

**University of Nairobi**

**Institute of Diplomacy and International Studies**

**Japan – Kenya Bilateral Relationship; Examining the Trade and Development Assistance  
for the period 1998-2014**

**Churchill Otieno Saoke**

**(R51/68415/2013)**

**Supervisor**

**Gerrishon Ikiara**

**Research Project submitted in partial fulfilment of The Degree of Master of Arts in  
diplomacy**

**(September 2015)**

**Declaration**

I, Churchill Otieno Saoke hereby declare that this research is my original work and has not been presented for a degree in any other University.

Signed: .....

Date: .....

**CHURCHILLOTIENO SAOKE**

This project has been submitted for examination with my approval as the University supervisors.

Signature: .....

Date: .....

**GERRISHON IKIARA**

## **Abstract**

The study focuses on the Analysis of the Japan-Kenya bilateral relationship by looking at the imports, exports, balance of trade as well as the Official Development Assistance between the two countries. In this study, review of documents was done to collect data of the trade history.

Results show that the trade between the two countries is not balanced. On average, there was a growth rate of Kenya's exports to Japan at an annual rate of 2.47% between the period. The main exports being cut flowers, tea, coffee, edible nuts, fish fillets, tobacco and sisal. The imports on the other hand had an average of annual rise of 27%. The main imports being mainly capital goods such as: motor vehicles and parts, heavy machinery & construction equipment, Kenya is a marginal supplier to Japan with a market share of only 0.01%. However, Japan's share in Kenya's imports is high and stood at above 5% of Kenya's total imports throughout this period of study. The east African region stood out as Kenya's main destination in terms of exports.

In comparison to other countries, Japan's ODA is still trailing behind those of US, UK Germany, Sweden and Denmark. A similar trend has been found in the case of the international organizations, where World Bank, IMF and EU institutions stands out with higher ODA support to Kenya as compared to Japan. The study recommends the need for export diversification to Japan and the need for signing a trade agreement as a way of reducing the trade imbalance gap.

## **Abbreviation**

GDP	Gross Domestic Product
JETRO	Japan External trade Organization
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
NEPAD	New Partnership for African Development
AGOA	Agricultural Growth Opportunity for Africa
UNIDO	United Nation Industrial Development Organization
CDM	Clean Development Mechanism
JBIC	Japan Bank for International Cooperation
JOGMEC	Japan Oil Gas and Metals Exploration Company
JICA	Japan International Cooperation Agency
JEPAK	JICA Ex-participants Alumni of Kenya
CanDo	Community Action Development Organisation
TICAD	Tokyo International Conference on African Development
KEPHIS	Kenya Plant Health Inspectorate Services
AICAD	African Institute for Capacity Development

NERICA	New Rice for Africa
NPT	National Performance Trials
FDI	Foreign Direct Investments
JKUAT	Jomo Kenyatta University of Agriculture and Technology
NEDO	New Energy and Industrial Technology Development Organization
WASH	Water, Sanitation and Hygiene
UNCSD	United Nations Conference on Sustainable Development
AMCEN	African Ministerial Conference on the Environment
AGEP	African green economy partnership
UNFCCC	United Nations Framework Convention on Climate Change
GESIP	Green Economy Strategy and Implementation Plan
NSS	National Security Strategy
TPP	Trans-Pacific Partnership
RCEP	Regional Comprehensive Economic Partnership
FTA	Free Trade Agreement
EPA	Economic Partnership Agreement
ODA	Official Development Assistance

DAC Development Assistance Committee

OECD Organization for Economic Co-operation and development

## **Dedication**

I dedicate this research project to my father Henry Saoko Kisuge, my mother Wilfrida Saoko and my late step mother Salina Were as a symbol of my gratitude, respect and honor for their inspiration and instilling in me values of hard work, self-reliance, determination and persistence.

## **Acknowledgements**

This master's research was carried out through research collaboration with Peace and Unity International. I would wish to express my Special thanks and gratitude to my research supervisors Gerrishon Ikiara for his assistance and intellectual guidance during my research and report writing. I thank the US government and the government of Japan through JICA for allowing me to use their resource materials to undertake the research work, Finally, a very special thanks to my parents, who supported me all these years and always, gave me encouragement to move on. Much honour to my late step mother from whose labour these fruits are evident today.

## Table of Contents

Declaration.....	ii
Abstract.....	iii
Abbreviation .....	iv
Dedication.....	vii
Acknowledgements.....	viii
Table of Contents.....	ix
List of Tables .....	xi
List of Figures.....	xii
1. INTRODUCTION .....	1
1.1 Background of the study .....	1
1.2 Statement of Research Problem .....	2
1.3 Objectives of the Research.....	3
1.4 Significance of the Study .....	3
1.5 Literature Review.....	4
1.6 Theoretical framework .....	6
1.7 Hypothesis.....	8

1.8 Methodology .....	9
1.9 Definition of Terms/Concepts .....	9
1.10 Chapter Outline .....	10
2. JAPAN AND KENYA’S TRADE IMPORTS AND EXPORTS .....	11
2.1 Introduction .....	11
2.2.1 Japan’s Economic history .....	11
2.2.2 Japan’s export and import trends within the period of study .....	13
2.2.3 Kenya’s economy .....	14
2.2.4 Analysis of the Japan - Kenya trade trend.....	20
3. THE STATUS OF JAPAN’ S ODA TO KENYA COMPARED TO OTHER COUNTRIES	25
3.1 Introduction.....	25
5. CONCLUSIONS AND RECOMMENDATIONS FOR DEEPENING THE RELATIONSHIP	
.....	43
4.1 Conclusion.....	43
4.2 Recommendations .....	44
BIBLIOGRAPHY .....	49

## **List of Tables**

Table 1 : Average of the Kenya's Export Markets between 1998 to 2014

Table 2: Countries where the flower import to Japan come from in order from the largest supplier

Table 3: Japan's ODA Disbursements to Kenya (Net disbursements, \$ million)

Table 4: DAC Countries, ODA Net disbursements to Kenya compared to Japan Source

Table 5: International Organizations, ODA Net disbursement compared to Japan

Table 6: Disbursements by Fiscal Year and by Type (Net disbursements, \100 million)

Table 7: Technical Cooperation for Development Planning/Cooperation Period

Table 8: Technical Cooperation Project/Cooperation Period

## **List of Figures**

Figure 1: Graph of Japan Imports and export compared for the period between 1998-2015

Figure 2: Graph of Kenyan imports for the period between 1998-2015

Figure 3: Graph of Kenyan export for the period between 1998-2015

Figure 4: percentage of destination for Kenyan export

Figure 5: Structure by major trade partner's % of total imports

Figure 6: Changes in cut flower imports

Figure 7: The net official development assistance and official aid received in US\$ (

# **1. INTRODUCTION**

## **1.1 Background of the study**

Bilateral relationship refers to the political, economic, or cultural relations between two states. It starts when states recognize each other as sovereign entities and then agree to establish as diplomatic relationship. This often begins by the exchange of diplomatic agents such as ambassadors or high commissioners to facilitate dialogues and cooperation exchanged between the two countries. A bilateral relationship often differs with unilateral or multilateral relationship which involves the conduct of diplomacy by a single state or multiple of states respectively.

A strong bilateral relation between any two states is characterized by closer cooperation between institutions and persons at the administrative and political level, in the private sector, academia and civil society. This requires knowledge, understanding and public awareness about the other country and the ties that exists between them.

Interest in trade is one of the primary factors that influence the bilateral relationship between countries. Most of the relationships between two countries are influenced by their strategic positions as trading partners. One such relationship is that between Kenya and Japan. Kenya's diplomatic relations with Japan has come from many years of interaction and it started before Kenya's independence but broadened soon after Kenya's independence becoming more intimate.

This study looks into the growth of Kenya-Japan relations focusing on the period between 1998 to 2014. Japan has often seen Kenya's location as strategic to accessing the other markets in East and Central Africa. Although the relationship between these countries

have experienced tremendous growth, it will be seen in the coming chapters that the trade balance of has always favored Japan for many years.

## **1.2 Statement of Research Problem**

Japan being an industrialised nation which mainly depends on international trade has always been seeking for sources of raw materials, expanding the markets for her products as well as broadening opportunities to invest. Since the year 1930, Japan had shown interest in Kenya as a market for selling her manufactured products. The strengthening of the diplomatic relationship between Kenya and Japan has been looked at in terms of maintaining the consular functions and how Japan's imports can continue to flow within the country. However, little research has been done on how the type of goods Kenya exports, has led to an increase or decrease to the trade imbalance. In addition, little research has been done on the Japan's approach to ODA and its impact on the infrastructural development as compared to other development partners.

This research examines the balance of trade and how the types of goods Kenya exports to Japan has influenced the trade gap between them. It also examines the Japan's ODA support to Kenya in terms of the net disbursement as compared to other countries and international organizations.

### **1.3 Objectives of the Research**

- i. To assess the trend of Japan and Kenya exports and imports
- ii. To assess how the types of Goods Kenya export has led to the imbalance of trade between Kenya and Japan.
- iii. To assess Japan's ODA disbursement to Kenya compared to other countries and international organizations.

### **1.4 Significance of the Study**

This study will enhance our general historical knowledge of the bilateral relations between Kenya and Japan especially in the areas of bilateral trade, economic relations, infrastructural investment, technological transfer, human resource development and politics. The results from this study will provide the required information to governments of Japan and Kenya as well as other organizations to use in policy formulation or on the opportunities available to strengthening the bilateral partnership.

There is little literature in respect of trade relations between Kenya and Asian countries particularly Japan, in contra-distinction to the volume of work written about the trade relations between Kenya and other countries of the world, particularly European and American countries. This study will also close the literature gap on this topic while at the same time it will serve as a reference material for future research.

## 1.5 Literature Review

A Review of past studies on the issues relating to bilateral relationship and the determinants of trade balance have been conducted by previous researchers, each researcher obtaining different results. Sayuni mbyani (2006) analyzed the determinant of trade balance in Tanzania by assessing the trade in goods from the year 1970's until 2002 using parameters such as real exchange rate, foreign income, FDI, household consumption, Government expenditure and Trade liberalization<sup>1</sup>. The study found out that the main determinants of trade balance in Tanzania were; Government expenditure, household consumption and trade liberalization<sup>2</sup>.

Edward Nienga (2010) in his study of the effects of budget deficit on trade balance in Nigeria found some evidence from policy simulations and shows that budget deficit arising from increased government spending adversely affects the trades balance irrespective of whether it is money-financed or by external borrowing<sup>3</sup>. Magee, S.P. (1973) noticed that the U.S. trade balance deteriorated despite devaluation of the dollar in 1971. From this, he theoretically argued that it is possible for the trade balance to deteriorate subsequent to currency depreciation, especially as a result of the lags in the response of trade<sup>4</sup>. Other studies

---

Sayuni mbyani (2006) Determinants of trade balance in Tanzania, A research paper towards the fulfillment of masters of Arts degree in economic policy management (PPT),Makerere University.

