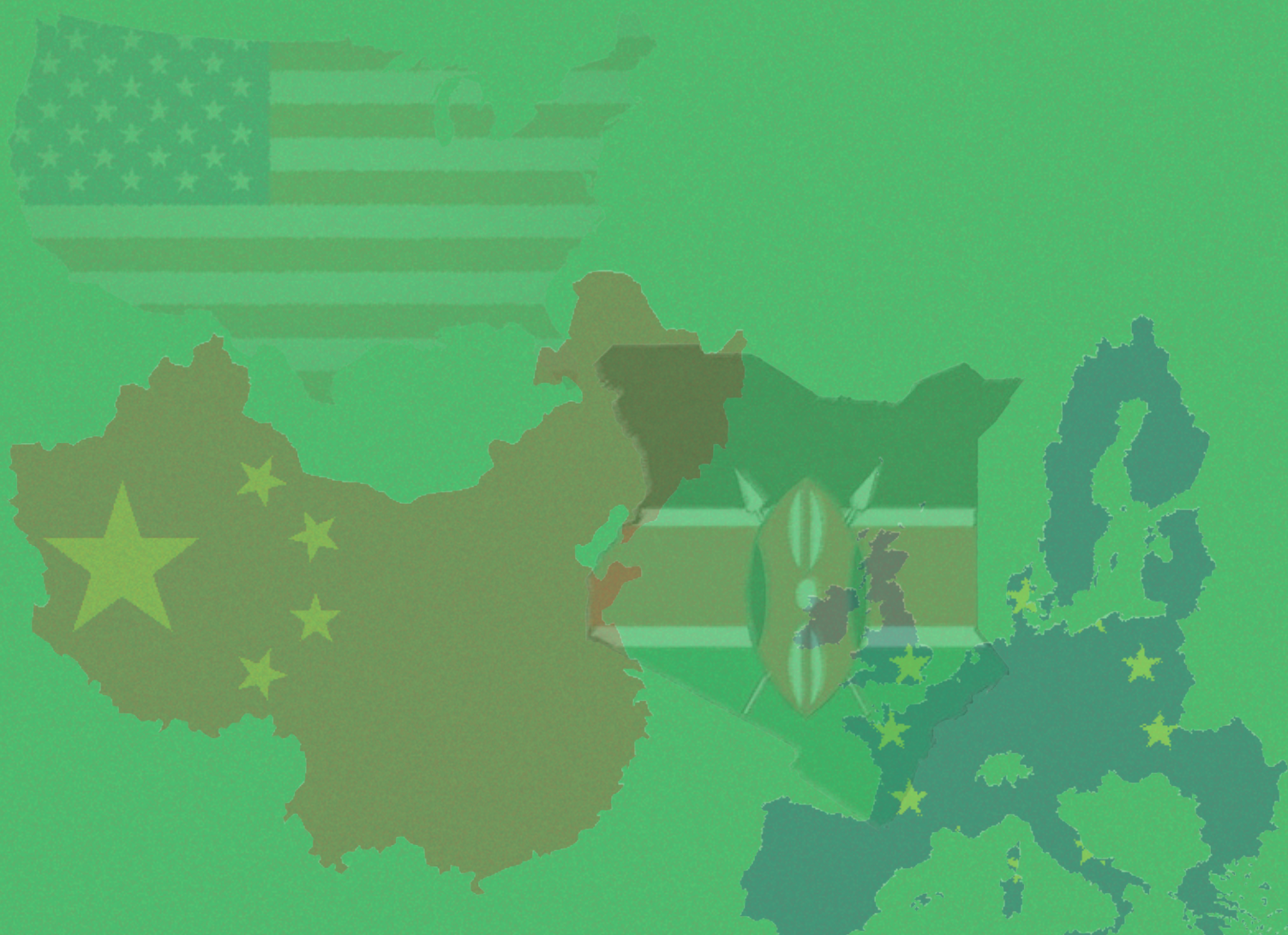




Institute of  
Economic Affairs

# Comparative Study of Kenya, US, EU and China Trade and Investment Relations



# Comparative Study of Kenya US, EU And China Trade And Investment Relations

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# 1.0 Introduction

The historical relations between Kenya and China dates back centuries to the era of barter trade, in which there were exchanges of goods and services along the Kenyan coastline as archeological findings have shown. Kenya gained its sovereign status in 1963 and has enjoyed good relations politically, economically and socially, with its close border neighbors; Uganda, Tanzania, Rwanda and Burundi that together they form the East African Community (EAC), and the rest of the countries on the African continent, as well as other countries in the rest of the world. Trade forms a basic pillar of the relations between different states worldwide. Kenya has maintained trade relations with the United States of America (USA), as well as with China, which is steadily on the rise in terms of trade on the world stage, and the European Union (EU), which has been, for a long time Kenya's trading partner. Once a colony of the British Empire, this did not close the link between both countries as trade has been maintained from then to date.

Kioko (2012) in his paper titled "A Study on Chinese Economic Relations with Africa: Case Study, Kenya", looked at China's economic relation with Kenya from the year 1950 when the People's Republic of China was founded, to 2010. It details the historical perspectives of China-Kenya relations, the gains and losses encountered, investments made by China in Kenya, Aid by China to Kenya and its implications, and finalizes by offering a conclusion in terms of some recommendations. In a separate paper, "The Dynamics of China-Africa Cooperation" Bertha analyzes the changing China-Africa relations which has evolved to become a development oriented partnership diversifying to manufacturing, infrastructure, solidifying cultural ties and aiding in peacekeeping initiatives. On the other hand, Michael Johns (1990) looked at strengthening ties between the United States of America with Kenya by enumerating the areas of cooperation between them; Trade, Foreign Direct Investment, Privatization programs, military assistance and the policies in place to steer this relationship for the pre-1990 period.

Existing literature does not show evidence of comparative analysis of the impact of development partners on Kenya. Trade with the USA in terms of exports has grown by 93.7% to a volume of \$ 435 Million in 2014, up from \$226 Million in 2009, while imports within the same period increased by 191% from US\$ 660 Million in 2009 to - US\$ 1,919 Million in 2014. In the same light, Kenya's exports to China for the same period were up by 129% from \$32 Million to US\$75 Million whereas imports skyrocketed 69% from \$0.96 Trillion in 2009 to \$2.8 Trillion in 2014 (Economic Survey, 2014 &). The sharp rise in imports from china reels of opportunities that have been identified in the Kenyan market and which have been exploited to the maximum by manufacturers, producers and exporters in China.

In terms of infrastructure development, in the recent past beginning in the year 2000, China has significantly increased her support for infrastructure development in Africa as a whole. To zero in on the Kenyan case, there are various projects that are the brainchild of the Chinese government in collaboration with the Kenya government, spearheaded by various agencies and government ministries, and funded by Export-Import (EXIM) Bank of China. Not to be outdone is the US government which has given Kenya various incentives; most notable is the Africa growth and Opportunity Act (AGOA) initiative which seeks to give African products market in the US. The EU on the other hand had floated the Economic Partnership Agreement (EPA) and is still under discussion in most African countries.

From the foregoing therefore, it is clear to see that of the three partner states, China has leapfrogged her counterparts in terms of cooperation with African countries, Kenya in this case in particular. However, it would be important to enumerate the various areas of collaboration that have formed the basis of cooperation, the policies and incentives that each trading partner has offered to sustain this emerging cooperation for mutual benefit, and a host of other areas of collaboration that seem to cement this relationship, as well as what China has done so far to be at the position it is at in terms of trade relationship with Kenya. This against a backdrop of those of traditional trading partners to Kenya, their areas of collaboration, incentives they have offered and how these compare to those given by China.

Very little research has been done on the comparative analysis of the impact of these development partners on Kenya. The relationship between Kenya and China has been, it can be said, and as has been espoused by both partners, 'of mutual benefit', commonly referred to as win-win. Nonetheless, it is important to note that traditionally, the US and the European Union have been, for a much longer period of time, the preferred trading partners for a majority of African Countries, Kenya notwithstanding. It is therefore imperative that going forward, this paper will seek to enumerate, examine and bring to the fore the tangible benefits that Kenya has gained and still stands to gain from its association with EU and US as compared to those from its relations with China, with a specific bias to trade relations, as well as looking into new areas of partnerships that have cropped up.

According to Col. JS Kohli, 2009, Diplomatic ties between china and Africa date back to 1956 and the establishment of Sino-Egyptian relations. He looks at the China Africa Policy; her evolving approach and how china is fighting to fend off the perceived status by the West that China's ventures on the African continent are motivated by her quest for energy security; her engagement in trade, investment and aid in Africa; and her strengths and how she taps into the African continent. Over the years and especially from the 1990's, China, which became a People's Republic of China, PRC in 1912, has continued to show massive interest in Africa, culminating in the formation of the Forum for China-Africa

Co-operation (FOCAC) in the year 2000. FOCAC serves as the institutional arrangement for promoting bilateral and multilateral dialogue and cooperation between China and Africa as well as for implementing China's foreign policy objectives (Afro Asian Journal of Social Sciences, Vol. 3, No. 3.1 Quarter 1, 2012) and is held every three years. This was followed by the China Africa Policy Paper that was produced in January 2006 by the Chinese government based in Beijing. According to the China Africa Policy Paper, China regards its relation with Africa based on four principles namely; Sincerity, Friendship and Equality; Mutual benefit, Reciprocity and Common Prosperity; Mutual support and close coordination; and Learning from each other and seeking common development. From the onset, China has set out an 8-point policy document for its perceived involvement with African countries that is viewed by the western countries in a different light as being soft – colonization strategies and is echoed by Jennifer Cooke who says that the principal source of China's soft power in Africa is the strength of its economy and its economic engagement. Further, she notes that since the first FOCAC in 2000, China has made a systematic effort to expand and give greater profile to its soft-power policies in Africa (Jennifer G. Cooke, 2012).

Although the establishment of a 'Strategic Partnership' was sealed in 2003 between the US and China, their relation started way back in the year 1975. As with other bilateral relations, there are overlapping as well as conflicting interests for either and it has not been easy for both countries and there are efforts to ensure the problems encountered are ironed out at the earliest opportunity possible. Among these are differences in political regimes and value beliefs giving rise to problems in bilateral relations (Jing Men, 2008). Since both the EU and China are rising powers, unity of purpose ensures that their relation is kept as smooth as possible.

