

AN ASSESSMENT OF THE IMPACT OF THE PREFERENTIAL TRADE AREA (PTA)  
FOR EASTERN AND SOUTHERN AFRICAN STATES ON KENYA'S EXPORT  
TRADE 7

by

UNIVERSITY OF NAIROBI  
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Nancy / Asiko

A Management Research Project Submitted in Partial Fulfilment of  
the Requirements for the Degree of Master of Business and  
Administration of University of Nairobi

JUNE 1989

To my family

Dad

Mum

David

William

*"If we could first know where we are and wither we  
are tending, we could better judge what to do and  
how to do it!"*

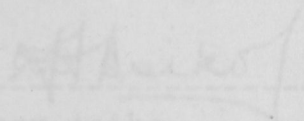
**ABRAHAM LINCOLN**



DECLARATION

This project is my original work and has not been submitted for a degree in any other University.

Signed :

  
Daniel Zaike

To my family

Dad

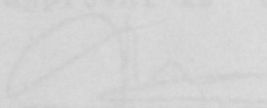
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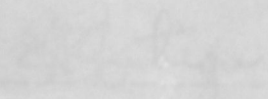
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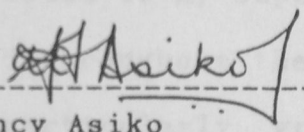
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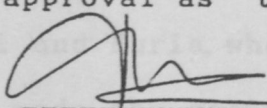
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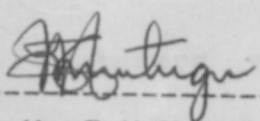
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|         |   |                                                                 |
|---------|---|-----------------------------------------------------------------|
| ACP     | - | African-Caribbean-Pacific countries                             |
| CARICOM | - | Caribbean Community and Common Market                           |
| EAC     | - | East African Community                                          |
| EACSO   | - | East African Common Services Organisation                       |
| EAHC    | - | East African High Commission Administration                     |
| EC      | - | European Community                                              |
| ECA     | - | Economic Commission for Africa                                  |
| ECSC    | - | European Coal and Steel Community                               |
| EEC     | - | European Economic Community                                     |
| Euratom | - | European Atomic Energy Community                                |
| GDP     | - | Gross Domestic Product                                          |
| GNP     | - | Gross National Product                                          |
| KETA    | - | Kenya External Trade Authority                                  |
| LPA     | - | Lagos Plan of Action                                            |
| MSE     | - | mean squared error                                              |
| MULPOCs | - | Multinational Planning and Operational Centres                  |
| NES     | - | not elsewhere specified                                         |
| PTA     | - | Preferential Trade Area for Eastern and Southern African States |
| SDR     | - | Special Drawing Rights                                          |
| SADCC   | - | Southern African Development Co-ordination Conference           |
| SITC    | - | Standard International Trade Classification                     |
| UAPTA   | - | Unit of Account of the PTA                                      |



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## A B S T R A C T

The PTA is an economic cooperation arrangement for all the countries of the Eastern and Southern African sub-region excluding South Africa and Namibia. The organization is meant to promote trade and cooperation in all fields of economic activity so as to raise the standards of living of the people in the region, foster closer relations among the member countries and to contribute to the development of the African continent.

It is argued that Kenya's export sector has the potential of a leading role in Kenya's development strategy. The PTA provides Kenya with an opportunity for increasing intra-regional trade.

It was the aim of the study therefore to establish whether Kenya's membership to the PTA has been trade creating. It was found from the study that the impact of the PTA on food items and live animals, alcoholic beverages and tobacco, petroleum products and related minerals, and animal and vegetable oils and fats categories was significant.

On the other hand, the PTA has not had any impact on the earnings obtained from Kenyan exports of inedible raw materials, manufactured items, machinery and transport equipment, and chemicals.

It was also found from the study that the PTA provides Kenya with an opportunity for increasing her export earnings from food items and live animals, alcoholic beverages and





## CHAPTER 1

### INTRODUCTION

#### 1.1 Background to the Study

It is a widely accepted theory that exports are an engine of economic growth in developing countries (Todaro 1982:117), largely because export earnings enable developing economies to acquire factor inputs necessary for development from foreign sources. In addition, exports enable these countries to settle their external debt obligations (Killick 1978:12).

It therefore seems that developing nations need a constant expansion of their export earnings if they do not want to remain underdeveloped (Kabengi 1986:2). In fact, negative export earnings growth rates in developing countries have been associated with negative import growth rates, declining investments and negative per capita growth rates (UNCTAD Bulletin April 1987:2).

Many developing countries have thus far been relying on exports of primary products to industrialized countries (Todaro 1982), but have found it more and more difficult in recent years, to develop via this route of exports because of the sluggish growth of demand, the tariff and non-tariff barriers, the ever



deteriorating terms of trade for those commodities, and the deliberate policies in industrial countries of maintaining food self-sufficiency (UNCTAD VI 1983:1).

African countries in recent years have begun to see the need to expand intra-African trade, this need having been created by the failure of developing countries to penetrate the markets of developed countries and, by the failure of the New International Economic Order whose goal was to restructure the world trade system in favour of developing countries (Ng'eno 1986:1). In addition, the small sizes of many African nations, their uneven resource endowments, the small sizes of their markets, their poverty, and the distortions in the patterns of economic activity seriously inhibits attempts at development purely on a national scale.

Individual countries have several options available to them in their attempts to expand their export trade, some which however may not be very feasible. In this regard, Kenya is no exception.

Kenya's foreign currency needs do not differ much from those of her developing counterparts. Just like them, she has a constant need to acquire co-operant factors such as raw materials, fuel, spare parts, new capital equipment and even manpower from foreign sources (Manandu et al, 1985:1). Kenya's bill on fuel in the 1980s had reached 40 per cent of total export earnings, and her external debt-service ratio, though considered

to be relatively low by African standards, was above 25 per cent of her export earnings in the same period (Budget Speech Jun.1985:2).

Kenya, therefore, must endeavour to increase her exports so as to enable her to service her debts and, at the same time, acquire input factors for her industries. As the Government stated in its fifth National Development Plan,

"its objective is to promote the external demand for Kenyan products and establish a sound basis for improving the country's balance of payments"

(Development Plan 1984-88:57).

This is also followed up in the sixth Plan, where the balance of payments position continues to be a matter of great concern. In this document it is held that in the long run, the solution to the balance of payments position lies in the expansion and diversification of Kenyan exports (Development Plan 1989-93:32).

It is therefore important for Kenya to move fast and tap the potential benefits of exporting by taking up any opportunities that may emerge. For example through the Lome Conventions, Kenya became one of the sixty-six African-Caribbean-Pacific (ACP) countries and this she did in an effort to increase trade between her and the EEC countries, as well as trade between her and other ACP countries.

It is with the spirit of increasing exports, that the Kenyan Government has been, for several years, seeking means to stimulate non-traditional exports through incentives to exporters and improvements in the competitiveness of Kenya's exporters.

For a long time, local industries have found it more profitable to sell in the domestic market rather than in foreign markets. This is because the export market entails greater exposure to risks, stiffer competition, more stringent quality requirements and a more demanding marketing drive. The Government has therefore made it its motto to widen the scope for manufacturers and businessmen to expand their activities in the export market through the provision of a wide range of incentives.

For example, the Government is to set up Export Processing Zones near seaports, airports and other outlets, where manufacturers will be given support, on condition their produce is solely for export (Development Plan 1989-93:64).

The Government is also to establish a Green Channel Scheme to help exporters avoid unnecessary delays normally experienced in obtaining foreign exchange for the purchase of necessary inputs, if they are producing for an outside market.

The Export Compensation Scheme, Export Credit Insurance and Guarantee, and Manufacturing-under-Bond are other incentives offered by the Government (Development Plan, 1989-93:66).



It is with the same spirit of increasing her external trade that the Kenyan Government has since 1976 been involved in export promotion (Kabengi 1986:2) through the Kenya External Trade Authority (KETA), under the auspices of the Ministry of Commerce. In fact during the current plan period, the Government will take steps to re-activate KETA with an independent status to allow it to function more freely (Weekly Review Apr.3 1989).

Another option available to Kenya is to subscribe to a regional cooperation arrangement. These arrangements are often formed with the idea of increasing regional trade in mind as discussed in a later chapter. Kenya's first attempt at cooperation was the East African Community. The Preferential Trade Area for Eastern and Southern African States (PTA) is a recently formed arrangement offering an opportunity for member countries to increase their trade within the region.

In 1983, Kenya became signatory to the PTA Treaty, a document which serves as an instrument for collective action in trade liberalization, economic integration and growth for the countries of the Eastern and Southern sub-region. The PTA arrangements provide additional incentives and opportunities for exporters, which the Government intends to further encourage and develop within the terms and provisions of the Treaty.

It has been said that there is "major potential in the PTA market for Kenya's exports" (Daily Nation Oct.28 1988) probably because of the dominating role she plays in the region.

## 1.2 Background to the PTA

The PTA is an economic cooperation arrangement for all the countries of the Eastern and Southern Africa Sub-region excluding South Africa and Namibia (PTA Diary 1989:2). There are twenty countries that are eligible to join although only fifteen have signed the Treaty. These are Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Other countries which are eligible to join, but have not yet acceded to the Treaty are Angola, Botswana, Madagascar, Mozambique and Seychelles (Appendix I).

The objectives of the PTA go beyond a purely preferential trade arrangement (PTA Treaty 1982:4). It is said to be a first step towards the establishment of a common market by 1992 and, eventually, an economic community by the turn of the century.

The expected benefits for Kenya from membership in the PTA are numerous. As discussed in section 1.1 above, Kenya must endeavour to increase her exports and, the PTA allows for preferential terms of access to the markets of the PTA member states. This should enable her to increase her trade with these countries.

Kenya has a relatively well developed industrial sector when compared with the other member states. Reliance on formerly traditional exports of coffee and tea could not help the Kenyan economy move towards a strong export oriented base considering the price fluctuations of these commodities on the world market and the occurrence of natural catastrophes such as the drought of 1984 that Kenya faced. Although she no longer relies on these two commodities alone as tourism is now a major foreign exchange earner, she still must strengthen her export base further. If she cannot penetrate the developed countries' markets, Kenya must expand her manufacturing exports by maximizing on the PTA market by establishing trade links and going into joint ventures with other PTA countries (Daily Nation Oct.28 1988).

Kenya also expects to benefit from the right of transit for goods through member states' territories without import or export duties; access to agreed clearing and payment arrangements; improved co-ordination of air, sea, inland, water, pipeline, road and rail transport and communications facilities; co-operation in industrial and agricultural development; and the simplification of trade documents procedures (KETA Brochure 1986:5).

Kenya has experienced favourable trade links with many of the PTA member states as shown in the table below.



Table 1.1 Kenya's Trade Statistics with other PTA Member States

in 000's of Kenyan Pounds

| Year | Exports | Imports | Net Exports |
|------|---------|---------|-------------|
| 1987 | 157,092 | 35,236  | 121,856     |
| 1986 | 159,782 | 34,227  | 125,555     |
| 1985 | 145,264 | 24,604  | 120,660     |
| 1984 | 134,694 | 17,150  | 117,544     |
| 1983 | 133,129 | 14,274  | 118,855     |
| 1982 | 110,336 | 29,556  | 80,780      |
| 1981 | 110,799 | 14,051  | 96,748      |
| 1980 | 103,755 | 27,931  | 75,824      |
| 1979 | 66,588  | 7,646   | 58,942      |
| 1978 | 65,491  | 8,118   | 57,373      |
| 1977 | 82,080  | 5,430   | 76,650      |
| 1976 | 87,935  | 14,996  | 72,939      |

Source : Various Economic Surveys, 1975-88, Ministry of Planning.

Much has been said about the success and positive influences the formation of the PTA has had on Kenya's trade in recent years (Ng'eno 1988). As early as 1986, it was held that Kenyan business, and the country as a whole, were already benefiting from its membership. According to President Moi,

"Kenya's trade with the PTA countries within five months from May 1986 has more than doubled what it garnered during the preceding two-year period"

(Daily Nation Dec.5,1986).

The PTA is thus expected to provide an opportunity for Kenya to increase and diversify her exports, and reduce reliance on industrialized nations for imports. This should be reflected in her trade figures for the period that she has been a member.

The impact of the PTA can be assessed both quantitatively and qualitatively. For purposes of this study the quantitative impact refers to effects that are directly measurable in numerical terms, whereas the qualitative impact refers to the non-quantifiable effects.

So far, much emphasis has been placed on the qualitative impact. While it is appreciated that there is much to be gained from the PTA that cannot be quantified, it must be kept in mind that in the long run it is the quantifiable impact that provides a more objective measure of the overall direct benefits and it is this that more often than not justifies the existence of the PTA. This can be seen in the EEC which has been rated a success largely on its quantifiable impact (Foreign Report Feb 1989).

Although there are various ways of measuring the impact of cooperation arrangements on member countries, empirical analyses are the most widely used since they are testable, as opposed to simpler methods such as qualitative assessments and "educated" or intuitive guesses. Trade figures, Gross National Product (GNP) and Gross Domestic Product (GDP) are the more common parameters used in such analyses. For example, Lamfalussy (Oct 1961) in his study, measures the impact of the EEC on member countries using

the GNP, industrial production growth rate and trade statistics, while Ng'eno (1986) and Susan Hall (1987) use external trade statistics to assess the PTA.

In the current study, exports have been selected as the basis for analysis. Although GNP would have been a more complete parameter to use as it encompasses all economic aspects of a country, information on this parameter was found to be insufficient.

### 1.3 Statement of the Problem

Although there are a number of important examples of integration in Africa, the gap between achievement and aspiration is large. In part, no doubt, the explanation lies in the fact that although integration is certainly advantageous to the members of the group as a whole, benefits are not automatically reaped by each single member. This consideration is likely to be important where integration involves the grouping of countries which are at somewhat different stages of development. In such a situation, market forces may direct the benefits of integration mainly towards the more advanced members, to the detriment of the more backward members (USAID Report March 1987). This is bound to be a serious problem in Africa where the Economic Commission for Africa (ECA) has created the Multinational Planning and



Operational Centres (MULPOCs) on a geographical basis. The defunct EAC also faced this problem where it was felt that one country was reaping most of the benefits (Mwaza 1979).

Within the PTA this also seems to be a major bone of contention, where it has been held that Kenya and Zimbabwe being the more developed countries in the region, are the main beneficiaries (Ochieng 1988). There is thus a need to have a look at the benefits of regional co-operation at a national level rather than a regional level.

In broad outline, the argument of conventional theory is that economic integration will be beneficial to individual member countries if on balance it is "trade-creating" and it will be harmful if on balance it is "trade-diverting" (Kennedy 1959).

If cooperation causes a member to replace its own high-cost production of particular commodities with imports from other member countries which have lower costs, this is trade creating (Hazlewood 1975). The exporting member country will reflect a noticeable increase in her exports to other member countries.

If on the other hand, the effect of cooperation is to cause members to switch their purchases from low-cost external sources to high cost sources within the union, there is trade diversion. If the terms of the agreement allow, member countries would prefer to continue trading with their external (non-union) sources, as integration would not have been beneficial because it

will have caused a shift of resources into less efficient uses. This will be reflected in the exporting member country by a decline or stagnation in growth of her exports.

The question that arises at this point is whether Kenya's membership to the PTA has been trade creating or trade diverting. This study is an attempt to answer this question.

#### 1.4 Objectives of the Study

The study had two objectives.

The first objective was to measure the impact the PTA has had on Kenya's export trade since it became operational in 1984.

The second objective was to predict future trends for Kenya's export trade for the period 1988 to 1992.

#### 1.5 Motivation for the Study

The interest in this study was stimulated by the collapse of the EAC in 1977. This was a great shock, and, as discussed in the second chapter, it was felt that had there been an analysis carried out early enough, a re-allocation of the benefits could have averted the situation.

The PTA may be seen (at least from the East African countries' viewpoint) as a successor to the EAC, a second chance at regional cooperation. Since the PTA agreement was ratified, it has been held that Kenya is enjoying a highly advantageous position over its trading partners within the PTA, perhaps with the exception of Zimbabwe (Financial Review Nov.10,1986). At the moment almost 25 per cent of Kenya's exports are marketed within the PTA region, and this is the highest volume of exports from a single country into the PTA market (Financial Review Oct.10 1988).

However Kenya's performance within this market appears to have been in the same direction even before the PTA was set up. For instance, Kenya has been a net exporter to most of these countries for as long as it has been trading with them as seen in Table 1.1.

The researcher therefore felt that it was a relevant and timely area for research.

## 1.6 Importance of the Study

This study is a contribution to testing the direct effects that the PTA has had on Kenya's export trade with a view to establishing whether changes in export trade can be attributed to the PTA or whether Kenya would have done just as well without becoming a member of this arrangement.



Individual businessmen and entrepreneurs in the country who intend to penetrate the PTA markets should therefore find this study of particular importance as it helps them to identify the potential expansion areas within the PTA market.

Policy makers and Government representatives to the PTA policy organs should no doubt be interested to know the achievements of the country in as far as exports to the PTA countries are concerned so that they can direct their efforts to the more crucial aspects of export trade.

As an academic research, this study is also of benefit to the Kenyan universities, Government bodies and other interested parties as a basis for further research.

To the PTA Authority, hopefully this study is a contribution towards their efforts in creating an information database for the benefit of all member states. If indeed Kenya is the key beneficiary of the PTA, this study should provide a base for comparison and policy-making inasfar as re-allocation of benefits is concerned to ensure more equitable distribution.

Finally, since exports are so importantly linked to growth, this study is a direct contribution to the development process.

### 1.7 Overview of the Report

The rest of the report is presented in four chapters. The second chapter reviews the literature on regional cooperation.

Chapter 3 is devoted to the methodology followed in this study. A detailed account is given of the research design methods of data collection, sampling procedure and the whys of methodology. The methods used in data analysis and reasons for choosing them are also given in this chapter.

A discussion of analysis and research findings of the study of the study appear in Chapter 4, while limitations of the study, conclusions and recommendations are presented in Chapter 5.

## CHAPTER 2

### LITERATURE REVIEW

This chapter is a review of the literature on integration as a strategy for development.

The first section covers the literature on regional cooperation in general. The EEC is covered in the second section. It was selected because as has been observed by Keegan (1984) it is the most successful cooperation arrangement existing today, and is being emulated in many parts of the world, and indeed by the PTA. As such, anyone seriously considering integration would do well to review the EEC.

The third section covers the now defunct EAC. Not only is it closer to home and hence would have operated in an environment closer to that the PTA now faces than that of the EEC, but a review may enlighten the PTA Authority on the likely areas where they may err and thus help to steer the PTA away from the path of destruction. In addition, the collapse of the EAC was a strong motivating factor on the researcher's part as outlined in chapter one.

The last section covers the PTA, which is the cooperation arrangement of interest in this study.



As has been observed by the researcher the terms 'integration' and 'regional cooperation' have been used interchangeably in most of the literature covered. As such for purposes of this study, the same will be adopted, unless otherwise stated.

## 2.1 Regional Cooperation

Since World War II, there has been a tremendous interest in integration between nations, and in particular in economic integration. The enthusiasm for international cooperation has been stimulated largely by the success of the European Common Market, which was itself inspired by the success of the United States economy (Keegan 1984:143). In fact, economic integration between sovereign states has some claim to be regarded as one of the leading aspirations of international economic policy in the mid-twentieth century so much so that this era has been termed "the age of integration" (Harberler 1964:1).

The interest has been felt by all continents of the world and several attempts have been made to emulate the European Community. However, the reasons behind all these attempts at regional cooperation are varied as outlined below.

### 2.1.1 Rationale for Regional Cooperation

Broadly speaking, economic, political and social factors have had a serious impact on individual countries. These countries, individually cannot overcome the pressures brought about by these factors, but hopefully, can do so collectively as a group (Robson 1968:69).

At the political level, the basic motivation for integration springs from the assumption that for all but a few larger states, considerations of modern and genuine independence render some form of international cooperation or interdependence inescapable. For example, in Africa, during the colonial period this cooperation took the form of a dependence of African states upon foreign powers. In post-colonial Africa, there exists a fairly widespread desire to free the continent from its external dependence and to provide the safeguards and benefits of interdependence through a continental, or, at the very least, a wide geographical system of institutions capable of harmonizing the common interests of African states and presenting a unified front in external affairs (Robson 1968:11).

Political amenability among countries is a basic requisite for the development of a supranational market arrangement. In fact, even though economic considerations provide the basic catalyst facilitating the formation of cooperation arrangements, political elements are also important. Participating countries must have comparable aspirations and general compatibility if

they are to give up any part of their national sovereignty (Cateora & Hess 1979:301). For example, the uniting of the original European Community countries was partially a response to the outside threat of Russia's great political and economic power - the countries of Western Europe were willing to settle their family squabbles and present a unified front to the Russians.

Although the interplay of political interests including a desire for greater international bargaining power undoubtedly accounts for some widespread interests in integration at the present time, the primary motives are commonly economic.

At the economic level, integration involves the removal of tariffs and other trade barriers like quotas, discrimination and exchange controls among trading partners with the aim of enhancing trade. Thus every form of economic integration shares the development and enlargement of market opportunities as a basic orientation. Usually markets are enlarged through preferential tariff treatment for participating members or common tariff barriers against outsiders (Kibera & Waruingi 1988:227). Enlarged and protected markets stimulate internal economic development by providing assured outlets and preferential treatment for goods produced within the union.

Furthermore, wide markets may make it possible to attract more foreign capital and to increase employment (Cateora & Hess 1979) through multinational cooperations. Without mass marketing



facilities and mass markets, modern mass production capacity cannot be successfully employed and it is on this basis that most multinationals operate (Keegan 1984:169).

In addition, regional economic groupings allow countries the advantages of economies of scale and facilitate more efficient division of labour among the countries forming them (Harberler 1964). This is made easier when there is a free movement of goods, capital and people, as seen in the European Community. Thus countries are able to enjoy the fruits of larger markets while maintaining their individual identities and political systems (Cateora & Hess 1979:301).

Other advantages include diversification of output, which, it is hoped, may contribute to economic stability as well as to growth. If instead, each country tries to develop separately behind its own national tariff barriers, low per capita incomes, small populations and narrow resource bases will in many cases make the achievements of their objectives more costly, if not impossible (Kennedy 1959:45). Expansion of market also leads to capacity utilization and gains from economies of scale (Makanda et al 1987:7) For consumers, there is a wider variety of goods available which are usually of higher quality and sell at competitive prices.

Integrated countries can also benefit from coordinated planning in the fields of research and communication.

### 2.1.2 Types of Regional Cooperation Arrangements

There are many degrees of economic cooperation ranging from simple agreements of two or more nations to reduction of barriers to trade, to the full-scale economies. Economic integration, is a term to which economists have attached a variety of meanings, embracing several forms of international economic cooperation from free trade areas to political unions, as outlined below.

#### i) Free Trade Areas

In such an arrangement, a group of countries agree to abolish all internal barriers to trade such as tariffs and other quantitative restrictions such as tax systems and monetary systems between member countries, but the member countries can, and do, maintain independent trade policies vis-a-vis third countries (Kibera & Waruingi 1988:228). To avoid trade diversion in favour of low-tariff members, a system of certificates of origin is used. A good example of a free trade area is the European Free Trade Association (EFTA), where member countries retain their own tariff structures for non-EFTA countries (Keegan 1984:144). Another example is the Latin American Integration Association, (The Economist Dec.1981:64).

ii) Customs Union

A customs union involves not only free trade between its members, but also a common external tariff applicable to non-member countries (Kibera & Waruingi 1988:228) and is thus the logical evolution of the free trade area. When fully implemented, a customs union results in members of the group treating the goods produced in other member countries as if they had been produced within their own borders. Thus tariffs or other types of discrimination based on national origin cannot be placed upon imports of merchandise coming from other member countries. Within the confines of a customs union, merchandise is as free to move as it is between the states of the United States of America (Cateora & Hess 1979). Today there is no significant form of a customs union in operation, although a union is a logical stage of development in the transition from a free trade area to a common market (Keegan 1984:145).

iii) Common Markets

This is a more developed form of integration in which in addition to free trade, obstacles to the movement of some or all of the factors of production within it are also removed (Lipsey 1960:496). The EAC, the EEC & the PTA all share a common objective in that they all aim or aimed at setting up a common market.



iv) Economic Union

This is the most advanced form of economic integration. Here fiscal, monetary and other instruments of economic policy are also harmonized or integrated, as a further build-up on the elimination of the internal tariff barriers and the establishment of common external barriers. It also seeks to coordinate economic and social policy within the union to allow free flow of capital from country to country (Keegan 1984:145). Thus an economic union is a common market place not only for goods but also for services and capital. The full evolution of an economic union would involve the creation of a unified central bank, use of a common currency, and common policies on agriculture, social services and welfare, regional development, transport, taxation, competition and mergers (Kibera & Waruingi 1988). The best-known and most successful example of an economic union is the EEC. Others include the Caribbean Community and Common Market (CARICOM), and the Central American Common Market (Keegan 1984:146).

All these forms of economic integration, however share two essential characteristics:-

- i) they facilitate expanded specialization and exchange between groups of independent countries by means of the elimination or substantial reduction of barriers to trade among them;
  - ii) they entail discrimination against non-member countries
- (Robson 1968:26).

Integration may thus be defined as a situation having these characteristics.

### 2.1.3 Problems of Regional Cooperation X

All cooperation arrangements face problems and these differ greatly depending on the objectives of the cooperation, the stages of development the member countries are in, and the different political, economic and socio-cultural influences. In addition each member country faces its own unique problems which sooner or later become the regional cooperation's problems.

The most difficult problems of integration arise from the fact that it is likely to affect different members differently. Because countries invariably progress at different rates, economic integration is bound to make matters worse when no attempt is made to "regulate" the market forces in the interest of balanced development. There is likely to be a tendency for development to be polarized in a few member states, and this

situation will reinforce itself because the countries whose exports are rising will tend to attract even more investment (Todaro 1982).

An unequal distribution of the benefits of integration is not inevitable, but it is particularly likely to occur when the union is between countries of substantially different levels of development.

This is clearly pointed out by Guy Martin with respect to the Economic Community of the West African States (ECOWAS) when he says that,

"the member states of ECOWAS differ greatly in size and specialization, economies of scale, augmentation, factor input and opportunities to improve market structures.....economic integration, then tends to yield unequal benefits"

(Guy Martin 1979:174).

It must be noted that integration is not necessarily the cause of this inequality - it just seems to make it more obvious. Unless ways and means of distributing the benefits are defined *a priori* benefits may go to one or two countries leaving other impoverished (Makanda et al 1984:4).

Integration is made more difficult where member countries have diverse political interests as this brings about great differences in perceptions of economic and social policies which are implemented at a national level.



All nations of the world cherish their national sovereignties (Mutugu Nov.1988). This is a serious problem in regional cooperation.

Perhaps the most serious problem, and indeed a major cause of regional cooperation failure, is the lack of sensitivity to individual member countries benefits, or at the very least priority being given to regional benefits, with national benefits more often than not looked at only after regional benefits have been assessed. The defunct EAC collapsed largely as a result of this problem as shall be seen later.

Other problems worth mentioning, although they need not necessarily arise in regional cooperation arrangements include geographical proximity of member countries which affects transport and communication between member countries; multiple institutional memberships hence member countries having divided loyalties, diverse language and socio-cultural differences affecting marketing and other issues.

## 2.2 The European Economic Community (EEC)

The EEC, now officially called the European Community, has affected the economic, political, and military policies of many countries, especially its member countries and the United States of America (The Economist 9-15 July 1988).

So successful has it been, that it has been emulated in Latin America, Africa and even within Europe itself. It has induced other countries to try to become part of it, either as full or associate members and, it has been a major source of encouragement for other attempts at regional cooperation around the world.

However, it too, has not been without its share of problems and critics. For, for every admirer can be found a skeptic and a critic.

#### 2.2.1 Historical Background

The EEC was formed in 1957 when the six national parliaments of Belgium, Germany, France, Italy, Luxembourg and Netherlands signed the Treaty of Rome.

The main purpose of the community was the gradual abolishing of tariffs and quotas among the six member states over a period of 12 to 15 years, a step towards the establishment of a free trade area (Krause 1964:3).

Denmark, Ireland and the United Kingdom joined the EEC in 1973 and in 1981 Greece became the 10th member. With the accession of Portugal and Spain in 1986, the members are now twelve in number.

The community was first of all set up as a customs union. Thus, as explained earlier, the tariff levied on a Kenyan flower for example, will be the same regardless of whether the flower is imported by Germany, United Kingdom, or any of the other members. However, as explained by Diebold (Mar.1962:74), the Rome Treaty provided for a still closer integration of the respective economies with a full economic union as the ultimate goal. Because an economic union is more demanding in terms of sacrifices asked of the members and the degree of divestiture of national sovereignty involved, the member countries did not want to commit themselves to it until the customs union was tried and proven effective. The EEC is thus evolving from a customs union to an economic union.

### 2.2.2 Achievements of the EEC

The EEC has brought together a market of over 320.4 million people with average incomes amongst the highest in the world. In the space of 25 years the average European doubled his income, having twice as many goods and services at his disposal in 1985 as in 1960 (Eurostat 1988:15).



One of the reasons why the European community was created was to develop trade between member states. The community has had considerable success in this area. Intra-community trade represents more than 50 per cent of total external trade for most of the countries (Eurostat 1988:27).

While exports to non-member countries showed a nominal 16-fold increase in terms of European Currency Unit between 1958 and 1986, trade between member states went up by a factor of 30.

Of particular relevance to this study is the measure of increasing external trade between member countries soon after the signing of the Treaty. This study by Alexander Lamfalussy (1961) revealed that, imports and exports between member countries increased by 98 per cent between 1958 and 1962, while trade with the rest of the world increased by only 35 per cent in the same period. Lamfalussy concluded that growth in trade is bound to be most significant in earlier years as this is when countries are most enthusiastic.

The economy of the Community grew the fastest in the countries with the lowest GDPs such as Greece, Spain and Portugal where annual growth rates were between 4.6 per cent and 5.1 percent. In the United Kingdom, by contrast, the growth rate was a bare 2.2 percent. This shows that efforts are made to reduce the disparities between the member states.

The EEC has also established the European Monetary System which entered into force on March 13th, 1979. The nucleus of the system is the ECU - the new European Currency Unit. Europeans do

not yet carry the ECUs in their pockets, but the private sector is however making increasing use of the ECU almost in the same way as any other currency (Eurostat 1988). It's increased use offers a new facility for Europeans who benefit from its stability and in future will not be obliged to change money at every border. This idea has been taken up by the PTA by the creation of the UAPTA as discussed in a later section.

Improved productivity, fair living standards for farmers and workers, stable markets and secure supplies at reasonable prices for the consumer - these are the objective set by the Treaty of Rome in 1957 for European agriculture. 30 years later, it is fair to claim that they have been largely achieved. A common agricultural policy has been adopted and the removal of internal agricultural duties completed.

The Commission of the European Communities (CEC) has also established an office for Official Publications in Luxembourg, where information on the member states and the development of the EEC is kept and updated. Each member has free access to this information. The database has been useful in helping achieve unified development in the region.

