kenya's engagement with the rest of the world in cooperation efforts aimed at economic development. The objectives of Kenya's economic diplomacy were increasing capital flows to Kenya by exploring alternative non-traditional sources of development assistance and direct foreign investment; promoting the country as a favourite destination for tourism; expanding access to traditional markets and exploring new destinations for its products in emerging non-traditional markets; accelerating economic integration and strengthening regional economic organizations to serve as competitive blocs in the emerging global markets.[24]

Diplomacy of Conflict Management

Diplomacy of conflict management uses mediation to promote foreign policy goals, especially in the neighbourhood or near abroad. Mediation is a form of third-party intervention in conflict for the purpose of abating or resolving that conflict through negotiation.[25] The diplomacy of conflict management was one of the strong pillars of Kenya's diplomacy during Moi's presidency. Kenya had been involved in conflict

[24] Ministry of Foreign Affairs, *Kenya's draft foreign policy*

[25] S. Touval and I. W. Zartman , *International Mediation in Theory and Practice*, (Boulder: Westview Press, 1985) p.7

management before when it fought the Shifta War over Somalia's claim on part of Kenya's territory. Kenya was also involved in the mediation of conflicts in Africa under the umbrella of multilateral bodies such as the Organization of African Unity and IGAD. However, Kenya's involvement with conflict management during the Moi era had a different approach since it took on the role of mediator and made conflict management an important aspect of its foreign policy. Kenya's decision to embrace conflict management as part of its foreign policy was driven by its need to safeguard its national interest in the region in a number of ways.

One such way was that Kenya was striving for a regional and sub-regional hegemony status. For a long time, Kenya's image as a moderate state in international affairs and of being relatively stable in political terms encouraged it to seek a leadership role and expand its influence in the region. Another reason was Kenya's vital economic and trade interests in the Horn of Africa, East Africa and Great Lakes region. Countries such as Uganda, Rwanda, Burundi, Sudan and the Democratic Republic of Congo provided an important market for Kenyan goods, one which Kenya always sought to preserve. By playing an active role in managing the various conflicts in the region, Kenya would best be able to secure its economic interests. That was the reason why Kenya was committed to resolving the Sudan conflict when it broke out in 1983 since it was a great threat to Kenya, which benefited economically during the reconstruction of Sudan following the 1972 Addis Ababa Peace Agreement.[26]

[26] M. Mwagiru, 'Foreign Policy and the Diplomacy of Conflict Management in Kenya: a Review and Assessment', African Review of Foreign Policy, Vol.1, No.1 1999, p50

Ideological concerns also prompted Kenya to develop a conflict management role in the region. During the 1970s, Kenya was the only capitalist country among its socialist neighbours and it was necessary for it to design a foreign policy response to this increasing socialist encirclement. The response was found in seeking a conflict management role. Managing the conflicts in the region would enable Kenya to carry some influence with incoming post-conflict regimes.[27] Another reason why Kenya's involvement in the diplomacy of conflict management was based on a personal desire for President Moi to make a name for himself in history as a peacemaker in the region. As chairman of the OAU in the early 1980s, he was involved in the management of the conflicts in Chad, the Folisario, Uganda and Mozambique. Following this involvement, he developed a liking for the limelight associated with his role and a taste for the challenges of continental conflict management. He therefore wished to leave a legacy in continental affairs and to be remembered as an elder statesman. This would be achieved by creating a *pax Nairobiana,* in which Kenya would be the venue for mediating conflicts in the region.[28]

Moi's liking for high-level conflict management diplomacy led him to build this liking into a framework within Kenya's foreign policy that would maintain the high profiles previously enjoyed at the level of continental conflict management under the OAU chairmanship This led to a paradigm shift in the thrust of Kenya's foreign policy, from the wait and see nature of the Kenyatta presidency to one that sought a higher profile in regional and continental affairs. By engaging in conflict management, Kenya

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[27] Ibid, pp50-51

[28] M.Mwagiru, 'Kenya's Diplomacy of Conflict Management in Conflict Resolution in Africa', *South African Yearbook of International Affairs*, 2006, p3

would reap double benefits: it would pursue its national interests and would also give the country and its leadership a high profile in regional and continental affairs.[29] Peacekeeping has also become an aspect of conflict management with Kenyan troops having been deployed to Iran, Iraq, Namibia, Chad and the former Yugoslavia and earning Kenya a good reputation due to their discipline.[30]

With the transition from the Moi to the Kibaki presidency in 2002, Kenya's commitment to the diplomacy of conflict management continued. The Kibaki government took over power at a time when the negotiations towards the signing of the Comprehensive Peace Agreement for the Sudan were ongoing and was committed to bringing the process to a successful end. The government retained the Special Envoy to the peace process, Gen. Sumbeiywo, and restated its commitment to seeing peace in the Sudan.[31] It was under the Kibaki government that the agreement that marked a turning point in the history of the Sudan was signed in 2004. The government understood that economic development could not be isolated from regional peace and security. Kenya's political will to bring stability in Southern Sudan was based on the reality that unrest in the region could negatively affect Kenya's economic recovery.

Support for Regional Economic Blocs

Another recurring theme of Kenya's foreign policy is the support of regional economic groupings. The concept of shared prosperity and partnership has been a central

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[29] Ibid, p2

[30] J. Rono, 'Kenyan Foreign Policy' in Wright S., (ed), *African Foreign Policies,* (Boulder: Westview Press, 1999), p106

[31] W. Waihenya, *The Mediator,* (Nairobi: Kenway Publications, 2006) p107

pillar in Kenya's foreign policy since independence. To intensify economic interactions in Eastern Africa, Kenya supported the establishment of the East African Community in 1967. The Community aimed at improving trade, communication and economic development between the three member states. It intended to strengthen ties between members through a common market, a common customs tariff and a range of public services so as to achieve balanced economic growth within the region.

In 1971, the Arusha Agreement (1971-1974) linked Kenya, Uganda and Tanzania to the European Community under the Lomé Convention, a contractual agreement of a five-year duration based on partnership, reciprocity and equal benefits between the member states of the European Community and African, Caribbean and Pacific (A.C.P.) countries in area of trade; agricultural and industrial development.[32] Again in 1980, Kenya became one of the first signatories to the treaty establishing the Preferential Trade Area for Eastern and Southern Africa whose aim was to promote increased interregional trade.[33]

Following the collapse of the East African Community in 1977 and the closure of the border between Kenya and Tanzania, Kenya lost both the Tanzanian and the Zambian market, leading to a drop in Kenya's share of intra-regional trade and began to search for new regional markets. The P.T.A. region provided new markets for Kenya, and trade with

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[32] G. Martin, 'Kenya and the European Community from Lome I to Lome IV' in K. Cheluget (ed), *Kenya's Quarter Century of Diplomatic Relations, Issues, Achievements and Prospects*, (Nairobi: Government Press, 1990) p 41

[33] D.K. Orwa, 'External Economic Relations' in W. Ochieng & R. Maxon, eds, *An Economic History of Kenya*, (Nairobi: East African Educational Publishers, 1992) p 391

P.T.A. countries represented a large percentage of its total exports.[34] COMESA was established in 1994 as the successor of the PTA and is a regional organization considered to be one of the eight building blocks of the future African Economic Community as defined in the Abuja Treaty.

From the early 1990s, Kenya championed the revival of the EAC which had collapsed in 1977 and has moved to transform it into a viable regional economic bloc. The treaty for the establishment of the East African Community outlined a comprehensive system of cooperation among the member states in trade; investment; industrial development; monetary and fiscal policy; infrastructure development; science and technology; agriculture; tourism; environment and natural resource management.[35] With a population of 120 million people, the community provides a critical trading bloc and an important platform for Kenya's economic diplomatic engagement. In 2005, Kenya's exports to the EAC accounted for more than half of the total exports to the African region.

The COMESA market comprising of 19 member states and with more than 374 million people is an important platform for Kenya's economic diplomatic engagement. Kenya's regional diplomacy has centered on strengthening this important market with one objective being enhancing the participation of Kenya's private sector in COMESA's activities. Kenya has enjoyed duty free exports to the United States market through COMESA's partnership with USA through AGOA. With access to larger markets, Kenyan firms have been able to produce more, taking advantage of the economies of

[34] G. Martin, 'Kenya and the Preferential Trade Area for Eastern and Southern Africa (PTA), K. Cheluget (ed), *Kenya's Quarter Century of Diplomatic Relations, Issues, Achievements and Prospects*, (Nairobi: Government Press, 1990) pp 33-36

[35] The Treaty for the Establishment of the East African Community, (Arusha: EAC Secretariat, 2002) p5

scale. In 2005, Kenya's exports to COMESA rose by 19.7%, accounting for 36.6% of the overall value of exports in 2005. Imports from COMESA to Kenya increased by 23.0% accounting for 27.9% of Kenya's imports from Africa.[36]

The expansion of regional diplomacy in Africa following the transformation of the Organization of African Unity to the African Union in 2002, the formation of the New Partnership for African Development (NEPAD), the revival of the East African Community, the formation of the Inter-Governmental Authority on Development (IGAD) and the Common Market for Eastern and Southern Africa (COMESA) provided important tools for Africa's collective action to resolve regional conflict and stabilize the continent as a pre-condition for socio-economic regeneration. Through these regional groupings, Kenya found an entry-point for its economic diplomacy. One of the benefits to be reaped from the membership to such sub-regional organizations is that states that belong to them are stronger and have a better bargaining power when they act as organizations than when they act individually.[37]

Continuity and Change in Kenya's Diplomacy

It is normal to expect that a regime change in a developing country like Kenya should mean a significant change in foreign policy. This assumption is based on the reasoning that continuity in foreign policy is presumed to be a consequence of a long historical tradition which Kenya having been independent for four decades has not

[36] Government of Kenya, *Economic Survey, 2006,(* Nairobi: Kenya National Bureau of Statistics, 2007) p116

[37] M. Mwagiru, Foreign Policy, Economic Diplomacy and Multilateral Relations: Framing the Issues in Kenya's Emerging Asia-Pacific Policy in *Africa Review of Foreign Policy*, vol. 4, No. 1 (Nairobi USIU, 2006) p 56

established.[38] Evidence goes contrary to this assumption since Kenya's foreign policy since independence has been characterized more by continuity than change. By 1963, the leaders of Kenya had accepted the necessity of upholding the pre-independence status quo that existed in East Africa where the colonial economic policy had fostered foreign private investment in Kenya thus maintaining Kenya's regional economic dominance.[39] This trend has continued through to 2007 with Kenya being East Africa's biggest economy. Support of regional economic blocs has also stood out as an important aspect of Kenya's diplomacy as evidenced in its role in the initial formation and later revival of the East African Community and its support for COMESA.