In Africa, the umbrella body of the 54 African States, African Union headquarters that is based in the capital city of Ethiopia, Addis Ababa, was built by the Chinese government and handed over to the secretariat that runs the African Union (ChinAfrica Magazine, Vol. 4. February 2012). Kenya's involvement with China has been on the rise in the last decade in various and diverse aspects. China has provided Kenya with loans and grants for various projects; construction of infrastructure, notable and most recent is the Thika Super-highway to which China gave the Kenyan government according to the Report by African Development Bank, a grant of 26M US\$ and was undertaken by Chinese contractors; China Wu Yi, SinoHydro, and ShenLi, from 2009 to its completion in the year 2012 and was aimed at enhancing transport and urban mobility in the Nairobi metropolitan area by reducing transport costs, improving accessibility to public transportation, and also link the agricultural and industrial town of Thika to the capital city of Kenya, Nairobi.

There have been efforts by the first world countries, in this case looking at China, EU and the US, to foster relationships either through offer of various avenues for partnerships or

by issue of loans and or grants for various purposes such as to undertake infrastructure development; roads, build ports, and other related projects; undertake improvement of healthcare; build healthcare facilities, offer medicines and medical support to the affected personnel; give support in terms of military; offer of places for student exchange services and undertake to finance the needful in education in their countries, among other support services that can be written home about.

## 1.1 Objectives

This study will seek to answer the following questions:

- To examine the historical Context of Development Relationship between Kenya, EU, US and China.
- To examine Kenya, China, EU and US levels of participation in the Global Economy
- To examine Kenya's Pattern of Merchandise Trade with China, EU and US.
- To compare Trade in Services between Kenya, China, EU and US.
- To establish the Key Elements shaping Kenya China, EU and US Trade flows

## 1.2 Methodology

This research will involve use of mostly secondary data sources, and where possible, also include information gathered from primary data sources. Secondary source of data that will aid this research will include desk research from various sources among which involve literature review comprising of an initial desk review of all written material on the subject and data from the Ministry of Trade, The Chinese Embassy, WITS Data (Online), and various publications including the Economic Survey and Statistical Abstract for various years and any other information relevant to this research. The sources to realize this will be the various development partner reports, reports from the Ministry of Trade, the Chinese Embassy and the National Trade Policy documents among other relevant sources.

## 2.0 The Historical Context of Development Relationship Between Kenya, EU, US, And China

The African continent has many countries. Just recently, there were 53 but with the split of the larger Sudan in July 2011, a new country – South Sudan, was formed bringing the total number to 54 independent states. Most of these are referred to as third world countries though lately, that has changed and the term developing country is often used. Most African countries and its inhabitants are faced with many problems ranging from civil wars, diseases, and infrastructure problems, to challenges of food adequacy and challenges of inadequate technology. This even with the fact that the continent is well endowed with natural resources that are spread all over, waiting to be utilized for the betterment of the countries in which they are found and the continent at large.

Kenya lies in the East African region of the African continent. In December 1963, Kenya attained full independence from Britain, becoming a Republic on the first anniversary of her independence in December 1964. Since then, Kenya has been, and continues to be a beacon of peace and stability, witnessing steady prosperity in a region has been characterized by among others, political chaos, coups, violence and high poverty levels. This notwithstanding, Kenya as a sovereign state has the duty to find avenues through which it can enhance her development initiatives by collaborating with other countries and states, and groupings of countries and states, within and without the continent in various areas; Healthcare, Education, Military Support, Technology Exchange, as well as in Trade and in Agriculture. Since independence, Kenya has fared better on the economic front as compared to her neighboring states by relying mainly on the agricultural sector (which is the backbone of the Kenyan economy), specifically the export of cash crops such as Coffee, Tea, and Pyrethrum.

Kenya is one of the 5 countries (others are Uganda, Tanzania, Burundi, and Rwanda) that form the East African Community (EAC), and leads the East African region in terms of trade and has put measures to open up its markets to regional and international market players. It is evident from the various mechanisms that have been put in place that it seeks to accrue full benefits that may arise from its trade cooperation with both developing and developed countries in the region as well as around the world. Kenya is a signatory to various treaties that bring together countries and states for various purposes. Among these, Kenya is a member of the African, Caribbean and Pacific Group of States (ACP) partnership with the European Union (EU) Group, signatory to the WTO, and closer home, a member of the EAC.

### 2.1 Kenya's International Relations

Kenya has maintained both bilateral and multilateral relations with many countries on the African continent and the world all over. China, which became a republic in 1912, has had a long standing historical and diplomatic relation with Kenya, dating back to December 14, 1963, as it was the fourth country (according to China facts and Figures<sup>1</sup>), to open up an embassy in Kenya's capital city, Nairobi. During this event, China pledged to continue promoting a dynamic cooperation in areas such as capacity building, information technology, energy, water resources, telecommunications, culture and other areas of human endeavor. Historically, trade relations between Kenya and China dates back to the 18th century during the era of slave trade and barter trade of goods and services between the two countries. Recently, as China's economy has continued to grow and transform the country into a major global player in all spheres, it has become clear that China increasingly needs to secure reliable sources of resources to support its economic development (Lawal M, 2003).

A Look at the trade relation recently between Kenya and China shows a massive Ksh. 248.65 Billion as at 2014 for imports from China and Ksh. 6.60 Billion for exports to China from Kenya (Economic Survey 2014 & 2015). It is evident that Kenya is not placed at an advantage position. This can be attributed to a number of factors among which are lack of adequate technology and knowledge. In a move seen to endear itself to African countries, China has laid out its strategy in an official paper that seeks to guide its cooperation with African countries. Publicized by the Ministry of Foreign Affairs of the Peoples Republic of China (2005), it is known as China's African Policy and it lays down the following principles and objectives; Sincerity, friendship and equality; Mutual benefit, reciprocity and common prosperity; Mutual support and close coordination; Learning from each other and seeking common development.

Europe (The British) colonized most African countries in the late 18th to early 19th century. During the time, the British East Africa Protectorate was a colony comprising of Uganda, Tanzania and Kenya. It is important to note that as at the end of 2012, the United Kingdom (UK) was the largest export partner of Kenya, accounting for more than 10% of the total export volumes. It is followed by the Netherlands, Uganda, Tanzania, the US and Pakistan<sup>2</sup>. In the recent past, the United

<sup>1</sup>China Facts and Figures, 2002. Accessed at <http://www.china.org.cn/english/international/82128.htm>

<sup>2</sup>Kenya Trade, Exports and Imports. Accessed January 2013 at [http://www.economywatch.com/world\\_economy/kenya/export-import.html#sthash.Wcu9poar.dpuf](http://www.economywatch.com/world_economy/kenya/export-import.html#sthash.Wcu9poar.dpuf)

Kingdom has been one of Kenya's largest trading allies for a long time, even before the European Union (EU) was formed. According to the EU Strategy for Africa developed in 2008, there are numerous initiatives that have been put in place to aid sub-Saharan countries, Kenya being one of them. The EU and Kenya signed a Country Strategy Paper in December 2007 for the period 2008–13 with a budget of US \$521 million (€ 399), written under the 10th European Development Fund. The strategy paper highlights the need for greater regional economic integration with a focus on transport infrastructure and agriculture and rural development. Addressing these focal areas will allow for better trade and economic growth. Better transport is necessary for the continued economic development, both nationally and regionally, as well as helping to contribute to poverty reduction. Improvements in agriculture and rural development will allow for increased living standards for those whose livelihoods depend on agriculture by working to put into place sustainable development practices.

Historically, the US has been a long, stable, strong ally, and a key development partner to many African countries, and especially to Kenya. It supports various projects that aid in development, democratic space enhancement, assist in healthcare, aiding in technology transfer as well as supporting infrastructure development activities, among a host of other initiatives and activities. These are aimed at improving the livelihoods and living standards of the common Kenyan populace who, to a large extent have been marked to be living according to World Health Organization (WHO) internationally agreed poverty line of less than a dollar per day. This aside, Kenya and the US have had a long and cordial international relation, collaborating in numerous ways. For instance, soon after independence, the US set up its military base at the Port of Mombasa in the Coastal City of Mombasa. According to M. Jones (1990), Kenya is important strategically to the U.S. with which it signed a military agreement in April 1980 thus permitting the US Navy to use it as a liberty port for refueling and docking. Access to Kenyan air and seaport facilitates American capability to project air and naval power in the Indian Ocean to ensure free flow of international commerce.

Furthermore, the Obama administration in 2012 laid out a strategy for relations between the United States of America and sub-Saharan Africa, and is captured in the 'U.S. Strategy Toward Sub-Saharan Africa' (US Government, 2012). This is aimed at spurring economic growth, improving trade and investment in sub-Saharan Africa, and promoting development in sub-Saharan countries. This is based on the realization that both partners have a duty to work hand-in-hand to improve on either of the partners' status, and as stated by Ambassador Johnnie Carson, "This new approach recognizes that it is in the interest of both the United States and our African partners to improve the region's trade competitiveness, encourage the diversification of exports

beyond natural resources, and ensure sustained economic growth which benefits all sectors of society"<sup>3</sup>. This new strategy elevates economic growth, trade, and investment issues by calling for increased U.S. focus to (1) promote an enabling environment for trade and investment; (2) improve economic governance; (3) promote regional integration; (4) expand African capacity to effectively access and benefit from global markets; and (5) encourage U.S. companies to trade with and invest in Africa. Kenya is poised to benefit immensely from this.

The relationship that Kenya enjoys with other countries and states or groups of states as an independent country has been both negative and positive. Among the most notable areas of cooperation include but is not limited to; Infrastructure development, Healthcare partnerships, Military support, Education exchange programmes and support, Tourism, and most importantly, in Trade and Investments.

## 2.2 Areas of Partnerships

### 2.2.1 Infrastructure Development

For any economy to realize growth, it is imperative that a fully functional infrastructural system is in place so as to provide an avenue through which various advantages can be accrued. Among these gains are access to raw materials for the manufacturer as well as market for final product; ease of transport thereby aiding free flow of products and services to the intended user; and improved ability to trade in the local and global market. These yield to improved living standards of the populace as a result of reduced poverty levels, improved access to social amenities (health, water, education, e.t.c), and the development of urban towns. On the African continent as a whole, infrastructure is one key development problems that has eluded most countries. This means that growth is slowed down and as such thus high living standards cannot be attained and/ or be improved at the pace at which most countries would wish. It is in response to this ailing problem that a number of development partners have come in.