These achievements have been freely attributed by many to the operations of the EEC. There are some, however, who are skeptical. For example, Alexander Lamfalussy (1961) in his article questions whether the cause of Europe's progress is really the EEC. By comparing the experience of individual

countries before and after the formation of the EEC, he casts some doubt on the conclusions previously drawn. This study attempts to do the same for the PTA.

### 2.2.3 Problems Facing the EEC

The EEC has not been without its share of problems which are mentioned briefly in this section.

There are those problems that have arisen because of the integration process, that is to say, these problems would not have occurred had the EEC not been formed.

The most recent of these is the Single European Act which was signed in February 1986 and came into force on July 1st, 1987 (Eurostat 1988:2).

The Single Act is a new treaty whose aim is to bring the Community into line with the needs of the 1990s by creating a truly frontierless internal market with a population of 320 million, making it the biggest internal market in the world. The Act itself is not a problem : it is the steps that are being taken to ensure that targets are achieved, some of which are "impossible" to achieve. Some countries have been accused of taking the Act too seriously at the expense of other member states (Eurobarometer Dec.1988:24).



Another problem is that of the EEC budget contributions. Though the EEC budget amounts to only 2.8 per cent of the total of all the members states' budgets some countries feel that they are contributing too much towards this budget. Furthermore, many feel that the budget is expended disproportionately. For example the 1985 budget allocated 72.9 per cent of the budget to Agriculture and Fisheries alone as seen in the following table.

Table 2.1 : General EEC Budget - 1985

| <u>RECEIPTS</u>         |        | <u>EXPENDITURE</u>                        |        |
|-------------------------|--------|-------------------------------------------|--------|
| Value-added tax         | 55.5%  | Agriculture & fisheries                   | 72.9%  |
| Customs duties          | 29.6%  | Regional policy                           | 5.9%   |
| Non-repayable advances  | 5.9%   | Social policy                             | 5.7%   |
| Agricultural levies     | 4.0%   | Development cooperation                   | 3.9%   |
| Sugar-isoglucose levies | 3.8%   | Administrative costs                      | 4.6%   |
|                         |        | Research, energy,<br>industry & transport | 2.6%   |
| Miscellaneous           | 1.2%   | Miscellaneous                             | 4.4%   |
|                         | -----  |                                           | -----  |
|                         | 100.0% |                                           | 100.0% |
|                         | =====  |                                           | =====  |

Source : Eurostat Publications, 1988 pp 5.

The common agricultural policy is another source of conflict. This policy was established in January 1970, and aimed at improving productivity, fair living standards for farmers and

farmworkers, stable markets and secure supplies at reasonable prices for the consumer. The main tool used to achieve this was subsidies for the farmers. This has brought about a serious problem of persistent surpluses of certain commodities as a result of the incentives given to the farmers. This has led to a drop in world prices thus affecting other countries with the developing countries being hardest hit. Some member states such as United Kingdom are of the opinion that the subsidies should be withdrawn or at least reduced - and this would also reduce the budget requirements (The Economist 9-15 July 1988).

Lastly, there is the question of Europe's political unification when the steps of the Single Act have all been achieved. Each country cherishes it's own national sovereignty, and political conflicts will inevitably arise when countries are asked to give up some of this sovereignty (Eurobarometer Dec.1988:24).

The second set of problems are those that start as individual member countries' problems and thus end up being problems of the community.

The most obvious of these is the worldwide problem of unemployment. With 16 million people registered as unemployed in 1986 compared with only 5 million in 1975, unemployment has become more of a preoccupation of the European Community.

The environment is another controversial issue. Some members feel that the portion of the budget directed to the environment thus far has been too large and should be reduced.

#### 2.2.4 Lessons Learnt from the EEC

The PTA as a regional cooperation arrangement has a lot to learn from the EEC.

An obvious point that is well brought out by the success of the EEC is that economic integration is possible. While their ways and stages of development may differ, the two arrangements have common objectives and are bound to face similar problems in many cases. As such the PTA should see the EEC as a mentor, and thus take up some hints on various issues.

Another lesson to be learnt is that "nothing good comes easy". The fact that the EEC has emerged after a long and arduous struggle should encourage the PTA Authority that even their more serious problems can be solved with time.

The evolution of the EEC from a free trade area to an economic union suggests an organized and systematic approach. It is better to ensure that one arrangement is working well before embarking on one on a higher level which is bound to be more complicated.

The EEC has recognized the importance of increasing intra-regional trade. In Africa trade between the African countries has been very low in the past. For example the PTA



countries trade only 10 per cent of their external trade with other PTA countries. The PTA should follow the European example and aim at increasing intra-regional trade.

Lastly, so long as information does not touch on the strategic security of each member state, there should be the good will to exchange information as much as possible. Such information could include agricultural potential, industrial development and overall infrastructural developmental efforts so as to avoid the problem of unequal benefits.

### 2.3 The East African Community (EAC)

On May 14th, 1984, an important but sad event took place in Arusha, Tanzania - the signing by the three East African Heads of State of an agreement, or, as the local media put it, the "final accord", on the formula for sharing the assets of the former EAC (Daily Nation May 17th 1984:6).

The EAC, which was initiated in 1967, collapsed in 1977. It was undeniably the most advanced regional cooperation body in Africa in its time and one which those who speak well of integration would do well to consider (The Courier Nov-Dec.1988:47).

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The easy collapse of the common market shocked many including those who used to believe that the regional cooperation in East Africa had become an excellent example of what less developed countries can do (Tibazarwa 1988).

This section attempts to outline the major features of the EAC as well as the nature of significant events which led to its collapse. Hopefully there is a lesson to be learnt for the PTA policy makers.

### 2.3.1 Historical Background

Both the strengths and weaknesses of the EAC can be best understood if placed in a historical perspective.

The organization of inter-territorial services in East Africa began with the construction of the Uganda Railway. Its completion to the Lakeside terminal of Kisumu in 1901 provided the main stimulus for fundamental economic development in both Kenya and Uganda in the early years of the century (Pavitt 1974:22).

When the time came to inaugurate a Customs Service in the British-controlled area of mainland East Africa, it was set up right from the start on a basis common to Kenya and Uganda. Britain received the mandate to administer Tanganyika from the

League of Nations after the 1914-18 War. This enhanced closer commercial and economic ties between the three countries (Hazlewood, 1979).

A customs union between the three countries was set up in 1917 to unify duties on exports and tariffs on imports from and to East Africa respectively. And in 1919 the East African Currency Board was set up to regulate the flow of money and finance in general in the region.

During the inter-war years, intra-territorial trade continued to grow, coordination of the activities being ensured by regular *de facto* meetings of respective Governors.

In 1939 the three East African economies started a uniform tax structure and common services in the areas of transport, communication and research (The Courier Nov-Dec 1988:49).

It was not until 1948 that a *de jure* regional arrangement was attempted when the East African High Commission Administration (EAHC) was established. The EAHC had jurisdiction over public services, finance, defense, industrial promotion and research.

This period witnessed changes in the intensity of cooperation relating to such measures as the introduction of a single currency, joint administration of public services, mainly posts and telecommunications, customs administration, railways. Institutions of higher learning were also established (Tibazarwa 1988:49).



As independence approached a stronger administrative structure was contemplated and this led to the formation of the East African Common Services Organization in 1961. In form it resembled the EAHC but in essence it derived its legal existence from the consent of three independent East African states which had superseded the colonial administration.

Within this period, developments occurred in EASCO that undermined the viability of the cooperation. Among the serious setback was the abandoning of the common currency which had hitherto facilitated the movement of goods and people across the borders. Without this, the EAC's (which was yet to be established) chances of survival were already reduced drastically even before it was created.

In addition the adoption of different ideological paths for the young nations might have encouraged conflicting approaches towards the community.

Consequent upon several decades of evolution, the EAC was already functioning, efficiently at the time of the signing of the Treaty. Thus by 1967, the East African Railways was celebrating its 65th year of inter-territorial collaboration. Such efficient collaboration could also be found in other service corporations of the community.

### 2.3.2 Achievements of the EAC

Despite its rather unmanly demise, the EAC was successful to some extent. There have been many attempts at economic integration in different parts of the Third World, but nowhere has there been so wide a range of activities with so highly organized a system as that of the EAC (Hazlewood 1979:173).

These include the East African Railways and the East African Airways which had become a smooth running, profit-making venture capable of competing with any world airline (unlike some of its successors, Kenya Airways, Air Tanzania and Uganda Airlines!).

Such efficiency could also be found in other services corporations of the community in the fields of transport, communication, research, education and social services.

As for intra-regional trade flow, their steady growth constituted clear evidence of the healthy results of the community. The significant manufactured goods component was a demonstration of trade-creation effect, contrary to many theories which tend to suggest that trade compliments are not readily obtained in regional groupings amongst the less developed countries (Mazzeo 1975).

The impact of the community on the intra-regional trade can be illustrated by the volume of trade of Tanzania; whereas in 1970 common market trade (both exports and imports) constituted about 9 per cent of the external volume of trade, the percentage had fallen below 1 per cent in 1982.

Furthermore trade records for the period 1963 to 1980 indicate that there was a considerable but gradual improvement of trade between Kenya and her partner states with the formation of the community. The goods traded included food, beverages and tobacco and basic materials such as fuels and manufactured goods. As trade expanded the proportion of food declined giving way to fuels and manufactured foods: an indication of each country's policy on food self sufficiency (Makanda et al 1987).

There was also a high degree of harmonization with respect to external tariffs, and fiscal policies.

Lastly there was a fair degree of capital and labour mobility among the three partner states.

Overall the EAC had become an efficient regional arrangement from which the partners were deriving substantial benefits in the form of a wider market and the economies of scale in running public corporations. The community was becoming more and more self sufficient with respect to a number of manufactured products.



Also, as a market, it was in an advantageous position to attract foreign investment. Even from the political angle, the EAC enabled governments to consult one another on various issues including those outside the Treaty.

The achievements discussed above are attributed to the EAC, and it is these that are a driving force for regional cooperation in other parts of Africa. But the three countries were already cooperating very well before the Treaty was signed. In fact, it is possible to interpret the establishment of the community not as a stride forward in cooperation, but as a stage in the process of disintegration, since soon after the Treaty was signed things began to break up and fell apart completely by 1977 (Mazzeo 1984:35).

### 2.3.3 Causes of Failure

The collapse of the EAC cannot be attributed to some single cause. In reality there were so many interacting influences and issues that only the more important ones will be discussed. The following section is based largely on Makanda's study (1987) where him and his colleagues try to identify in a historical context, factors that led to the collapse of the former EAC. According to them, the key reasons for the collapse of the community could be classified into political, administrative and economic factors.

## 1. Political Reasons

The fight for independence in the three partner states was mooted along the lines of cooperation since all three countries shared one colonial master. However, the three East African states gained self-rule between 1961 and 1963, and thereafter the spirit of integration started waning, as each country was now following its own political philosophy (Mwaza 1979:34). Furthermore, the different ideologies of the Governments of Kenya and Tanzania certainly made cooperation increasingly difficult. There was a growing ideological division between 'capitalist' Kenya and 'socialist' Tanzania. This increased the perception gap between the two nations. For example, the growth of the Kenyan economy was to a significant extent the consequence of the welcome it gave to foreign investors. Tanzania, to say the least, was wary of this route to development and only cooperated with Kenya out of despair or lack of a better alternative (Hazlewood 1975:63).

Secondly, the founders of the community could not have been expected to legislate against the appearance of General Idi Amin. The Authority did not meet after Amin came to power in Uganda, although after initial disruptions the essential business was conducted by obtaining the agreement of the members individually (Makanda et al 1987:23). Uganda

however, ceased to be an effective participant in Community discussions and the balance of the Community's tripartite structure disappeared (Hazlewood 1979).

## 2. Economic Reasons

The most serious economic problem faced by the EAC was that of unfair distribution of benefits.

The integration arrangements, which was mentioned earlier, had their origins in the early years of the century, and could not have been expected to continue unchanged from their colonial past into the era of independence. Change was essential once integration became voluntary and not enforced, because it was firmly believed in Tanzania and Uganda that the arrangements worked overwhelmingly to the benefit of Kenya as the most industrially developed country of the three. And as the headquarters of the various common services were established in Kenya, the employment and income-creating benefits of the services were believed also to accrue mainly there (Hazlewood 1979:189).

Another serious problem was the transfer tax system which was introduced by the Treaty so as to allow Tanzania and Uganda temporary protection from Kenyan competition industries. The tax was intended only for those industries which could be supported by the separated national markets as opposed to those which required the entire common market. An example would be the steel mills where Kenya set up



several plants leaving the other two countries with little room for expansion (Mazzeo 1984:172). However, the distinction between the two types of industry was not so clear-cut as the rationalization presumes. This led to the inefficient duplication of industries even in places where the markets clearly could not support the industries. (Hazlewood 1979:1985).

Another economic problem was that of infrastructure. A number of issues concerning transport, and the related issue of tourism, caused tension between the partner states, particularly Tanzania and Kenya (Mwaza 1979:25).

For one the Kenya tourist industry benefited from access to the game parks of northern Tanzania. They were generally included in a circuit for Nairobi based tourists, using Kenyan vehicles. Although payments were made for the use of Tanzania's hotels and services, nonetheless it was strongly contended by Tanzania that she received only minor benefits from the traffic (Tibazarwa 1979).

Secondly, a substantial road traffic developed between Kenya and landlocked Zambia crossing Tanzania. The benefits of the trade accrued to Kenya whereas it imposed costs on Tanzania from the use of Tanzania roads by heavy vehicles. Competition between road and rail was also a cause of tension. It was thought by some that the growth of the road transport in Kenya was to the benefit of private business in Kenya at the expense of the jointly-owned public railway

(Mwaza 1979). Tanzania eventually closed its border to Kenya's heavy vehicles, even before the general border closure (Tibazarwa 1979).

### 3. Administrative Reasons

The Treaty established a complicated institutional structure to administer and control the community. Ultimate control rested with the Authority composed of the three Presidents. It has been objected that the system relied too much on harmonious relations between the Presidents, and the control of the community collapsed when relations became bad.

It is also true that even during the first few years the existence of the Authority seemed to deprive lower levels in the administration of the Community of initiative and of willingness to seek solutions to issues between the partner states by compromise (Hazlewood 1979:99).

### 4. Other Reasons

Another fundamental cause of the collapse was foreign influence, mainly through the media which tended to magnify the political conflicts as well as to distort simple rhetorical and political differences among the leaders of that time. As for the multinationals, they were ill at ease with a strong community for fear of losing their monopolistic privileges once cooperation grew stronger and became more competitive (Makanda et al 1987:13).

As can be seen from the above discussion, there was no single cause of the death of the EAC, but rather a multiplicity of ailments, each of which by itself could have been survived, but which together were too much for the weakened body to bear.

Since its collapse the major joint preoccupation of the three countries has been the liquidation and distribution of assets and liabilities.

And as Hazlewood said,

"While no doubt the liberal and hopeful days of the EAC are gone forever, its collapse should provide an invaluable lesson for successor regional cooperation arrangements in East Africa and elsewhere, particularly SADCC and the PTA, which appear to have assumed the role previously attributed to the EAC" (Hazlewood 1979:169).

#### 2.3.4 Lessons Learnt from the EAC

An obvious lesson to be learnt is that without peace and tranquillity cooperation will not materialize, particularly where there are few member states. The EEC for example, has been successful largely because of the political stability prevailing within the members. As such, for the sake of economic progress, each member state of the PTA is urged to iron out their political differences with other member states.

An important lesson is that of the need to redistribute benefits of cooperation to ensure that the problem of unfair distribution of benefits is kept at a minimum. Furthermore,



pursuing the issue of integration from the comparative advantage point of view will not be beneficial if individual countries do not seem to be benefiting. What should be encouraged is identification of specific areas of cooperation and enhancing them with a view to each country benefiting.

In addition, policy makers and business communities in one country should know overall planning and administrative machinery in other countries.

promote trade and cooperation in all fields of economic activity, so as to raise the standards of living of the people in the region and foster closer relations among the member countries (RTA Treaty), and to contribute to the development of the African continent.

Altogether, the area is fairly large. The five countries have a population of 175 million people with a combined GNP of about US\$ 50 billion (GTA year 1993). Its headquarters are in Lusaka, Zambia.

### 3.1.1. Regional Development

The annual report of the United Nations Economic Commission for Africa (ECA) has presented regional and sub-regional strategies for African development. In this regard, it has proposed various institutions for education, research, technical assistance, administrative support, and collective action (UNEP, 1993).

## 2.4 The Preferential Trade Area (PTA)

The PTA is a relatively new economic cooperation arrangement amongst the countries of the Eastern and Southern African states, designed to foster sub-regional cooperation and integration.

The organization which President Moi described as "an African creation with deep African aspiration" is meant to promote trade and cooperation in all fields of economic activity, so as to raise the standards of living of the people in the region and foster closer relations among the member countries (PTA Treaty:4), and to contribute to the development of the African continent.

Altogether, the area is fairly large. The PTA countries have a population of 172 million people with a combined GDP of about US\$ 50 billion (PTA Diary 1989). Its headquarters are in Lusaka, Zambia.

### 2.4.1 Historical Background

For several years the United Nations Economic Commission for Africa (ECA) has promoted regionalism as the preferred strategy for African development. To this end, it has sponsored regional institutions for education, training, technical services, administrative support, and collective action (UNECA Jan.1969:4).

It has also funded studies since the early 1960s that have recommended measures to overcome physical obstacles to trade among the African states such as subregional cooperation arrangements.

According to the ECA, regional groupings in Africa should be comprised of a large number of states in order to provide markets of sufficient size to ensure capacity production in industry and other sectors of the economy (Africa News Mar.28 1983:6).

As such the ECA has worked toward the formation of four groupings that would encompass the entire African continent, with the exception of South Africa.

Since 1970, when the ECA ministerial adopted a resolution entitled *A Development Strategy for Africa in 1970s* the ECA has periodically proposed plans for the establishment of a new international economic order for Africa.

The origins of the PTA can be traced to the determination of successive executive secretaries of the ECA to force the pace of cooperation among African states in trade, transport and industry through the mechanism of sub-regional coordinating bodies.

Although the ECA had expressed interest in harmonization of industrial development as early as 1965 (African Research Bulletin 1967:853) it was not until the EAC collapsed in early 1977, that this body took the issue seriously.



As a first step towards trade cooperation, the ECA Conference of Ministers held in Kinshasa, Zaire, in March 1977, created the MULPOCs. They were Eastern and Southern Africa, West Africa, North Africa, Central Africa, and the Economic Community of the Great Lakes Countries (Kibera & Waruingi 1988:235).

In March 1978 in Lusaka, twelve states signed the Declaration of Intent and Commitment on the establishment of a Preferential Trade Area for Eastern and Southern African States as a first step towards the creation of a common market and eventually an economic community.

The idea of economic integration in Africa was given stronger emphasis in the Organization of African Unity's Lagos Plan of Action (LPA) which was launched in 1980. According to the LPA, preferential trade areas were to be formed within the framework of the MULPOCs referred to above. This was to be done by the end of 1984.

Thereafter a marathon series of meetings culminated in a Summit Conference in Lusaka in December 1981, where ten out of eighteen states signed the PTA Treaty and its 12 bulky protocols.

In June 1982, again in Lusaka, the PTA was formally inaugurated. Currently 15 members have signed the Treaty (Appendix I).

It is important to note that even though the PTA Treaty was signed in 1981, the operational phase of the PTA was not launched by the PTA Authority until July 1 1984, in Lusaka. This clearly can be attributed to the various controversial issues that arose

in the process of forming the PTA. These included a series of discussions on five of the Protocols. The lack of consensus on the contested issues grew in part out of the asymmetrical levels of development among the PTA states.

Experience in other preferential and free trade areas has shown that this leads to the more industrially advanced states, in this case Kenya and Zimbabwe, not only running favorable trade balances against their less developed partners, but also treating them as captive markets for their manufactured goods (Hall 1987:16).

Because of reservations about the PTA, only ten of the twenty potential members signed the Treaty on December 21, 1981. The fifteenth member, Tanzania, did not sign the Treaty until March, 1985.

From the above discussion it can be seen that although the idea of regionalism as a strategy for Africa's development is not new, the PTA was a sudden creation and its birth was not really preplanned. In fact as Anglin (1983:79) puts it,

".....the PTA emerged only after an initial miscarriage, a frustrating period of apparent infertility, and eventually, a long and difficult pregnancy. In fact, towards the end, the weary midwives might well have abandoned the attempt and aborted the birth if they had not been challenged by the sudden and unexpected arrival of an infant in the form of SADCC."

This could indeed be one of the reasons why the PTA faces numerous problems as will be discussed later on.

#### 2.4.2 Institutions of the PTA

The PTA is to be managed at five levels of institutions clearly outlined in the Treaty.

The supreme organ of the PTA is the Authority composed of the Heads of States and Government of the member states. It meets once a year on a rotating basis. It is responsible for the general policy matters, and for general direction and control of the performance of the executive function of the PTA, and is ultimately responsible for the achievements of its aims (PTA Treaty, Article 6:7).

The Council of Ministers is comprised of Ministers of member states in charge of trade and finance matters with PTA Portfolios. The Council meets twice a year on a rotating basis. It keeps constant review and ensures proper functioning and development of the PTA, and is in charge of making recommendations to the Authority on matters of policy aimed at the efficient and harmonious functioning of the PTA (PTA Treaty Article 7:8).

The Secretariat located in Lusaka, Zambia is headed by a Secretary General and is responsible for the day to day management of the PTA. \*Member states have contributed staff with various expertise in the fields of agriculture, industry, customs and trade (PTA Treaty, Article 9:9).



The Tribunal of the PTA has not been formed (Kibera & Waruingi 1988:236), but there is a provision in the Treaty for it. ~~\*~~ It is to be staffed by various legal personnel drawn from member states and will be responsible for the legal interpretation of the Treaty and regulation of disputes among member states (PTA Treaty, Article 10:11).

The Commission is staffed by professionals and managers drawn from member states and is responsible for overseeing the implementation of the Treaty and the management of a series of committees with special duties (PTA Treaty, Article 11:11).

#### 2.4.3 Protocols of the PTA

The protocols of the PTA are the *modus operandi* of the sub-regional organization. They show how the PTA Treaty can be put into practice by the member states. They show in detail the technicalities of complying with various articles and regulations of the Treaty (Mutugu & Njiraini 1988:11). There are 12 protocols whose provisions are outlined in the Treaty.

Of particular importance to this study are :-

- the Protocol on the Elimination and Reduction of Trade Barriers;
- the Protocol on Clearing and Payments Arrangements;
- the Protocol on the Rules of Origin for the Products to be Traded between the Member States of the PTA;

as these are key to the liberalization and expansion of trade within the PTA subregion. The other protocols are expected to have an impact in the longer run.<sup>1</sup>

Protocol on Reduction and Elimination of Trade Barriers  
on Selected Commodities

This protocol establishes a Common List of products which will be accorded preferential treatment when traded within the member states. This list is classified into six categories, in respect of which, the rates of duties will progressively be reduced and gradually eliminated (PTA Treaty, Annex I, Article 13:44).

The initial approved Common List had 212 items and was officially gazetted on January 31st, 1984. This list has been amended several times. The initial Common List as amended was increased to 325 commodities on July 1st 1985 and further increased to 332 commodities by December 1986. A further amendment in June 1988 brought the total number of commodities in the Common List to 420 at which it currently stands (PTA/AUTH/VI/3).

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1. Information Digest - Unpublished brochure of the Kenya External Trade Authority.

### Protocol on Clearing and Payments Arrangements

This protocol provides for the establishment of a Clearing House with appropriate machinery for payments, clearing and settlements of transactions. It is aimed at facilitating the widest possible trade within the PTA (PTA Treaty, Annex VI, Article 22:117).

In order to achieve the above goals, a PTA Clearing House has already been established in Harare, Zimbabwe with effect from February, 1984. It is housed in the Reserve Bank of Zimbabwe.

### Protocol on the Rules of Origin

This protocol sets out the rules under which goods traded within the PTA member states will enjoy preferential treatment. The Rules of Origin are an essential element in the implementation of the Protocol on the Reduction and Elimination of Trade Barriers, as they determine which commodities will be given preferential treatment. In fact, their clearer understanding and proper application are of utmost importance for implementation of all other protocols on trade (PTA Treaty, Annex III, Article 15).

Their understanding by the business community is even more vital if they have to reap the maximum benefit from the preferences accorded to trade within the PTA member states.



Rule 2(a) of the protocol states that:

"goods shall be accepted as originating from a member state if they are consigned directly from a member state to a consignee in another member state by enterprises which are subject to management by a majority of nationals and to at least 51 per cent equity holding by nationals of member states or government or governments of the member states or institutions, agencies, enterprises or corporations of such government or governments"

(PTA Treaty, Annex III, Article 15:62).

Following the launching of the operational phase of the PTA on 1st July, 1984, representations were made by some member states regarding the difficulties they had encountered in complying with the rule. Accordingly, in December 1984, the 5th Meeting of the Council of Ministers of the PTA directed that a study be undertaken immediately to see whether Rule 2(a) of this Protocol restricted intra-PTA trade (PTA/CT/GEN/3, Oct.1985:1). The study was carried out by the PTA Secretariat, assisted by consultants from member states. However, the Council of Ministers did not reach a consensus on the recommendations made in this report, and called for a more detailed study to be carried out. It was also agreed that the report on the study be submitted to the 7th Meeting of the Council in December 1985, and if consensus was not reached on this issue at that meeting, Council would have to refer the matter to the Authority for decision. This they did, and when the Authority met in May 1986 they decided to suspend the protocol for five years and in the meantime operate under the following rules:-

- i) Goods produced by the firms with at least 50% equity holding by nationals would enjoy 100% preferential treatment when exported to other member states.
- ii) Goods produced by firms with 41 % to 50% equity holding by the nationals would enjoy 40% tariff concessions (preferential treatment) when exported to other member states.
- iii) Goods produced by the firms with 30% to 40% equity holding by the nationals would enjoy 30% tariff concessions. Such tradable commodities which appear on the common list must have a minimum of 40% value added.

#### 2.4.4 Operations of the PTA

The PTA Treaty established the PTA as a first step towards the establishment of a common market and eventually of an Economic Community for Eastern and Southern Africa States (PTA Treaty, Article 29:23). The final step toward a common market status was originally targeted at 1992. However the original target for removal of non-tariff barriers and complete tariff reduction has been pushed forward from 1992 to 2005 which is more realistic. (Hall 1987).

The ultimate goal, however, will still be approached in stages,

"beginning with inter-linkages among the participating countries in those sectors amenable to quick results and building on success thus achieved to higher stages of economic integration" (Weekly Review 25 Nov.1983:11).

Therefore the major emphasis in the first stage is to be the promotion of intra-regional trade, with secondary emphasis on expansion and harmonization of the agricultural and industrial sector that supply trade, and improvement of the intra-regional transport links that facilitate it (Weekly Review 17 Feb 1984:24).

As such, because the major emphasis of the PTA in its first state is the promotion of intra-regional trade (although there are many other aspects of the PTA) the major focus of this study is on subregional trade.

#### 2.4.5 Need for the PTA

Even though it has been held that the formation of the PTA was quite accidental as mentioned in an earlier section, it's existence can be justified on several grounds.

Although the PTA member states vary in a number of respects, they have all experienced a series of common factors over the past decade which have adversely affected economic growth and development.<sup>2</sup>

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2. Comments of the Secretary General in a Meeting



For one, the industrially advanced countries have experienced an economic slow-down and this has affected the developing countries in that demand for their products have gone down. (Seidman 1980:215). In addition the industrialized countries have reduced the amount of aid that they give to developing countries of which all the PTA member states are part and parcel of.

Secondly, many of these countries have experienced severe natural catastrophes such as floods (Djibouti), droughts (Ethiopia), locust invasions and diseases epidemics, which have greatly lowered their agricultural output (USAID Report Mar.1987). As such industrial production has been indirectly affected because with less to export, these countries naturally have less foreign currency which is crucial to industrial development (Seidman 1980:38).

This has been made worse in recent years, when the world prices for many primary exports from PTA countries have fallen, while prices for petroleum and other products crucial for development have increased (Todaro 1982).

In addition, the region has continued to maintain extra-regional trade links instead of intra-regional links. This is worsened by the lack of infrastructure between the member states.

The consequences of these events are obvious. The countries are now experiencing heavy external debt burdens, lower standards of living, and an overall need of development resources.

It is within this bleak outlook that the formation of the PTA should be seen as a mechanism for widening the choices available to each of the member states to pursue their individual development efforts and in this way, to strengthen the subregional economy as a whole. Enhanced intra-regional trade would obviously be a step forward toward development. The PTA offers the potential to allow industries to specialize and achieve large economies of scale and at the same time, relieve the external funds constraints (Kibera & Waruingi 1988).

Indeed the PTA offers one of the best long-term options available to member states to get out of their current difficulties (USAID Report March 1987).

#### 2.4.6 Achievements of the PTA

Although the PTA is a relatively new economic cooperation arrangement, in summarizing the trade-related operations of the PTA to date, one can point to clear progress in a number of areas.

Trade transactions handled through the PTA Clearing House increased by 70 per cent in the last year over the prior 12-month period, and the net settlements in hard currency have been significantly reduced (Hall 1987:46).

By far the most successful trade promotion enterprise to date has been the trade fairs one of which was held in Nairobi in September 1986, at which,

"over 1000 products from 800 companies of the sub-region were displayed, resulting in a potential business turnover of US\$ 166,850,000"

(Draft Report, FCCI/III/7:19).

The second fair was held in Lusaka, Zambia in August, 1988. These trade fairs may well continue to be the best means of promoting sales until businesses find it economically feasible to invest in sub-regional advertising, sales forces and other means of marketing and distribution. As for the host countries Kenya and Zambia, the fairs proved very advantageous to them because trade with the other PTA member states increased considerably after the fair. Obviously, this was because of the increased awareness and exposure of the other goods to other PTA member states during the fair.

Trade between member countries has increased considerably since the operational phase of the PTA was launched in July, 1984. Increase in intra-regional trade as a proportion of total trade has increased from 4 per cent in 1973-1980 to 6.5 per cent in 1980-1985 period (The Standard 14 April 1987:2).

The table below indicates that intra-regional trade appears to be on the increase from the time the PTA was set into motion. The sharp decline in intra-PTA trade that occurred in the early 1980s slowed significantly in 1984, the year that the PTA became



operational, and an increase of 4.9 per cent in intra-regional trade was recorded in 1986. Further increases are therefore expected (Hall 1987:46).

Table 2.2 Intra-PTA Exports & Imports 1980-1986<sup>3</sup>  
in Millions of US\$

| Year     | 1980    | 1981    | 1982   | 1983   | 1984   | 1985   | 1986   |
|----------|---------|---------|--------|--------|--------|--------|--------|
| Exports  | 572.30  | 504.79  | 413.64 | 384.87 | 378.38 | 367.37 | 387.91 |
| Imports  | 558.49  | 517.07  | 525.10 | 445.93 | 433.97 | 432.25 | 452.58 |
| Total    | 1130.49 | 1021.86 | 937.74 | 830.80 | 812.35 | 799.62 | 838.49 |
| % Change |         | -9.6    | -8.2   | -11.4  | -2.2   | -1.6   | +4.9   |

Source: IMF Direction of Trade Statistics Year Book 1987

#### PTA Payment Arrangement

The PTA has also created the Unit of the Account of the PTA (UAPTA) in which PTA transactions and settlements are recorded and settled (PTA Treaty, Annex VI, Article 5). The PTA chose the IMF Special Drawing Right (SDR) as the basis of the UAPTA, possibly to enjoy stability because of the basket mechanism (Mutugu & Njiraini 1988:12). One of the basic premises behind

3. These figures are exclusive of Lesotho and Swaziland trade statistics.

the creation of the UAPTA was to eliminate the need for "hard" currency in regional trading. It was felt that the elimination of this requirement would encourage hard currency-starved PTA countries to undertake more trading between themselves, and reduce overall foreign currency needs.