Promoting foreign economic relations stands out as another continuing theme in Kenya's diplomacy. The Kenyatta regime defeated the moves in the 1960s to disengage Kenya from its deep historical ties with the west and Kenya continued to depend on the west for economic support throughout the Moi era.[40] The Kenyatta administration supported the principle of non-alignment as a way to ensure Kenya benefited economically from countries from both the western and eastern bloc. Under Moi, Kenya's posture of non-alignment was basically diplomatic support for the movement's objectives while intensifying relations with the western countries.[41] Through its policy of non-alignment, Kenya established relations with countries from the eastern socialist bloc

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[38] K. Orwa, 'Continuity and Change: Kenya's Foreign Policy from Kenyatta to Moi' in Oyugi W.O. *Politics and Administration in East Africa*, (Nairobi: Conrad Adenauer Foundation, 1992) p297

[39] P.G. Okoth, "Historiography of Kenya's Foreign Policy" in *Africa Review of Foreign Policy*, Vol. 1, No. 1, 1999, p72

[40] Ibid, p 78

[41] K. Orwa, 'Continuity and Change: Kenya's Foreign Policy from Kenyatta to Moi' in Oyugi W.O. *Politics and Administration in East Africa*, (Nairobi: Conrad Adenauer Foundation, 1992) p318

specifically those from the Asia-Pacific region. These relations have continued over the years and form the basis for Kenya's look east policy. Continuity is also observed in Kenya's diplomacy of conflict management which started in the 1960s with Kenya's involvement in the Shifta War. It continued as one of the most important themes of Kenya's foreign policy during the Moi era and though its importance has diminished relatively in the Kibaki regime, Kenya continues to play an important role in managing regional conflicts in Africa.

One feature that differentiates the Kenyatta, Moi and Kibaki foreign policies has to do with presidential personal involvement in the management of foreign policy. Whereas Kenyatta maintained a low profile in the management of foreign policy hardly making any foreign visits and conducting a quiet diplomacy of not rocking the regional or international boat, Moi and Kibaki tended to be at the centre stage in its management. This is seen for example in Moi's many personal foreign visits to promote Kenya's national interests.[42] Kibaki has also continued with this trend during the 2003 to 2007 period.

Another difference is seen with respect to Kenya's relations with western countries where during Kenyatta's presidency, Kenya was a show case of a policical and economic system that the west wanted to see more in third world countries. the intensity of the Cold War did not allow western nations to take issue with Kenyatta's government over issues of corruption, abuse of human rights and the one-party system of government. Following the end of the Cold War during Moi's era, the west begun questioning Kenya's poor economic performance and issues of corruption and bad governance which led to

[42] Ibid p318

tense relations between Kenya and the west during the Moi era.[43] These relations were restored during Kibaki's first term due to Kenya's commitment to fighting corruption, promoting good governance and working towards reviving the economy.

Conclusion

The key themes that have characterized Kenya's diplomacy since independence are promoting cooperation with neighbouring countries, promoting foreign economic relations, promoting regional economic blocs and support for the diplomacy of conflict management. These themes have continued through the three different administrations of Kenyatta, Moi and Kibaki and form the pillars of Kenya's foreign policy. Kenya's foreign policy since independence is therefore characterized by aspects of continuity in terms of the themes that define it. Change is more evident in the personal style of diplomacy of the Heads of State rather than in its substance.

[43] Ibid, p321

Chapter Four

The Economic Component of Kenya's Diplomacy: 2003-2007

Introduction

Chapter three examined Kenya's diplomacy from independence by focusing on the main themes that characterize Kenya's foreign policy. This chapter will concentrate on the economic component of Kenya's diplomacy from 2003 to 2007. It addresses Kenya's economic interests which were pursued within the context of diplomacy. These economic interests formed the basis of the objectives of Kenya's economic diplomacy which the government took several policy measures to promote between 2003 and 2007. The economic interests that will be looked at are the promotion of trade, investment, tourism and overseas development assistance. Kenya's economic interest in regional economic blocs such as the East African Cooperation (EAC) and the Common Market for Eastern and Southern Africa (COMESA) and in the World Trade Organization (WTO) will be looked at in the context of trade and investment promotion.

Kenya's Economic Interests: 2003 - 2007

The greatest task of the government in 2003 to 2007 was the recovery of Kenya's economy. The newly elected government took over at a time when Kenya's economic performance was far below its potential with a growth rate of below 2.9%. This was witnessed by among other factors declining per capita income, high unemployment levels, and increased poverty.[1] Immediately after taking over, the government began the

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[1] Government of Kenya, *Economic survey*, (Nairobi: National Bureau of Statistics) 2003 p23

process of preparing an economic recovery programme, focusing on reviving the economy. The government came up with the Economic Recovery Strategy for Wealth and Employment Creation which identified key policy actions necessary to spur the recovery of the economy. Some of the actions proposed were in the areas of trade and investment promotion; tourism promotion; and promotion of overseas development assistance. Government intervention in the productive sectors of trade, investment and tourism was important for economic recovery since these sectors contribute to Kenya's GDP and provide both formal and informal sector jobs.[2]

Objectives of Kenya's Economic Diplomacy

Kenya's economic diplomacy in 2003 - 2007 was primarily meant to serve as a tool for achieving the government's priority goal of economic recovery by spearheading Kenya's engagement with the rest of the world in cooperation efforts aimed at economic development. Kenya's diplomacy during this period appeared to be departing from the largely politically motivated diplomacy to one which was in line with its economic interests.[3] The specific objectives of Kenya's economic diplomacy were increasing capital flows to Kenya by promoting trade through expanding access to traditional markets and exploring new destinations for its products; exploring opportunities for direct foreign investment in the country; promoting the country as a destination for tourism and by accelerating economic integration and strengthening regional economic

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[2] Government of Kenya, *Economic Recovery Strategy for Wealth and Employment Creation*, (Nairobi: Ministry of Planning and National Development, 2003) p 23

[3] Ministry of Foreign Affairs, *Strategic Plan*, (Ministry of Foreign Affairs: Nairobi) 2003 p12

organizations to serve as channels for the development of trade and investment.[4]

Promoting the Country as a Tourist Destination

Tourist promotion is relevant to the promotion of a country's economic interests because there is a relationship between attracting tourist visitors and offering the country as a business destination. Foreign investors who invest in a country are most likely to have visited the country as tourists at some point. Countries realize that in the process of attracting Foreign Direct Investment, it is appropriate to blend promotion of tourism and business. Good tourism experiences by visitors easily translate into good country images.

In 2003 - 2007, the Government of Kenya through the Ministry of Tourism and the Kenya Tourism Board put in place several policy measures to promote Kenya as a preferred tourist destination. The government came up with the National Tourism Policy in 2006 whose aim was to ensure that tourism retained its position as a leading contributor to Kenya's economy in terms of foreign exchange earnings and job creation. One of the main objectives of the policy was to reinforce tourism as a leading source of foreign exchange earnings. This was to be done through several ways. One was by maximizing tourist revenues by increasing tourist numbers, length of stay and expenditures. The other was by creating a conducive climate for tourism to thrive by stimulating the development and maintenance of infrastructure serving the industry. The other way was through diversification and development of tourism products.[5]

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[4] Republic of Kenya, *Draft Foreign Policy of Kenya*, (Nairobi: Ministry of Foreign Affairs, 2007)

[5] Government of Kenya, *National Tourism Policy*, Ministry of Tourism and Wildlife, (2006) pp4-8

Efforts were made towards counteracting the negative publicity on Kenya in the international scene which was adversely affecting Kenya's image abroad. More funds were allocated for marketing Kenya abroad. In 2006 and 2007, Ksh.500 million and 1 billion were allocated respectively for marketing purposes especially in tourist source markets of Europe and North America. Product diversification was another action taken where there was a departure from the traditional coast and wildlife attraction tourism to include sports tourism which included golf, mountaineering, rock climbing and white water rafting. There was also increased focus on cultural tourism which included cultural attractions such as dances and local handicrafts like beadwork, basketry and wood carving. Cultural tourism helped spread tourism benefits more widely into local communities where the handicrafts originated. As part of product diversification, new destinations away from the most frequently visited ones were included to include L. Victoria, the western region, the North Rift, Central and North Eastern provinces.[6]

Stimulating the development of infrastructure serving the tourist industry was done by giving tax incentives to investors in the hotel industry where investors were allowed to import materials to either refurbish existing hotels or build new ones at zero duty. The Panari Hotel which is an important tourist hotel was built under this arrangement. The setting up of the Kenya Tourist Police force to look into the security of the tourists was another important step in promoting Kenya as a tourist destination. Another measure taken was to have agents based in the source market countries locally contracted to promote Kenya. This has been done mainly through the Kenya Tourism Board and Kenya's diplomatic missions in source market countries such as the United States of America and European countries. The Ministry of Tourism was also involved in

[6] Interview with Mr. Richard Kamiti, Tourism Officer, Ministry of Tourism and Wildlife on 2nd July, 2008

looking for non-traditional tourist source markets such as Asia and Eastern European countries.[7] In 2006, Spain was a major new tourist source with 40,000 Spanish tourists visiting Kenya. As a result of a marketing campaign in Asia, China granted the approved destination status to Kenya which contributed to a steady increase in the number of Chinese tourists visiting Kenya between 2005 and 2007.