To note most recently as pertains to infrastructure development is, according to African Development Bank (2012), the Nairobi–Thika Highway Project which cost approximately US \$360 million and was approved in November 2007. The African Development Bank (AfDB) Group financed the project with a financial package through its concessional window, the African Development Fund, including a loan of approximately US \$175 million earmarked for civil works and related consultancy services, and a grant worth US \$5 million (feasibility study and a detailed design of a mass rapid-transit system for the Nairobi Metropolitan area). The Kenyan Government contributed US \$80 million while EximBank of China contributed the remaining US \$100 million. The work was started in 2009 and finished in early

<sup>3</sup>The EU is comprised of 27 member countries as at December 2012, with more countries still expected to join.

<sup>4</sup>EU Relations with Kenya. Accessed at [http://eeas.europa.eu/kenya/index\\_en.htm](http://eeas.europa.eu/kenya/index_en.htm)

<sup>5</sup> This is part of the statement by Ambassador Johnnie Carson while delivering a speech on the U.S. Strategy Toward sub-Saharan Africa



2012. In March 2012, the African Development Bank (AfDB) and the Kenyan government signed loan and grant agreements totaling some US \$336 million in support of clean energy and road infrastructure development. The infrastructure loan is a financial package worth US \$186.7 million loan for the Mombasa-Nairobi-Addis Ababa Road Corridor Project (All Africa, 2012).

## 2.2.2 Healthcare

In terms of healthcare, the US government has put in place a number of initiatives in on the African continent. These range from infrastructure specific for healthcare to issuing of drugs, medicines and vaccines to the larger African populace or patients for treatment of various ailments and prevention of different diseases. The most recent is the fight against HIV/ Aids and Malaria. Through the US Government's Presidents' Malaria Initiative (PMI), there was an agreement with Kenya Medical Supplies Agencies (KEMSA) to spearhead the fight against malaria. As for AIDS, The U.S Government has made investments through the U.S President's Emergency Plan for AIDS Relief (PEPFAR) that has put over 580,000 Kenyans on antiretroviral treatment to date and has provided counseling and testing services for over 5.87 million Kenyans. In terms of healthcare, during the opening of a one-day meeting on China-Africa Trade and Cooperation on Pharmaceuticals and Medical devices in Nairobi on September 13 2012, Kenya's Minister for Medical Services, Professor Anyang' Nyong'o said China had helped Kenya in many ways particularly in the health sector through the construction of health facilities (Xinhua, 2012). A case in point is the Mama Lucy Kibaki Hospital which was funded by the Chinese government at a cost of Ksh. 544 Million and handed down to the Kenyan government as a "gift". The hospital will be expected to serve at least 2 million people in the Eastlands area of Nairobi city and is equipped with modern technology equipment and ultra-modern wards. It is also expected to ease the strain on Kenyatta National Hospital since it will double as the second Referral hospital in Nairobi (Nation Newspaper Correspondent, August 2012).

According to the Centre for Strategic & International Studies' website , the European Union has committed funds to health programming in Kenya. The proliferation of donors in Kenya since the 1990s, coupled with the desire to avoid duplication of donor-agency efforts, led the government and its development partners to formalize a Kenya Health Sector Wide Approach (SWAP) Code of Conduct in August of 2007. The non-binding document was signed by the United States, the United Kingdom, and the European Union among others, as well as representatives of multilateral agencies. It commits the signatories working to strengthen Kenya's health sector to align their goals and cooperate to reverse "the decline in the health status of Kenyans...through an efficient, high quality

health care system that is accessible, equitable, and affordable for every Kenyan."

## 2.2.3 Trade and Investment

In terms of trade relations, there has been an exponential improvement of trade relations between China and Africa at large. This is also the case for individual countries relations to China, a closer look at the East African countries shows that the trade volumes between Kenya and China has increased from independence year to the current levels. In 2008, trade between the two nations was valued at \$1.25 billion. The EU also continues to keep close ties in terms of trade with Kenya being a member of the ACP, and has put forth various incentives to Kenya. The areas of collaboration in terms of trade range from various merchandise; agricultural products, energy related products, machinery, and electronic products among others; to various collaborations in the service industry including education and health, trade transportation and utilities, as well as financial activities. The world economy in the current scenario is shaped by China as a result of development of new technologies, services, business opportunities, trading opportunities, as well as poverty eradication strategies (Lawal M., 2009). Guo Chongli, who was the Chinese ambassador to Kenya in 2001, in his address to mark 40-years of diplomatic ties with Kenya, said Kenya and China are faced with the same challenges of dealing with problems related to rural development, unemployment and poverty. Kenya, which is touted as a gateway to the East African region, is a key focus of China's trade and economic cooperation with the African continent as it is stable politically and thus creates an ideal investment environment for Chinese investors (Xinhua, 2003).

Kenya mainly exports leather, tea, coffee, sisal fibre, scrap metal and horticultural produce to China and in turn takes up machinery, electronic and electrical goods, textile and fertilizer among others. Also key to note is that the US in the year 2000 offered an avenue to aid African producers in exploring trade opportunities with it through the Africa Growth and Opportunity Act (AGOA) initiative. AGOA has a membership of 24 African countries out of the 38 that are considered to be in sub-Saharan Africa. AGOA was meant to authorize a new trade and investment policy for sub-Saharan Africa, expand trade benefits to the countries in the Caribbean Basin, renew the Generalized System of Preferences (GSP), and reauthorize the trade adjustment assistance programs (Africa Growth and Opportunity Act, 2000). Kenya has taken advantage of this provision and gone ahead to provide incentives to investors to set up industries in the Export Processing Zones (EPZ's) that have been established with the main aim of production for export.

## 2.3 Development Partners Aid Conditions

Most sub-Saharan African countries are plagued by prolonged periods of drought, coupled with rampant instances of corruption. Whereas the US and the EU seek to address these issues first as conditions to give loans, aid and/ support grants to African countries, China sees opportunities and encourages exploitation of these opportunities. China does not give conditions for relating with partner countries or states but instead, they collaborate in areas such as infrastructure but it is important to note however that ‘The one-China Principle’, is perhaps the only condition that is emphasized by China in its relations with other countries. According to China’s African Policy developed by its government in 2006, China stands ready to establish and develop state-to-state relations with countries that have not yet established diplomatic ties with china on the basis of the one-China principle. On the other hand as has we have seen earlier, the EU collaborates with African countries through the ACP Partnership agreement. This allows for import and export of all products at reduced tariff rates from the East African countries to European Union countries.

The traditional development partners for African countries, and especially sub-Saharan counties, in this case looking at the EU and the US, normally impose strict conditions in cases where they give aid, loans, or grants to sub-Saharan countries.

## 3.0 Kenya, China, EU And US In The Global Economy

### 3.1 Global Economic Outlook

Global economy, according to the global dictionary<sup>7</sup> can be defined as world-wide economic activity between various countries that are considered intertwined and thus can affect other countries negatively or positively. On the other hand, Wikipedia, a world re-known educational website and encyclopedia, opines that it generally refers to the economy, which is based on economies of all of the world's countries national economies – as economies of local societies, making the global one. Globalization has opened borders to ideas, investment and capital flows, as well as enabling the movement of people and production, according to basic market incentives.

The global economy encompasses a variety of goods and services that are traded and each country is obligated to utilize her points of strength to her advantage so as to earn foreign exchange that will go a long way in aiding it to execute various projects to the benefit its populace. There has been steady rise in the volumes of trade between Kenya and her traditional trading partners' year on year which has translated to improved trading ties, and an increases in the country's visibility in the global economic arena.

According to the IMF website's Global Economic Data that can be accessed online<sup>8</sup>, the European Union leads the rest of the countries and partner states in terms of economic outlook as at 2014, with US\$ 18,527billion dollars, followed by the US with US\$ 17,348billion, China with US\$ 10,356 billion and finally Kenya with US\$ 60.937 billion. The contributing factors to such huge and large differences include but are not limited to the following; volumes of exports and imports specifically looking at those exchanged either way; external debts; population; and the unemployment rates in own versus those in the partner states/countries. It is important to note that this comparison is a bit skewed considering the fact that the EU and the US are not single countries but a grouping of a number of countries/states. The US is comprised of 50 states while the EU has a membership of 28 states with the accession of Croatia in July 2013.

### 3.2 Economic Growth in Africa

Many African countries are affiliated to the European Community (EC), currently referred to as European Union (EU), through the Lome Convention, which provides free access to the markets of the EU for selected exports from African, Caribbean and Pacific (ACP) States. Kenya is a member of ACP. Although it is a well known fact that Africa is a resource-rich continent, many of her populace languish in poorness and poverty thereby making it the world's poorest inhabited continent, as measured by GDP<sup>9</sup> per capita. This notwithstanding, parts of the continent have made significant gains in the past few decades where it is important to note that growth that has been experienced in many areas resulting from the recent improved sales in commodities trade, improved and enhancement in the services industry, as well as in manufacturing.

The world trade organization (WTO) is mandated to look into and govern the way countries trade with each other world all over. Historically, the US has been in the lead in terms of overall trade volume with other countries, closely followed by the EU which in the recent past has been overtaken by China into third place. In the African continent, Nigeria leads economically and had a Gross Domestic Product (GDP) of US\$ 574 Billion as at 2014, according to IMF. It is followed by South Africa, Egypt, and Algeria with GDP figures of US\$350 Billion, US\$286 Billion and US\$ 214 Billion respectively. Kenya with GDP of US\$60.937 Billion comes at a distance in the same year according to IMF data. In terms of trade volumes, Kenya's trade with each of these large economies is very negligible and often times is, if not at all times, at a deficit.