PTA trade ideally was supposed to involve very little currency movement between the member states due to the off-setting effects of both imports and exports (Mutugu & Njiraini 1988:13). This type of trade is some sophisticated form of barter often referred to as monetized barter.

Monetized barter has led to improved accounting practices in member states reserve and commercial banks with respect to foreign trade as it requires adequate book-keeping services to avoid lengthy and costly reconciliations.

#### The PTA Trade and Development Bank

The PTA also established the PTA Trade and Development Bank in December, 1985. Its headquarters are in Bujumbura, Burundi. The Bank will be providing loans to promote trade and development to the member states, as well as opening up new job opportunities which would otherwise not have been possible (PTA Treaty, Article 32:27).

The political achievements cannot be overlooked as the PTA has improved relations between member states. For example, relations between Kenya and Tanzania are at their best since the collapse of the EAC. While the cordial relations prevailing cannot all be attributed to the PTA, it must be noted that at least the PTA provides the conflicting countries with a forum for them to air their views. This is made easier by the fact that there are more member states than there were in the EAC.

Valuable experience has been gained as business firms have begun to trade through the Clearing House. There has also been an attempt to create a database of information about the PTA countries, where member states can exchange technical information, ideas and experiences on production and supply of various commodities.

In addition, the official PTA publishers are compiling two directories, one for business - the PTA Business Guide, and one for tourism - the PTA Tourist Directory. All hotels, tourist operators, shops and all firms directly or indirectly dealing with the tourist industry; business prospects and information on the region's commerce and industry can have their addresses, products and services entered into these directories.

The PTA countries depend heavily on re-insurance and because their national markets are too small to bear all the risks that are undertaken by primary insurers, they have in the past been forced to re-insure risks with overseas re-insurers. This situation may however not last long as a company known as Zep-Re



is to be set up. The rationale behind the establishing of the company is that it will help the PTA countries solve the problem of inadequate capacities of domestic markets in the field of re-insurance. Already the PTA countries are operating the yellow card insurance scheme, which enables motorists from member states to cross borders within the sub-region with their insurance covers (Daily Nation May 8th 1989).

Kenya has now issued the PTA travellers cheques, which promote travel and business in the region. She is the last state to do so (Daily Nation April 18th 1989).

#### 2.4.7 Problems Facing the PTA

The pomp and fanfare with which the countries of the Eastern and Southern Africa sub-region received the establishment of the PTA when it became operational in July 1984 is over. Now, the fifteen member organization has to grope with the hard realities and problems that have in the past ground operations of similar efforts at economic integration in Africa to a halt. These have been clearly outlined by Mutugu (November 1988).<sup>4</sup>

Lack of sufficient support of the PTA from some member countries is one major problem. Countries like Angola, Botswana, Mozambique and Seychelles have not acceded to the Treaty.

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4. This paper will be the main source of information for this section.

Mauritius has signed the Treaty but has for a long time threatened to pull out, charging that the PTA serves the interest of the large and more developed countries in the region, particularly Kenya and Zimbabwe, and disregards the interests of small and less developed members (Financial Review Nov.10 1986). Such threats have adverse effects on potential members and also provides food for thought for those countries which have not signed the Treaty. It is with this in mind that the Secretary General of the PTA Secretariat sent a "goodwill" delegation to Mauritius in 1988 to convince them of possible benefits of PTA membership. The delegation was happy to report that Mauritius has now conceded and will host the next PTA Trade fair in 1990.<sup>5</sup>

Some member states are skeptical about PTA because they still remember the EAC, which collapsed because it was felt there was inequitable distribution of benefits. This is still a major problem in the PTA with Kenya and Zimbabwe accruing almost 90 per cent of the benefits (Financial Review, Oct.10 1988:39).

This lack of enthusiasm is also shown by the fact that some member states have lagged behind in the payments of their contributions to the PTA (Mutugu 1988).

The PTA also faces several economic problems. For one, transport and communication links are seriously underdeveloped in the region. Postal services are slow and phones often do not work. For example, it often takes a shorter time for a letter

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5. Disclosed by a senior KETA official during an informal discussion with the researcher.

posted to New York from Nairobi to reach its destination than one posted to Dar-es-Salaam from the same place. And for one to place a call to Bujumbura from Mogadishu, the call has to be connected through the London exchange!

Water, rail and road transportation are seriously hampered by lack of infrastructure. The little there is was largely developed by former metropolis colonialists and hence are geared toward extra-regional trade rather than intra-regional trade. This problem is worsened by the wide geographical proximity between several member states.

The problems of inadequate infrastructure in the region is so serious that unless action on it is accelerated, increasing trade within the PTA region is not going to be possible.

Lack of foreign exchange is a problem common to all developing countries. Although the creation of the UAPTA was meant to solve this or at least reduce a country's foreign exchange requirement, there is still need for settling the trade balances in hard currency every two months.

Most PTA countries derive a large share of their GDP from the agricultural sector, with the exception of Botswana, Zimbabwe and Zambia who have significant mining sectors; and Mauritius, Seychelles, and Mozambique who have a lot of commodities to sell to others, while others have nothing or very little to offer. As such, the PTA countries do not have sufficient tradable commodities to exchange between themselves (Daily Nation, 9 June 1987:9).



Distribution of benefits accruing from PTA membership to multinational corporations who are in a better position to reap the benefits of integration (Guy Martin 1979) is a serious problem in the PTA. The suspension of the Protocol on the Rules of Origin is evidence of this controversial issue. Despite the fact that this Protocol has been suspended for five years to give the affected countries (mainly Kenya and Zimbabwe) time to reorganize their companies equity structures, it is questionable whether these countries can really do so in so short a time. But for how much longer can the other countries wait? The answer to this question no doubt is of crucial importance to all the PTA member states (but is beyond the scope of this study).

As Cateora and Hess have observed, only 10 per cent of all African trade is intra-regional. Most of Africa's trade has been with other continents mainly because most African countries have continued trading heavily with their former colonial powers. They do so because either they have little or no choice in that they can't find alternative markets for their commodities, or there is still a fair amount of exchange between these former masters and their colonies in form of grants, loans, manpower and other forms of capital. The African countries are therefore still dependent on these countries to a large extent.

The PTA Budget, like the EEC Budget is also a problem. Some member states especially those with higher GNPs feel that they are contributing large amounts, while they have little or no commodities for export to the PTA region. Uganda for instance, feels that her contributions are used by others to their gain.

The PTA also faces several political problems. For one, many of the PTA countries are members of other political, economic and social institutions such as SADCC, hence have divided loyalties and allegiances towards the PTA.

As can be clearly seen in the EAC political stability of member states can very well determine the success (or failure) of a regional cooperation arrangement. Within the PTA some regimes are clearly politically unstable and, even though the PTA at least has a better footing than the EAC had, seeing as it has more members, it is still shaken by the effects of political upheavals.

Socio-cultural barriers are also a major problem within the PTA region. The countries within the region have diverse cultures and social backgrounds, in addition to the numerous languages spoken in the region. This makes cooperation more difficult as seen in ECOWAS where for instance there are cultural differences between the anglophone and the francophone members. However, it has been held that if one is determined to penetrate a market, language or culture are but small barriers. This is seen in the

EEC where the Belgians have a great variety of languages and the Dutch in Netherlands who speak little else (Haalandia et al, 1972:12).

The PTA members have different standards and quality control requirements for products sold in their countries. This means that an exporter to the PTA must adopt at most fifteen different standards in order to sell to all member countries. Although this is an extreme case it could happen and if it does, it would be almost impossible for any one manufacturer to adopt such standards. If he decided to segment the market so as to stick to relatively close standards he is back to the problems of small markets.

Traditional petty jealousies and ideological orientation are also a problem within the PTA as they hamper trade in the region.

Many of the PTA countries rely heavily on the duties levied on exports and imports for government revenue. If the PTA achieves its objectives on the zero-tariff barriers these countries stand to lose a greater part of their revenue and fear that it will not necessarily be compensated for this loss by the lower prices. Uganda is a good example. As such a few countries have as yet published the tariff rates.

The Council of Ministers of the PTA has therefore called for a study to 'undertake an analysis of the impact of the PTA trade liberalization process on the economies of member states'.<sup>6</sup>

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6. This was at the 8th Meeting of Customs and Trade Committee - Study on the Feasibility of Eliminating Customs Duties and Non-Tariff Barriers to Intra-PTA Trade, held in Lusaka, Zambia in May, 1987.



The issue is however still unresolved, and is causing a lot of apprehension to the member states.

#### 2.4.8. Kenya and the PTA

Kenya's economic requirements do not differ much from those of other PTA countries as outlined in an earlier section (see Section 2.4.5). Numerous events in the country ensure that this remains so.

Agriculture is the mainstay of the Kenyan economy and thus a dismal performance in this sector adversely affects the rest of the economy as happened in the early eighties following the drought and the general fall in world market prices.

It is argued that Kenya's export sector has a potential of leading a role in Kenya's development strategy (Ikiara & Manandu, Nov 1985:2). Exports which provide stable and rapid growth of earnings play a dual role in the process of Kenya's economic development. Export earnings enable the economy to acquire co-operant factors such as raw materials, fuel, spare parts and new capital equipment from foreign sources. They also enable the country to settle its external debt obligations.

Kenya's economic problems are worsened when one looks at the exorbitant population growth rate (ILO Report 1985).

If she can find a way out of this economic crisis, Kenya must take advantage as soon as possible towards the long road of recovery. The PTA provides an opportunity for increasing intra-regional trade and this would at least reduce the foreign debt problem. In addition, the PTA provides an opportunity for her to develop her industrial sector thus diversifying her output.

These were her major objectives when she joined the PTA as has been reported time and time again. In fact Kenya has become the leading economy in the region especially among the northern PTA states and rendering economic patronage to a handful of other economies in the sub-region. Her share of the intra-PTA trade is, for instance ten times that of Somalia or Burundi and five times that of Ethiopia and Djibouti (Financial Review Oct 24, 1988).

While this is an achievement for Kenya, the situation has been a major source of conflict with the PTA. Traits of strain already exist between Kenya and some countries. For instance, Kenya imports Shs. 1 worth of goods from PTA for every Shs. 6 worth of exports to the same (Financial Review Oct 10, 1988:39).

As such, while she endeavours to increase her inter-PTA trade, Kenya must be careful to ensure that she does not take advantage of the other PTA countries to the extent that the PTA collapses.

Kenya has been a net exporter in the PTA, throughout the time the PTA has been existing (Economic Survey 1988). However, the situation was no different before the PTA was set up (see Table 1.1). The question therefore is, whether her trading position has improved with the onset of the PTA or would have been so despite the interruption made by the PTA.

Kenya is fully committed to the PTA and is the largest contributor, paying 20 per cent of the PTA budget (The Standard Dec 2nd 1988). Whether this justifies her reaping most of the benefits, as has been alleged, she must be careful as she now appears to be threatening other PTA countries. No doubt she has a clear advantage in that she spends literary no foreign exchange on up to 10 per cent of her international trade - PTA trade represents about 10 percent of Kenya's total world trade (Financial Review Oct 24, 1988:39). But whether this advantage has always been there is the question at hand and is the core problem of this study.

## 2.5 Questions Arising from the Literature Review

Despite the differences which exist between the PTA and other attempts at regional cooperation in the Third World, it is possible to point at two common conclusions which emerge from these attempts.



The first of these is the unequalizing tendencies which result from "the free play of market forces" in these arrangements. This can be seen clearly in the EAC where free access to wider markets led to a greater concentration of economic activity in the already more industrialized economies.

Secondly, individual member states tend to look at the benefits of cooperation in the shorter term thus concentrating on the benefits at a national level rather than at a regional level.

Thirdly, as has been held by many persons, Kenya's trade has increased considerably since the PTA begun.

As a result, the following questions arose:

- (1) Has the PTA been more beneficial to Kenya than to the other member states as has been suggested?
- (2) Have the short term benefits of the PTA been significant to Kenya's intra-PTA trade?

The first question was difficult to answer because the literature on the PTA is lacking in as far as the benefits accruing to individual member states is concerned.

However to answer this question one must first determine the extent to which Kenya has benefited from the PTA, and in that respect, this study will be a first step towards the answer to this question.

The second question forms the basis of this study.

## CHAPTER 3

### RESEARCH METHODOLOGY

As mentioned in the first chapter, this study sought to measure the impact that the setting up of the PTA had on Kenya's export trade and to forecast future trends for the same. This chapter deals with the research design which was used to meet these objectives.

#### 3.1 The Population

The population of interest in the study consisted of all commodities that were listed in the PTA Common List as at 31st December 1986. This list contains 332 items (Appendix II).

Because the export trend of one commodity or that of a group of commodities often bears little relationship to that of another, sampling was of little use. As such, except where it was not possible to do a census (see section 3.2 below), there was no sampling.

The items listed on the Common List were divided into sub-populations as follows:-

- food items and live animals;
- alcoholic beverages and tobacco;
- inedible raw materials (except fuels);
- petroleum products and related materials;
- animal and vegetable oils and fats;
- chemicals;
- machinery and transport equipment;
- other manufactured items.

The last category includes manufactured items that have not been specified in any other category and consists of leather products, rubber products, textile products, cork, wood and paper products, non-metallic and metallic mineral products.

The purpose of this categorization was to find out whether there are any significant differences between the export trends of each of the sub-populations. It was felt that the impact on these categories differed for the following reasons:-

(1) most of the PTA countries are agriculture-based and hence trade on agricultural products between these countries is likely to be less significant than for manufactured or semi-manufactured goods (Mutugu 1988);

(2) tariff concessions that were announced by the Secretary General in the beginning of the operational phase of the PTA in 1984 allowed for greater concessions on capital goods, manufactured consumer goods and intermediate goods to promote intra-regional trade on these items (PTA Treaty, Annex 1, Article 4).



### 3.2 Sampling Procedure

The only sub-population for which it was necessary to sample was that of manufacturing items. This category had numerous items all of which could not be analyzed. Although there are only 163 items in this sub-population as per the Common List, in the Annual Trade Reports these items were further sub-divided such that there were about 650 individual manufactured items to be examined.<sup>1</sup>

To decide on the appropriate sample size, the following formula was used :

$$n = \frac{N z^2 s^2}{E^2 (N-1) + z^2 s^2}$$

where :-

N = sub-population size

z = reliability factor

n = sample size

s = sample standard deviation

E = maximum tolerable error.

1. For example in the Common List an item such as *tubes and pipes of iron and steel* was broken down further in the Annual Trade Reports according to the diameter of the tubes or pipes, such that there were represented by five different items.

In this study, the reliability factor was set at 95% and therefore  $z = 1.96$  (Appendix III). Since the sub-population standard deviation is unknown it was found necessary to use a sample standard deviation. To get this statistic, a pilot study was carried out, where 50 items from the sub-population were selected. The years selected for the pilot study were 1980 and 1981 as these were the middle years for the period of interest in this study and it was felt that they were representative of the entire period. The standard deviations of the two samples were then obtained. The results obtained were:-

$$S_{80} = 6.4152$$

$$S_{81} = 5.2488$$

$$E(s) = \left( S_{80}^2 + S_{81}^2 \right) / 2 = 5.832$$

Since the samples chosen for the pilot study were greater than thirty ( $n > 30$ ) these sample parameters could be taken to be unbiased estimates of the population parameters (Daniel & Terrel 1983:128).

The maximum tolerable error was set at 0.98 which is normally arrived at by dividing the reliability factor by two (Parson 1978:312).

Applying the above statistics, the appropriate sample size was determined as follows :-

$$n = \frac{163 \times (1.96)^2 \times (5.832)^2}{(0.98^2 \times 162) + (1.96)^2 (5.832)^2} = 74.403$$

As such the appropriate sample size was 75 units.

To ensure that the sample was representative, the sub-population was stratified and the number of items selected from each strata determined as shown in the following table.

Table 3.1 Determination of Items to be Selected from each Stratum of the Manufactured Items Category

| Type of product<br>(based on materials) | No. of items<br>(Common List) | Number<br>Selected <sup>2</sup> | Rounded |
|-----------------------------------------|-------------------------------|---------------------------------|---------|
| - Leather                               | 12                            | 5.52                            | 6       |
| - Rubber                                | 13                            | 5.98                            | 6       |
| - Textile                               | 29                            | 13.34                           | 13      |
| - Cork, Wood & Paper                    | 36                            | 16.56                           | 17      |
| - Non-Metallic mineral                  | 33                            | 18.40                           | 18      |
| - Metallic                              | 40                            | 15.18                           | 15      |
| Total                                   | 163                           | 74.98                           | 75      |

2.

$$\text{Number selected} = \frac{\text{No. of items in sub-category}}{\text{Sub-population size}} \times \text{Sample size}$$



The sample units were then selected from the sub-categories using random number tables (Appendix IV) against the SITC Codes. For the items selected, the export earnings in Kenya shillings to the PTA countries were totalled and this total assumed to be representative of the entire population, and therefore used for the analysis of this category.

### 3.3 Data Collection Methods

This study made use of both secondary and primary data. However, secondary data was the main source.

#### a) Secondary Data

Data on actual exports between Kenya and other PTA countries for selected commodities for the years 1974 - 1987 inclusive, was obtained from the Annual Trade Reports for Kenya, prepared by the Customs & Excise Department of the Ministry of Finance. For purposes of this study, only those countries that have signed the Treaty were considered.

The Trade Reports show Kenya's external trade, that is imports from and exports to all countries of the world that Kenya trades with. For each commodity exported or imported in each year, the reports show the monetary value in Kenyan shillings, the units of measurement (e.g tonnes, kgs, pounds, litres), and the amount.

In this study, only the Kenya shillings value was used because an aggregate of the exports was necessary to measure the impact. As such, it was necessary to use a common denominator, such as the monetary value, in order to make the aggregation possible.

It was felt that as the study set out to measure the actual impact of the PTA on these commodities, it would be better to use the aggregates as opposed to averages. However, to make the data more manageable, the totals were converted into thousands of Kenyan Pounds (where 1 Kenyan pound = 20 KShs.).

#### b) Primary Data

Although secondary data provided the main source of information in assessing the impact of the PTA on Kenya's export trade, it was not sufficient to conclude that any differences in trade for the period under consideration could be freely attributed to the PTA. As such more information was required to assist the researcher to carry out a systematic in-depth inquiry into the present and future trends of each category.

This was obtained using an interview guide (Appendix V). Personal interviews were held with three people who were considered to have considerable knowledge on PTA trade.

### 3.4 Data Presentation and Analysis

The impact of the PTA was tested largely by applying comparative analyses. First, data collected on export earnings for the defined categories was totalled and graphed for the years 1974 to 1983, this being the base period for the generation of forecasts. This was done using the LOTUS 123 personal computer package. The years were displayed on the x-axis, while the export earnings were on the y-axis. The graphs are presented in the next chapter (see Figures 4.1A to 4.8B).

1974 was chosen as the base year because this is when the adverse world economic environment became apparent in the overall performance of the Kenyan economy (Economic Survey 1981). In addition, since the forecast periods were relatively short, it was felt that the base period need not be unnecessarily long.

The graphs revealed that Kenya's export trade is quite erratic and hence the model to be used in generation of the forecasts should take this factor into account.

The forecasting technique that was found to be most appropriate was Exponential Smoothing. This model is available in the STATGRAPHICS micro-computer package, which is a unique personal computer software integrating a wide variety of statistical functions. This technique is used for short-term to medium range forecasts where figures from period to period are erratic. In addition there was need to select a method that would take other exogenous factors into account. For example, trade



statistics are invariably influenced by inflation, devaluation, and other economic factors. These exogenous factors are expected to continue into the forecast period, *ceteris paribus*. Because exponential smoothing considers all past observations in predicting future movements, the effects of these exogenous factors were automatically taken care of in the predictions.

A weakness of exponential smoothing is that it fails to capture cyclic and seasonal sources of variation. However, because the study deals with annual figures, the cyclical and seasonal sources of variation have not been isolated.

In this method weights given to past observations are not constant, rather, they decline exponentially so that more recent observations get more weight than earlier values. No observation is ever completely discarded in the exponential smoothing model, that is, each new forecast takes into account all past data, including forecasts already generated.<sup>3</sup>

For proper use of this model, there is need to select a smoothing factor - alpha ( $\alpha$ ), which determines how much weight would be given to the more recent observations as they are more influential on current period earnings than past earnings are. The smoothing factor assumes a value between 0 and 1.

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3. For example, the forecasts for 1985 took into account the entire base period (1974-83) plus the forecasts for 1984, while the forecasts for 1986 also took into account the 1984 and 1985 forecasts and so forth for the other years.

In this study, the choice of the smoothing factor was based on the mean squared error (MSE) - that is the "best" value for this factor was the one that gave the minimum MSE. It is assumed that the curve that minimizes the errors, gives the best linear unbiased estimate (Daniel & Terrel 1983). Once the MSEs were calculated and the "best" smoothing factor selected for each category, the "best" fit smoothing curve was fitted to the data and forecasts for the period 1984-87 were obtained.

The predictions obtained were then plotted on the graphs showing Kenya's actual export trade for the years 1974 to 1983. These predictions depict what Kenya's export earnings would have been in the period assuming the interruptions made by the PTA had not taken place. The actual export earnings for the period 1984-87 were then super-imposed onto the graphs for comparison.

The null hypotheses were that there is no significant difference between actual exports and the predictions obtained for the following categories:-

- food items and live animals;
- alcoholic beverages and tobacco;
- inedible raw materials (except fuels);
- petroleum products and related materials;
- animal and vegetable oils and fats;
- chemicals;
- machinery and transport equipment;
- other manufactured items.

Chi-Square tests were then used to test whether there were any significant differences between the actual export earnings (sample 1) and the predicted exports (sample 2) for the period 1984-87. The test on the difference between the two samples was conducted at the 95% confidence level. In both samples there were only four observations, that is, one observation per year for the years 1984 to 1987 inclusive. Because the number of observations in all the cases was less than 30, it was found necessary to use the t-test for the hypothesis test procedures (Boyd et al 1988:523).

A rejection of the null hypothesis thus implied that the PTA has had a significant impact on the export earnings of the category under consideration.

On the other hand, if the test resulted in a failure to reject the null hypothesis, then it implied that there was not enough evidence to conclude that the PTA has had any impact on the export earnings of the category under consideration.

For those cases that the null hypothesis was rejected at 95% level of confidence, a similar test was carried out at 99% level of confidence. If the null hypothesis was still rejected at this level, then the implication was that the impact of the PTA on the export earnings of that category was highly significant.

The rest of the analysis addressed itself to the second objective of the study - the prediction of future trends for Kenya's export earnings for the years 1988 to 1992.



1992 was chosen as the end of the forecast period because it is in that year that the suspension of the Protocol on the Rules of Origin ends. Thereafter, trends will depend largely on whether this suspension is lifted or extended.

The same method of analysis as was used before - exponential smoothing - was used to obtain these forecasts. The only difference was that for the 5-year forecasts (1988 to 1992) the base period was extended to 1987, that is, the latest year for which actual export earnings data was available. The base period therefore covered 14 years as opposed to the 10 years used in the earlier forecasts. The smoothing factors used were also selected on the basis of the MSE as before. Graphs showing the forecasts for this period were also drawn.

The detailed data analysis and findings are presented in the next chapter.

## CHAPTER 4

### RESULTS

The thrust of the analysis in this study was to assess the impact the PTA has had on Kenya's export trade since it came into being in 1984, and to forecast trends for the future for the same. This chapter presents and discusses the findings of the study. The data collected is presented by use of line-graphs and tables.

As mentioned in the chapter on methodology, exponential smoothing was the technique used for the analysis, and the necessity of the smoothing factor elucidated. It is important that the smoothing factor is given before one examines the results because a different factor leads to different forecasts which may indeed result in different conclusions being drawn.

As such the smoothing factors ( $\alpha$ ) used in the study are given in the table below.

Table 4.1 : Smoothing Factors ( $\alpha$ ) Used for Various Categories

| Category                           | Smoothing Factor       |                        |
|------------------------------------|------------------------|------------------------|
|                                    | 1988-87<br>predictions | 1988-92<br>predictions |
| 1. Food items & live animals       | 0.2                    | 0.2                    |
| 2. Alcoholic beverages & tobacco   | 0.1                    | 0.2                    |
| 3. Inedible raw materials          | 0.3                    | 0.2                    |
| 4. Petroleum products              | 0.3                    | 0.4                    |
| 5. Animal & vegetable oils         | 0.1                    | 0.2                    |
| 6. Chemicals                       | 0.3                    | 0.2                    |
| 7. Machinery & transport equipment | 0.1                    | 0.1                    |
| 8. Other manufactured items (NES)  | 0.3                    | 0.2                    |

Table 4.2 shows the actual export earnings for the base period as summarized by categories. Using the smoothing factors given in Table 4.1 in combination with the actual exports shown in Table 4.2, forecasts for the period for which the impact of the PTA is to be assessed (1984-87) were generated. The actual export earnings for the same period along with the generated forecasts are shown in Table 4.3.

For each category, a t-test was carried out, the results of which are shown in Table 4.4. The samples each had four observations which are shown in the columns of Table 4.3.



Table 4.2 : Kenya's Export Earnings from PTA Countries (1974-1983)

|                                          | in '000s of K£s |            |            |            |            |            |            |            |            |             |
|------------------------------------------|-----------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
|                                          | 1974            | 1975       | 1976       | 1977       | 1978       | 1979       | 1980       | 1981       | 1982       | 1983        |
| Food items and live animals              | 1,526,837       | 762,940    | 759,576    | 3,831,681  | 2,799,676  | 4,110,913  | 2,398,854  | 2,676,749  | 3,114,594  | 8,228,521   |
| Alcoholic beverages and tobacco          | 23,125          | 36,404     | 300,523    | 510,090    | 354,089    | 622,752    | 1,389,205  | 31,461     | 72,998     | 392,759     |
| Inedible raw materials (except fuels)    | 318,246         | 109,018    | 87,907     | 194,688    | 373,138    | 298,246    | 569,787    | 715,677    | 592,462    | 1,486,080   |
| Petroleum products and related materials | 5,307,213       | 6,765,309  | 5,069,219  | 36,396,196 | 26,035,242 | 28,277,437 | 54,895,080 | 58,979,757 | 64,994,403 | 72,561,728  |
| Animal and vegetable oils and fats       | 88,311          | 523,146    | 776,200    | 161,016    | 65,739     | 220,170    | 196,734    | 293,586    | 54,538     | 112,645     |
| Chemicals                                | 1,444,479       | 1,258,763  | 2,387,793  | 5,518,028  | 3,148,270  | 6,167,205  | 7,929,281  | 7,262,073  | 9,801,684  | 11,238,951  |
| Machinery and equipment                  | 20,450          | 31,793     | 10,588     | 120,871    | 98,123     | 50,653     | 66,438     | 1,375,519  | 324,854    | 149,994     |
| Other manufactured items                 | 834,714         | 965,609    | 1,184,253  | 1,710,944  | 1,627,815  | 2,893,519  | 3,512,888  | 4,661,760  | 6,530,916  | 5,914,102   |
| TOTAL                                    | 9,563,375       | 10,452,982 | 10,576,059 | 48,443,514 | 34,502,092 | 42,640,895 | 70,958,267 | 75,996,582 | 85,486,449 | 100,086,780 |

Table 4.3 : Kenya's Export Earnings from PTA Countries (1984-1987)

|                                          | in '000s of K£s            |                            |                             |                             |                             |                              |
|------------------------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|
|                                          | 1984                       | 1985                       | 1986                        | 1987                        | MEAN                        | TOTAL                        |
|                                          | ----                       | ----                       | ----                        | ----                        | ----                        | -----                        |
| Food items and live animals              | 6,198,753<br>(6,496,330)   | 6,326,184<br>(7,289,470)   | 11,441,787<br>(8,130,020)   | 10,231,961<br>(9,017,980)   | 8,549,671<br>(7,733,450)    | 34,198,685<br>(30,933,800)   |
| Alcoholic beverages and tobacco          | 156,432<br>(490,731)       | 3,894,549<br>(521,183)     | 3,027,753<br>(552,408)      | 3,740,360<br>(584,405)      | 2,704,774<br>(537,182)      | 10,819,094<br>(2,148,727)    |
| Inedible raw materials (except fuels)    | 2,061,936<br>(1,523,250)   | 2,712,354<br>(1,835,040)   | 3,149,330<br>(2,175,160)    | 4,744,826<br>(2,543,620)    | 3,167,112<br>(2,019,268)    | 12,668,446<br>(8,077,070)    |
| Petroleum products and related materials | 74,962,478<br>(85,015,200) | 62,924,141<br>(96,271,000) | 61,367,487<br>(108,186,000) | 42,272,706<br>(120,762,000) | 60,381,703<br>(102,558,550) | 241,526,812<br>(410,234,200) |
| Animal and vegetable oils and fats       | 258,454<br>(203,480)       | 338,118<br>(205,886)       | 288,600<br>(208,248)        | 212,500<br>(210,566)        | 274,418<br>(207,045)        | 1,097,672<br>(828,180)       |
| Chemicals                                | 11,290,839<br>(12,771,900) | 14,759,145<br>(14,504,800) | 16,397,508<br>(16,350,700)  | 14,178,060<br>(18,309,500)  | 14,156,388<br>(15,484,225)  | 56,625,552<br>(61,936,900)   |
| Machinery and equipment                  | 447,667<br>(413,014)       | 202,169<br>(445,471)       | 1,147,355<br>(478,903)      | 2,014,248<br>(513,309)      | 952,860<br>(462,674)        | 3,811,439<br>(1,850,697)     |
| Other manufactured items                 | 6,735,106<br>(7,414,920)   | 11,765,918<br>(8,494,270)  | 13,606,557<br>(9,646,150)   | 11,231,542<br>(10,870,600)  | 10,834,781<br>(9,106,485)   | 43,339,123<br>(36,425,940)   |
| Total - actual exports                   | 102,111,665                | 102,922,578                | 110,426,377                 | 88,626,203                  | 101,021,706                 | 404,086,823                  |
| Total - predicted exports                | (114,328,825)              | (129,567,120)              | (145,727,589)               | (162,811,980)               | (138,108,879)               | (552,435,514)                |

Table 4.4 : Results of the Two-Sample Analysis for Testing the  
Difference Between Actual and Predicted Exports

| CATEGORY                                    | COMPUTED<br>t-value | DECISION<br>on $H_0$<br>( $\alpha = 0.05$ ) | DECISION<br>on $H_0$<br>( $\alpha = 0.01$ ) |
|---------------------------------------------|---------------------|---------------------------------------------|---------------------------------------------|
| Food items and<br>live animals              | 2.46954             | Reject                                      | Accept                                      |
| Alcoholic beverages<br>and tobacco          | 2.49033             | Reject                                      | Accept                                      |
| Inedible raw materials<br>(except fuels)    | 1.19888             | Accept                                      | -                                           |
| Petroleum products<br>and related materials | -4.11881            | Reject                                      | Reject                                      |
| Animal and vegetable<br>oils and fats       | 2.5502              | Reject                                      | Accept                                      |
| Chemicals                                   | -0.83089            | Accept                                      | -                                           |
| Machinery and equipment                     | 1.20411             | Accept                                      | -                                           |
| Other manufactured items                    | 1.05582             | Accept                                      | -                                           |

Lastly, forecasts for the future were generated using the smoothing factors also shown in Table 4.1, and export earnings (actual) for the years 1974 to 1987. The forecasts obtained are shown in Table 4.5.