As a result of these efforts, tourist arrivals and consequently earnings from the sector increased considerably. For example, in 2005, 2006 and 2007, arrivals were up to 0.9 million, 1.6 million and 2 million respectively. This coincided with revenues of Ksh.56.2 billion in 2006 and 65.4 billion in 2007. This was the leading economic sector in Kenya recording the highest growth in the economy at 13%. Tourist development led to economic growth and poverty eradication through generation of foreign exchange earnings; it was a source of government revenue in form of taxes, duties and license fees; it created employment in both the formal and informal sectors; and it stimulated growth in other economic sectors such as agriculture and transport.[8]

Promoting Trade through Traditional and New Markets

In 2003 - 2007, Kenya's foreign policy was committed to improving ties with traditional trading partners and establishing trade relations with new partners. European countries remained Kenya's important economic partners with relations with the twenty five countries members of the European Union continuing to grow. It established embassies in Ireland and Spain. Ireland which is Europe's fastest growing economy and a

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[7] Interview with Mr. Richard Kamiti, Tourism Officer, Ministry of Tourism and Wildlife on 2nd July, 2008

[8] Ministry of Tourism and Wildlife, *Tourism and Wildlife*, Vol. 001, July to September 2006, p9

model of industrialization was seen to present enormous potential for bilateral relations in trade, investment and technology. Spain was an emerging source of tourist flows into Kenya with Air Madrid flying in over 40,000 Spanish tourists in 2006 as well as a potential source of foreign investments. Kenya identified Latin America and the Caribbean as a potential area to promote economic cooperation. Kenya signed the Brazil-Kenya Joint Commission and established its first embassy in this region based in Brazil in 2006.[9]

Kenya was also committed to strengthening its economic relations with countries of South East Asia namely China, Japan, Malaysia and India with which it had existing diplomatic relations. In addition, new embassies were opened in Thailand and South Korea which are countries that hold great economic potential for Kenya. Kenya's emerging economic diplomacy in the Asia Pacific region, also referred to as its 'look east policy' enabled it to forge bilateral trade, technological, development assistance and investment cooperation with emerging economic giants of this region. Kenya became particularly attractive to Asian firms looking for investment opportunities in sub-Saharan Africa. This is due to its unique geographical advantage and its position as a well developed business hub that acts as a springboard to the rest of sub-Saharan Africa for these firms.[10] Between 2003 and 2007, Kenya and China signed various bilateral agreements and memoranda of understanding on trade and technological cooperation. In 2006, the third session of the Joint Trade and Economic Commission between Kenya and China during which ways in which both countries could enhance trade to address the

[9] Interview with Mr. Joshua Mugodo, Economic Counsellor, Economic and External Trade Division, Ministry of Foreign Affairs on 4th July, 2008.

[10] A. Odhiambo, 'Asian Firms Flock Kenya in Search of Big Deals', *Business Daily,* April 1, 2008

trade imbalance which remains heavily in favour of China were addressed. The Kenya-China Investment Forum which was last convened in 2006 provided an entry point for Chinese investors to explore investment opportunities in Kenya and to meet potential Kenyan partners.[11]

In 2007, a Memorandum of Understanding between Kenya and Malaysia on the Cooperation in the Planning and Implementation of Road Projects in Kenya was signed during an official visit to Kenya by the Prime Minister of Malaysia. Through this memorandum, Kenya aimed at tapping into Malaysia's expertise in the area of infrastructure development, especially in the road sector. In an effort to strengthen economic relations between Kenya and Thailand, President Kibaki visited Thailand in 2004 and in 2005, the immediate former Prime Minister of Thailand visited Kenya. Kenya opened a diplomatic mission in Bangkok in 2006 as part of its continued efforts to increase its economic engagements with countries of the Asia-Pacific region. Kenya's national carrier, Kenya Airways in 2003 commenced direct flights to Bangkok so as to enhance economic cooperation between Kenya and Thailand in the business and tourism sectors. Under an agreement between Kenya and India establishing a joint commission on political, trade, economic, technical and cultural cooperation, a number of joint ventures have been ongoing. For example, Kenya-India partnerships in technology transfer for small and medium industries have been very strong.[12]

[11] Interview with Mr. Mohamed Gello, Political Counsellor, Asia Division, Ministry of Foreign Affairs on 9th July, 2008

[12] Interview with Mr. Mohammed Gello, Political Counsellor, Asia Division Ministry of Foreign Affairs on 9th July, 2008.

The government came up with a National Trade Policy (2003 – 2007) in recognition of the importance of international trade in the promotion of Kenya's economic interests. It recognized the need for a coherent trade policy and identified the policy environment necessary for trade to flourish. It took into account bilateral and multilateral arrangements that influenced positively the government's interventions in trade development. The policy also aimed at addressing challenges that prevented Kenya from benefiting from international trade opportunities. One of the challenges was Kenya's over reliance on the export of primary goods which are less competitive in the global market and which earned low prices making them unprofitable for Kenya.[13]

The policy addressed the issue of diversification of Kenya's export base through the development of new export products by value addition. This was meant to ensure that instead of agricultural products being exported in their purely raw form, they would undergo some degree of processing so as to give them a longer shelf life which improves their value this increasing their prices in the international market. This was to be achieved through a joint effort between government and the private sector in which programmes would be developed to add value to exports by improved packaging and developing new brands.[14]

The policy also addressed the challenge of Kenya's unfavourable balances of trade where the value of its exports was lower than that of its imports which reduced its export market share. To achieve desired export targets, there was need to explore alternative markets through actions such capacity building for institutions involved in

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[13] Government of Kenya, *National Trade Policy 2003-2007*, Ministry of Trade, 2003

[14] Interview with Ms. Lina Ochieng, Ministry of Trade on 6th August, 2008

trade negotiations and trade promotion through the establishment of free trade zones and tax incentives for trading activities.[15]

In addition to the National Trade Policy, the National Export Strategy (2003 – 2007) was another policy measure that was developed as a way of addressing Kenya's failing terms of trade. It was developed in an environment of declining exports due to non-competitiveness of local products and was meant to focus on the measures required to ensure diversification of markets. The need for an export development strategy arose from the realization that exports played an important role in economic development through employment creation, adoption of superior technologies and the economies of scale achieved from larger international markets.[16] This strategy was spelt out in the Economic Recovery Strategy for Employment and Wealth Creation and covered areas of agriculture, clothing and textiles, commercial crafts, information communication technology tourism and the transport sector. It also covered issues such as trade information, trade facilitation and export packaging.[17]

Within the World Trade Organization (WTO), Kenya's interests were to negotiate for a level playing field in international trade especially in the field of agriculture through the elimination of export subsidies that developed countries put on their agricultural products. A reduction of export subsidies would ensure that imports into Kenya did not depress the domestic agricultural prices which would have the effect of driving farmers out of business as a result of cheaper imports competing with their products. In 2007, Kenya joined other riparian states in petitioning the WTO to eliminate world wide

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[15] Government of Kenya, *National Trade Policy 2003-2007*, Ministry of Trade, 2003

[16] Interview with Ms. Lina Ochieng, Ministry of Trade on 6th August, 2008

[17] Interview with Ms. Lina Ochieng', Ministry of Trade on 6th August, 2008.

subsidies on the fishing sector to reduce over fishing within its water sources since subsidies were seen as a threat to available fishing stocks as they caused over fishing which depleted fish stocks. Kenya has played an important role as the coordinator of the African Group, a position it was able to use to push the agenda of the African continent within the organization. In 2003, Kenya led the African group in the development round of the WTO's negotiations in Cancun Mexico where developing countries were under pressure to sign a new programme of negotiations while being offered very little in return. This led to the talks ending abruptly without agreement.[18]

Kenya's increases interest in regional economic bodies such as the East African Community (EAC) and COMESA was driven by the role such bodies play in accelerating economic growth through enhanced trade. A regional integration arrangement like the EAC makes it possible for increased competition amongst firms within the trade blocs which leads to lower prices and higher sales within the already created larger market. The East African Customs Union which came into force in January 2005 was an important step in enhancing trade as it liberalized intra-EAC trade and established a common approach to external trade by having a common external tariff. The adoption of the Common External Tariff (CET) by all three EAC partner states, ending the practice of partner states charging different national tariffs, was expected to contribute significantly towards enhanced simplicity, rationalization and user-friendliness of EAC partner states' tariffs which would in effect promote trade flows.[19]

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[18] Interview with Mr. Joshua Mugodo, Economic Counsellor, Economic and External Trade Division, Ministry of Foreign Affairs on 4th July, 2008

[19] H.M. Stahl, *East African Community Customs Union: Tariff Liberalization Impacts in Perspectives*, (Arusha: East African Community, 2005) p1

Kenya recognized the importance of the East African Community in the pursuit of its trade interests and therefore supported the community's efforts that aimed at trade promotion and reaped the benefits of improved trade in East Africa. By 2005, Kenya's exports to the EAC accounted for more than half of the total exports to the African region. The benefits from regional trade that left Kenya perched at the top of other EAC partner states was in line with Kenya's national interest of improving its economy and improving its economic dominance in the region.[20]

Kenya attached great significance to the Common Market for Eastern and Southern Africa, as it provided a market for its manufactured product. Through Kenya's steadfast implementation of COMESA integration programmes, COMESA became Kenya's leading export destination. In 2005, Kenya's exports to COMESA rose by 19.7%, accounting for 36.6% of the overall value of exports in 2005. Imports from COMESA to Kenya increased by 23.0% accounting for 27.9% of Kenya's imports from Africa. This market of 19 member states and with more than 374 million people was an important platform for Kenya's economic diplomatic engagement. Kenya's regional diplomacy centered on strengthening this important market with one objective being enhancing the participation of Kenya's private sector in COMESA's activities.[21]

Investment Promotion

Between 1997 and 2002, Kenya had lost its competitiveness in attracting investment and in retaining the stock of investors. The World Investment Report of 2003