Filippini, C. and Molini, V. (2003), .The determinants of East Asian trade flows: a gravity equation approach, *Journal of Asian Economics* 14(5), 695-711.

<sup>3</sup> Edward nienga (2010) the determinants of trade balance in Kenya; an empirical analysis; 1970-2010.

<sup>4</sup> Magee, S.P. (1973), 'Currency Contracts, Pass-through, and Devaluation', *Brookings, Papers on Economic Activity*; 1, pp. 303-23.

have also been done on the impact of cultural fusion among the citizens in strengthening the bilateral relationship.

Johnson (1954) analyzes a situation where each country sets trade policy in an attempt to improve its terms of trade and increase national income. The resulting non-cooperative equilibrium which is known as the Nash equilibrium is inefficient as the unilateral actions of countries cancel out one another. More restrictive trade policies by all countries have little net effect on the terms of trade but lead to contraction of trade volumes which reduces the overall welfare<sup>5</sup>. Trade agreements are meant to create a balance between the flexibility and commitments. Too much flexibility undermines the value of commitment. On the other hand if there is too little flexibility then that makes states to be suspicious and refuse to make deep commitments. The study reviewed how the tradeoff works and its economic justification to international trade cooperation<sup>6</sup>. M.zakir saadullar k., M.ismail h. (2012) recommends that specific countries should assess the balance of trade in terms of the impact of trade agreements, goods exported and the foreign direct investments. The study recommends that sometimes it's important to sign trade agreements so as to help the weaker stage bridge the trade imbalance gap.

---

Magee, S.P. (1973), 'Currency Contracts, Pass-through, and Devaluation', Brookings, Papers on Economic Activity; 1, pp. 303-23.

M.zakir saadullar k., M.ismail h. (2012) Determinants of Trade Balance of Bangladesh: A Dynamic Panel Data Analysis. Bangladesh Development Studies Vol. XXXV, June 2012, No. 2.

## 1.6 Theoretical framework

Dependency: Dependency is a case where a given group of countries have their economy conditioned by the development and expansion of another and in which the former is subject<sup>7</sup>. After the end of the cold war and the emergence of new economic powers, international relations shifted its focus on controlling of natural resources and building strong bilateral alliances to achieving national interests in the global stage through international actors<sup>8</sup>.

The main proponents of this the dependency theory are Santos, Walter Rodney, Samir Amir, and Claude Ake. Following the trend of relations between Japan and Kenya, Japan is trying to condition Kenya's development through imbalance trade, seemingly harmless development assistance, poor quality or low value addition of manufactured goods, and poor labour relations. Dependency theory is a social science tool of explanation that was predicated on the notion that raw resources flow from a "periphery" of poor and underdeveloped states to a "core" wealthy states enriching the latter at the expense of the former. Here Kenya is the former and Japan is the latter. Dependency theory was developed from two papers which were published in 1949 by Hans Singer and Raul Prebisch in which the authors observe that the terms of trade for underdeveloped countries relative to the developed countries had deteriorated overtime because of the exploitative nature of the relationship between the two worlds. It is a central contention of dependency theory that poor states are impoverished and rich ones enriched by the manner in which poor states are integrated into the world system.

---

<sup>7</sup> Daniel.A.O. (1980). Imperialism and Dependency, Fourth Dimension publishers, Enugu, Nigeria.

<sup>8</sup> (Esnakas 2010)

Joseph Nye and Robert Keohane (1994) have tried hard to establish that international relations are characterized by cooperation and interdependence with win-win, mutually benefiting outcomes<sup>9</sup>. What this means is that both weak and strong economies have something to gain in a relationship, no matter the proportion. Yet the dynamics of unequal relations in international division of labour cannot be ignored. The content of imperialism applies so long as Japan's economic exploits are domineering by the propensity of unprecedented capital and productivity<sup>10</sup>.

The theory arose as a reaction to modernization theory, an earlier theory of development which held that all societies progress through similar stages of development, that today's underdeveloped areas are thus in a similar situation to that of today's developed areas at sometimes in the past, and that therefore the task in helping the underdeveloped areas out of poverty is to accelerate them along this supposed common path of development, by various means such as investment, technology transfer, and closer integration into the world market.

Dependency theorists vehemently rejected this view but rather opined that what is causing the under development in poor countries is the exploitative relationship that have characterized the interactions between the poor nations and the developed ones right from the colonial times up today. Sequence to the fact that Japan is the third largest economy in the worlds, the trade imbalance and huge Japanese grants is gradually sinking Kenya into an abyss of debt which is a precarious trend that if not speedily checked will eventually make Japan to

---

<sup>9</sup> Robert.K. (1994). *Dependency and interdependency*, Orange press, Durban, South Africa.

<sup>10</sup> **Brixiova, Z., Mutambatsere E., Ambert C., and Etienne D. (2011).** "Closing Africa's Infrastructure Gap: Innovative Financing and Risks". *Africa Economic Brief*, Volume 2, Issue 1. African Development Bank, April 2011.

condition the development of Kenya<sup>11</sup>. In terms of the balance of trade, the traditional approach to trade agreements has been the main logic of the terms of trade. This approach considers that countries that have market power which they use to influence the terms of trade.

### **1.7 Hypothesis**

- i. Diversifying export product cannot reduce the trade imbalance between Kenya and Japan.
- ii. The volume of Kenya - Japan's exports and imports over the period of study is stagnant
- iii. Compared to other development partners of Kenya, Japan's net ODA disbursement to Kenya is insignificant.
- iv. Compared to International organizations, Japan's net ODA disbursement to Kenya is negligible.

---

<sup>11</sup> (Dannreuther 2010)

## 1.8 Methodology

To achieve the above objectives, the acquisition of data was made by the use of the two methods namely; Review of policy and survey documents of government as well as research institutions. Specifically these methods of data of collection were undertaken by reviewing of sectorial policies targeting those of the ministry of foreign affairs and international trade of Kenya, Japan international cooperation agency, Ministry of foreign affairs of Japan, Japanese embassy to Kenya as well as Peace and Unity international.

## 1.9 Definition of Terms/Concepts

**Japan - Kenya relations:** refers to international relation, between Kenya and the government of Japan.

**Foreign policy:** implies aggregation or a system of actions designed by a state to promote, protect and defend her vital interests in her relations with other states within the international system.

**Economic relations:** trade and finance interactions between countries; the arrangements for cooperation in international trade, finance, and investment existing between individual countries and sets of countries.

**Bilateral relations:** consists of the political, economic, or cultural relations between two sovereign states.

## **1.10 Chapter Outline**

This project is organized into four chapters with introductions of the themes being discussed in every chapter. Chapter one gives a general introduction to the study giving the background of the study, the problem statement, objectives, hypothesis, theoretical framework, literature review and methodology in relation to this study. Chapter two assesses Kenya's export and imports, the balance of trade between Kenya and Japan and how the types of goods Kenya exports to Japan have influenced the balance of trade between Kenya and Japan. Chapter three assesses the status of Japan's Official Development assistance to Kenya and compares it to the net ODA disbursements Kenya receives from other Development Countries and international organizations. Chapter four gives the conclusions and recommendations on the opportunities still available as a potential to deepening the relationship between the two countries.

## **2. JAPAN AND KENYA'S TRADE IMPORTS AND EXPORTS**

### **2.1 Introduction**

#### **2.2.1 Japan's Economic history**

Despite the obstacles placed before it in the aftermath of the war, and its relative lack of natural resources, Japan was able to advance its economy at an incredible rate from the 1950s to the 1980s by investing wisely and substantially in its manufacturing sector. At its highest point, investment in capital equipment in Japan equaled over 30% of its GNP<sup>12</sup>. The impact of smart investment was matched, or possibly even exceeded, by the productivity of the Japanese workforce, and the inventive and strategic savvy of Japanese companies, particularly in the areas of auto manufacturing and consumer electronics<sup>1314</sup>.

Japan's economic growth outpaced that of other countries even in tough times. Much as it had responded to the postwar situation as if it were a blessing in disguise, Japan turned the early-1970s oil crisis into a positive by using it as the impetus to improve conservation and cultivate other sources of energy, particularly nuclear<sup>15</sup>. As a result, the Japanese economy

---

<sup>12</sup> See Economic and Social Research Institute (2012),

<sup>13</sup> Jones, R. and B. Yoo (2012), "Achieving the 'Low Carbon, Green Growth' Vision in Korea", OECD Economics Department Working Papers, No. 964, OECD, Paris.

<sup>14</sup> Koske, I., J. Fournier and I. Wanner (2012), "Less Income Inequality and More Growth – Are They Compatible? Part 2. The Distribution of Labour Incomes", OECD Economics Department Working Papers, No. 925, OECD, Paris.

<sup>15</sup> See Ministry of Agriculture, Forestry and Fisheries (MAFF) (2012a), Annual Report on Food, Agriculture and Rural Areas in FY 2011, Tokyo.

continued to grow quickly well into the 1980s, to the point where it briefly threatened to overtake the US which was the world's largest economy<sup>16</sup>.

The tendency of the Japanese people to build their savings meant that Japanese banks were flush with funds, and credit flowed freely. At the same time, Japan's booming export sector was creating enormous trade surpluses, causing the value of the Yen to rise. This meant that Japanese companies could not only invest even more in themselves but also it meant that more exports hence widening those trade surpluses even further<sup>17</sup>.

As a result of this cycle, Japanese stock and real estate prices inflated. The Japanese economy reached its zenith in December 1989, when the Nikkei reached its all-time high and prime real estate was commanding over \$1 million per square meter. The government was forced to raise interest rates suddenly and sharply in order to prevent inflation from getting out of control, and this effectively burst the bubble, causing a seemingly unstoppable trend in the opposite direction<sup>18</sup>.

In the 1990s, when interest rates were raised, many of the loans given out during the period of cheap credit became bad. Companies in many sectors were hurt, but it was the banks that bore the brunt of the punishment. Some had to be bailed out, while others were forced to merge or simply go under. The remaining banks were pressured into providing loans to the so-called 'zombie' firms created during this period. Many of the positive trends of the 1980s Japanese economy were reversed. Credit became difficult to obtain, and Japanese companies were unable to maintain the same levels of investment. At the same time, exporters in

---

<sup>16</sup> Ibid

<sup>17</sup> Ministry of Education, Culture, Sports, Science and Technology (2009), White Paper on Education, Culture, Sports, Science and Technology, 2009, Tokyo.

<sup>18</sup> Standard & Poor's (2012), Japanese Reflation is in Play, but Hurdles Galore Stand in the Way, New York.

particular were facing vastly improved competition in the form of companies from emerging economies, such as South Korea; unemployment rose, and economic growth came to a standstill<sup>19</sup>.