Table 4.5 : Kenya's Export Earnings from PTA Countries (1988-1992)

|                                          | in '000s of K£s |            |            |            |            |
|------------------------------------------|-----------------|------------|------------|------------|------------|
|                                          | 1988            | 1989       | 1990       | 1991       | 1992       |
| Food items and live animals              | 11,652,800      | 12,953,500 | 14,322,100 | 15,758,500 | 17,262,600 |
| Alcoholic beverages and tobacco          | 4,014,090       | 4,611,740  | 5,244,040  | 5,910,990  | 6,612,600  |
| Inedible raw materials (except fuels)    | 5,677,740       | 6,912,980  | 8,268,650  | 9,744,770  | 11,341,300 |
| Petroleum products and related materials | 32,570,500      | 17,051,700 | 10,735,600 | 8,053,000  | 5,143,600  |
| Animal and vegetable oils and fats       | 265,993         | 272,663    | 279,422    | 286,272    | 293,212    |
| Chemicals                                | 17,442,900      | 18,972,200 | 20,562,900 | 22,214,800 | 23,928,100 |
| Machinery and equipment                  | 1,118,320       | 1,210,990  | 1,306,500  | 1,404,850  | 1,506,050  |
| Other manufactured items                 | 13,373,800      | 14,358,400 | 15,309,700 | 16,227,700 | 17,112,400 |
| TOTAL                                    | 86,116,143      | 76,344,173 | 76,028,912 | 79,600,882 | 83,199,862 |

#### 4.1 Food Items and Live Animals

The richness in the variety of Kenyan exports to the PTA countries for this category was clear from onset, and prevailed throughout the years under consideration. Kenya exports a wide variety of food items and live animals covering most of the items in the Common List.

Broadly, these could be grouped into:-

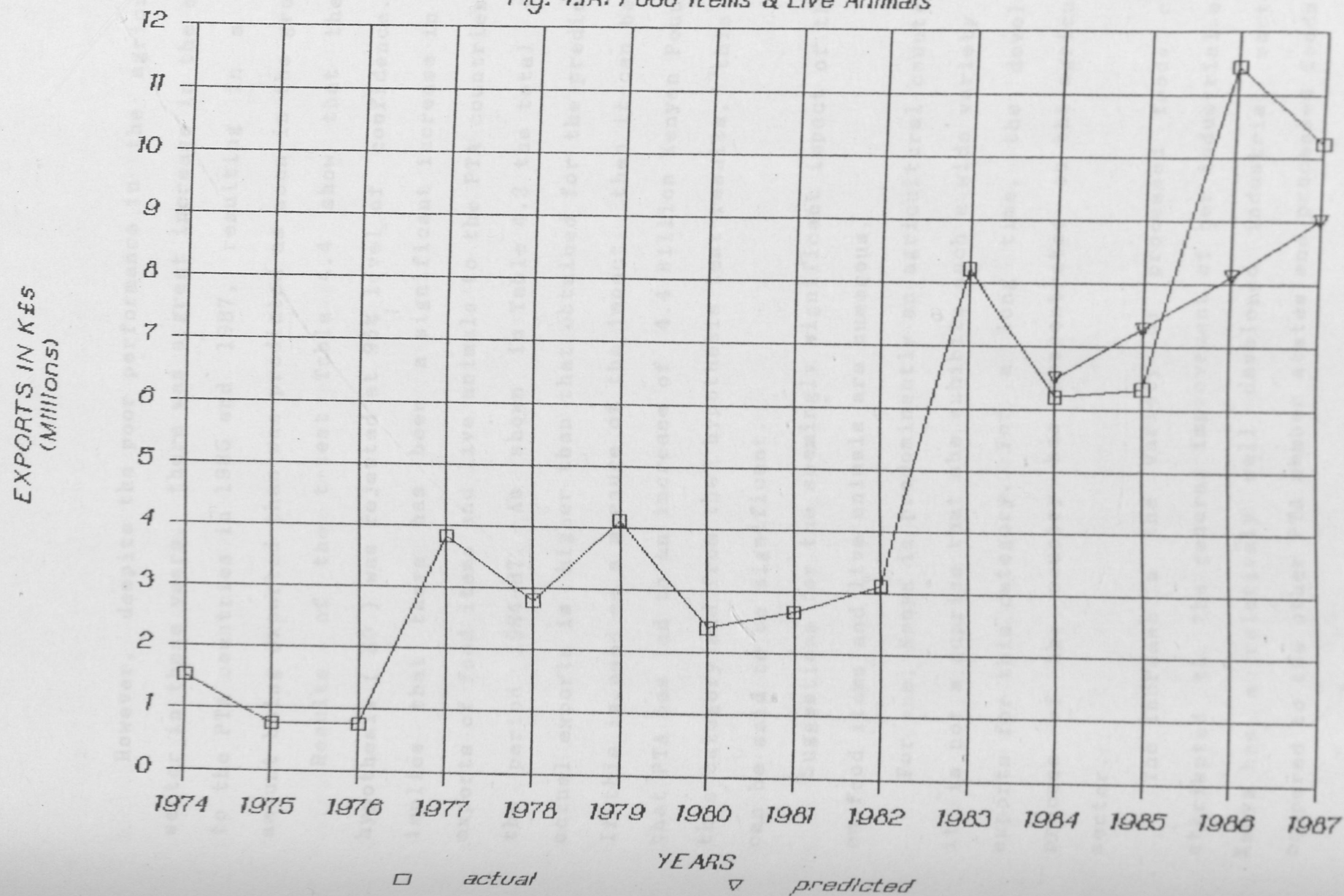
- i) food items in their primary form e.g. grain, fruits, vegetables and live animals;
- ii) processed food items e.g. dairy products, juices, frozen foods.

The first group had several items, but the variety did not increase over time. On the other hand, there were fewer processed foods in the earlier years (1974-1983), but the range increased thereafter.

Figure 4.1A shows the movement of the items in this category from 1974 to 1987. The movement over the years was found to be erratic, but showed a general rise. There was a considerable drop in the export of these items in 1984-85, and this could be attributed to the drought Kenya faced in 1984, the effects being carried on into 1985.

# KENYA'S EXPORTS TO P.T.A. COUNTRIES

Fig. 4.1A: Food Items & Live Animals





product of the industrial sector, are bound to improve in quality. However, despite the poor performance in the agricultural sector in these years, there was a great increase in the exports to the PTA countries in 1986 and 1987, resulting in a higher amount being exported than was predicted as seen in the graph.

Results of the t-test Table 4.4 show that the null hypothesis (  $H_0$  ) was rejected at 95% level of confidence. This implies that there has been a significant increase in Kenyan exports of food items and live animals to the PTA countries over the period 1984-87. As shown in Table 4.3 the total for the actual exports is higher than that obtained for the predictions. If this is used as a measure of the impact, then it can be said that PTA has led to an increase of 4.4 Billion Kenyan Pounds for this category and from the hypothesis test results, this impact can be said to be significant.

Suggestions for the seemingly significant impact of the PTA on food items and live animals are numerous.

For one, Kenya is predominantly an agricultural country, and it is not a surprise that she exhibits such a wide variety in her exports for this category. For a long time, the development process of the country has concentrated on the agricultural sector.

The increase in the variety of processed foods can be attributed to the general improvement of her industrial sector. Kenya has a relatively well developed industrial sector as compared to the other PTA member states and processed foods being

a product of the industrial sector, are bound to improve in quality and variety over the years. The PTA region provides a ready market for these products and it is on these items that Kenya should emphasize on.

Nevertheless, although she may be a leader in this category, the benefits accruing to her may not last for reasons given below.

Most of the other PTA member states are also predominantly agriculture based, so, while the market may appear lucrative for the short run (because of her dominance in the industrial sector), in the long run, when other PTA member countries have uplifted their industrial sectors, Kenya will have a smaller market share. For example, very few of her exports go to Zimbabwe which also has a well developed industrial sector - probably the most developed in the entire region. Most of Kenya's export of these items go to Uganda, Tanzania, Somalia, Ethiopia, Rwanda and Burundi.

Many African countries are now attempting to achieve food self-sufficiency, and although many of them are still far from target, their efforts to achieve this objective may limit Kenya's market.

Agricultural commodities are usually highly perishable, and unless proper care is taken in the handling, storing and transporting of these commodities, they often spoil quickly. Unless one first endeavours to ensure all the relevant faculties

are functioning properly, then even if a potential market exists, it cannot be serviced and hence is useless. This is a serious problem in Africa, and indeed within the PTA region.

Kenya also faces serious problems on the production side. These problems include shortage of exploitable land; deteriorating quality of the little exploitable land there is because of ill-use or re-use; existence of "telephone" farmers; ever-changing and unpredictable climatic conditions and the persistence of many small-scale farmers to produce for local consumption only. As such, she may well have reached her peak and unless these factors are considered seriously, it is doubtful that her export earnings will increase significantly in the future.

Kenya also has to service world market quotas before she can turn to the PTA region. The world market fetches better prices and a relatively stable market for her produce such as tea and coffee.

Lastly, there is the issue of food items being basic necessities. As such PTA members may have been purchasing foodstuffs from Kenya for a long time, and will continue doing so because they need these basic life-sustaining goods, whether the PTA was there or not. It would therefore be wrong to attribute the increase to the PTA.



Hopefully, the newly formed Government Ministry of Arid and Semi-Arid Wastelands Reclamation will work out ways of increasing the country's agricultural potential, and then the growing PTA market used as a basis for export of the increased output.

In addition, there is the issue of seasonality of agricultural products. Even if the market gets saturated, there are many products that grow in different seasons in different parts of the region. The PTA can be used to harmonize these differences such that when a product goes out of season in one country, for example, it can be supplied by another PTA member state having the product in season. The Government can on behalf of businessmen, cooperate with other countries through the PTA to harmonize production so that the shortages are avoided and surpluses are re-directed to needy countries.

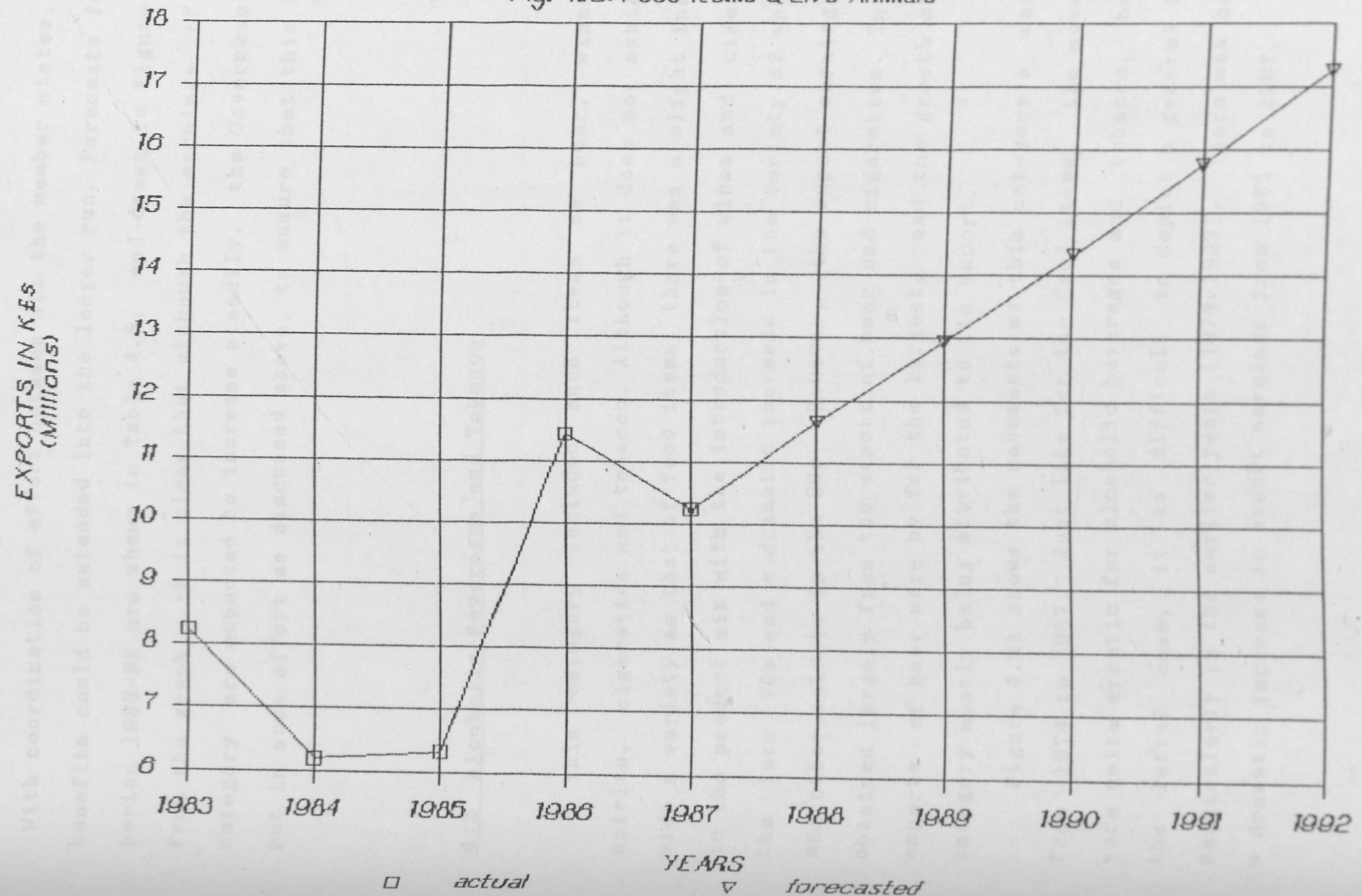
At the 99% level the same test failed to reject the null hypothesis indicating that the actual exports are not significantly different from the predicted exports at this level.

The PTA directorate should place emphasis on the processed foodstuffs and also on food items that have different seasons in various parts of the region.

In conclusion it can be said that although the PTA has had a positive and significant effect on food items and live animals, the sector could have done fairly well without the PTA. However there is a potential market for Kenyan products in the PTA region, particularly in the short run.

# FORECASTS FOR KENYA'S P.T.A EXPORTS

Fig. 41B: Food Items & Live Animals



With coordination of effort between all the member states, these benefits could be extended into the longer run. Forecasts for the period 1988-92 are shown in Table 4.5, and drawn in Figure 4.1B. From the graph, it is clear that although the earnings of this category are expected to increase steadily, the Government must put in some effort as discussed above, to ensure that this is so.

#### 4.2 Alcoholic Beverages and Tobacco

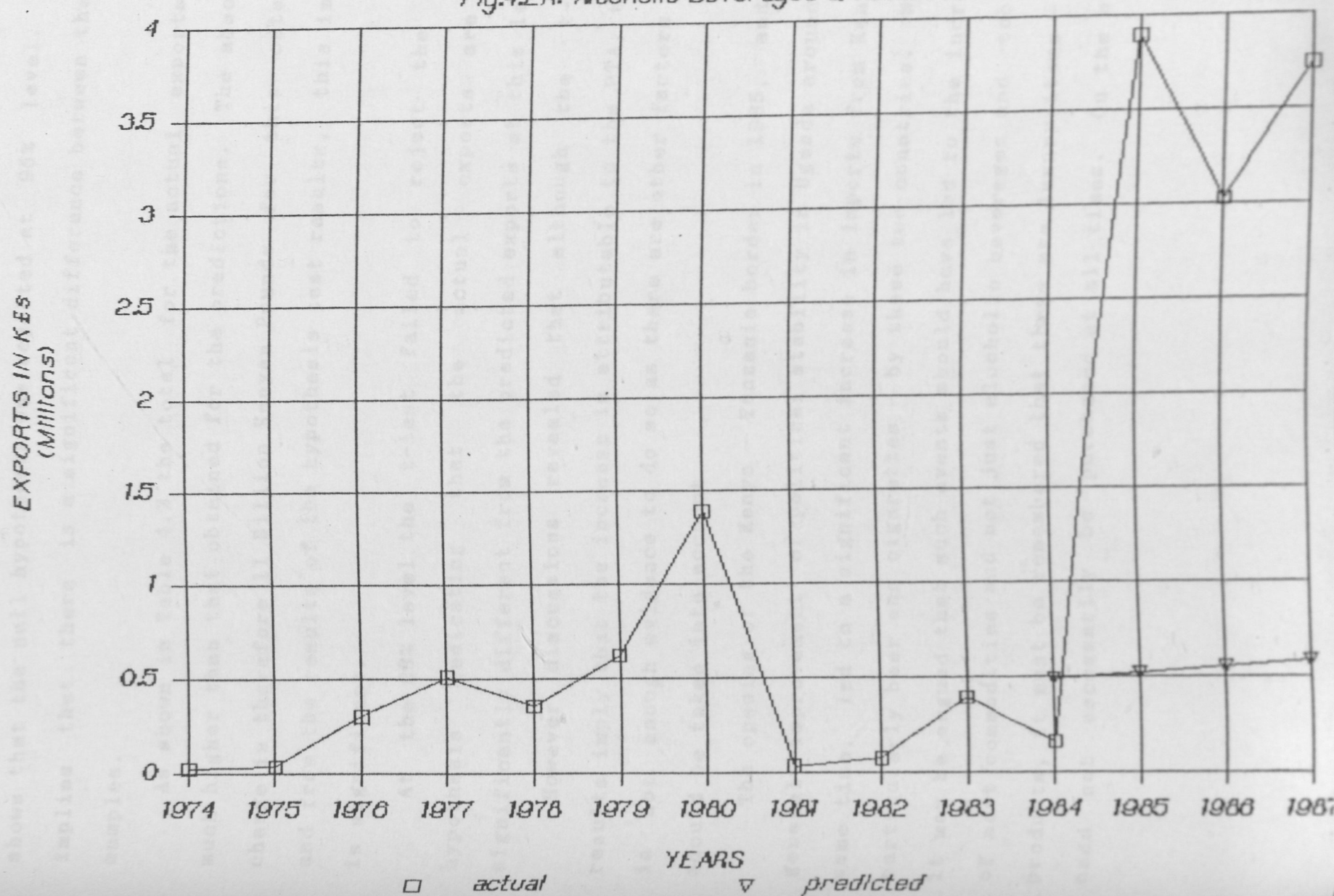
This category included such items as beer, wines and spirits, cigarettes and tobacco. Although it does not exhibit as wide a variety as that of food items, there was a slight increase in the product mix with the introduction of wines and ciders in the late 70s and a dramatic increase in the variety of whiskeys and other spirits in the 80s. However, the export earnings were obtained largely from the export of beer and cigarettes. In fact, exports of beer were by far the largest, and the growth of this category mostly being attributed to its export.

Figure 4.2A shows the movements of this category's earnings from 1974 to 1987. Just like for the food items, the movements were quite erratic for alcoholic beverages and tobacco, but in the latter case, it is difficult to depict a general trend, particularly in the earlier years (1974-1983). There was however a dramatic increase in export earnings from 1985 to 1987.



# KENYA'S EXPORTS TO P.T.A. COUNTRIES

Fig.4.2A: Alcoholic Beverages & Tobacco



Because of the relatively lower exports experienced before 1984, the predictions made for the period 1984-87 are also quite low compared to the actual exports for the same period. Table 4.4 shows that the null hypothesis was rejected at 95% level. This implies that there is a significant difference between the two samples.

As shown in Table 4.3 the total for the actual exports is much higher than that obtained for the predictions. The absolute change is therefore 11 Billion Kenyan Pounds for this category and from the results of the hypothesis test results, this impact is significant.

At the 99% level the t-test failed to reject the null hypothesis indicating that the actual exports are not significantly different from the predicted exports at this level.

However discussions revealed that although the t-test results imply that the increase is attributable to the PTA, there is not enough evidence to do so as there are other factors that should be taken into account.

The opening of the Kenya - Tanzania border in 1985, and the general improvement of political stability in Uganda around the same time, led to a significant increase in imports from Kenya - particularly beer and cigarettes - by these two countries. While it may be argued that such events should have led to the increase of most commodities and not just alcoholic beverages and tobacco products, it must be remembered that these are luxury items - and need not necessarily be purchased at all times. On the other

hand, these countries must feed their people whether there is a war or not! As such, the effects of the events mentioned above are expected to be minimal as far as basic necessities are concerned, but significant for luxury items.

As for the future trends for this category, it was the general feeling of those interviewed, that although there has been a significant increase in the exports since the onset of the PTA this is not expected to continue. Kenya's efforts to increase her export trade for this category through the PTA is bound to face some difficulties outlined below.

Almost all countries have set up or are now setting up a brewery of their own, so Kenyan exports will be limited to places where the local breweries cannot satisfy the domestic market. For example, 1976 saw the Uganda Breweries nationalized by the then Amin Government, and it temporarily ceased to be an active subsidiary of the East African Breweries Ltd. until 1984 when it was repossessed under the Obote Government. The now defunct East African Breweries Ltd. was trying to revive the operations at the Port Bell brewery to their pre-Amin level. This definitely reduced Kenya's market share.

The market is also made smaller by the existence of 'local' brews, some of which are illegal. Beer drinkers come from all walks of life - rich and poor, old and young - but the ones with lower incomes generally purchase the cheaper brews, these being the local or traditional brews.



The Kenyan Government derives alot of revenue from the items in this category. As such, if one has to export, they still have to pay the excise tax to the Kenyan Government and customs duties to the importing countries' governments, to the extent that they end up being higher priced, and hence are less competitive especially with so many breweries coming up.

Another problem is that of the tariff rebate. As these items are luxury goods, the reduction in tariffs and other charges of equivalent effect is only 10%, the lowest in the PTA Common List Tariff Reductions. As such, the companies concerned prefer not to use the PTA arrangements. For example, The Kenya Breweries Limited is exporting inputs such as bottles and malt to various PTA countries including Zimbabwe. In such trade Kenya Breweries does not use the PTA clearing arrangements because they would disqualify it from the 25% gain on each shilling's worth of exports it can earn under the export compensation scheme. In contrast, under PTA preferences it only obtains a 10% tariff rebate.

Even if Kenya had the potential market within the PTA region, she must consider the nature of the products in this category. They are bulky, and because of the delicate nature of bottles used to contain most of these items, they are of higher risk. All this adds to the freight costs and hence would make it an expensive commodity to export.

Nevertheless, despite the many difficulties discussed above, there is still some room for improvement.

The main ingredients for beer are hops, sugar, yeast, and added carbonation. The yeast and hops are mostly imported and these add to the costs of the product significantly. Kenya Breweries Limited is now experimenting with the growing of hops in the Rift Valley. If successful, the cost of the product may go down and give Kenya a price advantage over the other countries which would not be able to grow the hops.

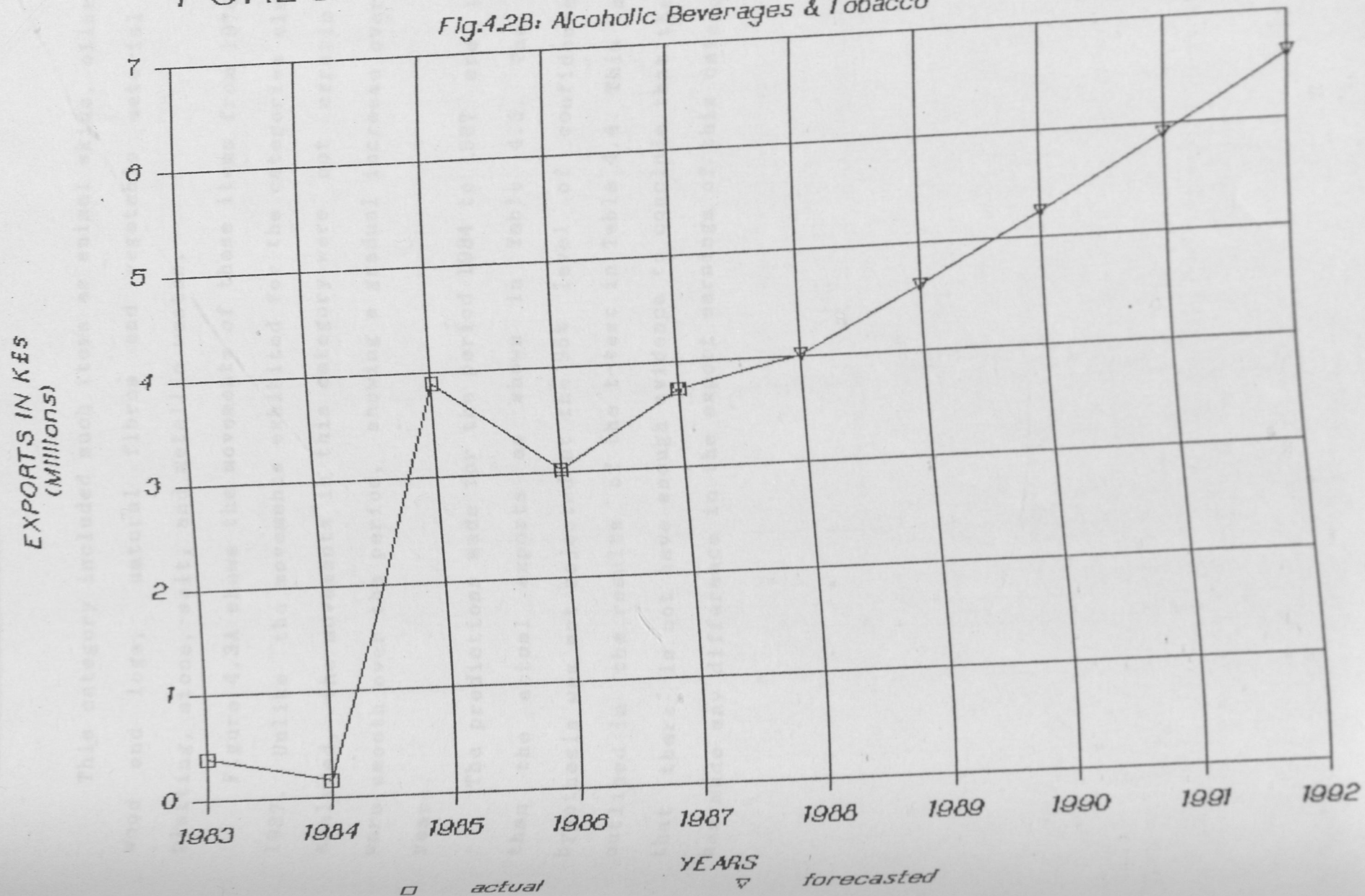
The Kenyan brewery is by far the most developed in the region and therefore should be enjoying the benefits of economies of scale. As such, even if other countries are setting up their own breweries, she can still be a leader in the region.

As far as the cigarettes are concerned, the product is wholly owned by a multinational corporation - the British American Tobacco (BAT) Company. This company operates on the basis of market segmentation with its sister companies. For example BAT-Kenya cannot sell its products to Somalia or Djibouti as they are serviced by BAT-London. This is a major handicap for multinational firm suppliers and although it has been singled out as an explanation for this category, it is likely to affect most multinational corporations operating in the PTA region.

With these factors in mind, forecasts for the period 1988 to 1992 were made for the export earnings of this category as shown in Table 4.5, and these are depicted in Figure 4.2B. Although the trend expected shows a general rise over the years, the rate of growth is not expected to be as high as that experienced from 1984 to 1987.

# FORECASTS FOR KENYA'S P.T.A EXPORTS

Fig.4.2B: Alcoholic Beverages & Tobacco





### 4.3 Inedible Raw Materials (Except Fuels)

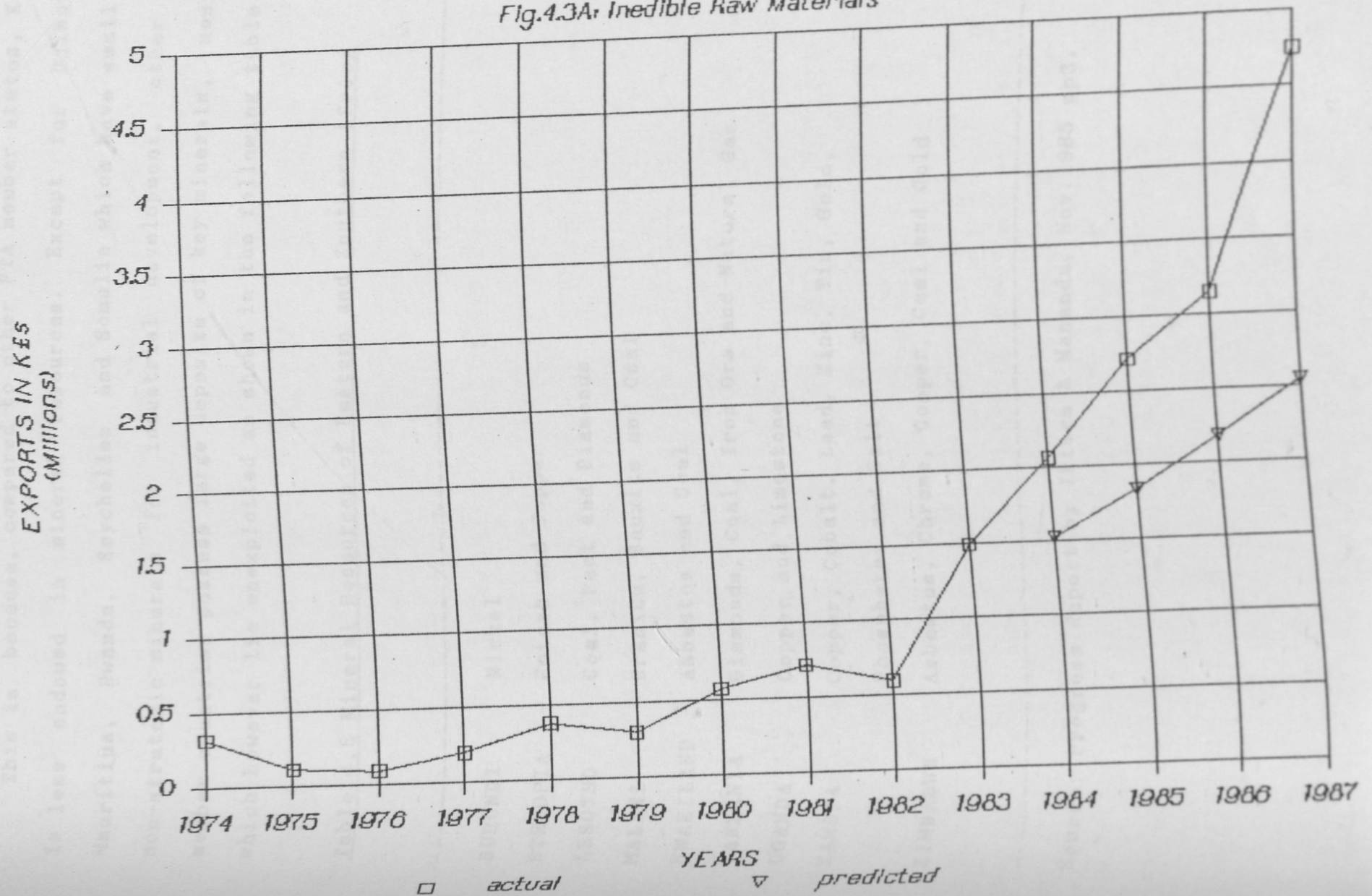
This category included such items as animal skins, oilseeds, wood and logs, natural fibres and vegetable material for plaiting, stone, salt, and metallic wastes.