[20] Interview with Mr. Joshua Mugodo, Economic Counsellor, Economic and External Trade Division, Ministry of Foreign Affairs on 4th July, 2008
[21] Interview with Mr. Denis Mburu, Kenya High Commission, Lusaka on 7th July, 2008

named Kenya as one of the countries in Africa that lagged behind in investment flows. Kenya recorded only 50 million US dollars in foreign direct investment, the lowest compared to Uganda and Tanzania. This was attributed to among other factors, lack of clear investment policies.[22] Government policy on investment in 2003 - 2007 was therefore aimed at attracting investors and retaining those that were already in the country. It was the policy of the government of Kenya to encourage investments that boosted the economy by providing foreign exchange, employment and transfer of technology. The National Investment Conference of 2003 was held to explore investment opportunities for Kenya. It provided a platform for foreign investors to discuss with government the creation of new projects and widen the already existing ones. The broad economic reforms being pursued by the government from 2003 were also aimed primarily at strengthening investor confidence in the Kenyan economy.[23]

The government put in place a policy framework to foster the creation of a conducive environment for foreign investors. Some of the policy measures the government undertook was designing suitable incentive packages such as the Manufacturing Under Bond status. Firms operating under this status enjoyed benefits like exemption of duty and Value Added Tax on imported inputs and exemption from all taxes and levies for all goods produced. The government was also committed towards expanding the Export Promotion Zones (EPZ) which were designed to attract export oriented investments thus achieving objectives of job creation and increased exports to

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[22] World Investment Report 2003, United Nations, New York, 2003

[23] Report on the National Investment Conference, Investment Promotion Centre, 2003

boost the economy. The zones promoted export oriented industrial investment within designated zones.[24]

EPZ investors enjoyed attractive fiscal incentive coupled with simplified operating procedures and superior infrastructure. In addition, the EPZ Authority provided excellent facilitation and after care service to new and existing investors. The EPZ investors were thus assured of lower operation costs, faster set and smoother operations. All licensed EPZ companies enjoyed certain incentives which are established in the EPZ Act such as a 10-year Corporate Tax Holiday, duty and VAT Exemption on raw materials, machinery and other inputs and Stamp Duty Exemption. The government also provided guarantees to investors such as the repatriation of capital and profit under which foreign investors can repatriate after tax profits, including retained profits which have not been capitalized and the proceeds of an investment after the payment of the relevant taxes.[25]

The constitution of Kenya provided a guarantee against expropriation of private property, which may only occur for reasons of security or public interest. Other guarantees were based on Kenya's membership to the World Bank affiliated Multilateral Investment Guarantee Agency which issues guarantees against non-commercial risk to enterprises that invest in member countries. Kenya signed several bilateral agreements on investment such as agreements signed on the protection and promotion of investments

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[24] Interview with Mr. Kemboi and Ms. Caren Mutai, Department of Foreign Investment Promotion, at the Kenya Investment Authority on 10th July, 2008

[25] Interview with Mr. Kemboi and Ms. Caren Mutai, Department of Foreign Investment Promotion, at the Kenya Investment Authority on 10th July, 2008

with Libya and Switzerland in 2007. Under such agreements, both countries undertook to protect each others investment interests within their territory. [26]

The government undertook other measures such as establishing the Kenya Investment Promotion Authority in 2004 to serve as the principal contact point for companies and entrepreneurs wishing to explore investment opportunities in Kenya. The authority was instrumental in streamlining investment project application procedures and approvals as well organizing investment promotion activities both in Kenya and abroad to sensitize the international business community of the advantages of investing in Kenya. In 2007, it facilitated a delegation from Sun Eco Fuels in India which was interested in investment opportunities in renewable energy. Sun Eco Fuels was conversant with the generation of bio-fuel which would provide a cheaper alternative source of energy for Kenya in view of the high costs of fuel in Kenya. This would reduce energy bills and bring down the cost of industrial production in Kenya.

The government also undertook licensing reforms in foreign investment in 2004 when the Investment Promotion Centre Act was passed by parliament. Its purpose was to facilitate and promote investments by assisting investors in obtaining licenses and other requirements necessary to invest in Kenya. In an effort to bring about business licensing reforms, 35 of the 86 licenses required by foreign investors were eliminated which shortened the application process for new investments.[27]

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[26] Ibid.

[27] Interview with Mr. Kemboi and Ms. Caren Mutai, Department of Foreign Investment Promotion, at the Kenya Investment Authority on 10th July, 2008

The government recognized the need for a private sector led economic growth strategy and the establishment of the Kenya Private Sector Alliance (KEPSA) in 2003 was an important step in the promotion of foreign investment in Kenya. KEPSA is an umbrella body of over 200 private sector organizations with one of its objectives being encouraging foreign investment in Kenya. The government requested the United Nations Conference on Trade and Development (UNCTAD) to undertake an investment policy review for Kenya which was to help the country improve its investment policies and familiarize the government with the country's investment environment. This review was an important resource for Kenya's investment policy makers who were able to refer to its contents in coming up with investment policies for Kenya.[28]

Kenya attached great significance to the Common Market for Eastern and Southern Africa as an important body in promoting investment opportunities. COMESA's Regional Investment Agency formed in 2006 was meant to promote the regional bloc as a single destination for investment. The agency was established to promote foreign direct investment in the COMESA region by providing information on member countries' investment opportunities to potential investors. Kenya also stood to gain from COMESA's Investment Agreement for the COMESA Common Investment Area. The establishment of a Common Investment Area was particularly useful, as a national market like Kenya was too small to attract investments on its own. Regional markets attract more investments as they have more consumers than national markets and hence more purchasing power. In addition, multinationals, fund managers and other

[28] United Nations Conference on Trade and Development, *Investment Policy Review: Kenya*, (New York: United Nations, 2004) p3

investors tend to favour regional to national markets in making decisions on where to invest.[29]

Overseas Development Assistance

Like most other low income countries, Kenya relied on its development partners to assist it in accelerating economic development. Trends of foreign aid inflows for the period between 1999 and 2003 show that Kenya was experiencing low level of donor support driven by the country being off track with key development partners especially the Bretton Woods Institutions. The situation changed following Kenya's accessing the IMF's Poverty Reduction and Growth Facility (PFGF) and the holding of a successful Consultative Group (CG) meeting between the government and donors in Nairobi in November, 2003 where US$4.1 billion was pledged over 2004 – 2006. The Government of Kenya was able to restore working relations with development partners which enabled the Government to accept a more ambitious stand with respect to donor assistance. Kenya needed predictable bilateral and multilateral assistance to enable it implement the various projects intended to put the economy on a path of recovery.[30]

The endorsement of the World Bank provided an attraction for foreign investment and led to an increased flow of funds necessary for the implementation of the country's development programmes. Subsequently, there was an increase in donor commitment. In the 2004/2005 financial year, donor commitment totaled to Ksh. 45.9 million. In 2005/

[29] Interview with Mr. Denis Mburu,, Kenya High Commission, Lusaka on 7th July, 2008

[30] Kenya Poverty Reduction Strategy Paper: IMF Country Report, (IMF, 2005), p27

2006 it was Ksh. 56.8 billion, and in 2007/2008, it rose significantly to Ksh. 81.7 million. Kenya received bilateral assistance from countries like Denmark, France, Japan, China and United Arab Emirates in sectors such as water and sanitation; health sector; agriculture; road construction; and electrification. It also received multilateral assistance from agencies such as the International Development Association, the African Development Fund, and the European Investment Bank in areas such as free primary education support; institutional reform; agricultural sector support; livestock development; natural resource conservation and electricity generation.[31]

The Government initiated measures to develop and publish a Foreign Aid Policy to guide in the optimal utilization of external resources received from development partners. The policy aimed at harmonizing and simplifying donor practices in the country, as required under the Rome Declaration of February, 2003 to which Kenya is a signatory. The objective of the policy is to provide a framework for effective multilateral and bilateral negotiations and assess capacity building needs to manage external resources. It will also increase external inflows and improve disbursement rates.[32]

Conclusion

From the findings in this chapter, economics was an important component of Kenya's diplomacy in 2003 - 2007. Kenya's economic interests which were promoted through diplomatic efforts and which were aimed at Kenya's economic recovery were the promotion of trade, investments and tourism. Kenya's economic diplomacy during the period was primarily meant to serve as a tool for achieving the government's priority goal

[31] Ministry of Finance, External Resources Department Report, 2007
[32] Kenya Poverty Reduction Strategy Paper: IMF Country Report, (IMF, 2005) p86

of economic recovery by spearheading Kenya's engagement with the rest of the world in these areas of economic interest. Through the areas of trade, investment and tourism promotion, Kenya was able to engage other countries diplomatically in its efforts of making recovery to the economy. Kenya came up with a number of policies aimed at promoting trade, investment and tourism. These policies were an important aspect of Kenya's economic recovery strategy and also of its new foreign policy orientation which focused on economic cooperation with other countries.

Chapter Five

A Critical Analysis of the Economic Component of Kenya's Diplomacy: 2003-2007

Introduction

This chapter provides a critical analysis of the study. It outlines the main issues in each chapter and critically analyses them. There are a number of critical issues that have emerged in this study. The main issue that emerges from Chapter Two is the relationship between economics and diplomacy and the role of economics as a driving force for diplomacy. The main issue from Chapter Three is the role of economic factors in the development of Kenya's diplomacy. The main issue that emerges in Chapter Four is the role of economic diplomacy in Kenya's economic interests in 2003 to 2007.

The Relationship Between Economics and Diplomacy

There is a close link between diplomacy and economics since the pursuit of economic interests is one of the main objectives of a country's diplomatic relations with other countries either at bilateral or multilateral levels.[1] Bilaterally, states negotiate on a state to state basis with the aim of coming up with mutually beneficial economic arrangements in areas such as trade and investment.[2] A landlocked country will for example enter into negotiations with its neighbour to request for permission to use its port to import and export its goods. Countries that trade with each other are able to acquire

[1] See chapter 2

[2] K. Rana, *Inside Diplomacy,* (New Delhi: Manas, 2000) p23

goods that they do not have but which other countries have and earn revenue through trade. By investing abroad and opening up for other countries to invest in their territories, countries benefit by tapping larger markets for their products and also by opening up their own markets to other countries' products which earns them revenue as well as provide employment opportunities for the local labour force. At the multilateral level, neighbouring countries form economic blocs to enable them reap the benefits of economic integration such as larger regional markets which boost industrial production in member countries.