### 3.3 Country performance in International Trade

#### 3.3.1 Kenya in International Trade

Kenya became a member of the WTO in January 1995. Prior to this, trade volumes were low in comparison to the post WTO era to date. As the years have progressed, Kenya's position has also progressed positively in terms of total trade volume with the rest of the world from KSh.252 million in 1995 to KSh.2.156 Trillion in 2014 as shown in table (next page);

<sup>7</sup>The Business Dictionary Website provides definitions to business terms and words, and gives examples of their usage. Accessed March 2013 at <http://www.businessdictionary.com/definition/global-economy.html>

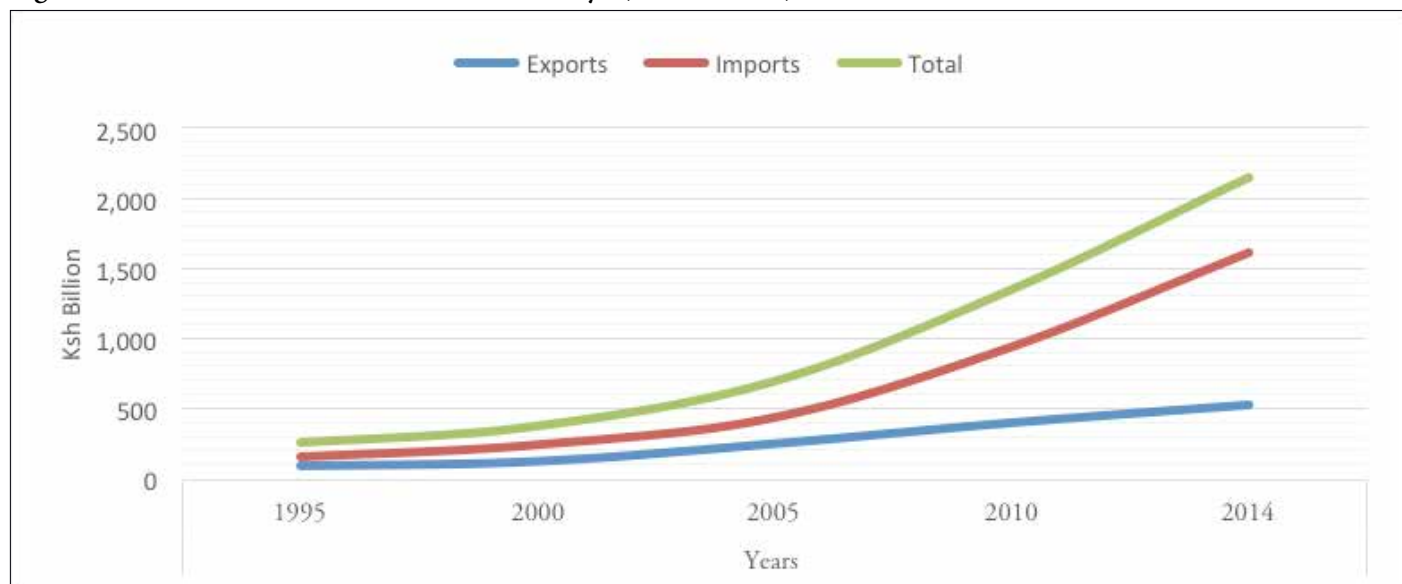
<sup>8</sup><http://www.econstats.com/weo/CCHN.htm>

<sup>9</sup>Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a given period of time. GDP per capita is often considered an indicator of a country's standard of living

	Years				
	1995	2000	2005	2010	2014
Exports	97	135	260	410	537
Imports	155	248	443	947	1,618
Total	253	382	704	1,357	2,156

Source: Statistical Abstracts 2001, 2012. & Economic Survey 2015

Figure 1: Volume of International Trade for Kenya (Ksh. Billions)



Source: Statistical Abstracts 1989, 1998, 2001, 2012 and Economic Survey 2015

Figure 1 reinforces the position that Kenya's trade volume has been incremental for the period in focus i.e. 1980 to 2014. It is important to note however that there was a sharp increase in import figures as from 2005 whereas that for exports largely remained the same. This means that the rate of growth for imports supersedes that for exports and thus the balance of trade that Kenya incurs has also been on the rise negatively, and stood at Ksh. 1.081 Trillion as at December 2014. Cash crops in the agricultural sector, mainly Tea, Coffee, and Horticultural products have been the lead export products for Kenya. Other export items include textiles, coffee, tobacco, iron and steel products, petroleum products, and cement, to the US. Through this, Kenya has seen an increase in exports to the US thereby leading to increased foreign exchange for the country.

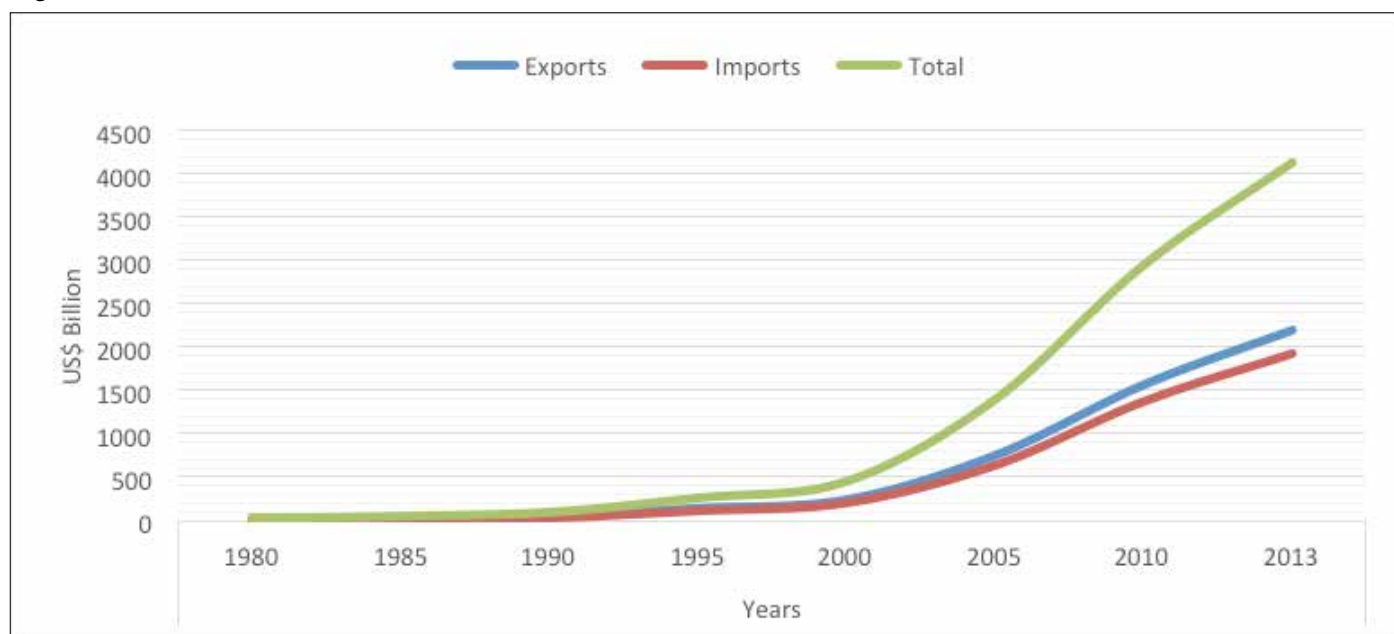
### 3.3.2 China in International Trade

China's accession to the WTO came to pass in December 2001. It has been realized that since then, China's volume of trade on the world stage has increased in leaps and bounds. This is attributed to joining the WTO and thereby allowing her access to more markets around the world. Trade volumes in comparison to the available values during pre-WTO period support this position, and China has taken steps to liberalize her market to conform to the rules set for members of the WTO.

Year	1980	1985	1990	1995	2000	2005	2010	2013
Exports	18.12	27.35	62.09	148.78	249.2	761.95	1577.75	2209.00
Imports	20.02	42.25	53.35	132.08	225.09	659.95	1396.24	1949.99
Total	38.14	69.6	115.44	280.86	474.29	1421.9	2973.99	4158.99
Balance of Trade	-1.9	-14.9	8.74	16.7	24.11	102	181.51	259.01

Source: National Bureau of Statistics of China. Online

Figure 2: China Trade Volumes, 1980 - 2013 (US\$ Billion)



Source: National Bureau of Statistics of China. Online

China has in the few years from 2001 to 2014 jumped almost two-folds in terms of volume of total trade on the world stage. This shows that there is more market liberalization between China and the world which has allowed for the improved trade window thus increased volumes as evidenced in table 3. Among the common products that China imports from Kenya include leather, tea, coffee, sisal fibre, scrap metal, and horticultural produce (Statistical Abstract, 2011).

Table 3: Kenya-China Trade Statistics 2002 - 2014 Value (Ksh Million)

Year	Export	Import	Total Trade	Bal. of Trade
2002	375	6,052	6,427	-5,677
2003	510	8,023	8,533	-7,513
2004	910	12,785	13,695	-11,875
2005	1,074	22,967	24,041	-21,893
2006	1,371	29,721	31,092	-28,350
2007	1,439	45,672	47,111	-44,233
2008	2,030	64,542	66,572	-62,511
2009	2,487	74,524	77,011	-72,037
2010	2,512	120,648	123,160	-118,136
2011	3,803	143,817	147,620	-140,014
2012	5,384	167,206	172,590	-161,822
2013	4,199	182,356	186,555	-178,157
2014	6,597	248,648	255,245	-242,051

Source: Kenya National Bureau of Statistics, Statistical Abstract, 2009 and Economic Survey 2011, 2015