The Japanese economy bounced back slightly in the early 2000s, but the global financial crisis that came about at the end of the decade hit Japan hard. Japan's exports remained strong throughout the aforementioned troubles, but reliance on exports can be a problem when other countries reduced consumption. Japan was in the middle of a deflationary spiral which showed no signs of ending; It' was also faced with a number of issues, including a declining population that is also one of the world's oldest, extremely low levels of domestic spending, and an apparent, general sense among people, politicians and executives that Japan has lost something<sup>20</sup>.

### **2.2.2 Japan's export and import trends within the period of study**

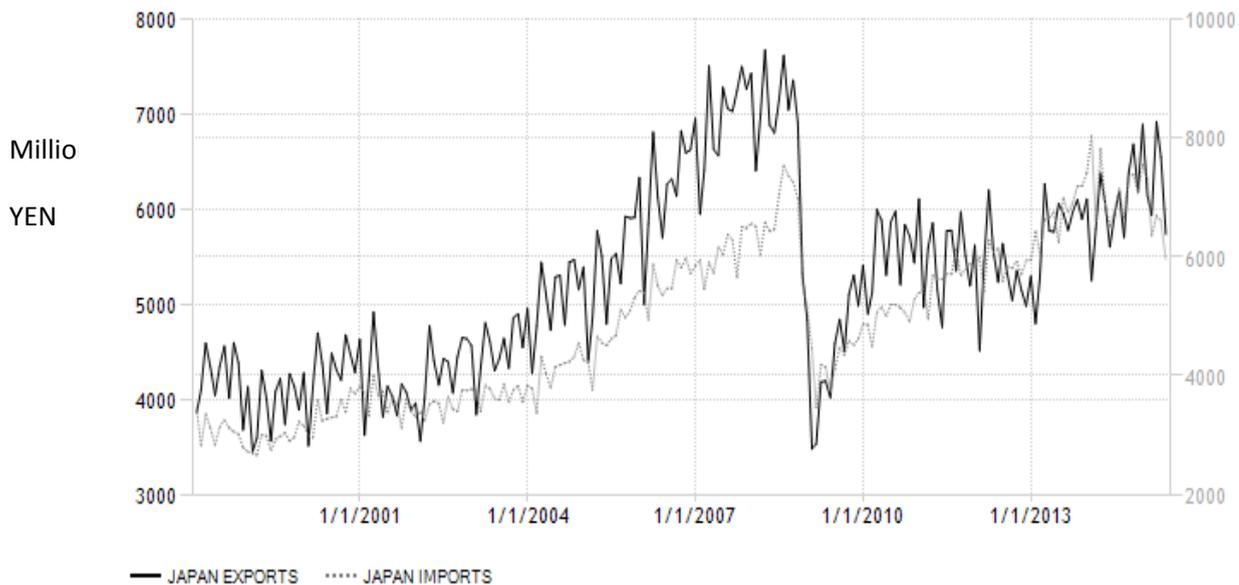
During this period, Japan's exports continuously increased; however, in 2008, the exports from Japan plummeted before starting a fluctuating slow increase. This decline was caused by the global financial crisis which like the rest of the world affected Japan's economy. Figure 1 is a graph of the overall imports to Japan and exports from Japan for the period between 1998-2015. With the variation indicating that averagely Japan exports more than it imports. Over the years, the country has been a major exporter of its manufactured products to developing countries Kenya inclusive.

---

<sup>19</sup> Ministry of Agriculture, Forestry and Fisheries (MAFF) (2010), 2010 Census of Agriculture and Forestry, Tokyo.

<sup>20</sup> Sutherland, D., P. Hoeller and R. Merola (2012), "Fiscal Consolidation: Part 1. How Much is Needed and How to Reduce Debt to a Prudent Level?", OECD Economics Department Working Papers, No. 932, OECD, Paris.

**Figure 1:** Graph of Japan Imports and export compared for the period between 1998-2015  
 (Source: Report by the Ministry of foreign affairs of Japan)



### 2.2.3 Kenya's economy

Kenya is the regional hub for trade and finance and investment in East Africa and the entry point into the region. The country has a market-based economy with a liberalized foreign trade policy. Soon after independence, the country achieved a high economic growth rate of 6%, which later declined to below 4% in the following decades (UNDP, 2010). In the 1990s, as a result of the political situation, Kenya's GDP experienced inconsistency with a figure of between negative figures to 4%. After the millennium, Kenya began to produce higher growth rates which peaked in 2007 at 7%. However, the post-election violence in early 2008, coupled with the effects of the global financial crisis on remittance and exports reduced the GDP growth to 1.7%. The economy was able to rebound in 2010-2011 reaching growth rates higher

than 5% and the economic prospects for the country remained favorable<sup>21</sup>. Even though the high inflation rate has sometimes gone to as high as 12%, the fiscal consolidation approach and tighter monetary policy have secured a declining inflation ensuring that the Kenyan Shilling was able to stabilize following a significant weakening in mid-2011<sup>22</sup>.

The main export destination for Kenyan products included the East African region, the United Kingdom, the Netherlands and the United States. On the other hand the main import partners include Japan, China, India, United Arab Emirates (UAE) and South Africa. Agriculture has over been the main driver of Kenya's economy, producing agricultural produce for export especially it is famous for horticultural products. This industry is well distributed across the country with different regions favoring the growth of various agricultural products depending on climatic conditions. Tourism is another main industry in Kenya. Having realized the importance of tourism to the economy, the Kenyan Government has been working extremely hard to further promote tourism to attract tourists and travelers from around the world<sup>23</sup>.

Kenya is mostly involved in the export of raw products but the manufacturing industry is now coming up and efforts are being made to put value addition processes in the final products made in the country. Kenya did not have a well-established oil industry, but with the

---

World Bank (2012), Kenya Economic Update: Devolution without Disruption: Pathways to a Successful New Kenya. Nairobi: World Bank.

<sup>22</sup> World Bank (2008), Cities of Hope: Governance, Economic and Human Challenges of Kenya's Five Largest Cities, Report No. 46988.

<sup>23</sup> Kieyah J. and Nyaga R. (2010), Effects of Land Titling on Poverty in Kenya. KIPPRA Discussion Paper No. 112. Nairobi: Kenya Institute for Public Policy Research and Analysis.

recent discoveries of oil in the Northern Kenya, the oil industry is likely to be robust as soon as the commercial viability of the discovered oil will have been confirmed<sup>24</sup>.

Kenya's main exports are tea, coffee, horticultural products, and petroleum products. The major imports are machinery and transportation equipment, petroleum products, iron and steel<sup>25</sup>. Since the establishment of a Japanese diplomatic mission in Kenya, the East African giant as the gateway and hub for East and Central Africa has occupied a very special position in Japan's diplomatic relations within the region. Today, Nairobi hosts one of the largest Japanese communities in Africa and is the Regional Headquarters for all of Japan's major Agencies (JICA, JETRO and JBIC) as well as its largest trading houses (World Bank, 2012). As an agricultural exporting and capital goods importing nation, Kenya routinely runs a balance of trade deficit that renders it highly dependent on loans and aid to finance needed imports. The balance of trade deficit varies widely, depending upon, among other things; the market success of agricultural export commodities in a given year depends on both weather conditions and international commodity prices.

Kenyan imports have realized an overall steady rise since 1998 when the country opened itself to the world and its trade became more vibrant. Figure 2 and figure 3 gives the import and export graph respectively of Kenya between the year 1998 to the year 2015, with results showing that Kenya has expanded its export over the past years and the country has continually opened up its trade especially with its neighbors.

---

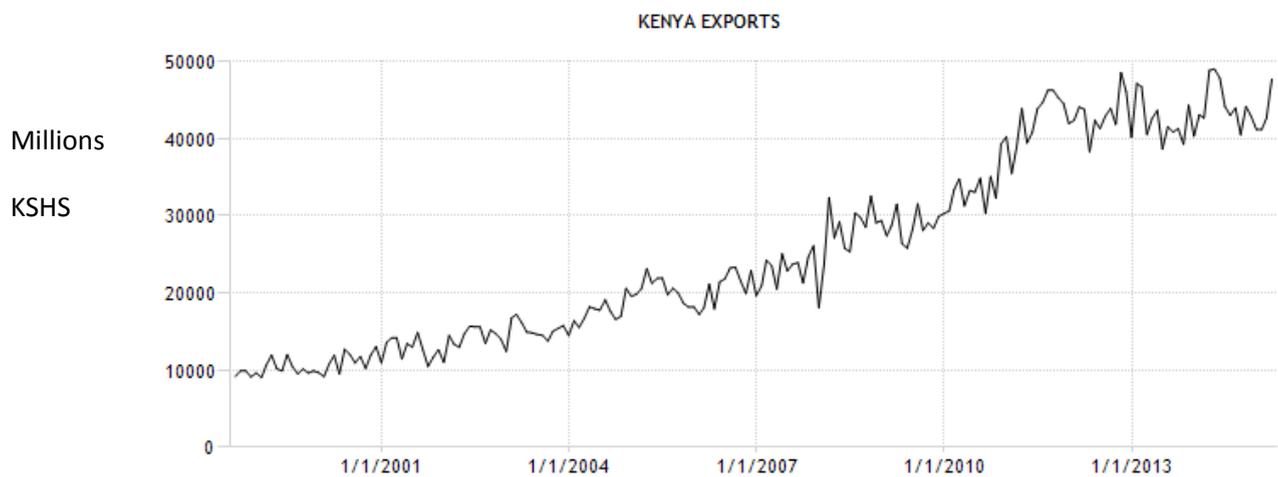
<sup>24</sup> World Bank (2012), Doing Business Report, available at <http://www.doingbusiness.org/data>.