On a more global level, states form inter-governmental organizations that work towards regulating issues like trade and intellectual property rights with an aim of promoting fair play amongst participating countries. The endorsement of multilateral economic institutions such as the World Bank provides an attraction for foreign investment and may be necessary to release the flow of funds necessary for a country's development.[3] Most less developed countries that do not have enough funds to sustain themselves turn to capital surplus countries to provide development aid. All these are ways through which countries promote their economic interests diplomatically.

The relationship between diplomacy and economics is therefore an important aspect for a country's well being. A country with economics as a driving force for its diplomacy benefits from enhanced economic growth through increased economic cooperation with other countries in trade, investment, development assistance and tourism. Such value creation activities are a means to achieving national wealth since the countries involved end up being better off than if they were acting in isolation or

[3] N. Bayne & S. Woolcock, *The New Economic Diplomacy*, (Hampshire: Ashgate, 2003) p6

pursuing value claiming interests such as autarky.[4] Value creation is a negotiation objective in economic diplomacy in which both parties to an agreement benefit as opposed to value claiming where one party seeks to achieve the greatest possible gain for itself.[5]

Cooperation between states in economic matters also helps in maintaining peaceful relations and preventing conflict as countries that pursue their economic interests together are less likely to go to war. The existence of peaceful relations between countries is an important pre-requisite for the success of their economic cooperation as conflict negatively affects trade, investment and tourism. Countries that engage in economic diplomacy therefore build their economic strength so as to enhance their national well being and ensure continued freedom from dependency on other states and also promote peaceful relations with each other.

Internal economic policies of governments lay the basis for their international economic relations.[6] A government whose priority is enhancing its capital flows through external trade and investment promotion will promote its trade and investments relations with other countries so as to reap maximum economic benefits through such relations. Kenya's priority of economic recovery during the 2003 to 2007 period and its use of economic diplomacy to achieve its goals shows that economics was an important aspect of its diplomatic relations. During this period, Kenya worked towards strengthening its relations with traditional trading and investment partners. It also sought to establish economic partnerships with new partners who had better terms of doing business, such as

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[4] See chapter 1

[5] J. Odell, Negotiationg the World Economy, (London: Cornell University Press) p28

[6] See chapter 2

those offering low interest rate loans, and those ready to invest in critical economic sectors like infrastructure development. China become an attractive option for Kenya especially in road construction due to lower project costs, shorter time taken to complete projects and lack of conditionalities which are a common factor in development projects by western countries.[7]

In spite of the benefits discussed above, there are challenges that countries face as they conduct economic diplomacy. When countries are at different levels of development such as when one is developed and the other non-developed, there is the risk of one party not being able to obtain maximum economic benefits from an economic cooperation arrangement.[8] This is common in trade arrangements where the balance of trade is in favour of one country and not in favour of the other, especially trade between developed and less developed countries.[9] For example, 2003 to 2007 figures for trade between Kenya and its developed trade partners such as the United Kingdom, Germany, Japan and China show that the balance of trade was in favour of these countries since the value of Kenya's imports from these countries in Kenya shillings was considerably high as compared to that of exports. This asymmetrical nature of trade leads to the opening up of markets in the developing world to goods from advanced industrial countries without full compensation which makes them to be disadvantaged under such arrangements.[10]

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[7] See chapter 4

[8] O. Kabbaj, *The Challenge of Africa's Development*, (New York: Oxford University Press, 2003), p87

[9] See chapter 1

[10] J.E. Stiglitz, *Making Globalization Work*, W.W. Norton & Co., New York, 2007, p26

Kenya finds itself in such a situation in its trade relations with partners from developed countries since it is an exporter of agricultural commodities and an importer of manufactured industrial goods. The demand for raw agricultural commodities in international markets is on the decline since industrialized countries are able to come up with synthetic materials to take their place.[11] In addition, strict compliance requirements placed by most importing countries tend to disqualify raw materials from developing countries. Such requirements may be based on issues such as conditions under which crops are grown such as types of pesticides used. Prices of such raw materials also tend to fluctuate in the international market as their supply is largely dependent on unpredictable weather conditions in producing countries. Most of the imports are manufactured goods such as heavy agricultural machinery which cannot be produced competitively locally. The returns on agricultural exports are low relative to what Kenya is expected to pay for its imports. This makes the balance of trade to be largely in favor of its trading partners from developed countries who earn more from their goods as opposed to developing countries whose earnings are paltry[12]

Another challenge is where developed countries by virtue of their influence during trade negotiations adopt positions that favour them but are unfavourable to their developing partners.[13] For example, Economic Partnership Agreements (EPAs) between African Pacific and Caribbean (ACP) countries and the European Union (EU) have been criticized for being skewed in favour of EU countries which threatens to leave ACP

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[11] Ibid

[12] A. Charlton & J. Stiglitz, *Fair Trade for All: How Trade Can Promote Development,* (Oxford: Oxford University Press, 2005) p11

[13] V.S. Makhan, *Economic Recovery in Africa: The Paradox of Financial Flows,* Palgrave, Macmillan, New York, 2002, p77

countries worse off than they were before. Most ACP countries sign the EPAs out of fear that failure to sign will lead to the EU imposing heavy tariffs on their goods which will be disruptive to trade. This leads to a situation where countries sign agreements not because they will be of benefit to them but because of the fear of economic repercussions of threats imposed on them by their developed partners. Such agreements end up not being of much use in uplifting the economies of less developed countries.[14]

ACP countries that have signed the EPAs are expected to remove duties on certain imports from European countries. It is feared that this will prevent manufacturing companies in ACP countries from emerging as the cheaper imports compete with locally produced goods. This is the case in Kenya where civil rights groups have argued that EPAs will provide an opening for the EU to flood the local market with cheap imports and displace local producers, especially in the manufacturing sector. There is a concern that unless the EPAs are reviewed and reformed, the impact in the ACP economies will be job losses as governments suffer loss of revenue and cuts in public services as they are forced to open up their markets to the EU before they are ready.[15]

Another problem arises where a country overemphasizes on development assistance as a component of its economic diplomacy. Most less developed countries short of their own funds turn to capital surplus countries to provide aid. Aid comes with its shortcomings such as where it is frequently used to influence economic policies in recipient countries as in cases where donor countries place economic conditions on aid.[16]

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[14] Kathuri, B., ' Delay in Signing EPA Trade Agreement May Hurt Exporters' in *East African Standard,* December 9, 2008

[15] African Business, No. 339, *Why Africa Rejected EU Trade Deals,* February 2008, p43

[16] D. Jones, *Aid and Development in Southern Africa,* Groom Held, London, 1972, p48

For example, developing countries receive *demarches* from donor countries on matters relating to human rights, democracy and good governance. These countries often find themselves hard pressed to adapt political principles that may not necessarily work for them in order to receive the so much needed aid[17]. Aid that is unregulated and not used for its intended purposes can be attributed to the high debt levels in many less developed countries. Debt servicing burdens the budgets of governments, diverts investment resources away from key social and economic sectors and weakens the prospect for economic growth and poverty reduction.[18] Poor trade performance contributes to worsening the debt problem. Unfavorable terms of trade create deficits on balance of payments as countries spend more than what they earn to pay for imports. To address this problem, countries are forced to borrow from abroad to bridge the deficit which leads to further accumulation of debt.[19] Aid with strings attached where countries are forced to buy manufactured inputs from donor nations instead of looking for cheaper sources aggravates the problem since much of the purchases are done on credit which plunges the countries deeper into debt.[20]

The economic component of diplomacy cannot be overlooked as it forms the core of relations between countries. It is important in furthering their economic interests as it helps them increase their capital flows through trade, investment and development assistance. National economic performance is largely dependent on international factors and states therefore pay more attention to foreign economic relations as a way of

[17] K. Rana, *Bilateral Diplomacy,* (Geneva: Diplo foundation, 2002) p29

[18] O. Kabbaj, *The Challenge of Africa's Development*, Oxford University Press, New York, 2003, p98

[19] Africa Development Bank, *Africa Development Report 2004,* Oxford University Press, 2004, p 117

[20] See chapter 3

improving economic performance.[21] Apart from the economic element, there are other important components of diplomacy. Countries establish diplomatic relations to promote other interests such as environmental, cultural, educational, and security interests. These interests are also important and are in one way or the other related to the success of economic diplomacy. For example, countries may be involved in environmental diplomacy though negotiating an agreement aimed at preserving a shared resource such as a Lake which is of economic importance to them. Cultural diplomacy through the use of music, dance, cuisine and fashion could be important in helping a country penetrate foreign markets through promoting its goods to other countries.[22]

The Role of Economic Factors in the Development of Kenya's Diplomacy

The second key issue that has emerged in this study is the importance of economic factors in the development of Kenya's diplomacy since independence.[23] Economic factors were an important aspect of Kenya's early diplomacy since Kenya's political diplomatic relations were intertwined with its economic relations.[24] The economic gains of Kenya's cooperation with foreign countries through trade, investment and development assistance were significant for the growth of the country. Kenya therefore pursued foreign relations aimed at increasing trade with other countries, attracting foreign investment and seeking donors to provide development assistance as these would enhance economic growth and development. Kenya undertook measures

[21] N. Bayne & S. Woolcock, *The New Economic Diplomacy*, (Hampshire: Ashgate, 2003) p32

[22] See Chapter 2

[23] See chapter 1

[24] D.K. Orwa, 'External Economic Relations" in R.M. Maxon & W.R. Ochieng, (eds), *An Economic History of Kenya*, (Nairobi: East African Educational Publishers) p390

necessary for the implementation of its external economic policies by establishing diplomatic relations with countries that had something to offer to Kenya in terms of trade, investment, and development assistance.[25] Kenya's early diplomatic partners such as the United States, West Germany, Canada, France, Japan, the Soviet Union and the People's Republic of China became key trade and investment partners and important providers of development assistance to Kenya. Being a young nation with no established economic system, Kenya had to rely on external financing to earn revenue to help put its economy on into operation.[26]