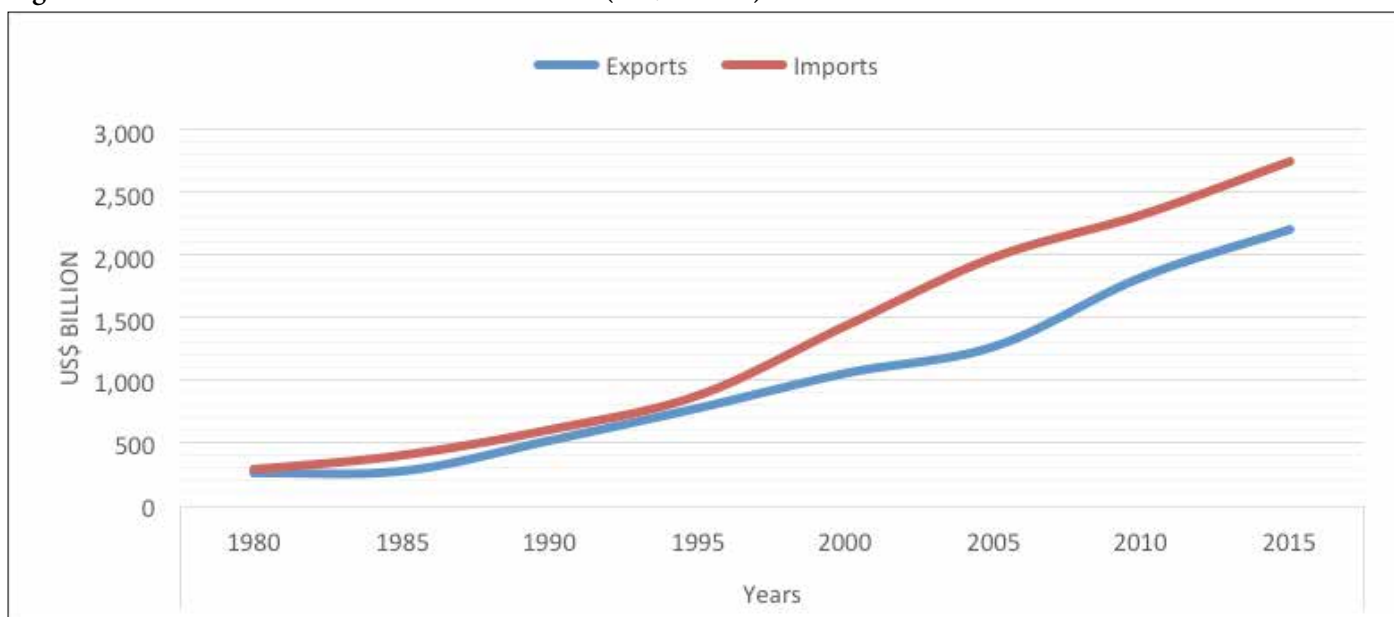
According to the COMTRADE website tracking of official bilateral trade volumes between Kenya and China, among the products that China exports in huge quantities to Kenya include Machinery, nuclear reactors, boilers; Electrical, electronic equipment; Vehicles other than railway, tramway; Articles of iron or steel; Knitted or crocheted fabric; Plastics and articles thereof; Rubber and articles thereof; Furniture, lighting, signs, prefabricated buildings; Iron and steel; and Ceramic products among others. Exports on the other hand is comprised of, among others, the following items: Copper and articles thereof; Raw hides and skins (other than fur skins) and leather; Coffee, tea, mate and spices, Vegetable; Textile fibres, paper yarn, woven fabric; Oil seed, oleagious fruits, grain, seed, fruit; Plastics and articles thereof; Ores, slag and ash; Fish, crustaceans, molluscs, aquatic invertebrates.

### 3.3.3 The US in International Trade

The US economy is more often seen as ‘the engine’ of the world economy. It is evident that in the recent past, there has been increasing levels of regional integration efforts around the world and emergence of new strong economies such as China, which might have led to a decrease in the levels of influence of the US in Global economy. This notwithstanding, the US still has a lead in terms of both export and import of goods and services which has been steadily on the rise year on year.

The US has experienced a steady growth pattern in terms of both exports and imports as shown in Figure 3 below. In 1980, exports stood at USD 271.8 Billion. This increased to USD 535.2 Billion 10 years later in 1990, and in another 10 year period hit the Billion mark at USD 1.072 trillion in 2000. Lately, trade volumes specifically for exports to the world market in 2014 stood at USD 2.224 trillion. The major export products for the US market are technology goods and services.

Figure 3: Volume of US World Trade 1980 – 2015 (US\$ Billion)



Source: U.S Department of Commerce, United States Census Bureau<sup>10</sup>

### 3.3.4 The European Union in International Trade

The EU is one of the major players in the sphere of international trade. In international trade negotiations, the EU which as at the end of 2014 had 28 member states/countries is represented by the European Commission. The European Union is the world’s biggest trader, accounting for 20 percent of total global imports and exports. Recently, it has realized growth, albeit slow, amid the financial crunch that was experienced in the US and whose spill-over effects were felt more by the European Union countries as they are the main trading partners of the US.

#### Comparison of Kenya and her Partner States

	Years									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	
America (USA)	20.33	19.22	20.51	17.42	22.52	25.77	26.41	29.94	38.29	
Total Europe	71.42	79.28	98.51	100.98	109.42	136.25	125.20	123.30	138.97	
China (Mainland)	1.56	1.47	2.03	2.49	2.51	3.80	5.38	4.20	6.60	

Source: Economic Survey 2011 and 2015

<sup>10</sup><http://www.census.gov/foreign-trade/statistics/historical/index.html>

From table 4 above, it is evident that Kenya exports more to the EU, followed by the US, and lastly to China. Exports to the EU over this period grew by 95 percent from Ksh 71.42 Billion in 2006 to Ksh 138.97 Billion in 2014. In the same period, America's imports from Kenya went up by 88 percent, whereas exports to China shot up by a 324 percent from Ksh 1.56 Billion in 2006 to Ksh 6.6 billion in 2014.

### 3.4 Kenya's GDP Composition

GDP of any country is comprised of three main sectors that make up the economy; Agriculture, Industry/Manufacturing, and Services. According to CIA World Factbook, as at 2015, the service sector was the largest contributor to Kenya's GDP accounting for approximately 51 percent of GDP. In second place in terms of contribution is the Agricultural sector which contributed approximately 30 percent to the country's GDP but in turn provides employment to more than 70 percent of the total working/employed population in the country.

In terms of agricultural sector, Kenya's produce that are majorly for export includes the following; Tea, Coffee, Pyrethrum, and Flowers. Others are Wheat, Vegetables and Sugarcane. The hindrances to adequate and quality production of these and many more produce in this sector are due to lack of capacity to carry out research as well as inadequate funding for the same purpose. In the recent past, this has been improved but implementation has not been achieved in the scale at which it will give yield to better farming practices for majority of farmers thereby making the vast majority of them still reliant on traditional methods of farming which has many disadvantages.

The third and last Sector, the Industrial sector, made a contribution of almost 20 percent to the country's GDP in the same year. It is important to note that in 2014, a combination of the service and the industrial sectors provided employment to 25% of the total working population in Kenya. The major industries in the latter sector include horticulture, oil refining, cement production, and small-scale consumer goods manufacturing. These are supported by various service industries which include advertising, transport, storage services, among others.

# 4.0 Kenya's Merchandise Trade And Investment Patterns With China, EU And US

## 4.1 Background

Kenya developed a single reference document containing her foreign policy in 2009. The vision direction of the foreign policy is 'a peaceful and prosperous Kenya effectively contributing to the realization of a stable continent and better international understanding' and the mission, is 'to advance the interests of Kenya through innovative diplomacy'. There are five foreign policy pillars, these are: economic, peace, environmental, cultural and 'diaspora'. The main strategy to be used to achieve this economic goal in increased market access; capital in-flows and enhanced technological advancement. Kenya's foreign policy is guided by the pursuit of national interest, which is hinged on national security and economic prosperity. Kenya has had strong diplomatic relations - 74 resident ambassadors/ high commissioners, 29 non- resident ambassadors/ high commissioners, 7 charges d'affaires, 20 general/honorary consuls and 24 United Nations agencies, (GOK, 2014).

Kenya has had a long-standing development cooperation relationship with the European Union (EU). This is evidenced in the Yaoundé I and Yaoundé- II agreements, the successive Lomé conventions: Lomé I: 1976-1980; Lomé II: 1981-1984; Lomé III: 1985-1990 and Lomé IV: 1991-2000, and subsequently in the Cotonou Partnership Agreement. The Lomé Conventions focused on international trade. The Cotonou Partnership agreement between the African, Caribbean and Pacific and the EU countries took effect in 2000 and encompassed three pillars: political, development and economic and trade cooperation. The Cotonou Agreement forms the basis for Kenya's interaction with development partners from the EU. Kenya signed a country joint assistance strategy with 17 partners in 2005, including the European Commission and the United States among others, in order to intensify collaboration that would significantly improve harnessing the opportunities for sustained growth. The main objective of this strategy is to ensure that development cooperation supports the achievement of Kenya's Government set goals. The EU is trading with Kenya under the Economic Partnership Agreement (EPA).

Kenya has also been a beneficiary of the US African Growth Opportunity Act (AGOA) that was signed into law in 2000. AGOA offers incentives for African countries to open up their economies and build free markets. The US government has given Kenya various incentives under the Africa growth and Opportunity Act (AGOA) initiative, which seeks to give African products market in the US. AGOA has been through a series of reviews to make it more effective in addressing emerging technical issues as well as addressing the extension details of the apparel provision in accordance with the Acts

terms and conditions.

- AGOA II amendment was to allow for an expansion of preferential access for imports from beneficiary Sub Saharan Africa countries in order to increase their utilization capacity.
- AGOA III extended third country fabric provision (TCFP) from September 2004 until September 2007
- AGOA IV extended the TCFP from 2007 to September 2015
- In June 29, 2015, President Obama renewed AGOA for another 10 years

China's accession to the WTO in March 2001 has seen its integration to the global economy resulting in wider geographical pattern of trade and investment. There has been increased trade and investment between China and Africa resulting in China emerging as a potential development partner. China -Africa trade and economic relations are anchored under the framework of the Forum for the China Africa Cooperation (FOCAC). The main objective is to "to deepen the China -Africa strategic relationship in advancing trade and economic cooperation and actively exploring common development paths, that reflect the realities in China and Africa". FOCAC is centered on:

- i. Promoting sustainable trade through capitalizing on the complementary nature of the Africa-China relations;
- ii. Support for enterprise and financial institutions in order to increase investment in Africa in the energy and mineral, manufacturing, services, and agriculture sectors;
- iii. Agricultural cooperation in order to improve food security; Infrastructure support for improving ease of doing business
- iv. Providing support and capacity building initiatives.