<sup>25</sup> (m. o. Japan 2013)

**Figure 2:** Graph of Kenyan imports for the period between 1998-2015 (**Source:** Report by the Ministry of foreign affairs of Japan)



**Figure 3:** Graph of Kenyan export for the period between 1998-2015 (**Source:** Report by the Ministry of foreign affairs of Japan)



As a result of these trends, Kenya's trade balance with Japan is similarly unfavorable due to low levels of the value of exports, which accounted for only 0.96% of the country's total exports to the market. The report reveals that Kenya is a marginal supplier to Japan with a market share of only 0.01%. However, Japan's share in Kenya's imports is relatively high and stood at over 5% of Kenya's total imports throughout this period, a situation which requires increased expansion of exports to Japan. As of 2014 Kenya had a negative trade balance of \$10.6B in net imports. As compared to their trade balance in 1998 when they still had a negative trade balance of \$656M in net imports<sup>26</sup>

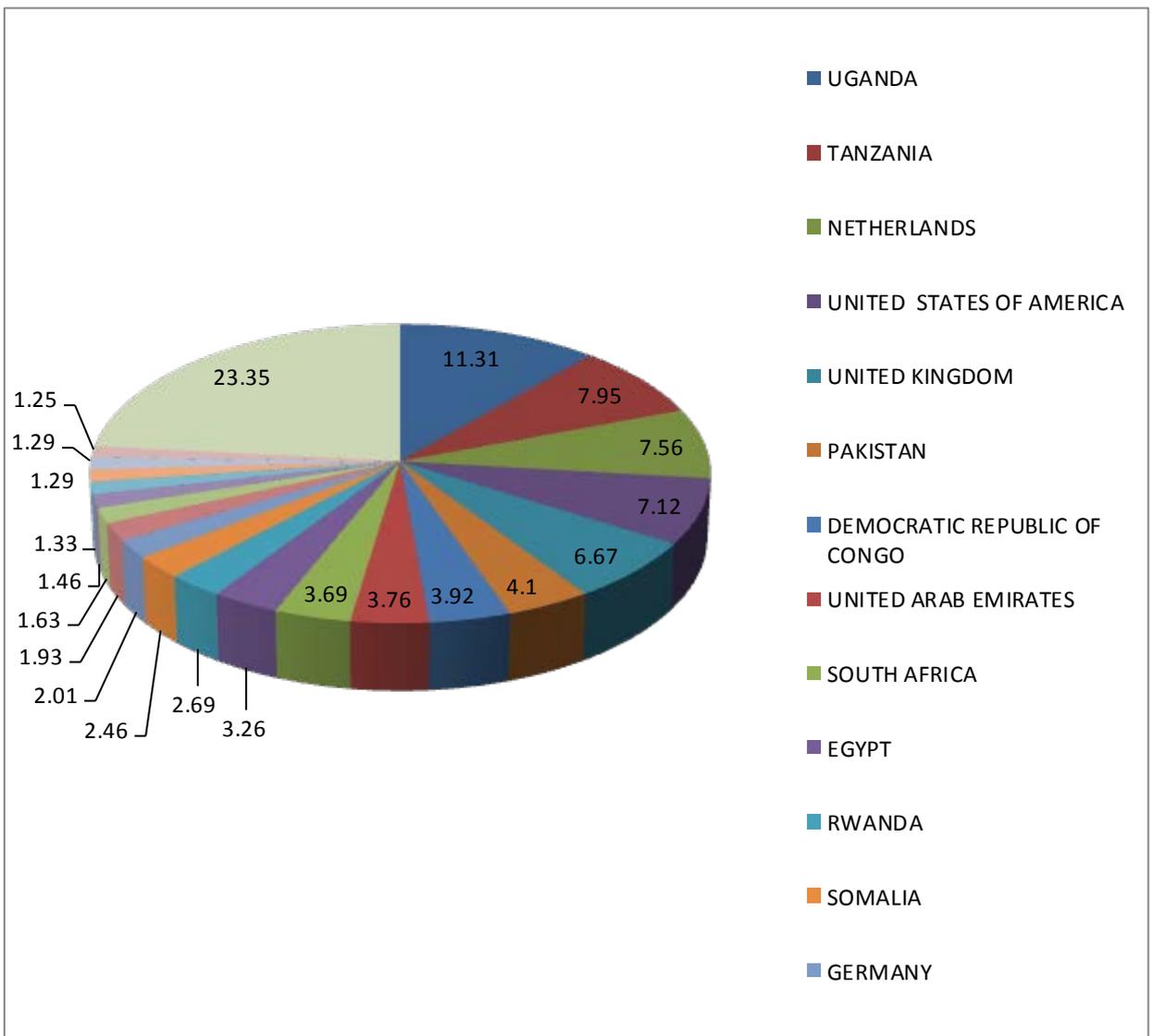
Table 1 : Average of the Kenya's Export Markets between 1998 to 2014 (Source: Kenya's Customs Department, KRA)

	RANK OF COUNTRY	%	VALUE (KSHS.BILIONS)
1	UGANDA	11.31	60.78
2	TANZANIA	7.95	42.72
3	NETHERLANDS	7.56	40.61
4	UNITED STATES OF AMERICA	7.12	38.29
5	UNITED KINGDOM	6.67	35.87
6	PAKISTAN	4.1	22.02
7	DEMOCRATIC REPUBLIC OF CONGO	3.92	21.05
8	UNITED ARAB EMIRATES	3.76	20.2
9	SOUTH AFRICA	3.69	19.82
10	EGYPT	3.26	17.51
11	RWANDA	2.69	14.44
12	SOMALIA	2.46	13.2
13	GERMANY	2.01	10.79
14	AFGANISTAN	1.93	10.37
15	INDIA	1.63	8.75
16	BURUNDI	1.46	7.85
17	RUSSIA	1.33	7.12
18	ITALY	1.29	6.96
19	ETHIOPIA	1.29	6.92

<sup>26</sup> (Kenya revenue Authority 2014)

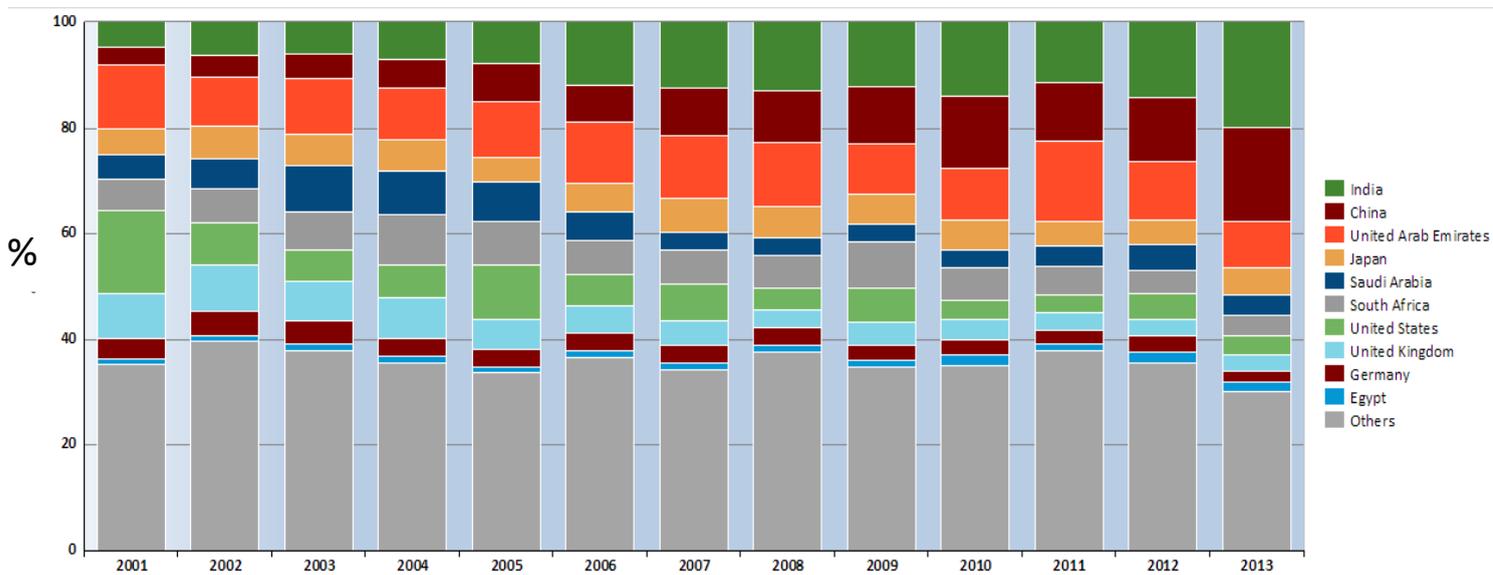
20	BELGIUM	1.25	6.73
21	ALL OTHER COUNTRIES	23.35	125.52
<b>TOTAL</b>		<b>100%</b>	<b>537.54</b>

Figure 4: percentage of destination for Kenyan export (Source: Kenya's Customs Department, KRA)



From the table 1 and figure 4 of countries where Kenya exports to her products, Japan is not top 20 of among Kenya’s export destinations. Yet from figure 5 of Kenya import sources, Japan is among the top exporters to the Kenyan market. The main export products are Tea, Petroleum products, Cut flowers, Vegetables and fruits, Articles of apparel and clothing accessories

**Figure 5:** Percentage share of major importers to Kenya (Source: Kenya’s Customs Department, KRA)



#### 2.2.4 Analysis of the Japan - Kenya trade trend

Despite the balance of trade being heavily tilted in favour of Japan, on average, there was some growth of Kenya’s exports to Japan at an annual rate of 2.47% during the period. The imports on the other hand rose from US \$ 257.8 million in 2004 to a high of US \$ 626.6

million in 2008 representing an annual rise of 27%. Kenya imports are mainly capital goods which comprise: motor vehicles and parts, heavy machinery & construction equipment, Kenya is a marginal supplier to Japan with a market share of only 0.01%. However, Japan's share in Kenya's imports is high and stood at above 5% of Kenya's total imports throughout this period of study. The reasons for the imbalanced trade were found to be:

- a. The tough Japanese law on imports.
- b. The aggressive marketing research and out-going tactics of the Japanese compared to the uncoordinated and poor marketing strategies by Kenyans
- c. The Japanese consumer selectivity and sensitivity
- d. The presence of Japanese corporations in the Tropics
- e. Kenya's delayed representation in Japan and its historical linkage to the British Empire.
- f. The level of technology and the comparative cheapness of Japanese products compared to Kenya's relatively expensive trade items

Kenyan technocrats believe that the gap can be bridged through increased exports to Japan. To ensure increase of exports there will be need to diversify the products increasing joint ventures and direct investments. There is potential for trade diversification by expanding to exporting such products as cut-flowers, tea, tobacco, fish fillets, edible nuts, sisal fibres photosensitive diodes and knitted cardigans.

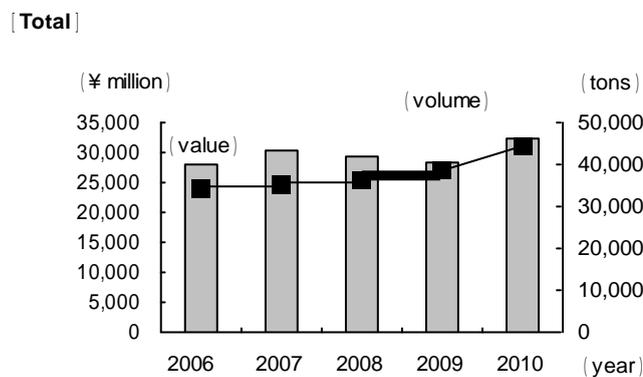
Flowers are a niche that Kenya could expand her export to Japan in. Imports of cut flowers to Japan began in the late 1960s, when Japan began importing chrysanthemums from Taiwan. Except for temporary drops following the collapse of the Bubble Economy in the early 1990s, imports of cut flowers has steadily increased. Most recently, in particular, the quantity of imports reached a record level every year from 2006 to 2010. Imports of cut

flowers reached 114% of the previous year's figures in terms of both quantity and value, 44,145 tons and 32.3 billion yen, respectively.

Currently, the Japanese flower industry is considered to be valued at approximately 1,200 billion yen, inclusive of production through distribution, processing, and retailing. As the flower industry worldwide is considered to be valued at about 12 trillion yen, the Japanese market accounts for one -tenth of the industry worldwide, ranking itself among one of the largest markets in the world.