Figure 4.3A shows the movements of these items from 1974 to 1987. Unlike the movements exhibited for the categories already analyzed, the movements in this category were not erratic but were smooth over the period, showing a gradual increase over the years.

The predictions made for the period 1984 to 1987 are lower than the actual exports as shown in Table 4.3. The null hypothesis was not rejected at the 95% level of confidence as outlined in the results of the t-test in Table 4.4. This means that there is not have enough evidence to conclude that the PTA has made any difference in the export earnings of this category.

# KENYA'S EXPORTS TO P.T.A. COUNTRIES

Fig.4.3A: Inedible Raw Materials



This is because, compared to other PTA member states, Kenya is less endowed in mineral resources. Except for Djibouti, Mauritius, Rwanda, Seychelles and Somalia which have small and non-strategic minerals for industrial development, other PTA member countries possess large deposits of key minerals, most of which however lie unexploited as shown in the following table.

Table 4.6 Mineral Resources of Eastern and Southern Africa

---

|           |                                                               |
|-----------|---------------------------------------------------------------|
| BURUNDI   | Nickel                                                        |
| ETHIOPIA  | Potash and Copper                                             |
| LESOTHO   | Coal, Peat and Diamonds                                       |
| MALAWI    | Uranium, Bauxite and Coal                                     |
| SWAZILAND | Asbestos and Coal                                             |
| TANZANIA  | Diamonds, Coal, Iron Ore and Natural Gas                      |
| UGANDA    | Copper and Limestone                                          |
| ZAMBIA    | Copper, Cobalt, Lead, Zinc, Tin, Gold,<br>Phosphates and Salt |
| ZIMBABWE  | Asbestos, Chrome, Copper, Coal and Gold                       |

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Source: Progress Report by Ikiara & Manandu, Nov.1985 pp3.



EXPORTS IN KES  
(MILLION)

Kenya therefore has little to export in this category. In fact, she may indeed be a net importer as far as this category is concerned. A good portion of her exports in this category are destined for the industrialized countries. For example fluorspar from the Kerio Valley is mainly exported to Japan, USA and the BEC countries. The only mineral resource that she has in plenty is soda ash from Lake Magadi.

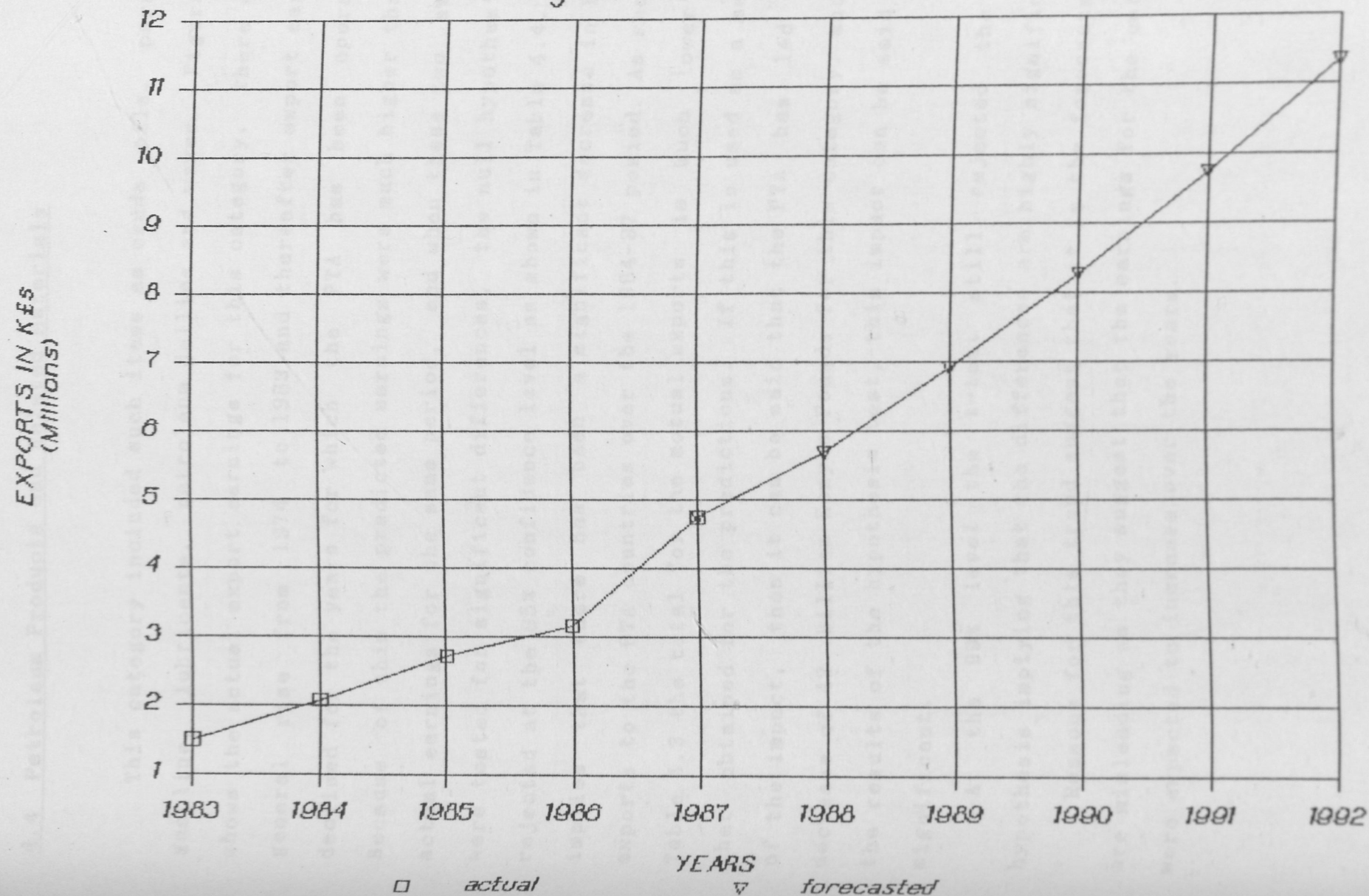
As such, there is very little the PTA can do for her export earnings from this category. However, she can take advantage of the closer proximity of resources from neighbouring countries and import from them, rather than from the developed countries.

Kenya does not produce enough of the agricultural raw materials for the domestic market. For example copra, cotton, and jute are all grown in the country but the amounts grown do not satisfy the local demand. Furthermore, the quality of these crops is high, and hence fetches premium prices in the world market. Kenya therefore prefers to export to the developed countries. Cotton is a good example where the Kenyan type is of superior quality.

The forecasts obtained for this category are therefore not much higher than what has been achieved thus far. As shown in Figure 4.3B, the growth rate for this category is more or less the same as that attained before. The value of the forecasts plotted can be found in Table 4.5.

# FORECASTS FOR KENYA'S P.T.A EXPORTS

Fig.4.2B: Inedible Raw Materials



#### 4.4 Petroleum Products and Related Materials

This category included such items as crude oils, paraffin, gasoline, lubricants, petroleum jellies and waxes. Figure 4.4A shows the actual export earnings for this category. There was a general rise from 1974 to 1983 and thereafter export earnings declined for the years for which the PTA has been operating. Because of this the predicted earnings were much higher than the actual earnings for the same period, and when these two samples were tested for significant differences, the null hypothesis was rejected at the 95% confidence level as shown in Table 4.4. This implies that there has been a significant decrease in Kenyan exports to the PTA countries over the 1984-87 period. As shown in Table 4.3 the total for the actual exports is much lower than that obtained for the predictions. If this is used as a measure of the impact, then it can be said that the PTA has led to a decrease of 42 Billion Kenyan Pounds for this category, and from the results of the hypothesis test, this impact can be said to be significant.

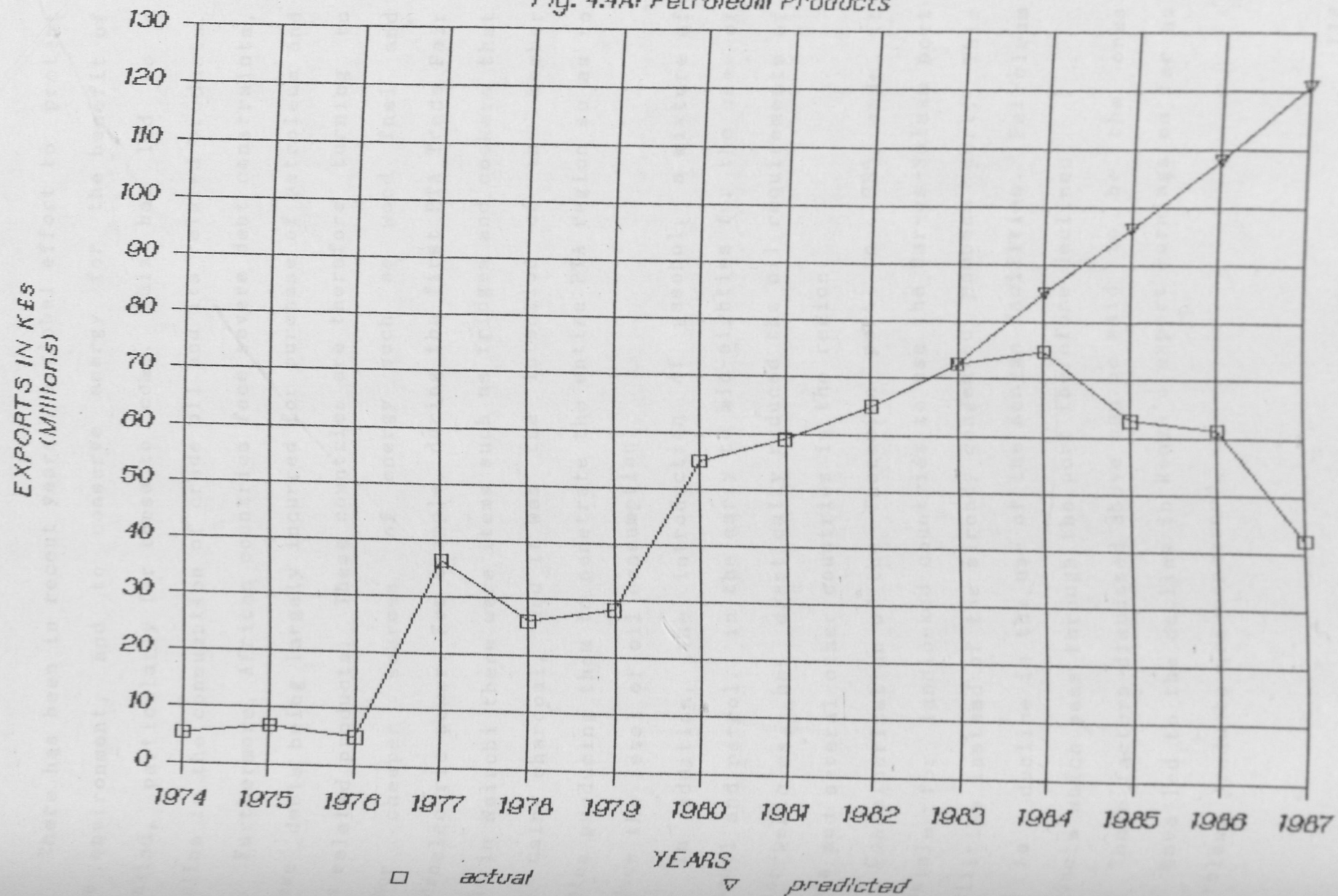
At the 99% level the t-test still rejected the null hypothesis implying that the differences are highly significant.

Reasons for this trend suggest that it is the forecasts that are misleading as they suggest that the earnings for the category were expected to increase over the years.



# KENYA'S EXPORTS TO P.T.A. COUNTRIES

Fig. 4.4A: Petroleum Products



There has been in recent years, a global effort to protect the environment, and to conserve energy for the benefit of mankind, particularly for those to come. This has led to a decline in the consumption of crude oil and its related products.

Furthermore, African countries face severe debt constraints, these debts being largely incurred for purchase of petroleum and its related products. These countries are therefore turning to other cheaper sources of energy such as wood fuel and hydroelectric power. For example, during the first PTA Trade Fair held in Nairobi there were items such as fridges and cookers that were using charcoal, and it was the intention of the member states producing them to penetrate the entire PTA region so as to reduce the level of oil consumption.

In addition, the introduction of gasohol, a mixture of ethanol and petrol, in the early to mid-eighties for the use of motor-vehicles, has drastically reduced the oil requirements of Kenya and several other countries in the region.

Containerization of the Tanzanian port in 1985 made it possible for landlocked countries to use the Dar-es-Salaam port facilities instead of the already congested Mombasa port. This led to a decline in the use of the Kenyan facilities. Petroleum products which pass through the port therefore declined.

These factors discussed above can be said to be the ones that have led to the decline in Kenya's export earnings as far as petroleum products are concerned.

Furthermore, the trade of the items in this category would have taken place whether the PTA was set up or not. Countries of the region must have energy and since for a long time, Kenya's coastal refinery has been adequately supplying countries of the PTA region, many of whom are landlocked and hence have no alternative, it would not be correct to accredit the PTA as it has had little to do with the trade of these commodities.

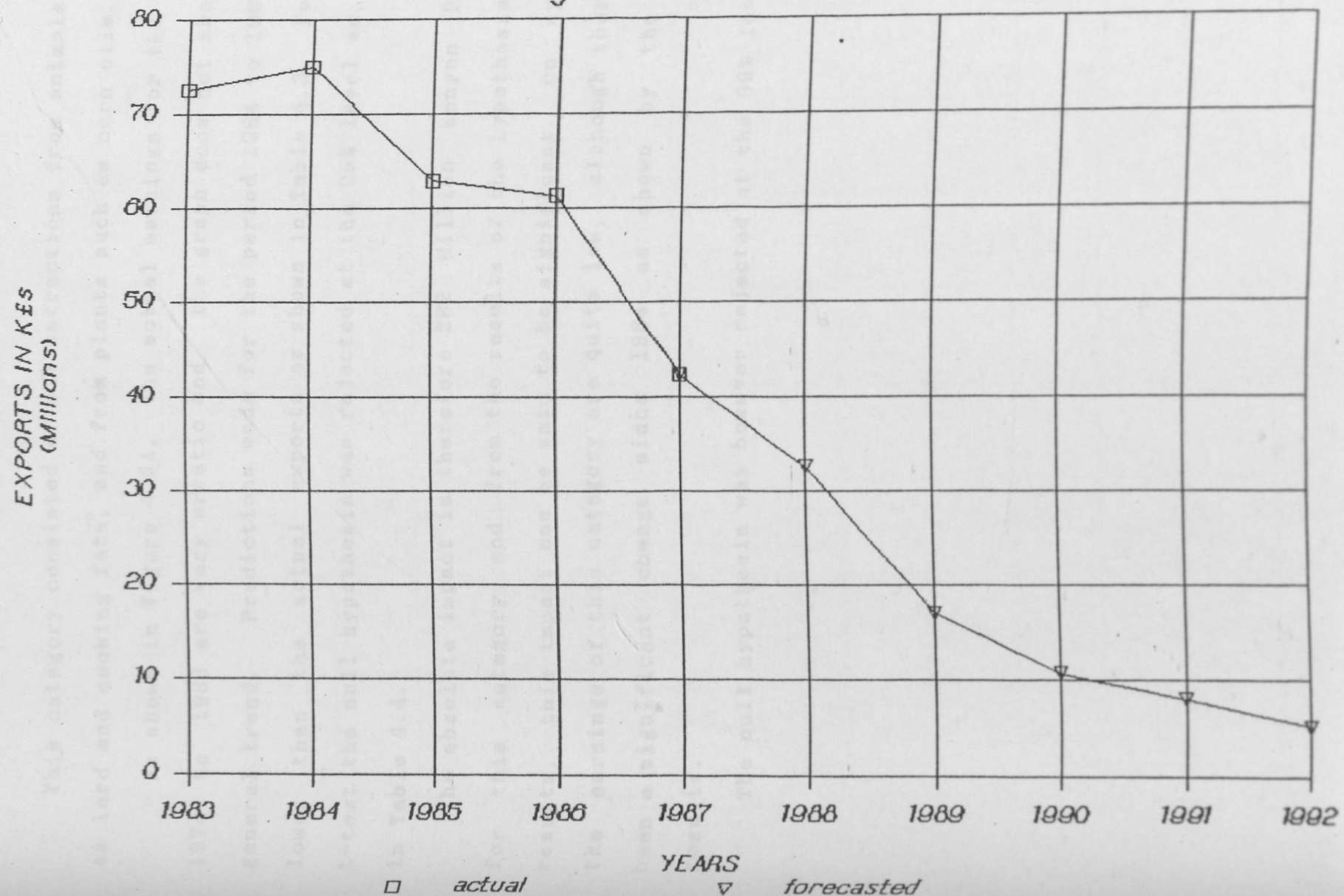
Taking this factors into account, the predictions for the years 1988 to 1992 were made and are shown in Table 4.5, and graphed in Figure 4.4B. The downward trend that began in 1984 is expected to continue, but eventually evens out since these countries can not as yet (and probably never will) substitute fully the items in this category.

In conclusion, it can be said that the general slump of exports as a result of the energy conservation efforts, and the development of the Tanzanian port are largely responsible for the decline experienced. Because the effects of these events are likely to continue, there is little the PTA can do for Kenya's earnings as far as these items of this category are concerned.



# FORECASTS FOR KENYA'S P.T.A EXPORTS

Fig.4.4B: Petroleum Products



#### 4.5 Animal and Vegetable Oils and Fats

This category consisted of oil extractions from animals such as lard and cooking fats, and from plants such as corn oils.

As shown in Figure 4.5A, the actual earnings for the years 1974 to 1983 are very erratic and the graph does not show any general trend. Predictions made for the period 1984 to 1987 are lower than the actual exports as shown in Table 4.3. For the t-test the null hypothesis was rejected at the 95% level as shown in Table 4.4.

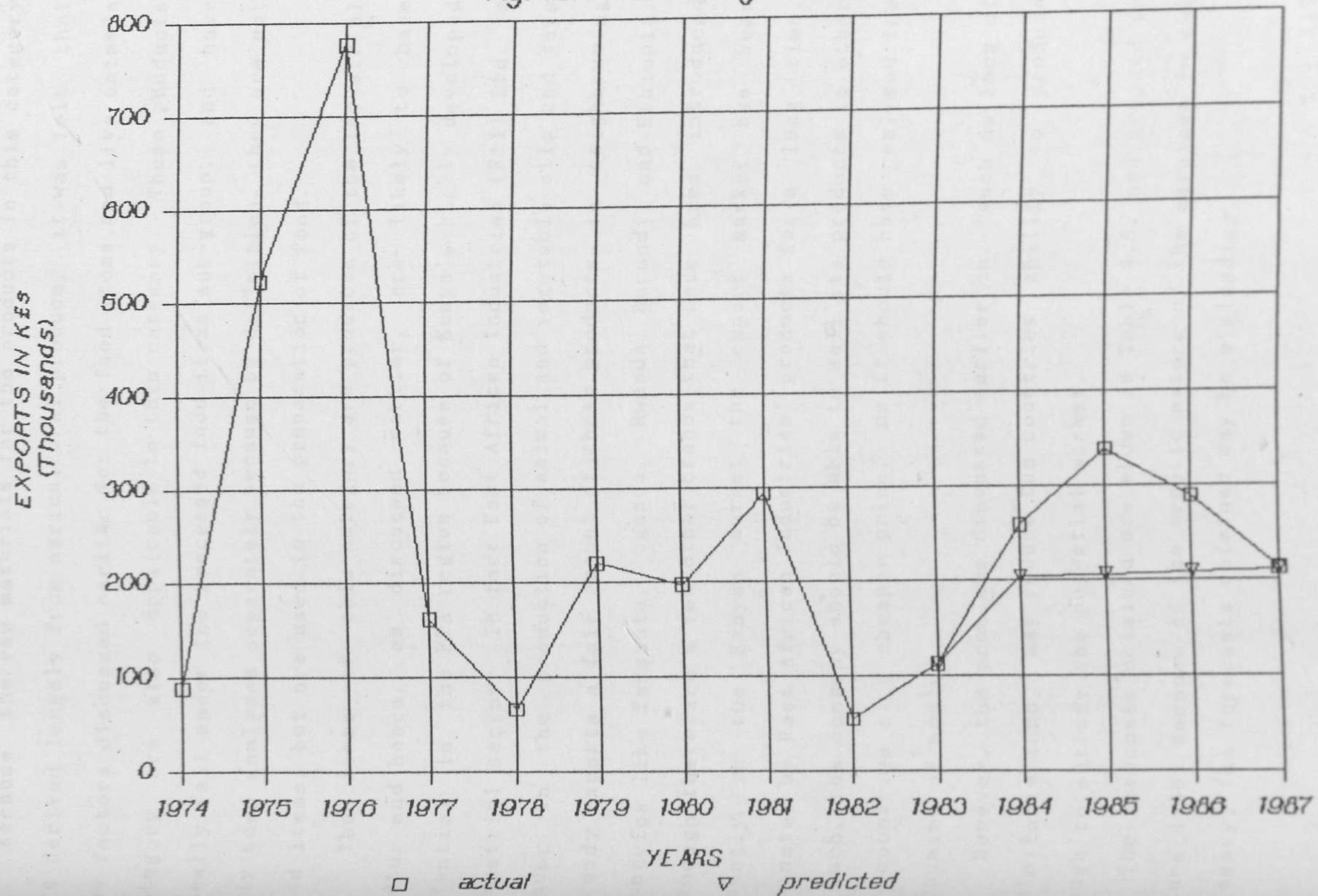
The absolute impact is therefore 282 Million Kenyan Pounds for this category and from the results of the hypothesis test results, this impact can be said to be significant. On average the earnings of this category are quite low, although there has been a significant change since 1984 as shown by the test results.

The null hypothesis was however rejected at the 99% level.



# KENYA'S EXPORTS TO P.T.A. COUNTRIES

Fig. 4.5A: Animal & Vegetable Oils





Because the raw materials for the products in this category are derived largely from agricultural produce, it was felt that the factors discussed earlier for the food items and live animals category are also applicable to this category. These products ideally fall under the processed food items sub-group, and have only been analyzed separately because by definition, they are not food items, but are used in the preparation of food.

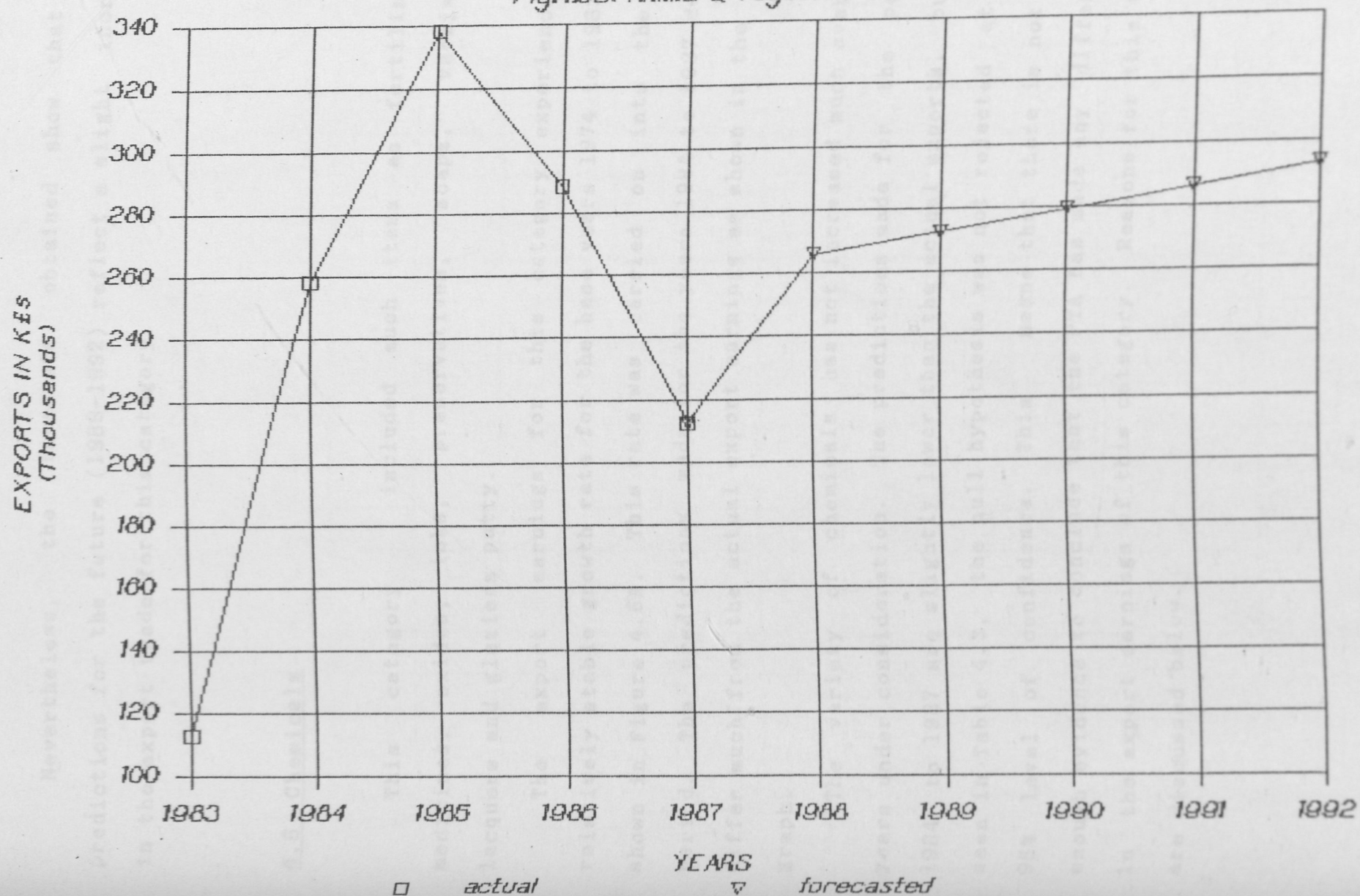
The items of this category are products of the industrial sector and hence, as discussed earlier, are likely to have potential in the PTA region because of Kenya's highly developed industrial sector. In fact East African Industries (EAI) Ltd, a leader in the production of animal and vegetable oils and fats already exports a fair amount of these products in neighbouring countries like Tanzania, Uganda, Rwanda, Burundi, and Ethiopia. Although there are a few other brands that have been introduced recently in the Kenyan market the export market has been dominated by East African Industries' products for a long time. As such, the company should be able to sell its products to other PTA countries at a cheaper price, as it should have realised the economies of scale.

However, the problems discussed earlier on, such as lack of exploitable land, may reduce the countries ability to produce enough to satisfy the potential market.

The forecasts obtained are shown in Table 4.5, and graphed in Figure 4.5B. Because of the erratic nature of the earnings in the category, the forecasts obtained may be misleading.

# FORECASTS FOR KENYA'S P.T.A EXPORTS

Fig.4.5B: Animal & Vegetable Oils



Nevertheless, the forecasts obtained show that the predictions for the future (1988-1992) reflect a slight increase in the export trade for this category.

#### 4.6 Chemicals

This category included such items as fertilizers, medicines, oxides, inks, preservatives, soaps, varnishes, lacquers and glaziers putty.

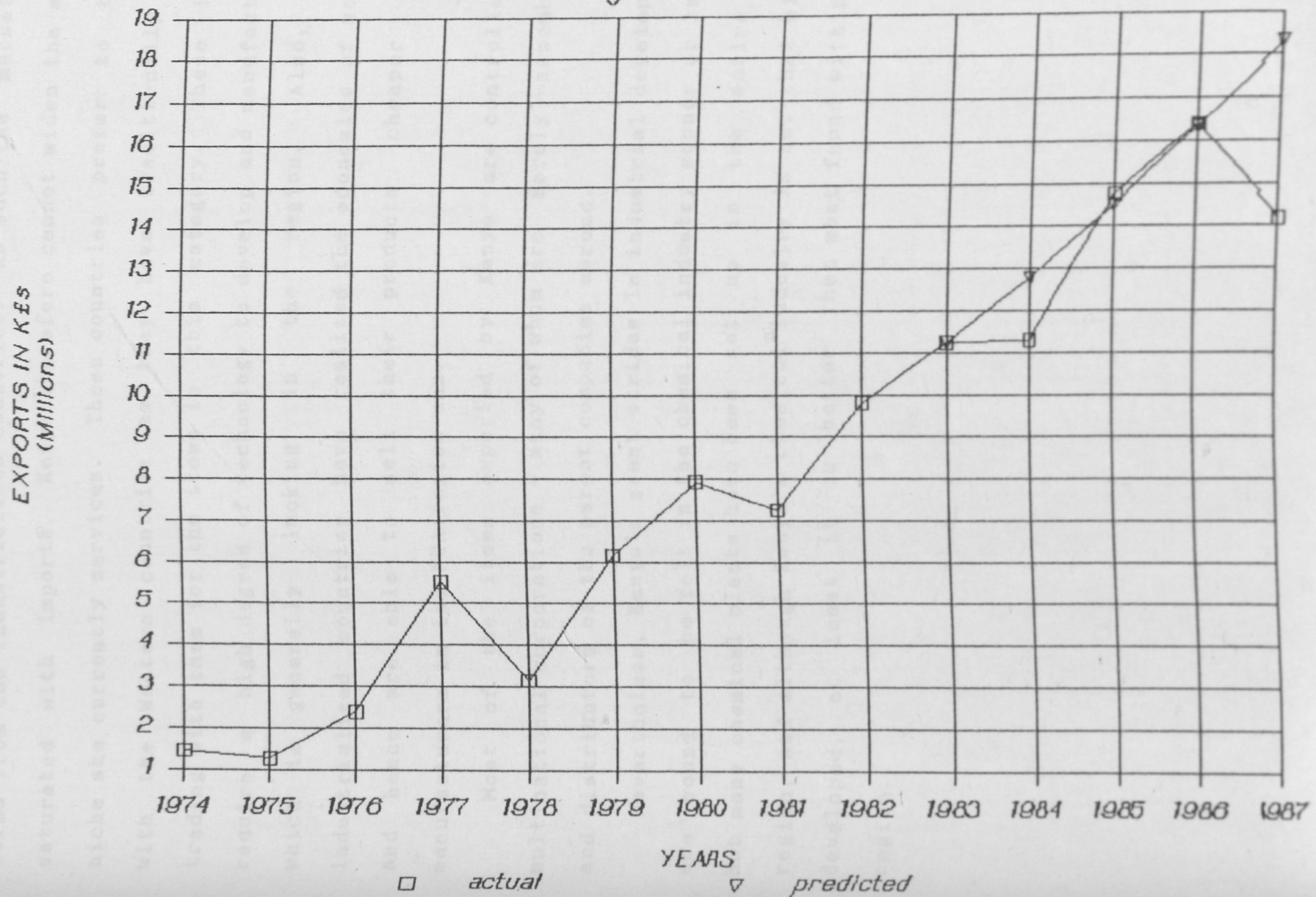
The export earnings for this category experienced a relatively stable growth rate for the base years 1974 to 1983, as shown in Figure 4.6A. This rate was carried on into the PTA period. The predictions made for the years 1984 to 1987 do not differ much from the actual export earnings as shown in the same graph.