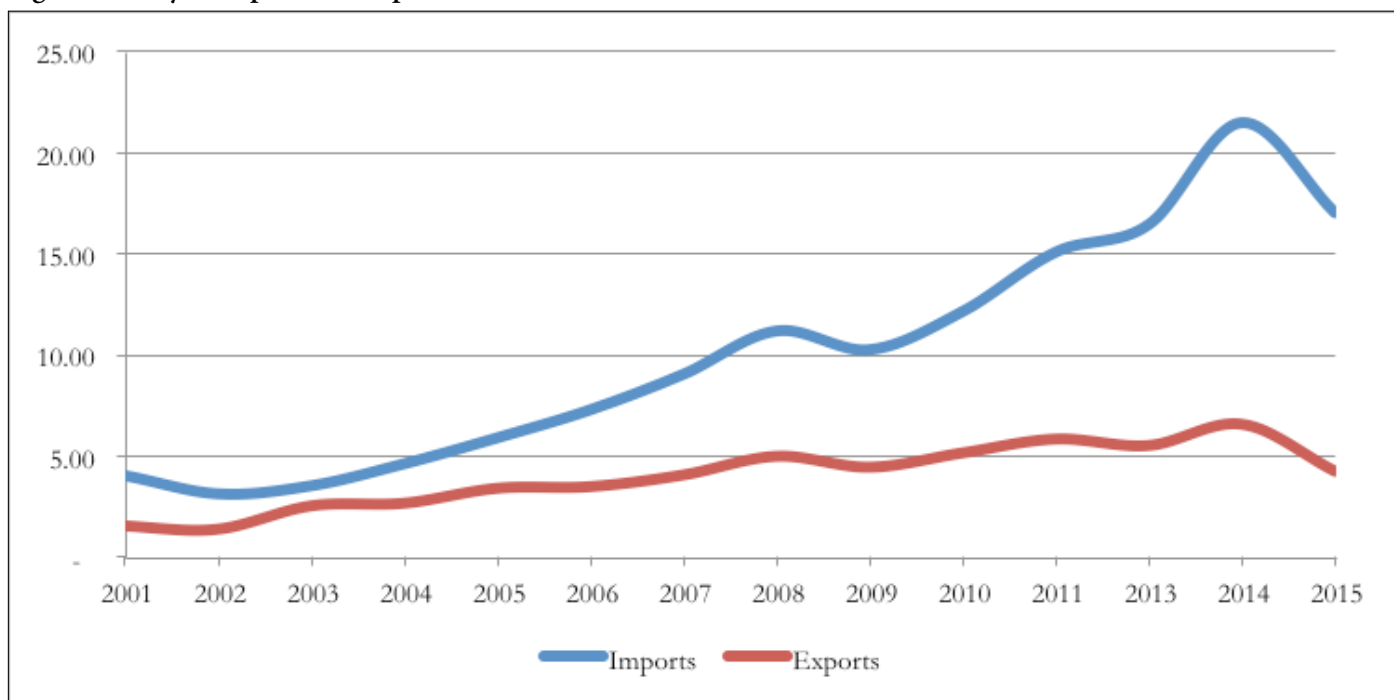
In terms of infrastructure development, in the recent past beginning in the year 2000, China has significantly increased her support for infrastructure development in Africa as a whole. In Kenya there are various projects that are the brainchild of the Chinese government in collaboration with the Kenya government, spearheaded by various agencies and government ministries, and funded by Export-Import (EXIM) Bank of China. There has been a growing debate over the role of China in Kenya as compared to the traditional development partners such as the EU and the US. This debate has culminated into political statements such as 'looking east'. The IEA has taken the initial steps of holding discussion whether looking east is the only option for Kenya. As a starting point, the IEA reviewed the trade and investment trends between Kenya and the EU, US and China in order to establish whether this debates really holds.



## 4.2 Key Features of Kenya's Trade With China, EU And US

Kenya's imports from the rest of the world increased from USD 3.48 billion in 2003 to 21 billion in 2014, on the average imports has been increasing by 26 percent annually. The top imports include: mineral fuels and oils, vehicles, plastic articles, electrical equipment and machinery. Exports from the rest of the world increased from USD 2.6 billion in 2003 to USD 4.3 billion in 2014, on the average, exports increased by 4.4 percent annually. The main export products are live tree, coffee and tea, edible vegetables, mineral fuels apparels and accessories.

Figure 4: Kenya's Import and Export Patterns in US\$ Billions



Source: Trade map database

### China

- Kenya's trade with China has been on the rise, between 2011 and 2015, the average growth of exports from China to Kenya has been 27 percent.
- Kenya's exports to China for the same period were up by 34% from \$32 Million to \$43 Million whereas imports skyrocketed 69% from \$0.96 Million in 2009 to \$1.6 Million in 2011 (GoK, 2011).
- Chinese exports to Kenya constitute approximately 35 percent of Kenya's total imports. The rise in imports from China reveals that there are opportunities that have been identified in the Kenyan market and which have been exploited to the maximum by manufacturers, producers and exporters in China.
- Currently Kenya has a negative trade balance with China worth USD 5.8 billion.
- China is ranked the top world exporter with a share of 14 percent in the total world exports

### United States (US)

- Kenya's export trade with the USA has grown by 30% to a volume of \$293 Million in 2011, up from \$226 Million in 2009,
- Imports within the same period reduced by 22% from a

high of \$649 Million in 2009 to a low of \$508 Million in 2011.

- The average export growth for exports from the United States to Kenya has averaged 28 percent between the periods 2011-2014.
- The exports from the US to Kenya constitute approximately 6 percent of Kenya's import.
- Kenya's trade balance with the US is USD 3.5 million (in 2011).
- The United States is ranked second world exporter with a share of 9.2 percent in total world exports.

### European Union

Within the EU, Kenya's top trade partners were UK, Germany, Netherlands, Italy and France.

- Kenya's import from the EU increased from USD 1,887 million in 2009 to USD 2,395 million in 2013, this amounted to a 27 percent increase.
- The average import growth for imports from the EU averaged 5.4 percent.
- Kenya's exports to the EU increased from USD 1,183 million in 2009 to USD 1,215 million in 2013, this translated to approximately 3 percent increase, or an annual average increase of 0.6 percent.
- Kenya has a negative trade balance with the EU of USD -1,181 million in 2013.

**Table 5: Top Products Exported /Imported by Kenya From...**

Category	Exports to...	Imports from...
<b>China</b>	Coconut; Oil seeds and oleaginous fruits; Tea; Dried leguminous vegetables; Citrus fruit, fresh or dried  Waste and scrap, of copper; Tanned or crust hides and skins; Manganese ores and concentrates, ; Petroleum oils and oils obtained from bituminous minerals; Waste and scrap, of aluminum	Onions, shallots, garlic, leeks; Tomatoes, prepared or preserved; Seeds, fruits and spores, for sowing; Cinnamon and cinnamon-tree flowers; Vegetable saps and extracts;  Diodes, transistors and similar semiconductor devices; Tanks and other armoured fighting vehicles; Refrigerators, freezers and other refrigerating or freezing equipment; Tubes, pipes and hollow profiles, seamless, of iron or ; New pneumatic tyres, of rubber
<b>US</b>	Coffee; Coconuts, Brazil nuts and cashew nuts; Cut flowers and flower buds; Fruit juices; Vegetable waxes, beeswax, other insect waxes and spermaceti,  Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers; Mineral fuels, mineral oils and products; Line fishing tackle; Telephone sets, Coloring matter of vegetable or animal origin; Extracted oleoresins;	Grain sorghum; Dried leguminous vegetables; Margarine; Seeds, fruits and spores, for sowing  Machines and mechanical appliances having individual functions; Telephone sets, ; Parts of aircraft and spacecraft ; Surveying, incl. photogrammetrical surveying, hydrographic, oceanographic, hydrological, meteorological ; Travel sets for personal toilet, sewing or shoe
<b>EU</b>	Cut flowers and flower buds; Tea; Leguminous vegetables; Fruits, nuts and other edible parts of plants; Dates, figs, pineapples, avocados, guavas, mangoes;  Tanned or crust hides and skins ; Unmanufactured tobacco; Vermiculite, perlite and other mineral substances; Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral; Articles and equipment for general physical exercise, gymnastics, athletics, other sports;	Chocolate and other food; Live plants; Cane or beet sugar; Olive oil  Instruments, apparatus and models designed for demonstrational purposes, e.g. in education; Plastics and articles ; Printed circuits; Parts and accessories ; Reaction initiators, reaction accelerators and catalytic preparations,

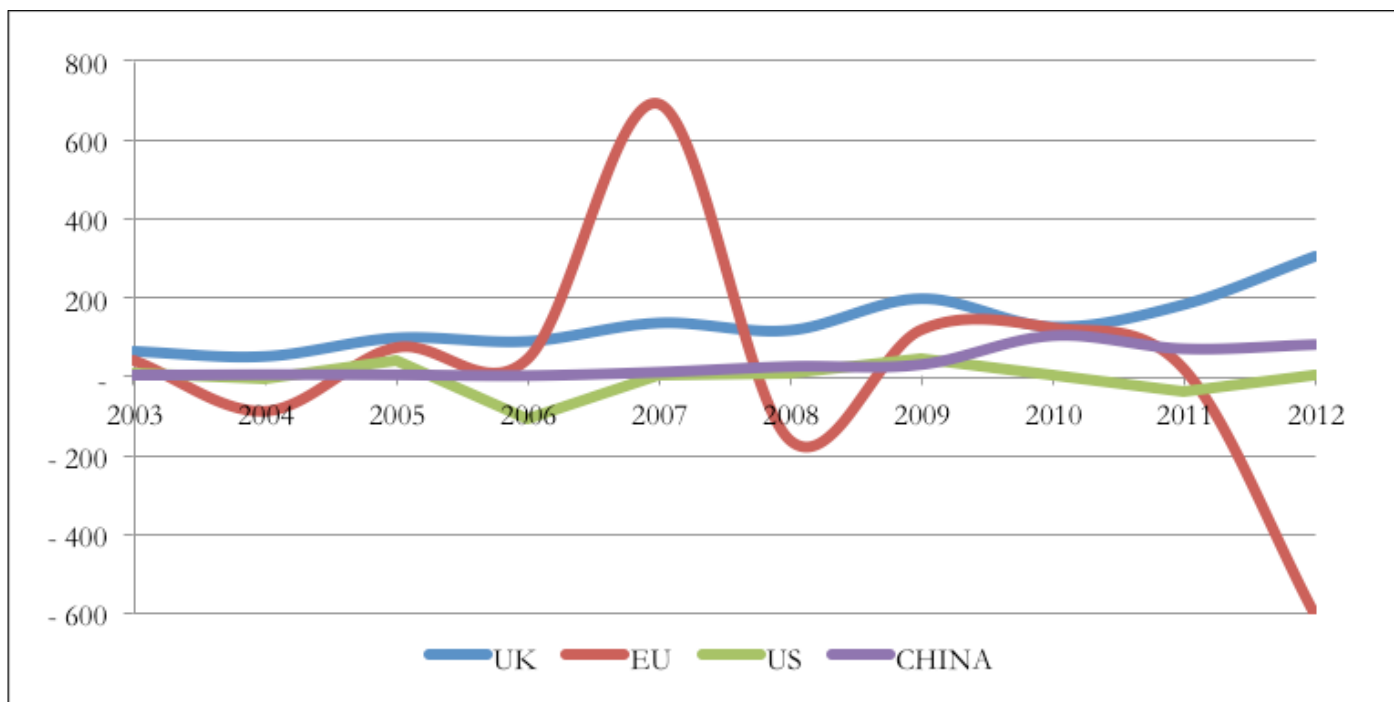
The value of products that Kenya is exporting to the EU and China vis-a-vis the imports explain the negative trade balances (Table 1). Of concern is the fact that vegetables and live plants are being imported from China despite these products being available within Kenya's borders.