Kenya's pursuit of the non-alignment principle was economically beneficial as it was in line with its objective of economic development. Kenya chose to spread its commercial and trade contacts to other countries regardless of their ideological inclinations and wanted trade to be conducted on the basis of economic considerations.[27] Through this policy, Kenya benefited from economic assistance from both the East and the West.[28] Kenya's quest for the economic gains of diplomacy pulled it into the politics of the Cold War period when it became difficult to be completely non-aligned as it was attracted to the benefits of aligning itself with the west. Kenya's patterns of trade and aid suggested relatively strong ties with the west as compared to the countries of the eastern bloc since there were more economic benefits of being aligned to the West.[29]

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[25] See chapter 3
[26] D.K. Orwa, "Kenya's Foreign Relations and International Cooperation', in Ministry of Information and Broadcasting, *Kenya Handbook*, (Nairobi: 1989) p308
[27] G.A. Barre, *The Foreign Trade of Kenya: A Perspective*, (Nairobi: TransAfrica, 1984) pp21-24
[28] J, Okumu, 'Kenya's Foreign Policy', in O. Aluko (ed) *The Foreign Policies of African States*, (London: Hodder & Stoughton, 1977) p24
[29] See chapter 3

Another economic factor that helped shape Kenya's diplomacy was its membership to Regional Economic Communities (RECs). Kenya supported the establishment of the East African Community in 1967. In 1980, it became one of the first signatories to the treaty establishing the Preferential Trade Area for Eastern and Southern Africa (PTA) whose aim was to promote increased interregional trade.[30] Kenya's membership in Regional Economic Communities such as the East African Community and the Preferential Trade Area which was later to become COMESA provided an entry point for its regional economic diplomacy since through such blocs, it was able to cooperate with other countries to enhance intra-regional trade as well as cooperation in areas such as agriculture, industry and communications. Through its membership to these blocs, Kenya was able to enhance its trade and investment capacity by enjoying access to larger markets and increasing its potential as an investment destination.[31]

Regional integration in developing countries whose economies are normally too small to attract meaningful investment is a vehicle for economic development.[32] For example, on average, the size of the East African countries is about 30 million people, each with a GDP of about 10 billion US dollars. Such economies alone are too small. Thus, East Africa's economic growth can only be meaningful if greater economic integration is achieved, as this enables individual states to benefit from economies of large scale production. This allows industries to make use of their excess capacity and

[30] G. Martin, 'Kenya and the Preferential Trade Area for Eastern and Southern Africa (PTA), K. Cheluget (ed), *Kenya's Quarter Century of Diplomatic Relations, Issues, Achievements and Prospects*, (Nairobi: Government Press, 1990) pp 33

[31] See chapter 4

[32] Economic Commission for Africa, *Assessing Regional Integration in Africa: Rationalizing Regional Economic Communities*, Addis Ababa, 2006, p18

promote employment which helps boost the performance of Africa's industrial sector.[33] Integration also leads to a redistribution of income in favor of low income states where some commodities can be produced cheaply.[34] It also enables development projects to be pursued jointly between countries, which eliminates duplication of expensive resources.[35]

One of the challenges of economic integration has to do with the conflict between national interests and the collective interest of the organization. The success of any economic bloc requires that members give up their individual national interests for the sake of the common good of the grouping. Some countries are reluctant to do so as they consider it synonymous to giving up their sovereignty. For example, even with the gains expected out of monetary integration such as increased trade due to elimination of exchange rate volatility, there are concerns that a monetary union implies shared monetary and fiscal policies, a common pool of foreign exchange reserves and a common central bank. Some countries feel that they are subordinating their policy decision making to sub-regional institutions which threatens their autonomy. This leads to a situation where important collective decisions may not be made on a timely basis as one country feels that its national interests are at risk. This is the case with Tanzania which fears that membership to a common market will distort its market as regional powerhouses will be likely to distort the trade in the region. Tanzania's failure to commit itself has led to delays in the formation of the regional common market.

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[33] V.S. Makhan, *Economic Recovery in Africa: The Paradox of Financial Flows*, Palgrave, Macmillan, New York, 2002, p97

[34] See chapter 2

[35] Economic Commission for Africa, *Assessing Regional Integration in Africa: Rationalizing Regional Economic Communities*, Addis Ababa, 2006, p30

For Kenya, trying to maintain a position of economic dominance within the East African Community has been associated with suspicions by the other member states who perceive Kenya as being too ambitious and wanting to reap the benefits of the community all for itself at their expense. In as much as regional integration aims at bringing equitable economic benefits for all member states, the case of East Africa reveals a tussle between community and national interests, which is a major challenge to the success of integration efforts. [36] Kenyan stakeholders have complained of an unfair business environment emerging from Tanzania and Uganda's pursuit of redistribution and balanced development while Kenya is keener on free trade and exploiting the enlarged regional market. Kenya's goods are still taxed even with the customs union arrangements in place, while it allows into Uganda and Tanzania raw materials and intermediate goods duty free. This jeopardizes Kenya's chances of maintaining a dominant economic position in Eastern Africa, a position it always worked hard to maintain. The benefit from regional trade that places Kenya ahead of other partner states helps it pursue its national interest of improving its economy and maintaining dominance in the region. This goes against the community's interest of having the region operate as one trade bloc where all members are able to reap economic benefits in an equitable manner.[37]

The problem of imbalanced gains where Kenya stands to gain more due to its relatively developed position has been addressed under the East African Community by the principle of asymmetry. Under this arrangement, Kenya sacrifices to some extent, its profit interest by allowing Uganda and Tanzania to have zero tariffs with it and with each

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[36] D.K. Orwa, 'External Economic Relations' in W. Ochieng & R. Maxon, eds, *An Economic History of Kenya*, (Nairobi: East African Educational Publishers, 1992) p 91
[37] H. Kyengo, *Bargaining National Interest in the East African Community: The Case of Kenya*, (Nairobi: IDIS M.A. Project, 2006) pp70-72

other, while some Kenyan products still attract duty in Tanzania and Uganda. This has caused discontent among some Kenyan stakeholders who are against this preferential treatment and feel that all states should operate on a level playing field.[38] This brings in the contentious issue that involves drawing a balance between shared prosperity and national interest in an economic bloc. From the case of Kenya, it appears that the country that enters into the collective arrangement higher placed economically ends up losing as it is required in the spirit of shared prosperity to give the other members a chance to catch up. The question is how much time a country that is lagging behind in an economic bloc should be given to catch up thus becomes a debatable issue.

Another challenge in the success of integration efforts lies in the condition of the infrastructure in member countries. There is need for partner states to harmonize their standards, regulations and practices and develop and integrate roads, railways, airports and ports as a means of furthering the physical cohesion of the countries.[39] When economies of member countries are characterized by a poor state of infrastructure, then this negatively affects the integration process since road and rail networks are important in the movement of traffic and when these are in a dilapidated state, the transportation process becomes expensive and negatively affects trade and investment. This similarly applies to services that facilitate trade and investment such as banking and insurance. The East African Community region faces a great challenge regarding its current state of infrastructure especially roads, railways, energy and inland waterways due to lack of

[38] Ibid, p73

[39] O. Kabbaj, *The Challenge of Africa's Development*, Oxford University Press, New York, 2003, p78

coordinated infrastructure development programmes and resources to implement infrastructure development and harmonization. [40]

The need to attract foreign investment due to its role in increasing the flow of foreign private capital into the country influenced Kenya's diplomacy over the years. Foreign investments are important for an economy as they provide a boost for the manufacturing sector which expands the export base of a country. They also introduce new production technologies and management skills and provide jobs. Attracting foreign investors through the use of legislative measures was one measure taken when the Parliament passed the Foreign Investment Protection Act in 1964. This Act guaranteed foreign investments against nationalization and made it the responsibility of the government to compensate any firm that was nationalized.[41] The Act also provided incentives for foreign investors such as transfer of profits and payments for patents and brand names. Foreign firms investing in the industrial manufacturing sector were also guaranteed monopoly in their areas of operation.[42] These policy and legislative measures meant to attract foreign investment played a role in the development of Kenya's economy as they were instrumental in attracting and retaining investors who could have otherwise gone into neighbouring countries.

The challenges that face the continued presence of foreign investments are lack of factors that attract investors such as credit availability, incentives to investors, a good state of infrastructure and macroeconomic stability. Infrastructure can deliver major

[40] O. Kabbaj, *The Challenge of Africa's Development*, Oxford University Press, New York, 2003, p78

[41] See chapter 3

[42] D.K. Orwa, '*The Effect of Foreign Policy on National Development: The Case of Kenya*', in E. Chole, W. Mlay & W.O. Oyugi, (eds), The Crisis of Development Strategies in Eastern Africa, (New Delhi: 1993) p86

benefits to economic growth, and is particularly an attraction for investors as it raises productivity and lowers production costs. The poor state of infrastructure in many developing countries, especially public utilities such as power, telecommunications, piped water supply, public works such as roads and railways has not been conducive for investments. Though countries come up with legislative incentives to attract and retain investors, such measures end up being costly to the host country since incentives normally mean forfeited returns. They cannot therefore be given without a limit as it would lead to loss of revenue for the country.