The variety of chemicals has not increased much over the years under consideration. The predictions made for the period 1984 to 1987 are slightly lower than the actual exports, but as seen in Table 4.3, the null hypothesis was not rejected at the 95% level of confidence. This means that there is not have enough evidence to conclude that the PTA has made any difference in the export earnings of this category. Reasons for this trend are discussed below.



# KENYA'S EXPORTS TO P.T.A. COUNTRIES

Fig. 4.6A: Chemicals



EXPORTS IN KENYA

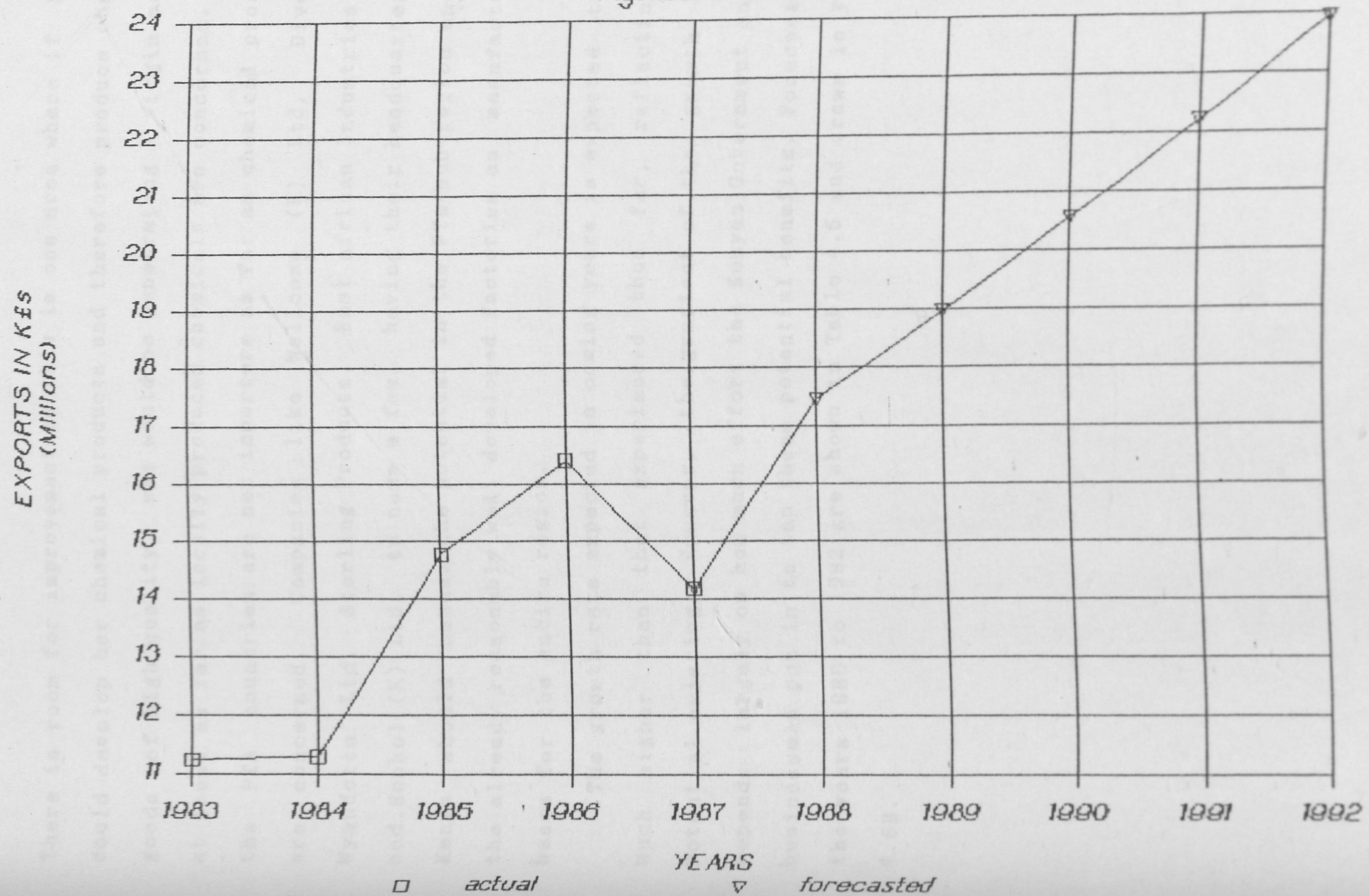
Many of the PTA countries (Kenya included) import most of these commodities in either semi-processed or fully-processed forms from the industrialized countries. As such the market is saturated with imports. Kenya therefore cannot widen the small niche she currently services. These countries prefer to trade with the Western countries as they have traditionally been trading with them for the items in this category. These items require a high degree of technology to develop and manufacture, which is generally lacking in the region. Also, the industrialized countries have realized the economies of scale, and hence are able to sell their products cheaper than manufacturers in the PTA region can.

Most of the items exported by Kenya are controlled by multinational corporations - many of whom are merely assemblers and distributors of the parent companies abroad.

Nevertheless, Kenya's great strides in industrial development are bound to be felt in the chemical industry sooner or later. Not many chemical plants have been set up in the entire PTA region, and although Kenya's chemical industry is not that highly developed, at least it is better than most found within the region.

# FORECASTS FOR KENYA'S P.T.A EXPORTS

Fig.4.6B: Chemicals





There is room for improvement as this is one area where if Kenya could develop her chemical products and therefore produce cheaper goods of high quality, she would be penetrating a virgin market at least as far as locally produced chemicals are concerned. All the PTA countries are net importers as far as chemical products are concerned. Companies like Wellcome (K) Ltd, Diversey Wyandotte Ltd, Sterling Products, East African Industries Ltd, and Henkel (K) Ltd, to name a few, having their headquarters in Kenya should assess the potential in the PTA sub-region and use the already reasonably well developed factories as manufacturing bases for the entire region.

The growth rate expected in coming years is expected to be much higher than that experienced thus far, reflecting the potential existing. However, the gradient of the growth curve depends largely on how much effort the Kenyan Government and the businessmen put in to tap these potential benefits. Forecasts for the years 1988 to 1992 are shown in Table 4.5 and drawn in Figure 4.6B.

#### 4.7 Machinery and Transport Equipment

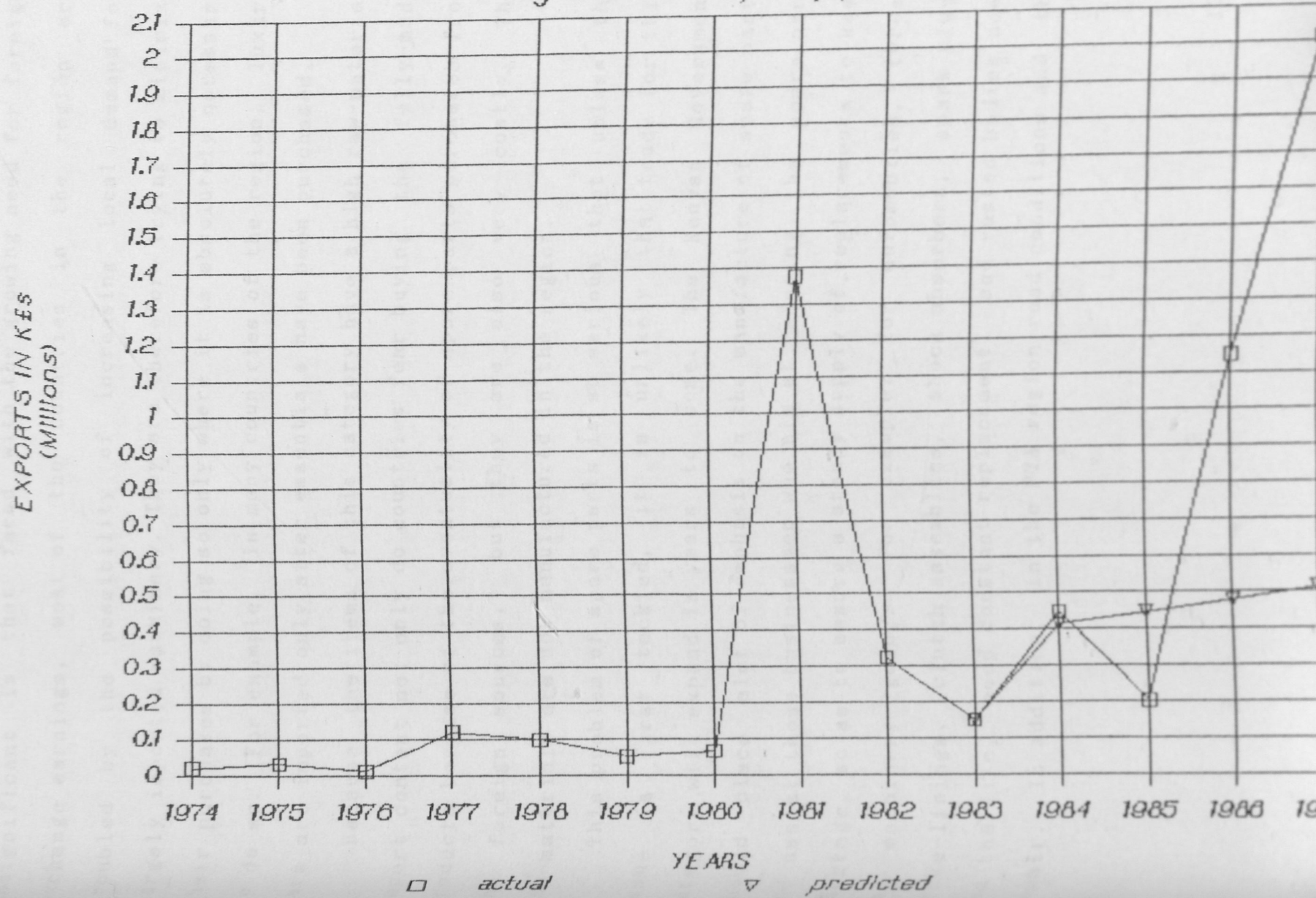
This category consists of motor-vehicles and their related spare parts, farm-machinery, factory machinery, office equipment such as typewriters, telex-machines and so forth.

Figure 4.7A shows the movements of these items from 1974 to 1987. The movements exhibited for this category were quite erratic over the period, but showed a gradual increase over the years. From the onset of the PTA in 1984 exports shot up dramatically.

Table 4.3 shows that the predictions made for the period 1984 to 1987 are lower than the actual exports (except for 1985), but as seen in Table 4.4, the null hypothesis was not rejected at the 95% level of confidence. This means that there is not enough evidence to conclude that the PTA has made any difference in the export earnings of this category.

# KENYA'S EXPORTS TO P.T.A. COUNTRIES

Fig. 4.7A: Machinery & Equipment





One reason why the trade in this category was found to be insignificant is that faced with the growing need for foreign exchange earnings, most of the countries in the region are troubled by the possibility of increasing local demand for largely imported machinery. They are therefore trying to minimize their purchases by doing so only where it is absolutely necessary to do so. For example, in many countries of the region, luxury cars are imported only after essentials have been purchased.

Because the items of this category have a high raw-material import content not only do countries fear buying the fully-made products because of the eventuality of spare-parts purchases from the foreign sources, but they are also very costly. The raw-materials are not manufactured in the region.

This problem of spare parts is so serious that unless the issue is first tackled, it is unlikely that trade for this category will expand in years to come. The Kenyan Government should place a lot of emphasis on the manufacture of spare parts and assist those businessmen who aim at reducing the spare-part shortage, so as to ensure a steady supply of replacements to keep the machinery going. For example, for automobiles, tyres, brake-linings, clutch assemblies, shock absorbers, spark plugs and the like, need constant replacement, and rusted bodies need repair. In addition, in the PTA region road conditions and the

EXPORTS IN KES  
JAN 1978

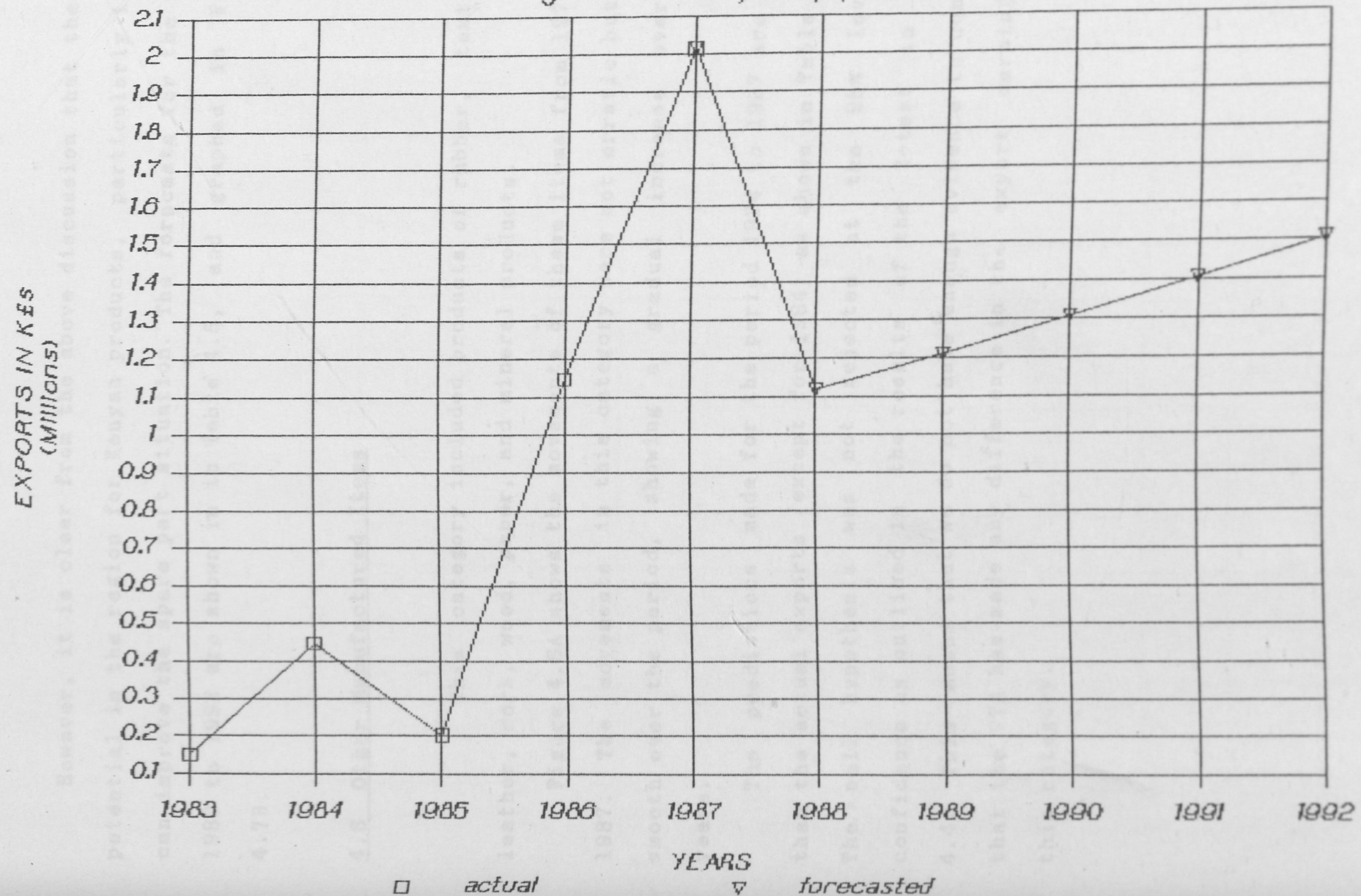
harsh tropical weather leave much to be desired for the wear and tear of the machinery. Products therefore need to be of high durability to be able to face up to such conditions.

And because of the Value-Added rule outlined in the Protocols of the PTA, it is likely that most of the items in this category do not qualify for preferential treatment, and hence the PTA arrangements will not have much effect on the trade in this category.

The major motor-vehicle assemblers in Kenya are AVA, Cooper Motors Corporation (CMC) and Leyland (K) Ltd, while the major distributors are D.T.Dobie, Marshalls, Bruce Ltd, VW Golf, and General Motors (K) Ltd. Between 1976 and 1977, the Government authorized the start up of the three assembly plants, with the Government having a substantial shareholding of each. As such the Government can use their powers of control vested in the majority shareholders to make use of the PTA potential existing in the region. The distributors however do not have such a free hand in that they are largely controlled by their parent companies. For example, in the case of GM (K) Ltd, tight control over the operations from assembly to sales, is held by the power brokers of General Motors of America. As such distributors may only use the PTA region as a trading base if the parent company's policies allow them to do so.

# FORECASTS FOR KENYA'S P.T.A EXPORTS

Fig.4.7B: Machinery & Equipment





However, it is clear from the above discussion that there is potential in the region for Kenyan products, particularly if she can improve the spare part situation. The forecasts for the years 1988 to 1992 are shown in in Table 4.5, and graphed in Figure 4.7B.

#### 4.8 Other Manufactured Items

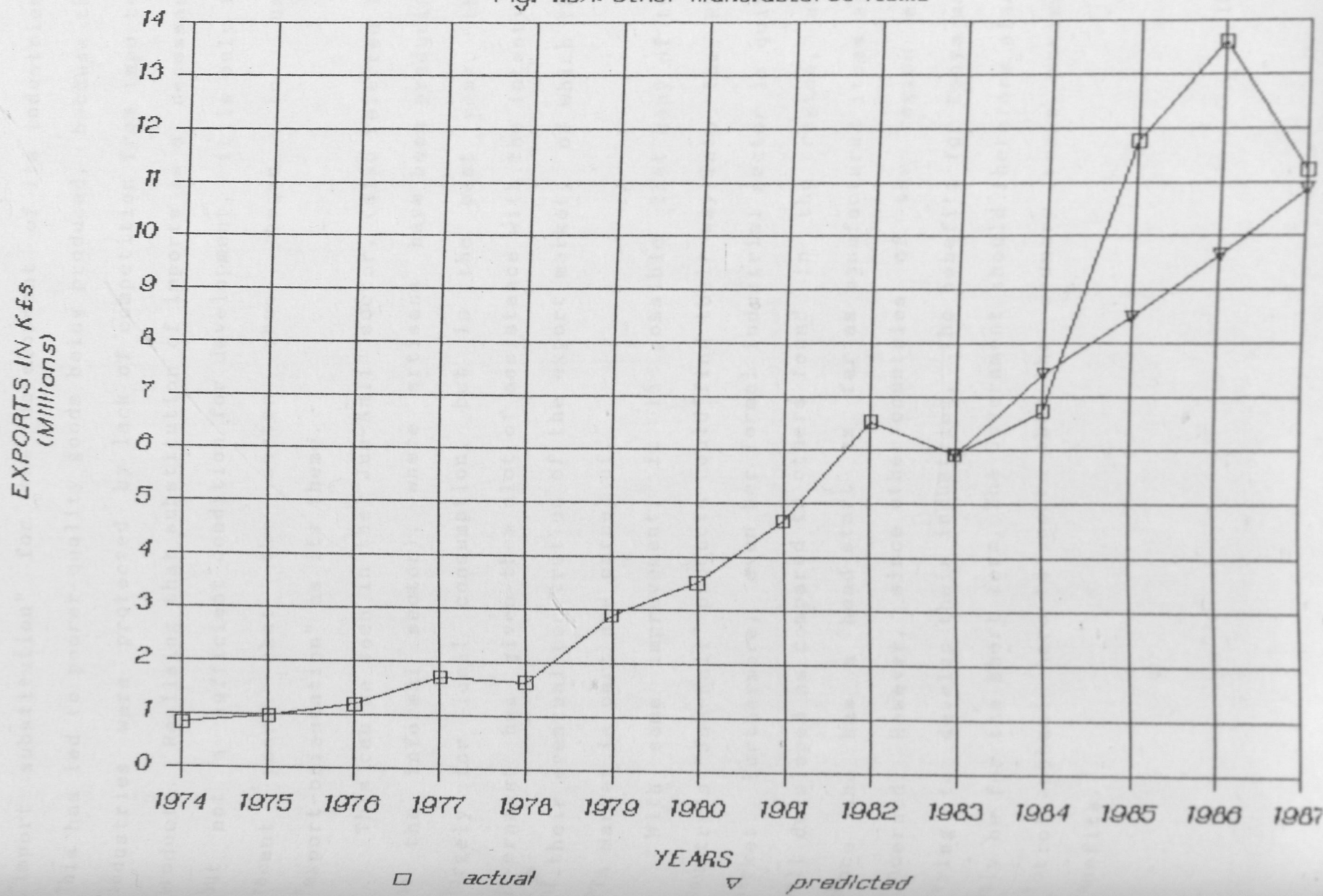
This category included products of rubber, textiles, leather, cork, wood, paper, and mineral products.

Figure 4.6A shows the movements of these items from 1974 to 1987. The movements in this category were not erratic but were smooth over the period, showing a gradual increase over the years.

The predictions made for the period 1984 to 1987 are lower than the actual exports (except for 1984) as shown in Table 4.3. The null hypothesis was not rejected at the 95% level of confidence as outlined in the results of the T-test in Table 4.4. This means that we do not have enough evidence to conclude that the PTA has made any difference in the export earnings of this category.

# KENYA'S EXPORTS TO P.T.A. COUNTRIES

Fig. 4.8A: Other Manufactured Items



The reasons that were given for this are as follows. For one, Kenya's manufacturing sector had been using the motto "import substitution" for the development of its industries. This has led to poorer quality goods being produced, because the industries were protected by lack of competition from imported products. Realising that substitution of imports is a necessary but not a sufficient condition for development, it is only in recent years that the sector has begun to use "export-orientation" as its theme.

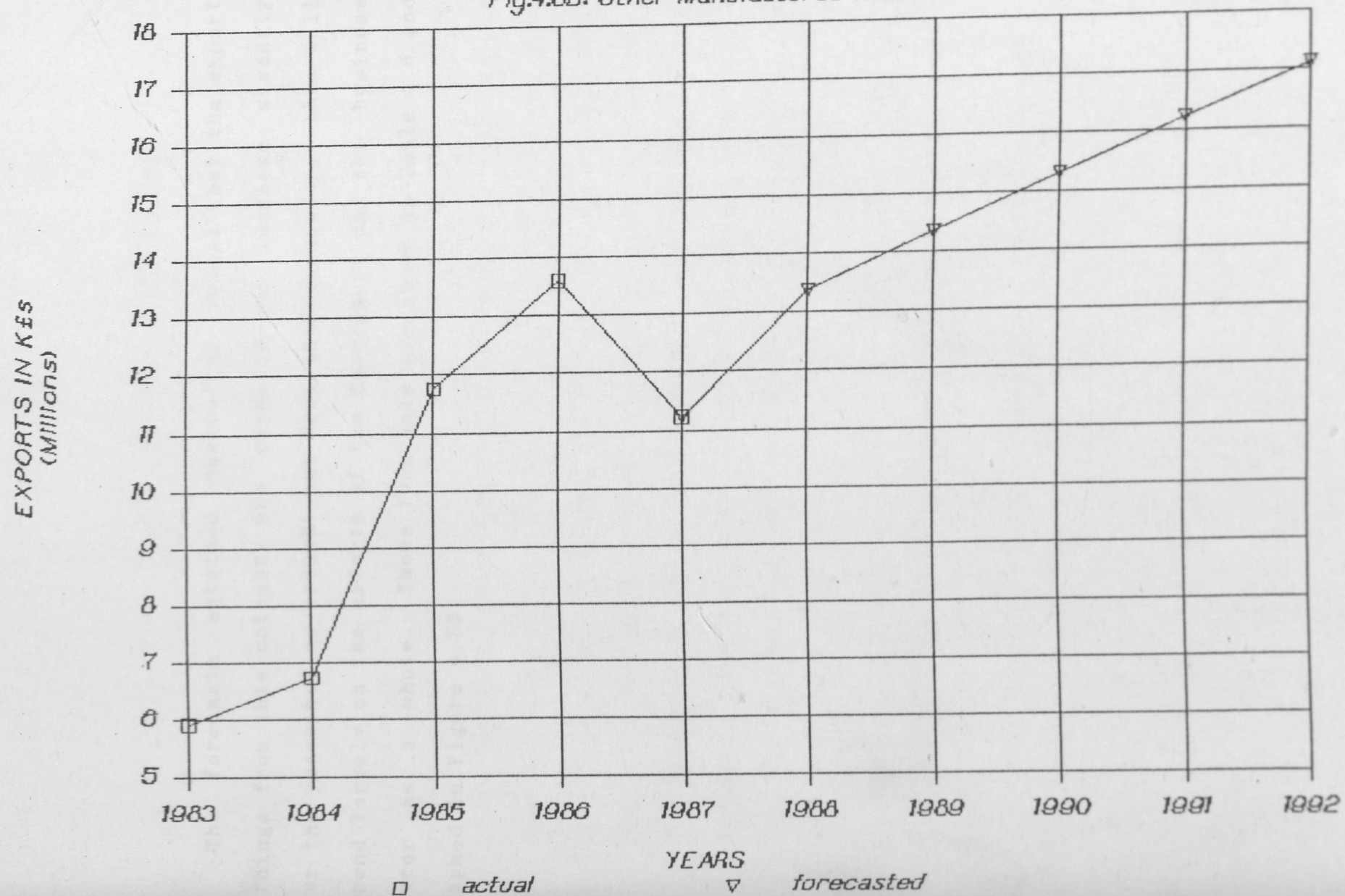
This can be seen in the "Jua-Kali" sector, (also referred to as the informal sector), where artisans have been producing largely for local consumption, but in the past year, the Government has given them a lot of assistance with the intention of their eventual penetration of the export market, of which the PTA market is part and parcel of.

With some improvement, it is possible that many of the country's "Jua-Kali" products could find their way into the PTA market. Furthermore, even her formal industrial sector is quite well developed as compared to others found in the region, and hence she has a head-start as far as manufactured items are concerned. However, since other countries of the region are trying to develop their industries, the benefits for Kenya may only be for the short term. The Government should therefore place a lot of emphasis here to ensure that the country reaps maximum benefits.



# FORECASTS FOR KENYA'S P.T.A EXPORTS

Fig.4.8B: Other Manufactured Items



## CHAPTER 2

The forecasts obtained thereafter reveal that the export earnings from this category are expected to increase steadily over the years but as brought out from the discussion, this will depend largely on the efforts of the Government and the business sector as a whole. These forecasts are shown in Table 4.5 and graphed in Figure 4.8B.

The first objective of the study was to measure the impact the FTA has had on Kenya's export trade since it became operational in 1984. The second objective was to predict future trends for Kenya's export trade for the period 1988 to 1992.

These objectives were satisfactorily addressed as will be shown in the next section.

### 5.1 Summary of the Results of the Study

The results of the study will be summarized in relation to the objectives mentioned above.

## CHAPTER 5

### SUMMARY AND CONCLUSIONS

This chapter mainly summarizes the findings of the study in relation to the objectives put forward in the first chapter. Limitations of the study, and suggestions for further research are also highlighted.

The first objective of the study was to measure the impact the PTA has had on Kenya's export trade since it became operational in 1984. The second objective was to predict future trends for Kenya's export trade for the period 1988 to 1992.

These objectives were satisfactorily achieved as will be shown in the next section.

#### 5.1 Summary of the Results of the Study

The results of the study will be summarized in relation to the objectives mentioned above.



### 5.1.2 Prediction of Future Trends

#### 5.1.1 The Impact of the PTA on Kenya's Export Trade

The impact was measured by getting the differences between the actual export earnings and predicted export earnings for the years 1984 to 1987. These differences were tested to determine whether they were significant, and the results summarized in tabular form for each category.

Actual export earnings from food items and live animals, alcoholic beverages and tobacco, petroleum products and related minerals, and animal and vegetable oils and fats categories were all significantly different from the predicted earnings. For all these categories except that of petroleum products and related minerals, the significant difference was positive.

The remaining categories do not seem to have been affected by the PTA as the actual earnings from these categories were not significantly different from the predicted earnings. These categories included inedible raw materials, chemicals, machinery and transport equipment, and other manufactured items.

Petroleum products earnings are expected to continue declining as has been the case since the PTA became operational. However, because the member states cannot reduce their consumption of petroleum products to zero level, the decline is less steep in the later years of the forecast period.

### 5.1.2 Prediction of Future Trends

For all the categories considered, forecasts were generated for Kenya's export earnings for the years 1988 to 1992. In all cases, with the exception of petroleum products, the trends showed a general increase in earnings, although the gradients of the trend lines differed.

The steepest slopes of the trend lines appeared for alcoholic beverages and tobacco, and food items and live animals categories.

Inedible raw materials, other manufactured items and chemicals trend lines had a slope close to that that existed before 1984, implying that the growth rates for these two categories is expected to remain constant.

For the categories of machinery and transport equipment, and animal and vegetable oils and fats, the growth rate for the period is expected to be lower than those experienced in the 1983-85 periods but relatively close to those experienced before 1983.

Petroleum products earnings are expected to continue declining as has been the case since the PTA became operational. However, because the member states cannot reduce their consumption of petroleum products to zero level, the decline is less steep in the later years of the forecast period.

In conclusion, the study confirms the belief that there is major potential in the PTA region for Kenyan products as discussed in Chapter 4. Furthermore, there are some areas where Kenya's export earnings have already shown increases as a result of the PTA.

## 5.2 Limitations of the Study

The findings and conclusions of this study are subject to some limitations.

For one, the assessment of the impact of the PTA on Kenya's export trade was done on the assumption that other factors were held constant such that their effects were the same in both the base period and the forecast periods. For instance, inflation and devaluation rates are assumed to have had the same consequence on the trade before and after the PTA was set up, when this may not necessarily be the case.

Secondly, it was not viable to accurately measure the impact of the PTA on Kenya's export trade because of several other events that have occurred within the same period. Although an attempt was made to mention other events that occurred and could have led to the inclinations obtained, it was not possible to measure the impact of such events so that when isolated from the differences obtained in the study, what would remain would be the impact of the PTA. For example, the Kenya Export Year (1984) promotion program, is bound to have had an effect on trade to the



PTA countries. Although the focal markets of this program were the EEC, West and Central Africa, and selected cities in the United States of America (Kabengi 1986:25), and therefore did not affect the PTA region, there are bound to have been some "spillover" effects to the PTA region which ideally should not be attributed to the PTA.

Lastly, it has been reported that a large portion of African trade goes on without any records being made and in some cases as much as 50 per cent of such trade is unrecorded (USAID Report Mar.1987). A lot of trade in the region goes on through "black" markets.