### 4.3 Investment Trends

In order to understand the investment trends, it is important to distinguish what FDI inflows or FDI stocks mean. FDI inflows are the values of inwards direct investments made by non-resident individuals in a country. The net investment flows are obtained when the liabilities are netted out of the assets invested. FDI stocks measure the level of total direct investments, using equity and net loans. In the case of outward FDI stock, this is the value of resident investors' equity in and net loans of enterprises in foreign countries.

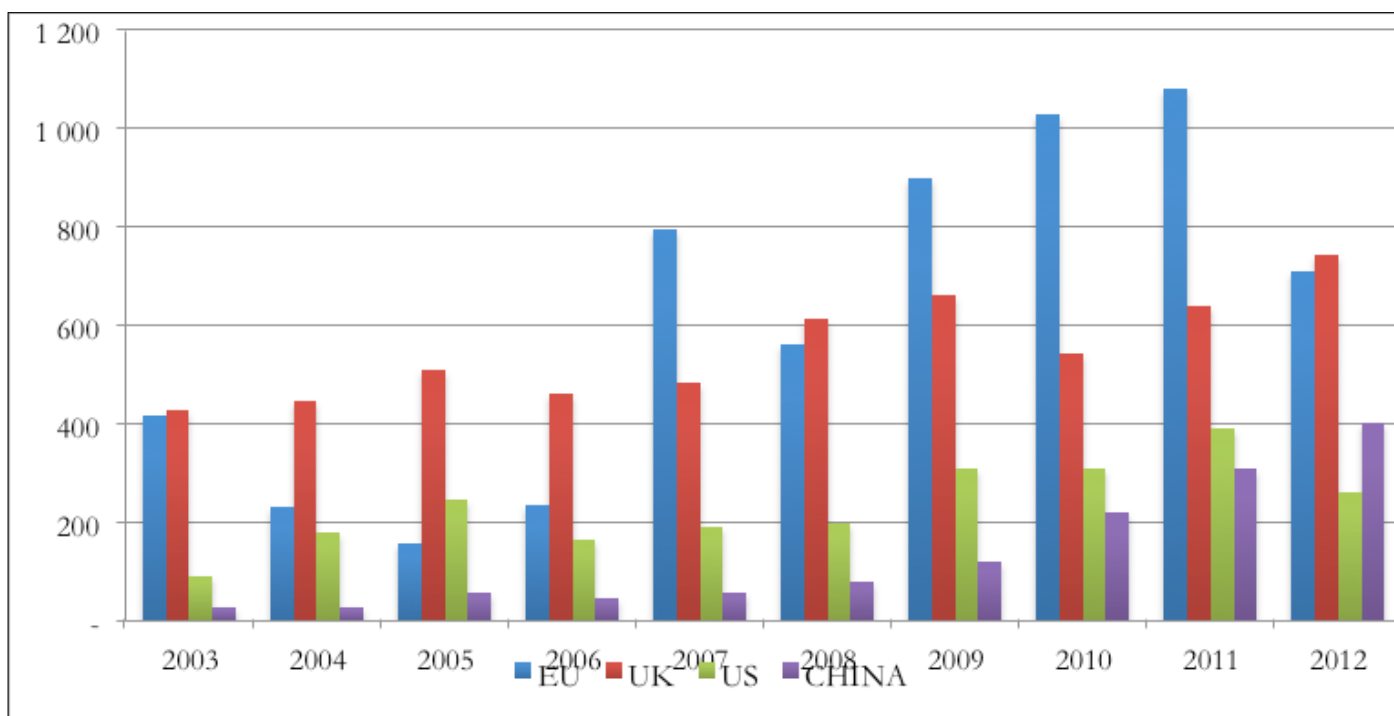
Inward FDI stock is the value of foreign investor equity in and net loans to enterprises for residents in the reporting country. Comparing the net FDI inflows for the three countries: net FDI inflows from China to Kenya increased from USD 68 million in 2011 to 79 million in 2012. For the US, net FDI inflows to Kenya in 2011 were USD -40 million and this went to 0 in 2012. Disaggregating the EU data and having the UK on its own given the imminent exit from the EU, for the United Kingdom, the FDI inflows were USD 101 million in 2011 and decreased to -9 million in 2012. For the rest of the EU, the net FDI inflows increased from USD 17 million in 2011 to USD 45 million in 2012.

Figure 5: EU, US, China and UK Net FDI Inflow Trends (Million USD)



Source: UNCTAD 2014

Figure 6: EU, US, China and UK FDI Stock Trends (Million USD)



Source: UNCTAD 2014

FDI stock inflows from China in 2012 to Kenya was worth USD 403 million, the United States USD 259 million and for the EU it was worth USD 1.5 billion, of which the United Kingdom has investment stocks worth USD 841 million, France -USD 315 million, Netherlands USD 135 million, Switzerland USD 230 million and Belgium USD 32 million.

#### 4.4 Correlating FDI Inflows And Stocks To Kenya's GDP

A rudimentary examination of the correlation between FDI inflows and stocks from the three countries and Kenya's economic growth shows that the Chinese FDI inflows are strongly correlated to Kenya's GDP growth and ranks top, if one compares the

US, UK and EU. The EU and US FDI inflows do not positively affect Kenya's GDP growth. A review of the FDI stock shows that the UK and EU's FDI stocks are strongly correlated with Kenya's GDP growth, while the United States and China rank much lower.

**Table 6: Correlating FDI Inflows and Stocks to Kenya's GDP**

Correlation	FDI INFLOWS	FDI STOCK
UK	0.205	0.870
EU	-0.226	0.760
United States	-0.221	0.420
China	0.543	0.425

## 4.5 Discussion

Given that China is the new entrant in Kenya's development arena, there are more concerns about China as compared to other development partners. From a civil society perspective, some of the factors affecting Africa - Asia trade include;

- Border measures largely grouped into tariffs and Non -Tariff Barriers.
- Behind the border measures which are the prevailing conditions in the domestic markets.
- Trade facilitation, which affect trade between borders.
- Factors to be addressed so as to enhance complementarities between trade and investment

China is viewed by some African countries as a competitor within the country, and is seen to undermine African growth, since it displaces African products from the market. Some view China as the new colonizer, who is harboring a goal to supplant western influence and enforce its geostrategic control. China's activities are seen as primarily extractive in nature and simply repletion of European colonizers' activities. On the contrary, China is seen as less intrusive especially in the area of development financing, they give minimal conditionalities as compared to the EU and US. Others view China as a development partner, whose interactions will result in both parties mutually benefiting. It is however feared that the non-interference policy is likely to hamper political and economic reforms in Africa. Furthermore, China is perceived to sustain undemocratic governance practices coupled with human rights violations.

From a private sector perspective, it is perceived that China is likely to cushion Kenya from the imminent Brexit, there were however concerns that the unmatched increase in Chinese FDI stock could put the country in the risk of a major fall in the FDI stock. The upsurge of low priced products from China could in turn affect Kenya's local industry making Kenya too reliant on Chinese imports. Under governance, Transparency International (TI) has termed China as the second highest country, among 28 countries, likely to bribe host government for tenders, which is contrary to practices in their own country whereby they could be executed for such practices. They have a "free for all" condition outside their

country. Employment creation for Chinese projects in Kenya remains questionable. A National investment policy should be updated where investment policies are put in place to manage FDI in the country in a mutually beneficial manner. The Rwanda Government has put in place a sound investment policy, which dictates where foreign investment should be directed in the country with clear guidelines on the same. In drawing valuable lessons, it was suggested that Kenya should develop a local content and investment policy. The role of the Chinese in developing local entrepreneurs is dismal; therefore opportunities for technology transfer should be pegged in the national local content policy.

## 4.6 Conclusion

The East or West question is more of a political debate than an economic one. China, EU and US are development partners with unique opportunities that cannot be easily substituted by other development partners. Each partner has a policy framework from which they operate and pursue economic diplomacy. Kenya is having a growing negative trade balance with China, however, Chinese FDI inflows have strong correlation with the country's GDP growth. A review of statistics for the last three years shows that the UK FDI inflows to Kenya and the corresponding stocks have been increasing. However, the FDI stock has a stronger correlation with Kenya's GDP growth as compared to the FDI inflows. The US FDI inflows are lower than those of the Chinese and the UK, these inflows are negatively correlated with Kenya's economic growth, and while the FDI stocks positively influence economic growth.

Even though China is becoming a major development partner, there are concerns over whether there will be mutual benefits for both countries in the partnership. Secondly, there is the risk of stagnation in policy reforms especially where the partnership with China is geared towards achieving certain socio-political outcomes that do not have an overall positive effect in the economy. Lastly, there is a major concern for technology transfer amidst the growing Chinese FDI stock in Kenya.