Kenya's need for external financial assistance is another economic factor that influenced the development of Kenya's diplomacy.[43] Together with enhancing trade and investment ties with foreign countries, Kenya relied on development assistance since it could not finance all its financial needs. For example, in the late 80s, development assistance contributed to Kenya's impressive industrial performance when its industrial sector contributed for more than 13% of its Gross National Product and about 11% of all wage employment in the country.[44] Aid which is given only when very necessary and is properly implemented can therefore go a long way in addressing a country's developmental needs. Systematic implementation of programmes funded by foreign aid provides services such as health care, education, water, housing and roads. This puts a country in a better position to attract private capital flows since they come hand in hand with investment in physical infrastructure and institutional capacity building.[45]

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[43] See chapter 2

[44] D.K. Orwa, 'External Economic Relations' in R.M. Maxon & W.R. Ochieng, *An Economic History of Kenya*, (Nairobi: East African Educational Publishers, 1992), p402

[45] V.S. Makhan, *Economic Recovery in Africa: The Paradox of Financial Flows*, Palgrave, Macmillan, New York, 2002, p62

One of the problems with aid is that it permits recipient governments to postpone unpleasant decisions and reforms which are necessary for real development. Aid money is often seen as an easy way out as compared to the harder option of subjecting economies to stringent reforms which though they may take time to work, may be for the ultimate good of the economy.[46] Aid also distorts economic development by encouraging recipients to adopt inappropriate technologies, practices and organizational structures. This happens when donors tie their aid with certain conditionalities which may be to the detriment of the recipients. For example, in 1991, conditionalities were placed on aid to Kenya and all aid suspended pending economic and social reforms in the country. In a stark example of a political conditionality forcing an African government to change course, President Moi accepted multi-party democracy in Kenya and promised to commit to the improvement of human rights condition in Kenya.[47] Donors have often used aid as a secret weapon to create compliant governments in power and are therefore able to have an influence on important decisions in these countries. This presents a risky situation where politicians in recipient countries have used aid to further their own interests leading to corruption.[48]

Closely related to aid is the foreign debt problem. Debt servicing burdens the budgets of governments, diverts investment resources away from key social and

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[46] See chapter 3

[47] B.R. Moegi, Kenya- U.S. Relations: An Interplay of National Interest, 1963 to 1991, (Nairobi: IDIS Thesis, 1993) pp 190-191

[48] D. Jones, *Aid and Development in Southern Africa*, Groom Held, London, 1972, p48

economic sectors and weakens the prospect for economic growth and poverty reduction.[49] For example, World Bank data for 2000 indicate that Kenya's gross domestic product was $10.4 billion, and that it had an external debt of $6.34 billion. The large amount of capital outflows from debt servicing and interest payments in Kenya have had an adverse impact on its ability to develop. Government expenditures on education, health, and other social sectors had to be cut in order to meet conditions of donor countries and international lending institutions. The government could have allocated more funds to health, education, and other development programs if it were not for the net loss of capital outflows in terms of debt services and interest payments. This net loss puts tremendous strains on a country's much needed revenues for education and health.[50]

The discussion above points out key economic factors that played a role in the development of Kenya's diplomacy since independence. Kenya's internal economic environment strongly influenced its foreign policy over the years. Nurturing economic ties that are instrumental in boosting the growth of the economy has been one of the main objectives of Kenya's diplomacy.

Role of Diplomacy for Kenya's Economic Interests: 2003 - 2007

The third issue that emerged in the study is that diplomacy played a role in Kenya's economic interests in 2003 – 2007. Kenya's economic interest was economic recovery which was the main focus of its partnerships with the international community. Kenya's engagement with its diplomatic partners led to cooperation efforts aimed at

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[49] O. Kabbaj, *The Challenge of Africa's Development*, Oxford University Press, New York, 2003, p98

[50] T. Feyzioglu, et al, "A panel data analysis of the fungibility of foreign aid", *World Bank Economic Review*, vol 65, p231

economic growth and development. The government's economic recovery blueprint was directed at areas such as infrastructure rehabilitation and development; investment in human capital; and intervention in the productive sectors of the economy such as trade, tourism, investment and agriculture.[51] The objectives of Kenya's economic diplomacy were increasing capital flows to Kenya by promoting trade; investment; tourism; exploring alternative sources of development assistance and accelerating economic integration by strengthening regional economic organizations to serve as stepping stones for the development of Kenya's trade and investment sectors.[52] Kenya's economic diplomatic relations played an important role in the governments economic recovery plan as it entered into cooperation agreements in areas of road construction; educational scholarships; trade; investment and agriculture. The success in these partnerships was important in placing the country on a path of economic recovery since these sectors form the basis for the productive sectors of the economy.[53]

Through diplomatic measures, the government was successful in tapping into new tourism sources by aggressive marketing campaigns which saw an increase in tourist numbers into Kenya and increased revenues earned from the tourism sector. Diplomatic efforts were made towards counteracting the negative publicity on Kenya in the international scene which was adversely affecting Kenya's image abroad. Marketing campaigns were carried out extensively to promote Kenya's image. For example, marketing campaigns in Spain in 2006 attracted a total of 40,000 Spanish tourists to Kenya that year. As a result of a marketing campaign in Asia, there was a steady increase

[51] Ministry of Foreign Affairs, *Strategic Plan*, (Ministry of Foreign Affairs: Nairobi) 2003 p12

[52] Republic of Kenya, *Draft Foreign Policy of Kenya*, (Nairobi: Ministry of Foreign Affairs, 2007)

[53] See chapter 4

in the number of Chinese tourists visiting Kenya between 2005 and 2007.[54] All these efforts led to increased tourist arrivals from 2005 to 2007 which translated to enhanced government revenue and a boost to the economy as tourism continued to be Kenya's biggest earner of foreign exchange.

By expanding its trading horizons beyond traditional trading partners to incorporate new partners, Kenya was able to realize increased revenue from international trade. Indicators of Kenya's international trade for 2004 to 2006 show that trade levels increased after 2003. The volume of international trade for 2004 increased by 24.5% as compared to 8.9% in 2003 with its earnings from exports recording a 16.4% growth compared to 4% in 2003. Indicators for trade in 2005 exhibited a similar trend for 2004 with export earnings increasing by 21.8%. In 2006, the value of Kenya's export earnings increased by 8.7% with the volume of trade increasing by 9.8%.[55]

Kenya was actively involved in accelerating economic integration by strengthening regional economic organizations to serve as stepping stones for the development of its trade and investment sectors. Kenya worked in partnership with the other member states in the East African Community to see the East African Customs Union come into force in 2005. The Customs Union enhanced trade by liberalizing intra-EAC trade and establishing a common approach to external trade.[56] By 2005, Kenya's exports to the EAC accounted for more than half of the total exports to the African region. Uganda became Kenya's leading destination for exports, absorbing at least 36%

[54] See Chapter 4

[55] Government of Kenya, *Economic Survey, 2006*,(Nairobi: National Bureau of Statistics, 2007) p19

[56] See chapter 3

of Kenya's exports to Africa while Tanzania was second absorbing 17%. Trade between Kenya and Tanzania grew by 52% while trade with Uganda grew by 56%.[57] COMESA's partnership to the USA through AGOA enabled Kenya to export its products to the U.S. market duty free. Also, with access to a larger COMESA market, Kenyan firms produced more, taking advantage of the economies of scale. In 2005, Kenya's exports to COMESA rose by 19.7%, accounting for 36.6% of its overall value of exports in 2005. Imports from COMESA to Kenya increased by 23.3% accounting for 27.9% of Kenya's imports from Africa.[58]

The main challenge that the government faced was the enormity of the task of economic recovery since the economy had been performing dismally for a long period of time and it was going to take a long time to turn the situation around and start the path to recovery. There was also the challenge of financing the recovery programme which was going to be an expensive venture for the government. The other challenge was in the negative impact of political instability and negative publicity on tourism. Tourism which had continued to be an important sector for Kenya's economic recovery was badly hit in 2007 by the violence and instability that followed Kenya's general election caused a decline in the numbers of tourists coming into Kenya thus a fall in revenues earned from the sector.

One of the greatest problems that Kenya faced in developing its trade relations was its failing terms of trade caused by a decline in the value of its exports paralleled by

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57 Government of Kenya, *Economic survey*, (Nairobi: National Bureau of Statistics) 2006 p23

58 Government of Kenya, *Economic Survey, 2006*,(Nairobi: National Bureau of Statistics, 2007) p34

an increase in the value of its imports.[59] Kenya's trade relations with many of its trading partners, particularly from developed countries during the 2003 - 2007 period were characterized by unfavourable terms of trade for Kenya which imported much more from its trading partners than it was able to export to them leading to few benefits from international trade. The challenge was for the government to improve the value of potential exports from a raw state to a semi of fully processed state. This process of value addition transforms agricultural goods into products of greater value which makes them sell for higher in international markets by adding their economic value.[60] In addition to higher prices due to increased value, it also provides job opportunities to those employed in the value addition sector and also expands agricultural markets as the demand for value added goods rises. Value addition was one way of promoting the export sector. Export promotion, a deliberate attempt by governments to encourage growth of the export sector, enables a country to reap the benefits of international trade, such as achieving greater economies of scale due to the advantage of an enlarged commodity market for the country's goods.[61] Economies of scale also contribute to fuller utilization of capacity and new industries may be set up that were not possible before due to a limited domestic market.[62]

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[59] See chapter 4

[60] J.E. Stiglitz, *Making Globalization Work*, W.W. Norton & Co., New York, 2007, p212

[61] J. Markusen et al, *International Trade: Theory and Evidence*, (New York: McGraw Hill International Editions, 1995,) p4

[62] O. Kabbaj, *The Challenge of Africa's Development*, Oxford University Press, New York, 2003, p98

Official Development Assistance (ODA) was one aspect of Kenya's economic diplomacy in 2003 - 2007. At the Consultative Group Meeting in Nairobi in November, 2003 the Government acknowledged the role of foreign assistance in economic recovery and renewed its relations with developed partners. ODA helps to fund development programmes which recipient countries lack the capacity to fund from their own resources. ODA supplements the recipient countries' low savings, narrow export earnings and thin tax bases. In the period 2003 to 2007, Kenya benefited from ODA programmes that were aimed at supporting the Government's economic recovery strategy. Under the United Kingdom's Department for International Development (DFID)'s Country Assistance Plan 2004 – 2007, the UK funded projects in areas such as education, health agriculture and rural development.[63] Under various agreements between Kenya and China in technological cooperation, the government was able to benefit from Chinese expertise and technology in infrastructure development especially the area of road construction where Chinese companies were contracted to rehabilitate major roads in the country.[64]Sweden through the Swedish International Development Agency (SIDA) provided funding for Kenya's agricultural sector by helping to set up the National Agriculture and Livestock Extension Programme (NALEP) to offer advice and services on proper agricultural practices to farmers.