The Japanese cut flower market has steadily grown as more consumers come to enjoy flowers in their everyday life, Uses of cut flowers may be divided into roughly two categories: business uses, such as hotel parties, etc., ceremonial functions, exhibitions, events, Japanese or Western-style flower arrangement lesson materials; and household uses such as those for offerings at Buddhist altars, household use; and get-well, celebratory or other personal gifts.

**Figure 6:** Changes in cut flower imports (Ministry of finance Japan)



Cut flowers are imported to Japan from countries around the world. In terms of quantity, the largest imports being from Malaysia at 10,333 tons which accounted for 23.4% of total imports to Japan; Malaysia has averagely remained the largest source of

cut flower imports to Japan since 2006. Malaysia is followed by the Republic of Korea importing 8,102 tons, translating to a market share of 18.4%, the third is China importing 6,237 tons, translating to a market share of 14.1% and fourth is Columbia importing 5,864 tons which translated to 13.3%. Countries of origin of cut flower imports to Japan are typically those in the Asian region due to their close proximity to Japan. The geographical connection to Japan gives Asian countries an advantage of shorter transit times, which makes it easier for them to keep the flowers for export fresher compared to countries more distant from Japan.

In terms of import value, the country of origin with the largest imports was still Malaysia, and is followed by Columbia as the 2<sup>nd</sup> ranking country at 5,864 tons or 13.3%, which also ranks as the 4<sup>th</sup> largest importer in terms of quantity. This may have to do with the fact that the average unit price per kilogram of cut flowers imported from Columbia was 1,063 yen, which is higher compared to those of the Republic of Korea or China. Flowers imported from Columbia include roses and carnations, which are items that demand high quality, and thus are traded at relatively high unit prices.

**Table 2:** Countries where the flower import to Japan come from in order from the largest supplier (Report by the Ministry of foreign affairs of Japan)

Country	2006	2007	2008	2009		2010				
	Volume	Volume	Volume	Volume	Value	Volume	Share	Value	Share	
							Average	unit price		
Malaysia	7,900	8,215	8,398	8,579	6,321	10,333	23.4%	7,648	23.6%	740
Republic of Korea	5,209	5,058	5,679	7,005	1,689	8,102	18.4%	2,029	6.3%	250
China	5,096	5,827	5,567	6,093	3,332	6,237	14.1%	3,357	10.4%	538
Colombia	3,124	3,529	4,062	4,615	5,026	5,864	13.3%	6,233	19.2%	1,063
Thailand	4,060	4,131	4,013	3,816	3,125	4,124	9.3%	3,263	10.1%	791
Taiwan	2,742	2,209	2,623	2,478	2,235	2,966	6.7%	2,907	9.0%	980
Vietnam	1,231	1,405	1,501	2,028	1,249	2,093	4.7%	1,278	3.9%	611
New Zealand	816	777	705	727	1,259	719	1.6%	1,369	4.2%	1,904
Kenya	760	745	485	442	565	564	1.3%	651	2.0%	1,154
India	871	842	669	583	420	531	1.2%	353	1.1%	665
Others	2,672	2,670	2,350	2,153	3,088	2,613	5.9%	3,304	10.2%	1,265
(Africa)	1,061	1,217	1,075	1,089	1,131	1,364	3.1%	1,332	4.1%	977
Total	34,481	35,408	36,053	38,519	28,308	44,145	100.0%	32,392	100.0%	734

Table 2 is the list of the countries where the flowers to the Japanese market originate from. South Korea tops the list at 3,543 tons, 63.1% of imports to Japan other importers include; Columbia, Thailand, Malaysia and the Republic of Korea. The roles that the imported cut flowers play range from funerals, family celebrations, ceremonies among others.

### **3. THE STATUS OF JAPAN' S ODA TO KENYA COMPARED TO OTHER COUNTRIES**

#### **3.1 Introduction**

Official Development Assistance (ODA) is a term defined by the Organization for Economic Co-operation and Development (OECD) as grants or loans to states and regions that are on Part 1 of the Development Assistance countries' (DAC) list of aid recipients. Japan being the third largest economy is one of the major donor countries and classifies its ODA into 3 main categories namely;

- 1) Bilateral grants
- 2) Bilateral loans
- 3) Financial subscriptions and contributions to international organizations

Bilateral grants mainly financial grants, transfer of Japanese technology skills and knowledge to developing countries in order to train the human resources. Japan currently is a member of OECD and it implements its ODA through several agencies. In 2000, Japan remained the world's largest donor among the DAC countries followed by the United States then Germany. In the same fiscal year Japan's contribution to the United Nations (UN) amounted to 20% of the total UN budget. It is amazing that Japan was able to do all this despite its declining economic growth resulting from the global recession at that time<sup>27</sup>

---

<sup>27</sup> (m. o. Japan 2013)

Kenya has been a recipient of the Official Development Assistance from developed countries such as the US, Japan, European Union and multilateral institutions such as World Bank, International Monetary Fund, the African Development bank and International Bank for Reconstruction and Development.

Figure 7 is a graph of the net official disbursement of ODA that Kenya has received over the past 25 years. The trend shows a sharp increase from the year 2004 all through to 2012. This may have been as a result of Kenya’s focus on infrastructural development, free primary and secondary education as well as the increased investment on medical care and implementation of the new constitution which raised the wage bill.

**Figure 7:** The net official development assistance and official aid received in US\$ (Source: OECD/DAC)

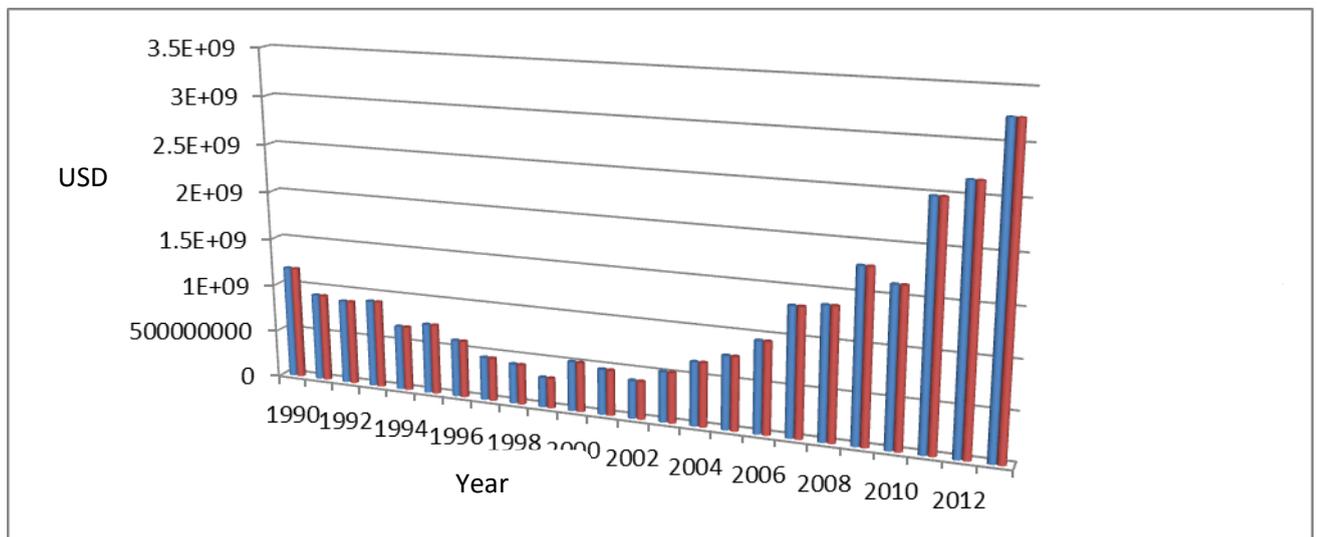


Table 3 is the Japan's ODA disbursement summary; the annual amounts for the Loan Aid and Grant Aid indicate the sums of funds actually disbursed within the calendar year out of the amount committed with exchanged notes. The figures of Loan Aid show the balances after subtracting repayments from recipients.<sup>28</sup> The technical Cooperation figures include the projects implemented by relevant ministries and local governments in addition to those by JICA.

**Table 3:** Japan's net ODA Disbursements to Kenya in \$ million (Source: OECD/DAC report 2013)

YEAR	LOAN AID	GRANT AID	TECHNICAL	TOTAL
2008	-53.06	41.59	20.25	8.79
2009	-50.68	59.43	24.81	33.66
2010	-68.29	68.85	36.16	36.72
2011	-57.17	100.53	36.39	79.74
2012	-3.45	72.19	63.33	132.07
TOTAL	634.46	1,007.53	897.17	2,539.22

In comparison to other countries, table 4 shows that Japan's ODA is still trailing behind those of US, UK Germany, Sweden and Denmark. Between the years 2007 to 2011, it only featured twice on top five in terms of the rank of countries and the ODA support they give to Kenya. When compared to Japan, the Japan's ODA figures range between 0.9% to 6%

---

<sup>28</sup> (M. o. Japan 2012)

of the total value during the period of the study.

From table 5 it can be seen that other international organizations also contribute considerable amount of ODA support to Kenya. When the figures of the ODA from international organization is compared to those of japan, the percentages range from 2% to 11%

**Table 4:** DAC Countries, ODA Net disbursements to Kenya compared to Japan (Source: OECD/DAC report 2012)

Order Year	1		2		3		4		5		<b>JAPAN</b>	TOTAL
		\$ million		\$ million		\$ million		\$ million		\$ million	\$ million	\$ million
2007	U.S.	325.2	U.K.	111.3	Germany	62.5	Japan	57.1	France	47.8	<b>57.1</b>	827.0
2008	U.S.	439.4	U.K.	91.4	Germany	85.3	Sweden	65.8	Denmark	59.3	<b>8.8</b>	954.7
2009	U.S.	590.2	U.K.	131.2	Germany	85.7	Sweden	66.8	Denmark	59.8	<b>33.6</b>	1,224.8
2010	U.S.	565.9	France	123.4	U.K.	105.2	Germany	79.8	Denmark	64.6	<b>36.7</b>	1,160.5
2011	U.S.	715.4	Germany	156.6	U.K.	142.0	France	92.78	Japan	79.7	<b>79.7</b>	1,565.4

**Table 5:** International Organizations, ODA Net disbursement compared to Japan (Source: OECD/DAC report 2012)

Year		\$ million		\$ million		\$ million		\$ million		\$ million	Others	Total	Japan
											\$ million	\$ million	\$ million
2007	EU Institutio	138.48	IMF-CTF	104.40	IDA	101.42	AFDF	31.44	GFATM	28.23	91.56	495.53	<b>57.1</b>
2008	IDA	113.97	EU Institution	93.54	GFATM	39.79	AFDF	35.89	GAVI	21.43	103.09	407.71	<b>8.8</b>
2009	IMF-CTF	191.19	EU Institution	84.34	IDA	83.15	AFDF	55.94	GFATM	44.22	87.98	546.82	<b>33.6</b>
2010	IDA	132.78	EU Institution	101.64	AFDF	94.75	GFATM	65.63	GAVI	34.46	35.12	464.38	<b>36.7</b>
2011	IMF-CTF	293.39	IDA	165.33	AFDF	159.49	EU Institutions	133.84	GAVI	51.84	109.47	913.36	<b>79.7</b>