### 5.3 Suggestions for Further Research

The results of this study suggest several areas where further research is needed.

The tertiary or service industry has been ignored by this study. A similar study could be carried out for the sector.

Secondly, a comparative analysis of all the countries of the PTA region would be an important area for study. This would help harmonize the trade imbalances that exist in the region.

Finally, where possible, a study on all the likely influences on trade could be carried out so that the impact attributable to the PTA can be measured more accurately.

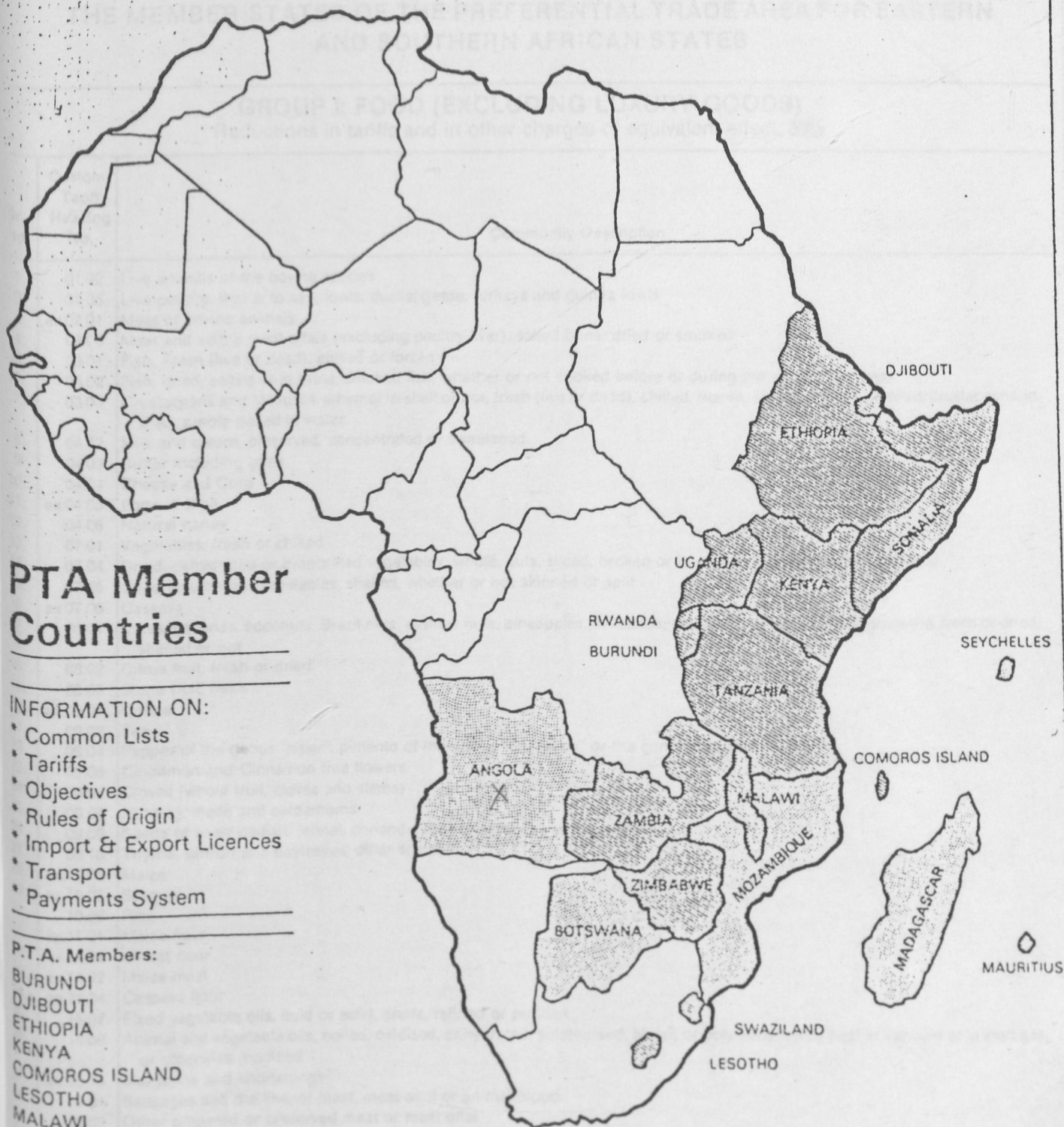
## PTA Member Countries

### INFORMATION ON:

- \* Common Lists
- \* Tariffs
- \* Objectives
- \* Rules of Origin
- \* Import & Export Licences
- \* Transport
- \* Payments System

### P.T.A. Members:

BURUNDI  
DJIBOUTI  
ETHIOPIA  
KENYA  
COMOROS ISLAND  
LESOTHO  
MALAWI  
MAURITIUS  
RWANDA  
SOMALIA  
SWAZILAND  
TANZANIA  
UGANDA  
ZAMBIA  
ZIMBABWE



HAVE NOT YET ACCEDED TO THE  
TREATY BUT ARE EXPECTED TO DO SO SOON  
MOZAMBIQUE  
MADAGASCAR  
ANGOLA  
THE SEYCHELLES  
BOTSWANA

## APPENDIX II

### SELECTED COMMODITIES IN THE COMMON LIST TO BE TRADED WITHIN THE MEMBER STATES OF THE PREFERENTIAL TRADE AREA FOR EASTERN AND SOUTHERN AFRICAN STATES

#### GROUP I: FOOD (EXCLUDING LUXURY GOODS)

Reductions in tariffs and in other charges of equivalent effect; 30%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                                               |
|---------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.      | 01 02                      | Live animals of the bovine species                                                                                                                                  |
| 2.      | 01 05                      | Live poultry, that is to say, fowls, ducks, geese, turkeys and guinea fowls                                                                                         |
| 3.      | ex 02 01                   | Meat of bovine animals                                                                                                                                              |
| 4.      | 02 06                      | Meat and edible meat offals (excluding poultry liver), salted brine, dried or smoked                                                                                |
| 5.      | 03 01                      | Fish, Fresh (live or dead), chilled or frozen                                                                                                                       |
| 6.      | 03 02                      | Fish, dried, salted or in brine; smoked fish, whether or not cooked before or during the smoking process                                                            |
| 7.      | 03 03                      | Crustaceans and Molluscs, whether in shell or not, fresh (live or dead), chilled, frozen, salted, in brine; or dried; crustaceans, in shell, simply boiled in water |
| 8.      | 04 02                      | Milk and cream, preserved, concentrated or sweetened                                                                                                                |
| 9.      | 04 03                      | Butter including ghee                                                                                                                                               |
| 10.     | 04 04                      | Cheese and Curd                                                                                                                                                     |
| 11.     | ex 04 05                   | Eggs in shell                                                                                                                                                       |
| 12.     | 04 06                      | Natural honey                                                                                                                                                       |
| 13.     | 07 01                      | Vegetables, fresh or chilled                                                                                                                                        |
| 14.     | 07 04                      | Dried, dehydrated or evaporated vegetables, whole, cuts, sliced, broken or in powder, but not further prepared                                                      |
| 15.     | 07 05                      | Dried leguminous vegetables, shelled, whether or not skinned or split                                                                                               |
| 16.     | ex 07 06                   | Cassava                                                                                                                                                             |
| 17.     | 08 01                      | Dates, bananas, coconuts, Brazil nuts, cashew nuts, pineapples, avocados, mangoes, guavas and mangosteens, fresh or dried, shelled or not                           |
| 18.     | 08 02                      | Citrus fruit, fresh or dried                                                                                                                                        |
| 19.     | 08 07                      | Stone fruit, fresh                                                                                                                                                  |
| 20.     | ex 09 01                   | Coffee                                                                                                                                                              |
| 21.     | 09 02                      | Tea                                                                                                                                                                 |
| 22.     | 09 04                      | Pepper of the genus "piper"; pimento of the genus "capsicum" or the genus "pimenta"                                                                                 |
| 23.     | 09 06                      | Cinnamon and Cinnamon tree flowers                                                                                                                                  |
| 24.     | 09 07                      | Cloves (whole fruit, cloves and stems)                                                                                                                              |
| 25.     | 09 08                      | Nutmeg, mace and cardamoms                                                                                                                                          |
| 26.     | 09 09                      | Seeds of anise badian, fennel, coriander, cumin, caraway and juniper                                                                                                |
| 27.     | 09 10                      | Thyme, saffron and bayleaves; other spices                                                                                                                          |
| 28.     | ex 10 05                   | Maize                                                                                                                                                               |
| 29.     | ex 10 07                   | Sorgum                                                                                                                                                              |
| 30.     | 10 06                      | Rice                                                                                                                                                                |
| 31.     | ex 11 01                   | Maize flour                                                                                                                                                         |
| 32.     | ex 11 01                   | Wheat flour                                                                                                                                                         |
| 33.     | ex 11 02                   | Maize meal                                                                                                                                                          |
| 34.     | ex 11 04                   | Cassava flour                                                                                                                                                       |
| 35.     | 15 07                      | Fixed vegetable oils, fluid or solid, crude, refined or purified                                                                                                    |
| 36.     | 15 08                      | Animal and vegetable oils, boiled, oxidised, dehydrated, sulphurised, blown or polymerised by heat in vacuum or in inert gas, or otherwise modified                 |
| 37.     | ex 15 13                   | Margarine and shortenings                                                                                                                                           |
| 38.     | 16 01                      | Sausages and the like, of meat, meat offal or animal blood                                                                                                          |
| 39.     | 16 02                      | Other prepared or preserved meat or meat offal                                                                                                                      |
| 40.     | 16 03                      | Meat extracts and meat juices; fish extracts                                                                                                                        |
| 41.     | ex 16 04                   | Canned fish                                                                                                                                                         |
| 42.     | 17 01                      | Beet sugar and cane sugar in solid form                                                                                                                             |
| 43.     | ex 17 02                   | Artificial honey (whether or not mixed with natural honey)                                                                                                          |
| 44.     | 18 01                      | Cocoa beans, whole or broken, raw or roasted                                                                                                                        |
| 45.     | ex 19 02                   | Infants food preparations                                                                                                                                           |
| 46.     | ex 19 07                   | Bread, snips' biscuits and other ordinary baker's wares, not containing added sugar, honey, eggs, fats, cheese or fruit                                             |



**GROUP I: FOOD (EXCLUDING LUXURY GOODS)**  
Reductions in tariffs and in other charges of equivalent effect; 30%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                           |
|---------|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| 47.     | 19.08                      | Pastry, biscuits, cakes and other fine baker's wares, whether or not containing cocoa in any proportion                                         |
| 48.     | 20.01                      | Vegetables and fruits, prepared or preserved by vinegar or acetic acid, with or without sugar, whether or not containing salt spices or mustard |
| 49.     | 20.02                      | Vegetables prepared or preserved otherwise than by vinegar or acetic acid                                                                       |
| 50.     | ex.20.05                   | Jams and marmalades                                                                                                                             |
| 51.     | 20.06                      | Fruit otherwise prepared or preserved, whether or not containing added sugar or spirit                                                          |
| 52.     | 20.07                      | Fruit juices (including grape must) and vegetable juices, whether or not containing added sugar, but unfermented and not containing spirit      |
| 53.     | ex.21.06                   | Natural yeast (active or inactive)                                                                                                              |
| 54.     | ex.23.01                   | Animal feed stuffs                                                                                                                              |

**GROUP IIA: AGRICULTURAL RAW MATERIALS**  
Reduction in tariffs and in other charges of equivalent effect; 50%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                                                          |
|---------|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.      | 12.01                      | Oil seeds and oleaginous fruit, whole or broken                                                                                                                                |
| 2.      | 12.03                      | Seeds, fruit and spores, of a kind used for sowing                                                                                                                             |
| 3.      | ex.12.07                   | Cinchona (Quinine) peel                                                                                                                                                        |
| 4.      | ex.13.02                   | Myrrh and oppoponax gum                                                                                                                                                        |
| 5.      | ex.13.02                   | Gum Arabic                                                                                                                                                                     |
| 6.      | 14.01                      | Vegetable materials of a kind used primarily for plaiting (for example, cereal straw, cleaned, bleached or dyed, osier, reeds, rushes, rattans, bamboos, raffia and lime bark) |
| 7.      | ex.24.01                   | Unmanufactured tobacco                                                                                                                                                         |
| 8.      | ex.40.01                   | Natural rubber                                                                                                                                                                 |
| 9.      | 41.01                      | Raw hides and skins (fresh, salted, dried, pickled or limed), whether or not split, including sheepskins in the wool                                                           |
| 10.     | 41.02                      | Bovine cattle leather (including buffalo leather) and equine leather, except leather falling within heading Nos 41.06 or 41.08                                                 |
| 11.     | 41.03                      | Sheep and lamb skin leather, except leather falling within heading Nos 41.06 or 41.08                                                                                          |
| 11.     | 44.03                      | Wood in the rough, whether or not stripped of its bark or merely roughed down                                                                                                  |
| 13.     | 53.05                      | Sheep's or lamb's wool or other animal hair (fine or coarse), carded or combed                                                                                                 |
| 14.     | 55.01                      | Cotton, not carded or combed                                                                                                                                                   |
| 15.     | 55.03                      | Cotton waste (including pulled or garnetted rags), not carded or combed                                                                                                        |
| 16.     | ex.57.03                   | Jute and other textile bast fibres                                                                                                                                             |

**GROUP IIB: NON-AGRICULTURAL RAW MATERIALS**  
Reduction in tariffs and in other charges of equivalent effect; 60%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                                                                                        |
|---------|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.      | ex.25.01                   | Common salt                                                                                                                                                                                                  |
| 2.      | 25.03                      | Sulphur of all kinds, other than sublimed sulphur, precipitated sulphur and colloidal sulphur                                                                                                                |
| 3.      | ex.25.07                   | Bentonite clay                                                                                                                                                                                               |
| 4.      | 25.07                      | Clay (for example, kaolin and bentonite), andalusite, kyanite and sillimanite, whether or not calcined, but not including expanded clays falling within heading No. 68.07 mullite; chamotte and dinas earths |
| 5.      | ex.25.15                   | Marble (unworked)                                                                                                                                                                                            |
| 6.      | ex.25.19                   | Natural magnesium carbonate (magnesite)                                                                                                                                                                      |

## GROUP IIB: NON-AGRICULTURAL RAW MATERIALS

Reduction in tariffs and in other charges of equivalent effect; 60%

| Customs<br>Tariff<br>Heading<br>No. | Commodity Description                                                                                                                                                          |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 25 20                               | Gypsum; anhydrite; calcined gypsum, and plasters with a basis of calcium sulphate, whether or not coloured, but not including plasters specially prepared for use in dentistry |
| 25 21                               | Limestone flux and calcareous stone, commonly used for the manufacture of lime or cement                                                                                       |
| 25 22                               | Quicklime, slaked lime and hydraulic lime, other than calcium oxide and hydroxide                                                                                              |
| ex 25 31                            | Felspar, leucite, nepheline and nepheline synte                                                                                                                                |
| ex 26 01                            | Cassiterite                                                                                                                                                                    |
| ex 26 01                            | Copper concentrates                                                                                                                                                            |
| ex 27 01                            | Coal                                                                                                                                                                           |

## GROUP III: INTERMEDIATE GOODS

Reduction in tariffs and in other charges of equivalent effect; 65%

| Customs<br>Tariff<br>Heading<br>No. | Commodity Description                                                                                                                                                                                                                                                                               |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11 07                               | Malt, roasted or not                                                                                                                                                                                                                                                                                |
| ex 13 03                            | Pyrethrum extracts                                                                                                                                                                                                                                                                                  |
| ex 15 02                            | Tallow                                                                                                                                                                                                                                                                                              |
| 15 11                               | Glycerol and glycerol lyes                                                                                                                                                                                                                                                                          |
| ex 15 15                            | Beeswax and other insect waxes, whether or not coloured                                                                                                                                                                                                                                             |
| 15 16                               | Vegetable waxes, whether or not coloured                                                                                                                                                                                                                                                            |
| 17 03                               | Molasses                                                                                                                                                                                                                                                                                            |
| 23 04                               | Oilcake and other residues (except dregs) resulting from the extraction of vegetable oils                                                                                                                                                                                                           |
| ex 25 15                            | Marble (worked)                                                                                                                                                                                                                                                                                     |
| 25 24                               | Asbestos                                                                                                                                                                                                                                                                                            |
| ex 27 14                            | Oxidised bitumen (blown)                                                                                                                                                                                                                                                                            |
| 27 16                               | Bituminous mixtures based on natural asphalt, on natural bitumen, on petroleum bitumen, on mineral tar or on mineral tar or on mineral tar pitch (for example, bituminous mastics, cutbacks)                                                                                                        |
| 28 04                               | Hydrogen, rare gases and other non-metals                                                                                                                                                                                                                                                           |
| ex 28 13                            | Carbon dioxide                                                                                                                                                                                                                                                                                      |
| 28 19                               | Zinc oxide and zinc peroxide                                                                                                                                                                                                                                                                        |
| 28 22                               | Manganese oxides                                                                                                                                                                                                                                                                                    |
| ex 28 42                            | Soda Ash                                                                                                                                                                                                                                                                                            |
| ex 28 45                            | Sodium silicate                                                                                                                                                                                                                                                                                     |
| ex 29 14                            | Carboxylic acids                                                                                                                                                                                                                                                                                    |
| ex 32 01                            | Tanning extracts of vegetable origin                                                                                                                                                                                                                                                                |
| ex 32 03                            | Synthetic organic and inorganic tanning substances                                                                                                                                                                                                                                                  |
| ex 32 08                            | Frits, enamel and other                                                                                                                                                                                                                                                                             |
| ex 32 09                            | Wood preservatives (clear colour) stain mukwa                                                                                                                                                                                                                                                       |
| 35 06                               | Prepared glues not elsewhere specified or included; products suitable for use as glues put up for sale by retail as glues in packages not exceeding a net weight of 1 kg                                                                                                                            |
| 38 02                               | Prepared explosives, other than propellant powders                                                                                                                                                                                                                                                  |
| 38 03                               | Carbolonium black                                                                                                                                                                                                                                                                                   |
| 38 11                               | Pine disinfectants                                                                                                                                                                                                                                                                                  |
| 39 01                               | Condensation, polycondensation and polyaddition products, whether or not modified or polymerised, and whether or not linear (for example, phenoplasts aminoplasts, alkyds, polyallyl esters and other unsaturated polyesters, silicones)                                                            |
| 39 02                               | Polymerisation and copolymerisation products (for example, polyethylene, polytetrahaloethylenes, polyisobutylene polystyrene, polyvinyl chloride, polyvinyl acetate, polyvinyl chloroacetate and other polyvinyl derivatives, polyacrylic and polymethacrylic derivatives, coumarone—indene resins) |
| 39 03                               | Regenerated cellulose; cellulose, cellulose nitrate, cellulose acetate and other cellulose esters, cellulose ethers and other chemical derivatives of cellulose, plasticised or not (for example, collodions, celluloid); vulcanised fibre                                                          |
| 39 04                               | Hardened proteins (for example, hardened casein and hardened gelatin)                                                                                                                                                                                                                               |

### GROUP III: INTERMEDIATE GOODS

Reduction in tariffs and in other charges of equivalent effect: 65:

| Sr. No. | Customs Tariff Heading No | Commodity Description                                                                                                                                                                                                                                                                                                                                                            |
|---------|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 32.     | 39.05                     | Natural resins modified by fusion (run gums); artificial resins obtained by esterification of natural resins or of resinic acids (ester gums); chemical derivatives of natural rubber (for example, chlorinated rubber, rubber hydrochloride, oxidised rubber, cyclised rubber)                                                                                                  |
| 33.     | 39.06                     | Other high polymers, artificial resins and artificial plastic materials, including alginic acid, its salts and esters; linoxyn                                                                                                                                                                                                                                                   |
| 34.     | ex.40.02                  | Synthetic rubber                                                                                                                                                                                                                                                                                                                                                                 |
| 35.     | ex.40.08                  | Plates, sheets and strip of unhardened vulcanised rubber                                                                                                                                                                                                                                                                                                                         |
| 36.     | ex.44.01                  | Briquetted sawdust                                                                                                                                                                                                                                                                                                                                                               |
| 37.     | 44.16                     | Cellular wood panels whether or not faced with base metal                                                                                                                                                                                                                                                                                                                        |
| 38.     | 44.17                     | "Improved" wood, in sheets, blocks or the like                                                                                                                                                                                                                                                                                                                                   |
| 39.     | 44.18                     | Reconstituted wood, being wood shavings, wood chips, sawdust, wood flour or other ligneous waste agglomerated with natural or artificial resins or other organic binding substances, in sheets, blocks or the like                                                                                                                                                               |
| 40.     | 48.01                     | Paper and paperboard (including cellulose wadding) in rolls or sheets                                                                                                                                                                                                                                                                                                            |
| 41.     | 48.03                     | Parchment or greaseproof paper and paperboard and imitations thereof, and glazed transparent paper, in rolls or sheets                                                                                                                                                                                                                                                           |
| 42.     | 48.04                     | Composite paper or paperboard (made by sticking flat layers together with an adhesive), not surface-coated or impregnated, whether or not internally reinforced, in rolls or sheets                                                                                                                                                                                              |
| 43.     | 48.05                     | Paper and paperboard, corrugated (with or without flat surface sheets), creped, crinkled, embossed or perforated in rolls or sheets                                                                                                                                                                                                                                              |
| 44.     | 48.07                     | Paper and paperboard, impregnated, coated, surface coloured, surface-decorated or printed (not constituting printed matter within chapter 49), in rolls or sheets                                                                                                                                                                                                                |
| 45.     | *48.08                    | Filter blocks, slabs and plates, of paper pulp                                                                                                                                                                                                                                                                                                                                   |
| 46.     | 51.01                     | Yarn of man-made fibres (continuous), not put up for retail sale                                                                                                                                                                                                                                                                                                                 |
| 47.     | ex.51.04                  | Tyre cord fabric of continuous synthetic or regenerated textile materials                                                                                                                                                                                                                                                                                                        |
| 48.     | 56.01                     | Man-made fibres (discontinuous), not carded, combed or otherwise prepared for spinning                                                                                                                                                                                                                                                                                           |
| 49.     | 59.04                     | Twine, cordage, ropes and cables, plaited or not                                                                                                                                                                                                                                                                                                                                 |
| 50.     | ex.60.08                  | Ceramic tiles                                                                                                                                                                                                                                                                                                                                                                    |
| 51.     | ex.73.10                  | Bars rods of iron or steel                                                                                                                                                                                                                                                                                                                                                       |
| 52.     | 73.13                     | Sheets and plates, of iron or steel, hot-rolled or cold-rolled                                                                                                                                                                                                                                                                                                                   |
| 53.     | 73.14                     | Iron or steel wire, whether or not coated, but not insulated                                                                                                                                                                                                                                                                                                                     |
| 54.     | 73.17                     | Tubes and pipes, of cast iron                                                                                                                                                                                                                                                                                                                                                    |
| 55.     | ex.73.18                  | Tubes and pipes of iron or steel                                                                                                                                                                                                                                                                                                                                                 |
| 56.     | 73.20                     | Tube and pipe fittings (for example joints, elbows, unions and flanges) of iron or steel                                                                                                                                                                                                                                                                                         |
| 57.     | 73.21                     | Structures and parts of structures (for example hangers and other buildings, bridges and bridge-sections, lock-gates towers lattice masts, roofs, roofing frame-works, door and window-frames, shutters, balustrades, pillars and columns), of iron or steel; plates, strip, rods, angles, shapes, sections, tubes and the like prepared for use in structures, of iron or steel |
| 58.     | ex.73.27                  | Welded fencing; reinforcing mesh                                                                                                                                                                                                                                                                                                                                                 |
| 59.     | 74.01                     | Copper matte; unwrought copper (refined or not); copper waste and scrap                                                                                                                                                                                                                                                                                                          |
| 60.     | ex.74.03                  | Copper rods                                                                                                                                                                                                                                                                                                                                                                      |
| 61.     | ex.74.07                  | Brass tubes                                                                                                                                                                                                                                                                                                                                                                      |
| 62.     | ex.74.10                  | Copper cables                                                                                                                                                                                                                                                                                                                                                                    |
| 63.     | 76.01                     | Unwrought aluminium; aluminium waste and scrap                                                                                                                                                                                                                                                                                                                                   |
| 64.     | 76.02                     | Wrought bars, rods, angles, shapes and sections, of aluminium; aluminium wire                                                                                                                                                                                                                                                                                                    |
| 65.     | 76.03                     | Wrought plates, sheets and strip, of aluminium                                                                                                                                                                                                                                                                                                                                   |
| 66.     | ex.78.01                  | Lead alloys                                                                                                                                                                                                                                                                                                                                                                      |
| 67.     | ex.78.01                  | Lead ingots                                                                                                                                                                                                                                                                                                                                                                      |
| 68.     | ex.78.02                  | Lead bars                                                                                                                                                                                                                                                                                                                                                                        |
| 69.     | ex.79.03                  | Pressed zinc alloy sheets                                                                                                                                                                                                                                                                                                                                                        |
| 70.     | 80.01                     | Unwrought tin, tin waste and scrap                                                                                                                                                                                                                                                                                                                                               |
| 71.     | ex.83.02                  | Hinges of base metal                                                                                                                                                                                                                                                                                                                                                             |
| 72.     | ex.83.09                  | Hooks and eyes                                                                                                                                                                                                                                                                                                                                                                   |
| 73.     | ex.83.15                  | Welding rods and electrodes                                                                                                                                                                                                                                                                                                                                                      |
| 74.     | 84.61                     | Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats and the like including pressure reducing valve and thermostatically controlled valves                                                                                                                                                                                                           |



## GROUP IVA: DURABLE CONSUMER GOODS (EXCLUDING COMMODITIES IN GROUPS IVC AND IVD)

Reduction in tariffs and in other charges of equivalent effect: 40%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.      | 42.02                      | Travel goods (e.g. trunks, suit-cases, hat, boxes, travelling-bags, rucksacks etc) shopping-bags, hand-bags, satchels, briefcases, wallets, purses, toilet cases, boxes (e.g. for arms, musical instruments, binocular, jewellery, bottles, collars, footwear, brushes) and similar containers, of leather or of composition leather, of vulcanised fibre, of artificial plastic sheeting, of paper-board or of textile fabric. |
| 2.      | 42.03                      | Articles of apparel and clothing accessories, of leather or of composition leather                                                                                                                                                                                                                                                                                                                                              |
| 3.      | 42.05                      | Other articles of leather or of composition leather                                                                                                                                                                                                                                                                                                                                                                             |
| 4.      | 49.01                      | Printed books, brochures, leaflets and similar printed matter, whether or not in single sheets                                                                                                                                                                                                                                                                                                                                  |
| 5.      | 49.02                      | Newspapers, journals and periodicals, whether or not illustrated                                                                                                                                                                                                                                                                                                                                                                |
| 6.      | 49.09                      | Picture postcards, Christmas and other picture, greeting cards, printed by any process, with or without trimmings                                                                                                                                                                                                                                                                                                               |
| 7.      | 69.10                      | Sinks, wash basins, bidets, water closet pans, urinals, baths and like sanitary fixtures                                                                                                                                                                                                                                                                                                                                        |
| 8.      | 70.09                      | Glass mirrors (including rear-view mirrors), unframed, framed or backed                                                                                                                                                                                                                                                                                                                                                         |
| 9.      | 70.13                      | Glassware (excluding articles falling in heading No. 70.19) of a kind commonly used for table, kitchens, toilet or office purposes for indoor decoration, or for similar uses                                                                                                                                                                                                                                                   |
| 0.      | ex.70.17                   | Laboratory, hygienic and pharmaceutical glassware whether or not graduated calibrated,                                                                                                                                                                                                                                                                                                                                          |
| 1.      | 73.22                      | Reservoirs, tanks, vats and similar containers for any material (other than compressed or liquefied gas), of iron or steel, of a capacity exceeding 300 L, whether or not lined or heat-insulated, but not fitted with mechanical or thermal equipment                                                                                                                                                                          |
| 2.      | 73.24                      | Containers, of iron or steel, for compressed or liquefied gas                                                                                                                                                                                                                                                                                                                                                                   |
| 3.      | ex.73.36                   | Stoves not electrically operated                                                                                                                                                                                                                                                                                                                                                                                                |
| 4.      | ex.83.01                   | Locks and padlocks and parts thereof                                                                                                                                                                                                                                                                                                                                                                                            |
| 5.      | ex.84.15                   | Refrigerators and deep freezers                                                                                                                                                                                                                                                                                                                                                                                                 |
| 6.      | ex.85.12                   | Electric space heating apparatus                                                                                                                                                                                                                                                                                                                                                                                                |
| 7.      | 87.05                      | Bodies (including cabs), for the motor vehicles falling within heading Nos 87.01, 87.02 or 87.03                                                                                                                                                                                                                                                                                                                                |
| 8.      | 87.06                      | Parts and accessories of the motor vehicles falling within heading Nos 87.01, 87.02 or 87.03                                                                                                                                                                                                                                                                                                                                    |
| 9.      | 87.10                      | Cycles (including delivery tricycles), not motorised                                                                                                                                                                                                                                                                                                                                                                            |
| 0.      | 94.01                      | Chairs and other seats (other than those falling within heading No. 94.02), whether or not convertible into beds, and parts thereof                                                                                                                                                                                                                                                                                             |
| 1.      | 94.02                      | Medical, dental, surgical or veterinary furniture (for example, operating tables, hospitals beds with mechanical fittings); dentists' and similar chairs with mechanical elevating, rotating or reclining movements; parts of the foregoing articles                                                                                                                                                                            |
| 2.      | 94.03                      | Other furniture and parts thereof                                                                                                                                                                                                                                                                                                                                                                                               |
| 3.      | 94.04                      | Mattress supports; articles of bedding or similar furnishing fitted with springs or stuffed or internally fitted with any material or of expanded, foam or sponge rubber or expanded, foam or sponge artificial plastic material, whether or not covered (for example, mattresses, quilts, eiderdowns, cushions, pouffes and pillows)                                                                                           |

## GROUP IVB: NON-DURABLE CONSUMER GOODS (EXCLUDING COMMODITIES IN GROUPS IVC AND IVD)

Reduction in tariffs and in other charges of equivalent effect: 35%

| Sr. No.  | Customs Tariff Heading No. | Commodity Description                                                                                                                                                                                                                                                           |
|----------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 27.11    |                            | Petroleum gases and other gaseous hydrocarbons                                                                                                                                                                                                                                  |
| ex.32.09 |                            | Varnishes and lacquers; distempers; prepared water pigments of the kind used for finishing leather; paints and enamels                                                                                                                                                          |
| 32.10    |                            | Artists', students' and signboard painters' colours, modifying tints, amusement colours and the like, in tablets, tubes, jars, bottles, pans or in similar forms or packings, including such colours in sets or outfits, with or without brushes, palettes or other accessories |
| 32.12    |                            | Glaziers putty; grafting putty; painters' fillings; non-refractory surfacing preparations; stopping sealing and similar mastics, including resin mastics and cements                                                                                                            |
| 32.13    |                            | Writing ink, printing ink and other inks                                                                                                                                                                                                                                        |
| 34.01    |                            | Soap; organic surface-active products and preparations for use as soap, in the form of bars, cakes or moulded pieces or shapes, whether or not combined with soap                                                                                                               |
| ex.34.02 |                            | Washing preparations                                                                                                                                                                                                                                                            |
| ex.34.05 |                            | Polishes and creams                                                                                                                                                                                                                                                             |