There are challenges associated with ODA disbursement and management. High flow of aid monies leads to a dependency syndrome which is portrayed by many developing countries. These countries sometimes face budgetary constraints and use aid

[63] International Development Committee, *Kenya: DFID's Country Assistance Plan 2004 – 2007,* (London: 2004) p5

[64] See chapter 4

inflows to cover deficits within the exchequer. There is a change in political focus by the donor community which is more concerned about fiscal discipline and good policies and often imposes conditionalities on the aid advanced. Governments that do not conform to these conditionalities suffer aid cuts or total freezing of aid[65]. The effects of aid cuts are negative to the economy as governments are forced to embark on stringent fiscal measures to counteract the negative effects. Such measures include cuts on expenditure in social services such as health and education and this could negatively affect the welfare of the citizens.

Kenya's diplomacy in 2003 to 2007 was therefore economic in nature as the government shifted its focus from a politically motivated diplomacy to an economic oriented one. The strategies used by the government to promote economic diplomacy were facilitating increased capital flows to Kenya by exploring alternative non-traditional sources of development assistance and foreign direct investment; promoting the country as a favorite destination for Direct Foreign investment; expanding access to traditional markets and explore new destinations for its products in emerging non-traditional markets in Europe, Latin America, Asia and the Middle East; enhancing technological advancement by exploring new sources of affordable and appropriate technology; accelerating economic integration at the regional and continental levels; strengthening regional economic organizations, especially the EAC to serve as competitive blocs in the emerging global markets and facilitating the promotion of Kenya as a tourist destination.[66]

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[65] T. Feyzioglu, et al, "A panel data analysis of the Fungibility of foreign aid", *World Bank Economic Review*, vol 65, p431

[66] Ministry of Foreign Affairs, *Strategic Plan*, (Ministry of Foreign Affairs: Nairobi) 2003

Attainment of Objectives of the Study

This study was guided by two objectives which were met by gathering data from both primary and secondary sources. The first objective of the study was to understand economic diplomacy as an important feature of Kenya's diplomacy. This objective was met first by getting a clear understanding of economic diplomacy and what it entails. The study analyzed economic factors that have influenced the development of Kenya's diplomacy. Through this analysis, it was clear that Kenya's relations with other countries have been driven mainly by its need to promote its economic interests. The study took a thematic approach to Kenya's diplomacy since independence and brought out the main themes that cut across the three presidencies with a view to appreciating the fact that Kenya's diplomacy was characterized by economic themes since independence and that there was continuity in these themes during the different administrations. It was also apparent that in the period 2003 - 2007, Kenya's interactions with the international community were driven by its strategy to revive the economy. Kenya was more focused on promoting relations with other countries that were of economic benefit such as trade, and investment. Economic diplomacy therefore came out as an important feature of Kenya's diplomacy.

The second objective was to determine the objectives of Kenya's emerging economic diplomacy for 2003 - 2007 and the measures the government took to meet them. This objective was met by considering Kenya's economic interests during this period and investigating on the ways the government set out to achieve them. Sector based approaches that focused on the key economic sectors of trade, investment and tourism were considered. It was evident that objectives of Kenya's emerging economic diplomacy for 2003 - 2007 rested on the need to use its diplomatic ties to make economic gains by promoting trade, investment, tourism and overseas development assistance. The information required to meet these objective was acquired by carrying out interviews within the various sectors such as tourism, investment and trade and by relying on government publications and reports. It is confirmed that the two objectives were satisfactorily met.

Testing the Hypotheses

The study had two hypotheses. The first hypothesis was 'Economic diplomacy has become a feature of Kenya's diplomacy' and the second one was 'Economic diplomacy has not become a feature of Kenya's diplomacy'. The two hypotheses were tested and the first one was demonstrated to be right while the second one was proven wrong.

The reason why the first hypothesis was confirmed is that one of the objectives of the study was to understand economic diplomacy as an emerging feature of Kenya's diplomacy, an objective which was met adequately by looking into the economic factors that have influenced Kenya's diplomacy. This made economic diplomacy to become a feature of Kenya's diplomacy. Throughout the discussions in the study, economic diplomacy emerged as an important feature of Kenya's diplomacy. It played an important role in helping Kenya meet its economic interests through trade, investment, development assistance and tourism. It would therefore have been incorrect to state that economic diplomacy has not become a feature of Kenya's diplomacy.

Chapter Six

Conclusions

Since the earliest days of diplomatic relations between kingdoms, commerce was an important motivation for reaching out to other foreign entities. It led ancient civilizations to exchange commodities such as spices and precious stones with distant lands which created the norms and procedures within which the exchanges would be carried out. These were the first international accords that were not only concerned with conquest of territory, but with mutually beneficial commercial dealings within a legal framework. Trade, such as that which existed among the civilizations of Egypt and West Asia, provided the first motivation for inter-state contacts and agreements. Considering the spread of colonialism in Asia, the journeys of Vasco da Gama to India in 1498 and Europe's discovery of the riches of East Indies, the flag followed trade. Nearer home, the first foreigners in Africa came in as traders who later on became colonial settlers.

Economics was no doubt an aspect of Kenya's diplomacy right at independence. The founding fathers of the nation were certain that one of the ways in which they would succeed in placing Kenya on the right path of economic development was by establishing foreign economic relations with different countries, regardless of whether they were from Europe, Africa, or Asia. Kenya then began harnessing diplomacy to serve its national economic interests, a trend it still follows today.

In today's globalized and interconnected world, economics is more important than ever as a determining element in international affairs and is a significant component of relations between states. Economics has moved center stage in diplomacy to include foreign trade, external investments, financial flows, and technology exchanges as ways that states use to advance their interests in foreign countries. To demonstrate the extent to which economics has permeated diplomacy is the fact that a good number of countries today use the model of an integrated foreign ministry that handles foreign affairs and external trade. Others handle trade and investment promotion through the embassy network, under the direct control of the Ministry of Foreign Affairs. Economic diplomacy is therefore an active and interconnected factor in integrated diplomacy, where the lines of division between functional areas are blurred, and each sector influences the other.

The study of Kenya's economic diplomacy from 2003 to 2007 revealed that Kenya's diplomacy had an important economic component which formed a basis of its relations with states. This was an important period of study as it was the first term of a government that replaced a regime that had been in power for over twenty years and whose record of economic performance was dismal. The government during this period was committed to using diplomacy as a tool for economic recovery through trade, investment and tourism promotion. These were the pillars that would help revive the country's economy by increasing capital flows. The impressive economic performance witnessed in the country during this period proves that adopting an economic approach to diplomacy, among other measures towards economic recovery taken by the government was a step in the right direction.

The government during this period was committed to making Kenya economically independent and less reliant on foreign aid. A Chinese proverb puts it that it is of more value to teach a man how to fish than give him fish. Kenya's decreased reliance on external financing for its budgetary needs shows that as a country, it was able to move into the deep waters and catch its own fish rather than borrow from foreign donors. Kenya continues to place great emphasis on economic diplomacy both at bilateral and multilateral level. There is heightened economic engagement between Kenya and its traditional bilateral partners, there are new diplomatic partners on board and at multilateral levels, Kenya continues to be an active player in regional and global economic matters.

As the country moves into a new era of more focus on economic diplomacy, certain adjustments will have to be made within Kenya's Foreign Service. There will have to be changes in the training of officers serving in the service. It is unfortunate that the penetration of economics into diplomatic training in Kenya's Foreign Service is still inadequate. Relevant training in economic matters is no longer an option, and the days when officers joining the Foreign Service could be picked anywhere, from stuffy hotel kitchens to smoky locomotive workshops should be a thing of the past. Economics is now the *sine qua non* of contemporary diplomatic training and no diplomat can afford not to both understand the dynamics of world affairs and to integrate economics into their work.

At headquarters, politics and economics should be intertwined at bilateral and multilateral work and in the Embassy diplomats must weave into their work the economic perspective in the same manner as they keep an eye on the political dimension. Ambassadors are an important resource in the Foreign Service and they must be equipped to spearhead the promotion of Kenya's economic interests abroad through adequate induction and briefing before they go to serve in their respective diplomatic stations. Since they are drawn from different career backgrounds, there is need for them to be able to read from one script in promoting the economic interests of the country abroad.

The challenge is for Kenya as a developing country to embrace appropriate training in economic diplomacy. Diplomats from developing countries have often been perceived as not performing at the same level of efficiency and effectiveness as that of their counterparts from developed countries when it comes to applying tools of economic diplomacy. One reason for this is relative inadequacy of education and training in economic diplomacy. Some of the tools of economic diplomacy that all diplomats need to be equipped with are skills in the promotion of trade and investment; country promotion; negotiations; public and private communication and economic analysis.

The Ministry of Foreign Affairs should consider certain important steps to ensure that economic diplomacy becomes an integral part of the Foreign Service of the future. First, there will be need to give focused emphasis to basic economics during induction training for new entrants into the service. Second, they should concentrate on practical economics and basic economic concepts in induction and mid career training programmes. Third, there should be an arrangement where officials from the Ministry are placed to work on internship in economic ministries such as trade, finance and industry and with top business bodies like national chambers of commerce, private corporations and public sector enterprises. Fourth, there should be outside expertise brought into the Ministry of Foreign Affairs for jobs like economic policy analysts and economic advisers. Fifth, there should be an effort to ensure that multilateral economics matters such as WTO issues and regional trade arrangements are mastered at all levels by all officers for practical application both at headquarters and at the Embassy.

These steps will endow the diplomatic service with real competence in economic matters, both at bilateral and multilateral levels so that Foreign Service Officers are able to carry out economic related assignments as they promote the interests of the country both at home and abroad. This is how Kenya will be able to make the most of the benefits of economic diplomacy.

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