**Table 6:** Net disbursements by Fiscal Year and by Type 100 million Kshs. (Source: OECD/DAC report 2014)

Fiscal Year	Loan Aid	Grant Aid	Technical Cooperation
2008	-	<ul style="list-style-type: none"> <li>· The Project for HIV/AIDS Control (3.35)</li> <li>· The Project for Augmentation of Water Supply System in Kapsabet Town (Detailed Design) (0.90)</li> <li>· The Programme for Community-based Flood Disaster Management to Adapt to Climate Change in the Nyando River Basin (4.83)</li> <li>· The Project for Improvement of District Hospitals in the Western Region of the Republic of Kenya (10.95)</li> <li>· The Programme for Shelter and Livelihoods for Peace and Reconciliation (6.70)</li> <li>· Food Aid (through WFP) (7.00)</li> <li>· Grant Assistance for Underprivileged Farmers (7.00)</li> <li>· Grant Assistance for Japanese NGO Projects (2 projects) (0.32)</li> <li>· Grassroots Human Security Projects (0.85)</li> </ul>	Total 22.72 (Includes JICA Projects:2 1.91)
	Tota	Total 41.90	

2009	· Olkaria-Lessos- Kisumu Transmission Lines Construction Project (295.16)	· The Project for Augmentation of Water Supply System in Kapsabet Town (4.92) · The Project for HIV/AIDS Control (3.08) · The Project for the Construction of Nairobi Western Ring Roads (0.36) · The Project for Improvement of District Hospital in the Western Region of the Republic of Kenya (Phase II) (0.27) · Non-Project Grant Aid (10.00) · The Forest Preservation Programme (11.00) · The Programme for the Improvement of Capabilities to cope with Natural Disasters Caused by Climate Change (5.00) · The Project for the Improvement of the Equipment for Conservation	Total 27.11 (Includes JICA Projects:2 6.42)

	Total	Total 42.96	
2010	<ul style="list-style-type: none"> <li>· The Mwea Irrigation Development Project (131.78)</li> <li>· The Olkaria-Lessos-Kisumu Transmission Lines Construction project (124.10)</li> </ul>	<ul style="list-style-type: none"> <li>· The Project for HIV/AIDS Control (2.94)</li> <li>· The Project for the Construction of Nairobi Western Ring Roads (0.30)</li> <li>· The Project for Improvement of the Water Supply System in Embu and the Surrounding Area (5.50)</li> <li>· The Project for Augmentation of Water Supply System in Kapsabet Town (12.89)</li> </ul>	Total 30.81 (Includes JICA Projects:2 9.70)
	Total 255.88	Total 38.82	
2011	-	<ul style="list-style-type: none"> <li>· The Project for Augmentation of Water Supply System in Kapsabet Town (1.75)</li> <li>· The Project for Improvement of the Water Supply System in Embu and the Surrounding Area (11.04)</li> <li>· The Project for the Construction of Nairobi Western Ring Roads (22.43)</li> <li>· The Project for the Reinforcement of Vaccine Storage in Kenya (8.99)</li> <li>· The Project for the Upgrading and Refurbishment of the Centre for Mathematics, Science and Technology Education in Africa (5.81)</li> <li>· Emergency Food Assistance to the People affected by the drought in the Horn of Africa (WFP) (1.78)</li> <li>· Food Aid (through WFP) (6.00)</li> </ul>	Total 48.80 (Includes JICA Projects:4 8.66)

	Total -	Total 65.84	
2012	Mombasa Port Area Road Development Project (276.91)	<ul style="list-style-type: none"> <li>· The Project for Dualling of Nairobi-Dagoretti Corner Road (15.66)</li> <li>· Non-Project Grant Aid (1 project) (1.00)</li> <li>· The Project for Support to the Constitutional Implementation Process in Kenya (2.47)</li> <li>· Grant Assistance for Japanese NGO Projects (5 projects) (1.42)</li> <li>· The Project for Improvement of the Water Supply System in Embu and the Surrounding Area (9.06)</li> <li>· The Project for Augmentation of Water Supply System in Narok (Detailed Design)(0.88)</li> <li>· The Project for Rural Water Supply in Baringo County (Detailed Design) (1.31)</li> <li>· Food Security Project for Underprivileged Farmers (4.60)</li> <li>· Grassroots Human Security Projects (10 projects) (0.95)</li> </ul>	34.36 (Only JICA Projects)
	Total 276.91	Total 39.69	
Total	2,985.3	1,193.10	1,047.15

The annual figures for Loan Aid or Grant Aid are based on the amount of assistance that was agreed upon through exchanged notes during the fiscal year in reference. A similar case applies to the annual figures for Technical Cooperation which also indicates the amount of fund which was disbursed by JICA, relevant ministries and local governments

from the budget of the fiscal year in reference. The figures for Technical Cooperation up to the fiscal year 2011 indicate the amount of Technical Cooperation carried out by all relevant authorities while for the fiscal year 2012 the amount shows the Technical Cooperation implemented by JICA. Other notable grant include, those for Grassroots Human Security Grant Aid, Grant Assistance for Japanese NGO Projects, and Grassroots Cultural Grant Aid which mainly depended on grant contracts. It's also worth noting that during that period.

The sums of Loan Aid did not include the amount of cancelled or debts that were rescheduled. On the category for grants, Grant aid for Increased Food Production was renamed as Grant assistance program for underprivileged and that of Non-Governmental \organizations projects was renamed as Grant assistance for Japanese NGO projects. Moreover, the grant aid for rural water supply was cancelled in the fiscal year 2007 although the project was later finalized leaving many people in eastern region of Kenya with abundant waters supply in the taps and wells<sup>29</sup>.

---

<sup>29</sup> (M. o. Japan 2012)

Table 7: Technical Cooperation for Development Planning/Cooperation Period (Source: JICA report June 2015)

The Study on Integrated Flood Management for Nyando River Basin in the Republic of Kenya / 06.7-
The Project on the Development of the National Water Master Plan 2030 / 10.10-13.6
The Project for Enhancing Community Resilience against Drought in Northern Kenya / 12.2-15.2
Project on Productivity Improvement in the Republic of Kenya / 12.3-14.2
Sustainable Smallholder Irrigation Development and Management in Semi-Arid Lands Project (SIDEMAN-
Project on Integrated Urban Development Master Plan for the City of Nairobi / 12.11-14.1

**Table 8:** Technical Cooperation Project/Cooperation Period (Source: JICA report June 2015)

The Project for Strengthening of People Empowerment against HIV/AIDS in Kenya / 06.7-09.6
Crime Prevention , Rehabilitation and Protection of Vulnerable Children in Kenya / 06.8-09.3
Third Country Training Program on Nursing Refresher Course for Sudan / 06.9-08.8
Third Country Training Program on VCT Counselor for Sudan / 06.9-09.3
The Project for Strengthening of Survey of Kenya for GIS Promotion / 06.10-08.10
Blood Safety Project / 06.10-09.10
Smallholder Horticultural Empowerment Project / 06.11-09.11
Third Country Training Programme on School-Based Parasite Control / 07.2-09.2
Trade Training Programme for Small and Medium Enterprises (SME) Exporters / 07.2-10.2
The Project on Capacity Building for Customs Officers / 07.9-09.9
African Institute for Capacity Development Phase 3 / 07.9-12.6
Strengthening Mathematics and Science Education (SMASE) / 09.1-13.12
Strengthening Management for Health in Nyanza Province / 09.7-13.6
Capacity Building for the Customs Administrations of the Eastern African Region Phase 2 /
Project for Capacity Building of Child Care and Protection Officers in Juvenile Justice System /
The Project for Management of Non-Revenue Water in Kenya / 09.11-13.9
Project for Strengthening People Empowerment Against HIV/AIDS in Kenya(SPEAK) Phase 2 /
Smallholder Horticulture Empowerment and Promotion Unit Project / 10.3-15.3
Strengthening of Capacity on Roads Maintenance Management through Contracting / 10.5-13.5
Project for the Second Phase of Trade Training for SME Exporters / 10.8-12.12
Water Supply and Hygiene Improvement Project in Host Communities of Dadaab Refugee Camps / 10.11-12.10
Capacity Development for Effective Flood Management in Flood Prone Area / 11.7-14.6
Project for Capacity Development for Promoting Rural Electrification Using Renewable Energy /
Project for Strengthening Community Health Strategy / 11.10-14.9
Project for Improving OVOP Services / 11.11-14.11
Rice-based and Market-oriented Agriculture Promotion Project / 12.1-17.1
The Project for Capacity Development of Solid Waste Management of Nairobi City / 12.3-16.3
Establishment of Rural Electrification Model Using Renewable Energy / 12.3-15.2
Project on Development of Drought Tolerant Trees for Adaptation to Climate Change in

Japan recognizes the role of energy as a key driver of socio economic development and has invested in projects to provide energy to off-grid areas, exploitation of renewable sources. This is capable of significantly improving the quality of life of such communities hence helping to alleviate poverty while at the same time stimulating local economic development. The Government of Japan has been empowering Kenyan communities in off grid areas to improve the quality of living through the following two technical cooperation projects which were signed in July 2011<sup>30</sup>.

- i. Establishment of Rural Electrification Model Using Renewable Energy with the Renewable Energy Association.
- ii. Establishment of Human Resource Development mechanism in Renewable Energy technologies with Jomo Kenyatta University of Agriculture and Technology (JKUAT).

In addition, to enhance Green Energy in Eastern Africa, the Government of Kenya got and ODA loan from Japan to finance two major energy projects namely;

- 1) The extended geothermal power generation project, consisting of the 140MW Olkaria I, Units 4 & 5 power plants. A loan of Japanese Yen 29,516 Million was extended for the Olkaria I extension 140MW project. This geothermal project is co-financed by JICA and other development partners such as the World Bank, EIB, AFD and KfW. A contractor has already been procured and construction will commence soon. This project was completed in the year 2014.
- 2) Another Loan of Japanese Yen 12,410 million was to be extended to construct the

---

<sup>30</sup> (M. o. Japan 2012)

Okaria-Lessos- Kisumu Transmission Lines project. The purpose of this project was to form a backbone to support regional power interconnectivity. Under this project, the lines were to be upgraded from 132KV to 220KV. The project for Olkaria Geothermal Production Plants qualified as a Climate Change ODA Loan since the power transmission to consumption areas would contribute to the enhancement of green energy use.