# GROUP IVB: NON-DURABLE CONSUMER GOODS (EXCLUDING COMMODITIES IN GROUPS IVC AND IVD)

Reduction in tariffs and in other charges of equivalent effect: 35%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                                                                                                                                                                                                                 |
|---------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9.      | 39.07                      | Articles of materials of the kinds described in headings Nos 39.01 to 39.06                                                                                                                                                                                                                                                           |
| 10.     | ex.40.07                   | Elastic thread and cord                                                                                                                                                                                                                                                                                                               |
| 11.     | ex.40.10                   | Conveyor belting of vulcanised rubber                                                                                                                                                                                                                                                                                                 |
| 12.     | ex.40.11                   | Rubber tyres and inner tubes for motor vehicles and bicycles                                                                                                                                                                                                                                                                          |
| 13.     | ex.40.12                   | Baby feeding teats                                                                                                                                                                                                                                                                                                                    |
| 14.     | ex.40.14                   | Rubber erasers, stoppers and rings for bottles, disc washers and joints                                                                                                                                                                                                                                                               |
| 15.     | ex.47.01                   | Unbleached wood pulp                                                                                                                                                                                                                                                                                                                  |
| 16.     | 48.15                      | Other paper and paperboard, cut to size or shape                                                                                                                                                                                                                                                                                      |
| 17.     | ex.48.16                   | Boxes, bags and other packing containers of paper or paper board                                                                                                                                                                                                                                                                      |
| 18.     | ex.48.18                   | Registers, exercise books, albums                                                                                                                                                                                                                                                                                                     |
| 19.     | 48.21                      | Other articles of paper pulp, paper, paperboard or cellulose wadding                                                                                                                                                                                                                                                                  |
| 20.     | ex.59.16                   | Conveyor belting of textile material, whether or not strengthened with metal or other material                                                                                                                                                                                                                                        |
| 21.     | 62.03                      | Sacks and bags, of a kind used for the packing of goods                                                                                                                                                                                                                                                                               |
| 22.     | ex.66.01                   | Umbrellas                                                                                                                                                                                                                                                                                                                             |
| 23.     | 68.11                      | Articles of cement (including slag cement), of concrete or of artificial stone (including granulated marble agglomerated with cement), reinforced or not                                                                                                                                                                              |
| 24.     | 68.12                      | Articles of asbestos-cements, of cellulose fibre-cement or the like                                                                                                                                                                                                                                                                   |
| 25.     | 68.13                      | Fabricated asbestos and articles thereof (for example, asbestos board, thread and fabrics, asbestos clothing, asbestos jointing), reinforced or not other than goods falling within heading No. 68.14; mixtures with a basis of asbestos and mixtures with a basis of asbestos and magnesium carbonate, and articles of such mixtures |
| 26.     | 68.14                      | Friction material (segments, discs, washers, strips, sheets, plates, rolls and the like) of a kind suitable for brakes, for clutches or the like, with a basis of asbestos, other mineral substances or of cellulose, whether or not combined with textile or other materials                                                         |
| 27.     | ex.69.07                   | Tiles                                                                                                                                                                                                                                                                                                                                 |
| 28.     | ex.69.09                   | Laboratory ware                                                                                                                                                                                                                                                                                                                       |
| 29.     | ex.69.11                   | Tableware                                                                                                                                                                                                                                                                                                                             |
| 30.     | 69.12                      | Tableware and other articles of a kind commonly used for domestic or toilet purposes, of other kinds of pottery                                                                                                                                                                                                                       |
| 31.     | ex.70.10                   | Glass bottles                                                                                                                                                                                                                                                                                                                         |
| 32.     | 73.23                      | Cask, drums, cans, boxes and similar containers, of sheet or plate iron or steel of a description commonly used for the conveyance or packing of goods                                                                                                                                                                                |
| 33.     | 73.26                      | Barbed iron or steel wire                                                                                                                                                                                                                                                                                                             |
| 34.     | 73.27                      | Wire netting                                                                                                                                                                                                                                                                                                                          |
| 35.     | ex.73.31                   | Nails and tacks                                                                                                                                                                                                                                                                                                                       |
| 36.     | ex.73.32                   | Bolts, nuts and screws of iron or steel                                                                                                                                                                                                                                                                                               |
| 37.     | 73.38                      | Articles of a kind commonly used for domestic purposes, sanitary ware for indoor use, and parts of such articles and ware, of iron or steel; iron or steel wool; pot scourers and scouring or polishing pads, gloves and the like, of iron or steel                                                                                   |
| 38.     | ex.73.38                   | Domestic utensils including sanitary ware of iron or steel                                                                                                                                                                                                                                                                            |
| 39.     | 74.17                      | Cooking and heating apparatus of a kind used for domestic purposes, not electrically operated, and parts thereof, of copper                                                                                                                                                                                                           |
| 40.     | 74.18                      | Other articles of a kind commonly used for domestic purposes, sanitary ware for indoor use, and parts of such articles and ware, of copper                                                                                                                                                                                            |
| 41.     | 76.15                      | Articles of a kind commonly used for domestic purposes, sanitary ware for indoor use, and parts of such articles and ware, of aluminium                                                                                                                                                                                               |
| 42.     | 76.16                      | Other articles of aluminium                                                                                                                                                                                                                                                                                                           |
| 43.     | 82.01                      | Hand tools, the following: spades, shovels, picks, hoes, forks and rakes; axes, bill hooks and similar hewing tools; scythes, sickles, hay knives, grass shears, timber wedges and other tools of a kind used in agriculture, horticulture or forestry                                                                                |
| 44.     | ex.82.01                   | Matchets, pangas and hoes                                                                                                                                                                                                                                                                                                             |
| 45.     | ex.82.04                   | Charcoal irons, irons (flat or sad) fencing strainers; automatic gripping vices and clamps for the servicing of borehole equipment                                                                                                                                                                                                    |
| 46.     | ex.82.06                   | Buffing blades (coarse type retreading)                                                                                                                                                                                                                                                                                               |
| 47.     | 82.09                      | Knives with cutting blades, serrated or not (including pruning knives), other than knives falling within heading No 82.06, and blades therefor                                                                                                                                                                                        |
| 48.     | ex.82.11                   | Razor blades including disposable razors                                                                                                                                                                                                                                                                                              |
| 49.     | ex.82.13                   | Articles of cutlery                                                                                                                                                                                                                                                                                                                   |
| 50.     | ex.83.07                   | Fluorescent lighting fittings                                                                                                                                                                                                                                                                                                         |
| 51.     | ex.84.54                   | Stapling machines                                                                                                                                                                                                                                                                                                                     |
| 52.     | 85.03                      | Primary cells and primary batteries                                                                                                                                                                                                                                                                                                   |



## GROUP IVB: NON-DURABLE CONSUMER GOODS (EXCLUDING COMMODITIES IN GROUPS IVC AND IVD)

Reduction in tariffs and in other charges of equivalent effect: 35%

| Customs<br>Tariff<br>Heading<br>No. | Commodity Description                                                                                                                                               |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 85.04                               | Electric accumulators                                                                                                                                               |
| ex 85.15                            | Radios                                                                                                                                                              |
| ex 85.18                            | Electrical capacitors fixed                                                                                                                                         |
| 85.20                               | Electric filament lamps and electric discharge lamps (including infra-red and ultra-violet lamps); are-lamps; electrically ignited photographic flashbulbs          |
| ex 85.23                            | Insulated electric wire and cable                                                                                                                                   |
| 85.25                               | Insulators of any material                                                                                                                                          |
| ex 90.03                            | Spectacle frames                                                                                                                                                    |
| ex 90.04                            | Spectacles                                                                                                                                                          |
| 91.01                               | Pocket watches, wrist-watches and other watches including stop-watches                                                                                              |
| 91.02                               | Clocks with watch movements (excluding clocks of heading No. 91.03)                                                                                                 |
| ex 91.04                            | Wall clocks, other                                                                                                                                                  |
| 97.06                               | Appliances, apparatus, accessories and requisites for gymnastics, athletics, or for sports and outdoor games (other than articles falling within heading No. 97.04) |
| ex 98.01                            | Buttons, studs, cuff-links and press fasteners                                                                                                                      |
| 98.02                               | Slide fasteners and parts thereof                                                                                                                                   |
| ex 98.03                            | Fountain pens, stylograph pens and pencils                                                                                                                          |
| ex 98.05                            | Pencils                                                                                                                                                             |
| ex 98.08                            | Typewriter and similar ribbons, whether or not on spools                                                                                                            |
| ex 98.11                            | Smoking pipes and pipe bowls                                                                                                                                        |

## GROUP IVC: HIGHLY COMPETING CONSUMER GOODS

Reduction in tariffs and in other charges of equivalent effect: 30%

| Customs<br>Tariff<br>Heading<br>No. | Commodity Description                                                                                                                                                         |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ex 51.04                            | Woven fabrics of man-made fibres (continuous), including woven fabrics of monofil or strip of heading No. 51.01 other than tyre cord fabric                                   |
| 55.06                               | Cotton yarn, put up for retail sale                                                                                                                                           |
| 55.07                               | Cotton gauze                                                                                                                                                                  |
| 55.09                               | Other woven fabrics of cotton                                                                                                                                                 |
| 56.07                               | Woven fabrics of man-made fibres (discontinuous or waste)                                                                                                                     |
| 58.09                               | Laces, in the piece, in strips or in motifs                                                                                                                                   |
| 58.10                               | Embroidery in the piece, in strips or in motifs                                                                                                                               |
| ex 59.01                            | Sanitary towels, tampons                                                                                                                                                      |
| ex 59.08                            | Textile fabrics impregnated, coated, covered or laminated with preparations of cellulose derivatives or of other artificial plastic materials                                 |
| ex 59.13                            | Elastic braids                                                                                                                                                                |
| 60.01                               | Knitted or crocheted fabric, not elastic nor rubberised                                                                                                                       |
| 60.03                               | Stockings, under stockings, socks, ankle-socks, sockettes and the like, knitted or crocheted, not elastic nor rubberised                                                      |
| 60.04                               | Undergarments, knitted or crocheted, not elastic nor rubberised                                                                                                               |
| ex 60.06                            | Knitted fabrics                                                                                                                                                               |
| 61.01                               | Men's and boys' outer garments                                                                                                                                                |
| 61.02                               | Women's, girls' and infants' outer garments                                                                                                                                   |
| 61.03                               | Men's and boys' under-garments including collars, shirt-fronts and cuffs                                                                                                      |
| 61.04                               | Women's, girls' and infants' under-garments                                                                                                                                   |
| 61.05                               | Handkerchiefs                                                                                                                                                                 |
| 61.06                               | Shawls, scarves, mufflers, mantillas, veils and the like                                                                                                                      |
| 61.07                               | Ties, bow ties and cravats                                                                                                                                                    |
| 61.09                               | Corsets, corset-belts, suspender-belts, brassieres, braces, suspenders, garters and the like (including such articles of knitted or crocheted fabric), whether or not elastic |
| 61.10                               | Gloves, mittens, mitts, stockings, socks and sockettes, not being knitted or crocheted goods                                                                                  |
| 61.11                               | Made up accessories for articles of apparel (for example, dress shields, shoulder and other pads, belts, muffs, sleeve protectors, pockets)                                   |



**GROUP IVC: HIGHLY COMPETING CONSUMER GOODS**

Reduction in tariffs and in other charges of equivalent effect: 30%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                                                                  |
|---------|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 25.     | 62.01                      | Travelling rugs and blankets                                                                                                                                                           |
| 26.     | 62.02                      | Bed linen, table linen, toilet linen and kitchen linen; curtains and other furnishing articles                                                                                         |
| 27.     | 62.04                      | Tarpaulins, sails, awnings, sunblinds, tents and camping goods                                                                                                                         |
| 28.     | 62.05                      | Other made up textile articles (including dress patterns)                                                                                                                              |
| 29.     | 64.01                      | Footwear with outer soles and uppers of rubber or artificial plastic material                                                                                                          |
| 30.     | 64.02                      | Footwear with outer soles of leather or composition leather; footwear (other than footwear falling within heading No. 64.01) with outer soles of rubber or artificial plastic material |
| 31.     | 64.03                      | Footwear with outer soles of wood or cork                                                                                                                                              |
| 32.     | 64.04                      | Footwear with outer soles of other materials                                                                                                                                           |
| 33.     | 64.05                      | Parts of footwear (including uppers, in-soles and screw-on heels) of any material except metal                                                                                         |
| 34.     | 64.06                      | Gaiters, spats, leggings, puttees, cricket pads, shin-guards and similar articles, and parts thereof                                                                                   |

**GROUP IVD: CONSUMER GOODS OF PARTICULAR IMPORTANCE TO ECONOMIC DEVELOPMENT (OTHER THAN CAPITAL GOODS)**

Reductions in tariffs and in other charges of equivalent effect: 70%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                                                                                                                                                                             |
|---------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.      | 25.23                      | Portland cement, cement fondu, slag cement, super-sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinker                                                                                                                                                |
| 2.      | 27.10                      | Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included, containing not less than 70% by weight of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations |
| 3.      | 30.01                      | Organo-therapeutic glands or other organs, dried, whether or not powdered; organo-therapeutic extracts of glands or other organs or of their secretions; other animal substances prepared for therapeutic or prophylactic uses, not elsewhere specified or included                               |
| 4.      | 30.02                      | Antisera, microbial vaccines, toxins, microbial cultures (including ferments but excluding yeasts) and similar products                                                                                                                                                                           |
| 5.      | 30.03                      | Medicaments (including veterinary medicaments)                                                                                                                                                                                                                                                    |
| 6.      | 30.04                      | Wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in retail packings for medical or surgical purposes, other than goods specified in note 3 of Chapter 30                      |
| 7.      | 30.05                      | Other pharmaceutical goods                                                                                                                                                                                                                                                                        |
| 8.      | 31.01                      | Guano and other natural animal or vegetable fertilisers, whether or not mixed together, but not chemically treated                                                                                                                                                                                |
| 9.      | 31.02                      | Mineral or chemical fertilisers, nitrogenous                                                                                                                                                                                                                                                      |
| 10.     | 31.03                      | Mineral or chemical fertilisers, phosphatic                                                                                                                                                                                                                                                       |
| 11.     | 31.04                      | Mineral or chemical fertilisers, potassic                                                                                                                                                                                                                                                         |
| 12.     | 31.05                      | Other fertilisers; goods of Chapter 31 in tablets, lozenges and similar prepared forms or in packings of a gross weight not exceeding 10kg                                                                                                                                                        |
| 13.     | ex 38.11                   | Insecticides and fungicides                                                                                                                                                                                                                                                                       |
| 14.     | ex 85.19                   | Electrical apparatus for making and breaking electrical circuits                                                                                                                                                                                                                                  |
| 15.     | ex 90.17                   | Disposable medical syringes of plastic                                                                                                                                                                                                                                                            |

## GROUP V: CAPITAL GOODS (INCLUDING TRANSPORT EQUIPMENT)

Reduction in tariffs and in other charges of equivalent effect: 70%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                                                                                                                                                                                                                                                                                                                          |
|---------|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.      | 84.01                      | Steam and other vapour generating boilers (excluding central heating hot water boilers capable also of producing low pressure steam); super-heated water boilers                                                                                                                                                                               |
| 2.      | 84.02                      | Auxiliary plant for use with boilers of heading No. 84.01 (e.g. economisers, super-heaters, soot-removers, gas recoverers and the like); condensers for vapour engines and power units                                                                                                                                                         |
| 3.      | ex.84.10                   | Pumps (including motor-pumps and turbo-pumps) for liquids, whether or not fitted with measuring devices                                                                                                                                                                                                                                        |
| 4.      | ex.84.11                   | Air pumps or vacuum pumps                                                                                                                                                                                                                                                                                                                      |
| 5.      | 84.12                      | Air conditioning machines, self-contained, comprising a motor-driven fan and elements for changing the temperature and humidity of air                                                                                                                                                                                                         |
| 6.      | ex.84.17                   | Instantaneous or storage water heaters, non-electrical                                                                                                                                                                                                                                                                                         |
| 7.      | ex.84.18                   | Steam cleaners, industrial dust extractors, oil filter elements, water purification equipment, air pollution and cleaning equipment                                                                                                                                                                                                            |
| 8.      | 84.22                      | Lifting, handling, loading or unloading machinery, telfers, and conveyors (for example; lifts, hoists, winches, cranes, transporter cranes, jacks, pulley tackle, belt conveyors and teleferics), not being machinery falling within heading No. 84.23.                                                                                        |
| 9.      | ex.84.24                   | Agricultural and horticultural machinery for soil preparation or cultivation (for example ploughs, harrows, cultivators, seeds and fertilizer distributors)                                                                                                                                                                                    |
| 0.      | 84.25                      | Harvesting and threshing machinery: straw and fodder presses, hay or grass mowers, winmowing and similar clearing machines for seed, grain or leguminous vegetables and egg-grading and other grading machines for agricultural produce (other than those of a kind used in the bread grain milling industry falling within heading No. 84.29) |
| 1.      | 84.29                      | Machinery of a kind used in the bread grain milling industry, and other machinery (other than farm type machinery) for the working of cereals or dried leguminous vegetables                                                                                                                                                                   |
| 2.      | ex.84.30                   | Sugar manufacturing or refining machinery and parts thereof                                                                                                                                                                                                                                                                                    |
| 3.      | ex.84.41                   | Sewing machines; furniture specially designed for sewing machines                                                                                                                                                                                                                                                                              |
| 4.      | ex.84.50                   | Gas operated welding equipment                                                                                                                                                                                                                                                                                                                 |
| 5.      | ex.84.51                   | Typewriters other than typewriters incorporating calculating mechanisms                                                                                                                                                                                                                                                                        |
| 6.      | ex.84.56                   | Stone crushing machines and parts; concrete mixers and parts                                                                                                                                                                                                                                                                                   |
| 7.      | 84.63                      | Transmission shafts, cranks, bearing housings, plain shaft bearings, gears and gearing (including friction gears and gear-boxes and other variable speed gears), flywheels, pulleys and pulley blocks, clutches and shaft couplings                                                                                                            |
| 8.      | ex.85.01                   | Electric motors and transformers                                                                                                                                                                                                                                                                                                               |
| 9.      | 86.06                      | Railway and tramway rolling-stock, the following: workshops, cranes and other service                                                                                                                                                                                                                                                          |
| 0.      | 86.09                      | Parts of railway and tramway locomotives and rolling stock                                                                                                                                                                                                                                                                                     |
| 1.      | ex.87.02                   | Dumpers and bulk handling transport vehicles for liquids and petroleum products                                                                                                                                                                                                                                                                |
| 2.      | ex.87.02                   | Motor vehicles, excluding passenger motor-cars designed for the transport of less than 10 persons (including the driver)                                                                                                                                                                                                                       |

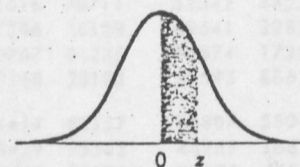
## GROUP VI: LUXURY GOODS

Reduction in tariffs and other charges of equivalent effect: 10%

| Sr. No. | Customs Tariff Heading No. | Commodity Description                     |
|---------|----------------------------|-------------------------------------------|
| 1.      | 17.04                      | Sugar confectionery, not containing cocoa |
| 2.      | ex.18.06                   | Chocolate confectionery                   |
| 3.      | 22.03                      | Beer made from malt                       |
| 4.      | ex.22.05                   | Wine                                      |
| 5.      | ex.22.07                   | Banana wine; papaya wine                  |
| 6.      | ex.22.09                   | Alcoholic beverages                       |
| 7.      | ex.24.02                   | Cigarettes                                |
| 8.      | ex.33.01                   | Essential oils                            |
| 9.      | ex.33.04                   | Flavouring materials                      |
| 0.      | ex.33.06                   | Perfumery                                 |
| 1.      | ex.71.18                   | Meerschaum ear-rings and necklaces        |

## Areas of a Standard Normal Distribution

An entry in the table is the proportion under the entire curve which is between  $z = 0$  and a positive value of  $z$ . Areas for negative values of  $z$  are obtained by symmetry.



| $z$ | .00   | .01   | .02   | .03   | .04   | .05   | .06   | .07   | .08   | .09   |
|-----|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 0.0 | .0000 | .0040 | .0080 | .0120 | .0160 | .0199 | .0239 | .0279 | .0319 | .0359 |
| 0.1 | .0398 | .0438 | .0478 | .0517 | .0557 | .0596 | .0636 | .0675 | .0714 | .0753 |
| 0.2 | .0793 | .0832 | .0871 | .0910 | .0948 | .0987 | .1026 | .1064 | .1103 | .1141 |
| 0.3 | .1179 | .1217 | .1255 | .1293 | .1331 | .1368 | .1406 | .1443 | .1480 | .1517 |
| 0.4 | .1554 | .1591 | .1628 | .1664 | .1700 | .1736 | .1772 | .1808 | .1844 | .1879 |
| 0.5 | .1915 | .1950 | .1985 | .2019 | .2054 | .2088 | .2123 | .2157 | .2190 | .2224 |
| 0.6 | .2257 | .2291 | .2324 | .2357 | .2389 | .2422 | .2454 | .2486 | .2517 | .2549 |
| 0.7 | .2580 | .2611 | .2642 | .2673 | .2703 | .2734 | .2764 | .2794 | .2823 | .2852 |
| 0.8 | .2881 | .2910 | .2939 | .2967 | .2995 | .3023 | .3051 | .3078 | .3106 | .3133 |
| 0.9 | .3159 | .3186 | .3212 | .3238 | .3264 | .3289 | .3315 | .3340 | .3365 | .3389 |
| 1.0 | .3413 | .3438 | .3461 | .3485 | .3508 | .3531 | .3554 | .3577 | .3599 | .3621 |
| 1.1 | .3643 | .3665 | .3686 | .3708 | .3729 | .3749 | .3770 | .3790 | .3810 | .3830 |
| 1.2 | .3849 | .3869 | .3888 | .3907 | .3925 | .3944 | .3962 | .3980 | .3997 | .4015 |
| 1.3 | .4032 | .4049 | .4066 | .4082 | .4099 | .4115 | .4131 | .4147 | .4162 | .4177 |
| 1.4 | .4192 | .4207 | .4222 | .4236 | .4251 | .4265 | .4279 | .4292 | .4306 | .4319 |
| 1.5 | .4332 | .4345 | .4357 | .4370 | .4382 | .4394 | .4406 | .4418 | .4429 | .4441 |
| 1.6 | .4452 | .4463 | .4474 | .4484 | .4495 | .4505 | .4515 | .4525 | .4535 | .4545 |
| 1.7 | .4554 | .4564 | .4573 | .4582 | .4591 | .4599 | .4608 | .4616 | .4625 | .4633 |
| 1.8 | .4641 | .4649 | .4656 | .4664 | .4671 | .4678 | .4686 | .4693 | .4699 | .4706 |
| 1.9 | .4713 | .4719 | .4726 | .4732 | .4738 | .4744 | .4750 | .4756 | .4761 | .4767 |
| 2.0 | .4772 | .4778 | .4783 | .4788 | .4793 | .4798 | .4803 | .4808 | .4812 | .4817 |
| 2.1 | .4821 | .4826 | .4830 | .4834 | .4838 | .4842 | .4846 | .4850 | .4854 | .4857 |
| 2.2 | .4861 | .4864 | .4868 | .4871 | .4875 | .4878 | .4881 | .4884 | .4887 | .4890 |
| 2.3 | .4893 | .4896 | .4898 | .4901 | .4904 | .4906 | .4909 | .4911 | .4913 | .4916 |
| 2.4 | .4918 | .4920 | .4922 | .4925 | .4927 | .4929 | .4931 | .4932 | .4934 | .4936 |
| 2.5 | .4938 | .4940 | .4941 | .4943 | .4945 | .4946 | .4948 | .4949 | .4951 | .4952 |
| 2.6 | .4953 | .4955 | .4956 | .4957 | .4959 | .4960 | .4961 | .4962 | .4963 | .4964 |
| 2.7 | .4965 | .4966 | .4967 | .4968 | .4969 | .4970 | .4971 | .4972 | .4973 | .4974 |
| 2.8 | .4974 | .4975 | .4976 | .4977 | .4977 | .4978 | .4979 | .4979 | .4980 | .4981 |
| 2.9 | .4981 | .4982 | .4982 | .4983 | .4984 | .4984 | .4985 | .4985 | .4986 | .4986 |
| 3.0 | .4987 | .4987 | .4987 | .4988 | .4988 | .4989 | .4989 | .4989 | .4990 | .4990 |



## RANDOM NUMBERS

|            |             |             |             |             |             |
|------------|-------------|-------------|-------------|-------------|-------------|
| 1/n<br>.00 | 03991 10461 | 93716 16894 | 98953 73231 | 39528 72484 | 82474 25593 |
| 352632     | 38555 95554 | 32886 59780 | 09958 18065 | 81616 18711 | 53342 44275 |
| 361325     | 17546 73704 | 92052 46215 | 15917 06253 | 07586 16120 | 82641 22820 |
| 360420     | 32643 52861 | 95819 06831 | 19640 99413 | 90767 04235 | 13574 17200 |
| 49318      | 69572 68777 | 39510 35905 | 85244 35159 | 40188 28193 | 29593 88627 |
| 48218      | 24122 66591 | 27699 06494 | 03152 19121 | 34414 82157 | 86887 55087 |
| 47120      | 61196 30231 | 92962 61773 | 22109 78508 | 63439 75363 | 44989 16822 |
| 46025      | 30532 21704 | 10274 12202 | 94205 20380 | 67049 09070 | 93399 45547 |
| 44932      | 03788 97599 | 75867 20717 | 82037 10268 | 79495 04146 | 52162 90286 |
| 43841      | 48228 63379 | 85783 47619 | 87481 37220 | 91704 30552 | 04737 21031 |
| 42753      | 88618 77161 | 41290 67312 | 71857 15957 | 48545 35247 | 18619 13674 |
| 11667      | 71299 23853 | 05870 01119 | 92784 26340 | 75122 11724 | 74627 73707 |
| 10583      | 27954 58909 | 82444 99005 | 04921 73701 | 92904 13141 | 32392 19763 |
| 19501      | 80863 00514 | 20247 81759 | 45197 25332 | 69902 63742 | 78464 22501 |
| 18422      | 33564 60780 | 48460 85558 | 15191 18782 | 94972 11598 | 62095 36737 |
| 7344       | 90899 75754 | 60833 25983 | 01291 41349 | 19152 00023 | 12302 80783 |
| 6269       | 78038 70267 | 43529 06318 | 38384 74761 | 36024 00867 | 76378 41605 |
| 5197       | 55936 66485 | 88722 56736 | 66164 49431 | 94458 74284 | 05041 49807 |
| 4128       | 87539 08823 | 94813 31900 | 54155 83436 | 54158 34243 | 46978 35482 |
| 3058       | 16818 60311 | 74457 90561 | 72848 11834 | 75051 93029 | 47665 64382 |
| 1992       | 34677 58300 | 74910 64345 | 19325 81549 | 60365 94653 | 35075 33949 |
| 1928       | 45305 07521 | 61318 31855 | 14413 70951 | 83799 42402 | 56623 34442 |
| 1866       | 59747 67277 | 76503 34513 | 39663 77544 | 32960 07405 | 36409 83232 |
| 1807       | 16520 69676 | 11654 99893 | 02181 68161 | 19322 53845 | 57620 52606 |
| 749        | 68652 27376 | 92852 55866 | 88448 03584 | 11220 94747 | 07399 37403 |
| 694        | 79375 95220 | 01159 63267 | 10622 48391 | 31751 57260 | 68980 05339 |
| 641        | 33521 26665 | 55823 47641 | 86225 31704 | 88492 99382 | 14454 04504 |
| 590        | 59389 49067 | 66821 41575 | 49767 04037 | 30934 47744 | 07481 83823 |
| 541        | 20554 91409 | 96277 48257 | 50816 97616 | 22888 48893 | 27499 98743 |
| 495        | 59404 72059 | 43947 51680 | 43852 59693 | 78212 16993 | 35902 91386 |
| 450        | 42614 29297 | 01918 28316 | 25163 01889 | 70014 15021 | 68971 11403 |
| 108        | 34994 41374 | 70071 14736 | 65251 07629 | 37239 33295 | 18477 65622 |
| 168        | 99385 41600 | 11133 07586 | 36815 43625 | 18637 37509 | 14707 93997 |
| 130        | 66497 68646 | 78138 66559 | 64397 11692 | 05327 82162 | 83745 22567 |
| 94         | 48509 23929 | 27482 45476 | 04515 25624 | 95096 67946 | 16930 33361 |
| 80         | 15470 48355 | 88651 22596 | 83761 60873 | 43253 84145 | 20368 07126 |
| 28         | 20094 98977 | 74843 93413 | 14387 06345 | 80854 09279 | 41196 37480 |
| 99         | 73788 06533 | 28597 20405 | 51321 92246 | 80088 77074 | 66919 31673 |
| 71         | 60530 45128 | 74022 84617 | 72472 00008 | 80890 18002 | 35352 54131 |
| 16         | 44372 15486 | 65741 14014 | 05466 55306 | 93128 18464 | 79982 68416 |
| 2          | 18611 19241 | 66083 24653 | 84609 58232 | 41849 84547 | 46850 52326 |
| 31         | 58319 15997 | 08355 60860 | 29735 47762 | 46352 33049 | 69248 93460 |
| 12         | 61199 67940 | 55121 29281 | 59076 07936 | 11087 96294 | 14013 31792 |
| 18         | 18627 90872 | 00911 98936 | 76355 93779 | 52701 08337 | 56303 87315 |
| 9          | 00441 58997 | 14060 40619 | 29549 69616 | 57275 36898 | 81304 48525 |
| 6          | 32624 68691 | 14845 46672 | 61958 77100 | 20857 73156 | 70284 24326 |
| 5          | 65961 73488 | 41839 55382 | 17267 70943 | 15633 84924 | 90415 93614 |
| 6          | 20288 34060 | 39685 23309 | 10061 68829 | 92694 48297 | 39904 02115 |
| 9          | 59362 93938 | 74416 53166 | 35208 33374 | 77613 19019 | 88152 00080 |
| 5          | 99732 93478 | 53152 67433 | 35663 52972 | 38688 32486 | 45134 63545 |

## APPENDIX V

### INTERVIEW GUIDE

#### Interviewees

- Director of KETA, Ministry of Commerce
- PTA Coordinator, Ministry of Foreign Affairs
- Technical Officer, Kenya Association of Manufacturers

From each of the above, information was sought on :-

- 1) past performance and expected trends for Kenyan exports for the following categories :
  - food items and live animals
  - alcoholic beverages and tobacco
  - inedible raw materials (except fuels)
  - petroleum products and related materials
  - animal and vegetable oils and fats
  - chemicals
  - machinery and transport equipment
  - other manufactured items;
- 2) reasons or factors that might be responsible for the trends discussed in 1 above;
- 3) specific items for which the PTA has been particularly useful for their marketing;
- 4) Government assistance in the marketing of the different categories of items;
- 5) comments as to which categories of products the PTA directorate should place emphasis on.

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