Other infrastructural projects that have been undertaken by the government of Japan include the Construction of the New Container Terminal in the port of Mombasa. Being the gateway to Kenya and the region for imports of fuel and raw materials, the port of Mombasa is perhaps the most important transportation infrastructure to Kenya and the surrounding landlocked countries. The economic growth of the East Africa's economies is forecasted to grow at a five percent rate. This being so the Port of Mombasa is a critical facility to accelerating this growth. As of now, the port is already operating at full capacity. Improving the efficiency of the Port and expanding its physical capacity had been identified as critical issues to the overall performance of the port<sup>31</sup>. JICA lined up several support programs to modernize the Port of Mombasa. In 2011 Japan signed a contract with Kenya ports to support the construction of a New Container Terminal west of Kipevu Terminal in which JICA advanced to the Kenya Ports Authority (KPA) a total of 26,711 Million Japanese Yen to construct the container terminal and for procurement of Equipment. This phase 1 of the project which was the contracted part is due for completion in beginning of 2016<sup>32</sup>.

---

<sup>31</sup> (M. o. Japan 2012) (M. o. Japan 2013)

<sup>32</sup> (M. o. Japan 2012)

As part of the expertize advise for the project, the Japanese counterparts have recommended that in order to ensure the project's effectiveness, there is need to include dredging, smooth evacuation system and institutional reforms. Moreover, as an important step to open up the way to achieving efficiency levels in line with best practice worldwide, it's recommended that the port adopts the landlord port model while at the same time introduce the private sector into the port operations on a wider basis to encompass container and conventional cargo handling.

In addition to ODA focusing on project loans for economic and social infrastructure, political shifts emphasize tackling global issues particularly intellectual support for human resource development, policy making and institutional development. Human resource capacity development is therefore a key element for sustaining a nation's development projects<sup>33</sup>

Increased ODA does not immediately increase development technology flow and sustainability of development projects in recipient countries because technology becomes obsolete after a few years hence necessitating continued reliance on ODA. Therefore increased intellectual support and transfer of knowledge and information would surely catalyze social and economic development

Capacity building although slow is an essential component of technology transfer

---

<sup>33</sup> (m. o. Japan 2013)

and is needed at all stages of this process<sup>34</sup>. Current technological trends require individuals and institutions to continually adapt to new circumstances and acquire new skills. Technology transfer and capacity building for human development was the main goal of Japanese government's investment in the establishment of JKUAT.

It began in 1981 at that time as a middle level college through a bilateral cooperation between the Government of Kenya and the Government of Japan, Jomo Kenyatta University of Agriculture and Technology assumed University autonomy through an Act of Parliament in 1994, becoming the 5<sup>th</sup> public University in Kenya. JKUAT through the technical assistance of JICA has lived up to its mission to offer accessible and quality training, research and innovation in its thematic fields, producing leaders and professional who continue to tower various sector landscapes. In the process, JKUAT has consolidated its place in the academic podium achieving national, regional and global visibility and recognition.

Upon assuming autonomy, the University, in collaboration with Japan International Cooperation Agency (JICA) launched a regional technology transfer program in which 450 participants drawn from 14 countries in Eastern, Central and Southern Africa, were equipped with competencies on modern technologies in the areas of water, agriculture and engineering. Furthermore, JKUAT has received enormous support from JICA on human resource capacity development in engineering, technology, and applied sciences through the JICA counterpart dialogue program which has seen several JKUAT staff undergo training in Japanese universities in these fields. Moreover, JKUAT in collaboration with a Japan private company has created a

---

<sup>34</sup> (M. o. Japan 2012)

successful enterprise under the “Oishii Project” with JKUAT and Nissin Food Corporation producing JKUAT-Nissin Nodules which is already in the market for sale and consumption.

## **5. CONCLUSIONS AND RECOMMENDATIONS FOR DEEPENING THE RELATIONSHIP**

### **4.1 Conclusion**

In spite of the many changes that the international politics has undergone during the period of study specifically the changing the contours of diplomacy is the emergence of a uni-polar world order, the increasing influence of emerging economies such as China and India as well as emergence of the other Asian miracle economies, Kenya's economic ties with Japan has remained strong and valued as development partners. Throughout the period of the study, Japan was a major source of investment and the largest donor of assistance to Kenya. On the other hand, Kenya's strategic position in the region has made her a key japan ally.

The study also finds that the relationship between the two countries is firmly established on the bilateral trade. Unlike other Kenya's trading partners that have relations with Kenya such as Uganda that shares a border with Kenya, United Kingdom that was a former colonial master of the country, and The United States that has political interests, Kenya's relationship with Japan is established on their trade relations.

Although the trade between Kenya and Japan can be described as favoring japan, the trade has been expanding and the volume has been rising over the period of study. Kenya's total import from Japan is higher than its exports to Japan. Kenya imports goods worth about US\$ 691 million from Japan annually (this is about 5% of the local market), these goods mostly consist of vehicles and machinery. Japan imports goods worth US\$27 million from Kenya (this is about 0.01% of the Japanese market), these goods mostly consist of fish fillet, cut flower, coffee, nuts

and tea. While it was found that Japan has been giving back its deficit on the balance through loans, infrastructure products funded as grants, technological transfer, and direct investment into the country, Kenya should increase her exports to Japan especially by increasing her market share of cut flowers in Japan.

The study showed that Japan's net ODA disbursement is an average of 3.4% of the total Kenya receives from other donor countries such as US, UK, Germany, Sweden, Denmark, and France among others. This is a smaller figure compared to 6.8% of total of the net ODA received from international organization such as the IMF, IDA, EU, AfDF and GFATM

## **4.2 Recommendations**

Having looked at the trend of trade and ODA between Kenya and Japan, this study rolled down into the questions of how can the two countries synergize on the untapped potential of each other and exploit the same for mutual benefit. Like any other country and as noted earlier, Japan has grown rapidly in recent years on areas of technology, engineering, energy resource exploitation alongside the remarkable economic growth being achieved by the world's third largest economy. Japan in the recent years and notably since 2000 has been aggressively seeking overseas resources by acquiring either concession or business enterprises. This obviously forms the fertile ground for bilateral cooperation with other countries that are resource rich such as Kenya. If Kenya is to seek coexistence and co-prosperity, looking forward to serious efforts to create an economic community at some point in the future, it is imperative for her to have strong

energy cooperation in with Japan.<sup>35</sup> This cooperation could conceivably include subjects such as: how Kenya can benefit, how Japan can benefit and how other countries across the region can benefit from the Japan-Kenya wind energy symbiosis

Japan has a high level technological advancement which has been tested and proved over time. For instance the country's renewable energy exploitation has been facilitated more by this advancement. This is evident through the major wind and solar farms spread across the country as well as nuclear power plants which provide huge megawatts of electricity to the national grid. It is also evident on the mass production of these technologies for export to other countries abroad. Joint ventures in these areas could help cut the trade imbalance that heavily favours Japan. Moreover, because these joint ventures would benefit Japan more as the equipment and materials required would have to imported from Japan.

Japan could reciprocate by increasing its imports of Kenyan flowers and dealing directly with Kenyan investors as opposed to going through European auctions, which so often lead to delays in getting the flowers to the Japanese market.

*Transfer of technologies:* Although this cooperation has previously been established through the technical cooperation of JICA and the government of Kenya, the technologies that were build have become obsolete with time and so there is need to reinvent the cooperation strategy to not only encompass human capacity building and technology donation but also research and development in different fields. Japan should increase the Japan's Country Assistance Program to Kenya so as to boost the key area of development of economic infrastructure on road transport and railway transport system. The highly organized railway

---

<sup>35</sup> Mosk, Carl. (2001)

system could be adopted in Kenya especially within the city in order to promote efficiency of public transportation within the city and consequently reduction of city congestion as well as traffic.

*Financing:* Japan would be a vital source of financing as most of the Japanese companies have been particularly active international investors in renewable energy projects and infrastructural development around the globe over the years. For example, the Asia Pacific companies and investors announced 38 acquisitions of non-Asian renewable energy assets valued at \$6.0 billion in 2012, a significant increase on the 36 deals valued at \$1.9 billion in 2011. There are signs that Japanese investors are increasingly targeting African renewable energy projects. For example Japanese trading house Sumitomo Corp was the primary equity investor in the 100 MW Dorper wind farm, which reached financial close in November 2012. Japanese bank Sumitomo Mitsui Banking Corporation also provided debt financing. One way to unlock Asian capital is to deploy equipment manufactured by Asian companies or to employ Asian EPC contractors. “In Africa, I think the country of origin of equipment will be an important driver,” explained Fintan Whelan, Co-founder and Corporate Finance Director at Mainstream Renewable Power. “For example your choice of turbine may bring in a whole range of complementary economic support. Japanese turbines can mobilize Japanese resources such as JBIC, NEXI and commercial banks to projects.” This may be part of how opportunities in Kenya can be developed. It leverages up the motivation of the host country to create and maintain an attractive investment environment.” Paul Curnow, Partner, Baker & McKenzie, Sydney, also expects Japanese power generation companies to invest more heavily in African renewable energy projects in the future.

Kenya can balance of the trade with Japan by scaling up exploitation of her wind energy resource potential through Japanese financing inform of loans equipment purchase and adoption of Japanese technology. The transfer of technology will motivate the people of Japan to invest in Kenya as it will expand the market for their products as well as providing employment opportunities for their expatriates abroad. The Japan-Kenya cooperation could expand towards establishing a Japan-EAC an energy Resources Community to expand the East African regional Power Pool so that East Africa could achieve goals of not only higher energy efficiency but also sustainable power stability within the region.

In 2011 during the Fukushima Daiichi nuclear disaster Kenya donated (US\$1 million) to Japan<sup>36</sup>. While this may not seem like a trade relations, it is one of the largest donations that Kenya has given out. It was a gesture of the strong trade ties. In 2008 development, assistance from Japan consisted of:

- Loans: 215.7 billion yen (US\$ 1.8 billion)
- Grants: 102.5 billion yen (US\$ 882 million)
- Technical cooperation: 90.8 billion yen (US\$ 782 million)

Japan has been a major financier in key infrastructure projects in Kenya<sup>37</sup>. These include the upgrading of the Mombasa Port, Olkaria Geothermal Plant, Sondu/Miriu Hydropower Plant and Nairobi Western Ring Road. This relationship is fostered out of the trade relations between the two countries.

---

<sup>36</sup> Kieyah J. and Nyaga R. (2010), Effects of Land Titling on Poverty in Kenya. KIPPRA Discussion Paper No. 112. Nairobi: Kenya Institute for Public Policy Research and Analysis.

<sup>37</sup> Ibid

In 2013, Toyota Kenya opened a Kshs.. 500 million assembly plant in Mombasa<sup>38</sup>. The plant was opened in association with Kenyan-owned Associated Vehicles Assemblers (AVA). In the same year, Honda Motorcycle Kenya Ltd. opened a motorcycle assembly plant worth Kshs. 450 million. The plant is said to be the second largest plant in Africa with a production capacity of 25,000 a year. The company is jointly owned by Honda 90% and a Kenyan investor 10%.

Focusing on tract II diplomacy between citizens, the two countries should promote the establishment of co-owned business enterprises especially in the manufacturing sector. This will increase the number of small scale enterprises, increase employment and improve to the overall growth of the economies of the two nations. Moreover, it would strengthen the relationships between the citizens of the two countries.

---

<sup>38</sup> Ayyagari M., Demirguc-Kunt A., Maksimovic V. (2005), How Important are Financing Constraints? The Role of Finance in Business Environment, World Bank Mimeo.

## **BIBLIOGRAPHY**

- African Development Bank. (2010)** “Infrastructure Deficit and Opportunities in Africa”.  
Economic Brief. Volume 1, Issue 2. 7 September 2010.
- Alexander Betts, Matthew Eagleton-Pierce and Anne Roemer-Mahler (2006).** “The  
International Politics of Oil”, St Antony’s International Review, Vol.2, Number.1.
- Atasay Ozdemir (2009).** “Evaluation of Natural gas in the Context of its Importance for World,  
European Union and Turkey”, Journal of Security Strategies, Institute for Strategic  
Studies, Printing House of Military Academies, Istanbul, December Vol.5, Number 10.
- Ayyagari M., Demirguc-Kunt A., Maksimovic V. (2005),** How Important are Financing  
Constraints? The Role of Finance in Business Environment, World Bank Mimeo.
- Baker and McKenzie (2013).** The future for clean energy in Africa. Clean energy pipeline.
- Berkmen, S. (2012),** “Bank of Japan’s Quantitative and Credit Easing: Are They Now More  
Effective?”, IMF Working Papers, WP/12/2, Washington, DC.
- Blanke, J., Brixiova; Z., Dadush, U., Gurcanlar, T. , Iarossi, G. (2011)** “Exports, FDI, and  
Competitiveness in Africa”, Chapter 1.1 in African Development Bank (2011). Africa  
Competitiveness Report.
- Blöchliger, H., D. Song and D. Sutherland (2012),** “Fiscal Consolidation Part 4: Case Studies of  
Large Fiscal Consolidation Episodes”, OECD Economics Department Working Papers,  
No. 935, OECD, Paris.
- Bloomberg (2011),** South Africa Decides to Give Wind and PV a Tender Embrace, Research  
Note – Clean Energy, 13 September 2011.

- Brixiova, Z., Mutambatsere E., Ambert C., and Etienne D. (2011).** “Closing Africa’s Infrastructure Gap: Innovative Financing and Risks”. Africa Economic Brief, Volume 2, Issue 1. African Development Bank, April 2011.
- Brückner, M. and A. Tuladhar (2010),** “Public Investment as a Fiscal Stimulus: Evidence from Japan’s Regional Spending during the 1990s”, IMF Working Papers, WP/10/110, Washington D.C.
- Cabinet Office (2009),** Annual Report on the Japanese Economy and Public Finances, 2009, Tokyo.
- Cabinet Office (2010),** Economic and Fiscal Model, 2010, Tokyo.
- Cabinet Office (2012),** Economic and Fiscal Projections for Medium to Long-Term Analysis, August, Tokyo (in Japanese).
- Daniel.A.O. (1980).** Imperialism and Dependency, Fourth Dimension publishers, Enugu, Nigeria.
- De Jager D., and Rathmann M., (2008),** Policy instrument design to reduce financing costs in renewable energy technology projects, IEA Implementing Agreement on Renewable Energy Technology Deployment.
- Diplomatic Bluebook 2014.** International Situation and Japan’s Diplomacy in 2013  
<http://www.mofa.go.jp/files/000055800.pdf>
- Duarte, M., Nagarajan S., Brixiova Z. (2010).** ”Financing of Sustainable Energy Solution”. Committee of Ten Policy Brief No. 3. African Development Bank.
- Economic and Social Research Institute (2012),** Initial Investigation on the Data from the Quality of Life Survey FY 2011, Cabinet Office, Government of Japan, Tokyo.
- Furuoka, Fumitaka (2002).** “Challenges for Japanese Diplomacy After the End of the Cold War”. *Contemporary Southeast Asia*, **24**(1), 68-81.

- Furuoka, Fumitaka (2005).** “Human Rights Conditionality and Aid Allocation: Case Study of Japanese Foreign Aid Policy”. *Perspectives on Global Development and Technology*, **4**(2), 125-146.
- Furuoka, Fumitaka (2006).** *New Challenges for Japan’s Official Development Assistance (ODA) Policy: Human Rights, Democracy and Aid Sanctions*, (Kota Kinabalu, UMS Press).
- Government of Japan (2013),** Emergency Economic Measures for the Revitalisation of the Japanese Economy (January), Tokyo.
- IEA (2005),** Lessons from Liberalised Electricity Markets, OECD/IEA, Paris.
- IEA (2008),** Energy Policies of IEA Countries: Japan 2008 Review, OECD/IEA, Paris.
- International Monetary Fund (2012a),** Global Financial Stability Report, October, Washington, DC.
- International Monetary Fund (2012b),** Japan: 2012 Article IV Consultation, August, Washington, DC.
- Jones, R. and Yoo B. (2012),** “Achieving the 'Low Carbon, Green Growth' Vision in Korea”, OECD Economics Department Working Papers, No. 964, OECD, Paris.
- Joumard, I. and Pisu M. (2012),** “Less Income Inequality and More Growth – Are they Compatible? Part 3. Income Redistribution via Taxes and Transfers across OECD Countries”, OECD Economics Department Working Papers, No. 926, OECD, Paris.
- Kieyah J. and Nyaga R. (2010),** Effects of Land Titling on Poverty in Kenya. KIPPRA Discussion Paper No. 112. Nairobi: Kenya Institute for Public Policy Research and Analysis.

- Koske, I., J. Fournier and Wanner I. (2012)**, “Less Income Inequality and More Growth – Are They Compatible? Part 2. The Distribution of Labour Incomes”, OECD Economics Department Working Papers, No. 925, OECD, Paris.
- McNamara, E. & Jolly, M. (1994)**. Assessment of the Learning Environment: the Classroom Situation Checklist. *Therapeutic Care and Education*, Vol.3, No.3, 277-283,
- Ministry of Agriculture, Forestry and Fisheries (MAFF) (2010)**, 2010 Census of Agriculture and Forestry, Tokyo.
- Ministry of Agriculture, Forestry and Fisheries (MAFF) (2012a)**, Annual Report on Food, Agriculture and Rural Areas in FY 2011, Tokyo.
- Ministry of Agriculture, Forestry and Fisheries (MAFF) (2012b)**, Food Balance Sheet FY 2012, Tokyo.
- Ministry of Education, Culture, Sports, Science and Technology (2009)**, White Paper on Education, Culture, Sports, Science and Technology, 2009, Tokyo.
- Ministry of Foreign Affairs of Japan (MOFA) (1998a)**. *Japan’s ODA 1993*. Tokyo: Association for Promotion of International Co-operation.
- Ministry of Foreign Affairs of Japan (MOFA) (1999c)**. *Afurika Benran (Outline of African Countries)*. Tokyo: MOFA.
- Ministry of Foreign Affairs of Japan (MOFA) (2003c)**. *Afurika Benran (Outline of African Countries)*. Tokyo: MOFA.
- Ministry of Foreign Affairs of Japan (MOFA) (2012)**. *Japan’s ODA 1994*. Tokyo: Association for Promotion of International Co-operation.

**Ministry of Foreign Affairs of Japan (MOFA) (2013 report).** *Japan's ODA 1994*. Tokyo: Association for Promotion of International Co-operation.

**Ministry of Foreign Affairs of Japan (MOFA) (2005 report).** *Japan's ODA 1995*. Tokyo: Association

**Ministry of Foreign Affairs of Japan (MOFA) (2015 report).** *Japan's ODA 1995*. Tokyo: Association

**Ministry of Water and Irrigation and JICA (2012),** The National Water Master Plan 2030, Draft May 2012. Nairobi: Ministry of Water and Irrigation.

**Mustafa Kibaroglu (2004).** “Influence of Energy Resources and Transportation Roads to International Security”, Military Academies Command, Armed Forces Academy (Symposium Speech), Istanbul, speech given on 16 January 2004.

**Robert.K. (1994).** Dependency and interdependency, Orange press, Durban, South Africa.

**Standard & Poor's (2012),** Japanese Reflation is in Play, but Hurdles Galore Stand in the Way, New York.

**Sutherland, D., Hoeller P. and Merola R. (2012),** “Fiscal Consolidation: Part 1. How Much is Needed and How to Reduce Debt to a Prudent Level?”, OECD Economics Department Working Papers, No. 932, OECD, Paris.

**Thorbecke, W. (2012),** “Estimating Trade Elasticities for World Capital Goods Exports”, RIETI Discussion Paper Series, 12-E-067, The Research Institute of Economy, Trade and Industry, Tokyo.

**UNDP (2010),** Kenya National Human Development Report 2009, Nairobi: UNDP Kenya.

**UNESCAP (2004)**, Public Private Partnerships: A Financier's Perspective, UNESCAP  
Transport

**World Bank (2008)**, Cities of Hope: Governance, Economic and Human Challenges of Kenya's  
Five Largest Cities, Report No. 46988.

**World Bank (2012)**, Doing Business Report, available at <http://www.doingbusiness.org/data>.

**World Bank (2012)**, Kenya Economic Update: Devolution without Disruption: Pathways to a  
Successful New Kenya. Nairobi: World Bank.

**World Economic Forum (2011)**, The Global Competitiveness Report 2011–2012. Geneva:  
World Economic Forum.

**Filippini, C. and Molini, V. (2003)** .The determinants of East Asian trade flows: a gravity  
equation approach, Journal of Asian Economics 14(5), 695-711.

**M.zakir saadullar k., M.ismail h. (2012)**. Determinants of Trade Balance of Bangladesh: A  
Dynamic Panel Data Analysis. Bangladesh Development Studies Vol. XXXV, June 2012, No. 2.

**Magee, S.P. (1973)**. Currency Contracts, Pass-through, and Devaluation, Brookings, Papers on  
Economic Activity; 1, pp. 303-23.

**Sayuni mbayani (2006)**. Determinants of trade balance in Tanzania, A research paper towards  
the fulfillment of masters of Arts degree in economic policy management (PPT),Makerere  
University.

[http://marsgroupkenya.org/pdfs/2011/01/Ministry\\_PDFS/MINISTRY\\_OF\\_PLANG/  
Strategies\\_for\\_Securing\\_Energy\\_Supply\\_in\\_Kenya.pdf](http://marsgroupkenya.org/pdfs/2011/01/Ministry_PDFS/MINISTRY_OF_PLANG/Strategies_for_Securing_Energy_Supply_in_Kenya.pdf)

A Globally Competitive and Prospectus Kenya, Kenya Vision 2030 <http://cdkn.org/wp->

[content/uploads/2012/04/National-Climate-Change-Response-Strategy\\_April-2010.pdf](content/uploads/2012/04/National-Climate-Change-Response-Strategy_April-2010.pdf)

<http://www.erc.go.ke/erc/fitpolicy.pdf>