# 5.0 Trade In Services Between Kenya, China, EU And US

## 5.1 Introduction

A service is the non-material equivalent of a good, which can also be said to be the share of the economy that produces intangible goods. Service provision can be defined as an economic activity that does not result in ownership, and this is what differentiates it from provision of physical goods, commonly known as merchandise. It is claimed to be a process that creates benefits by facilitating a change in customers, a change in their physical possessions, or a change in their intangible assets<sup>11</sup>. It is widely said that countries with primarily service-based economies are considered to be more advanced than those with primarily industrial or agricultural economies. Examples of countries with a heavy emphasis on the service sector include the United States, Australia, Japan and the United Kingdom.

Trade in goods which is specifically merchandise trade, has been for a long time the driver of international trade until recently when it has come to the realization that the service industry has slowly and steadily picked up and may soon eclipse merchandise trade in terms of revenues raised as well as its contribution to a country's GDP. This sector produces services (intangible output) rather than products e.g. housekeeping, consultancy, tourism, research and development, nursing and teaching, among others.

As with other spheres of trade, there are rules and regulations that guide trade in services world over, for the countries that are signatories to the General Agreement on Trade and Tariffs, 1994. In recent decades, there has been tremendous growth that has been realized in the area of trade in services all over the world. It is this realization that brought into being the General Agreement on Trade in services (GATS) that was negotiated during the Uruguay Round of negotiations which were held from 1984 to 1995, and came into effect in 1995. It encompasses four aspects of trade in services namely; Cross-border trade, Consumption abroad, Commercial presence, and Presence of Natural persons. It is also important to note that the service industry includes the following: Trade, Transportation and Utilities; Information (ICT and related services); Financial activities; Professional and Business services; Education and Health; and Leisure and Hospitality, among other classes of services.

According to the CIA World Factbook compilation in 2012, France leads the world in the service industry in terms of volumes of trade and contribution of this sector to the country's GDP composition which was 79.8 percent, This is

closely followed by the US at 79.7 percent, with the top 3 being closed by Greece which gets a contribution of 78.9 percent to its GDP from the sector. The various aspects of traded items in this sector include Information Communications Technology, commonly known as ICT, and the Tourism Sector which is one of Kenya's main foreign exchange earner. China has in the recent past opened up her doors and are aggressively marketing themselves as a tourist destination of choice for visitors, tourists and holiday makers. The US has also upped its campaign on this front laying massive budgetary allocation towards a spirited marketing campaign to showcase her tourist destinations of choice, even going further ahead to give huge discounts to would be tourists. The European Union on the other hand not to be left out has also come to woo tourists to the large and expansive country.

## 5.2 Areas of Interest in the Service Sector

Many countries in recent years both developed and developing, have invested in the service industry in a bid to minimize losses incurred as a result of dwindling volumes of goods trade. There are numerous areas of this sector that can yield benefits to countries, if adequate resources and measures are channeled to their development. Key areas that have generated competition in the sector include Education, Information Communication and Technology (ICT), Transportation and utilities, Tourism and Hospitality, and Insurance services. Different countries have put emphasis in different areas in the service sector. Kenya for instance has been trying to position itself as the IT hub cum Business Process Outsourcing (BPO) Centre for the East African Region. This saw her apply for assistance for help from the commonwealth in 2008 to develop a strategy for BPO sector (Commonwealth News, 2008).

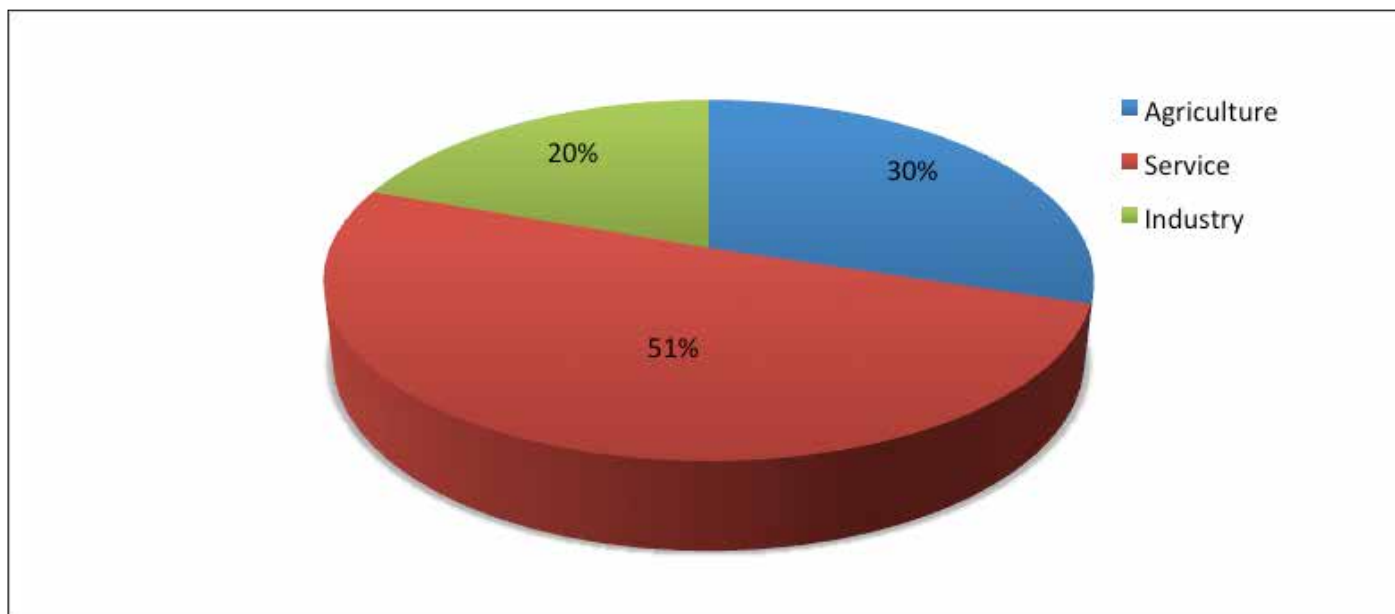
## 5.3 Country Services Sector

### 5.3.1 Kenya's Service Sector

In the Kenyan case, it's been said time and again that 'Agriculture is the backbone of the economy', a notion that has held true for a long time and is still held by many. The realization that the service sector is steadily on the growth path is something that is beginning to take shape in Kenya. In the 1980's, this sector contributed 47 percent, as compared to 33 percent and 21 percent for Agriculture, and Industry & Manufacturing contributions to GDP of the country respectively.

<sup>11</sup>Definition from Wikipedia. [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_sector\\_composition](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_sector_composition)

Figure 7: Sectors Contribution to Kenya's GDP, 2015



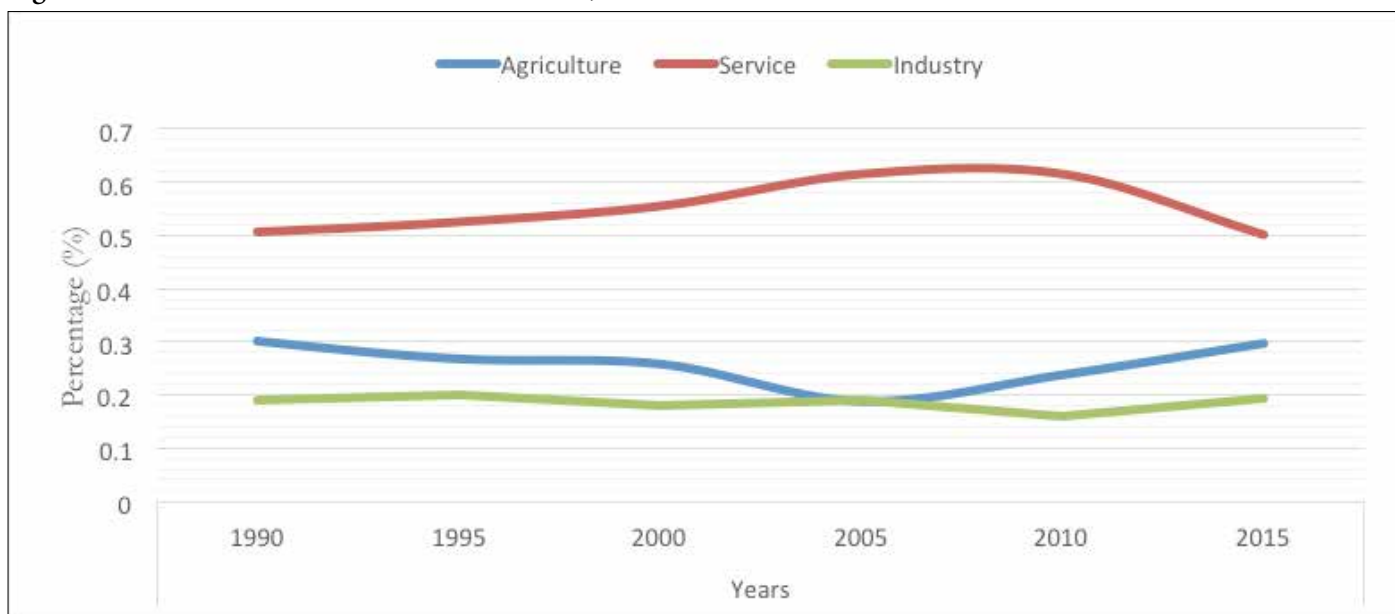
Source: CIA World Fact-Book<sup>12</sup>

Trade in services has made a significant and stable contribution to Kenya's GDP, being at 56 percent in year 2000, 51 percent in year 2005 and rising to contribute 62 percent to GDP in the year 2010 and 51% in 2015 Figure 10 shows the composition of GDP by the various sectors in 2012 which clearly shows that the manufacturing and agricultural sectors have been overtaken by the service sector in the same year.

In comparison to other sector contributions, the service sector has been on the rise at the expense of Agriculture

which has declined from 33 percent in 1980, to 26 percent in 2000, 23.4 percent to the GDP in 2010 and 30% in 2015. The other sector, Industry and Manufacturing, contributed 19 percent in 1980 and declined to 18 percent in 2000 and in 2010 was 16.7 percent. Figure 11 shows the trend of sectors contribution to GDP in 5-yearly periods from 1990 to 2010, from which it evidences the decline of both Industry and Agricultural Sector contributions, whilst showing a steady increase for the service sector.

Figure 8: Trends in Sector Contributions to GDP, 1990 - 2015



Source: Various publications

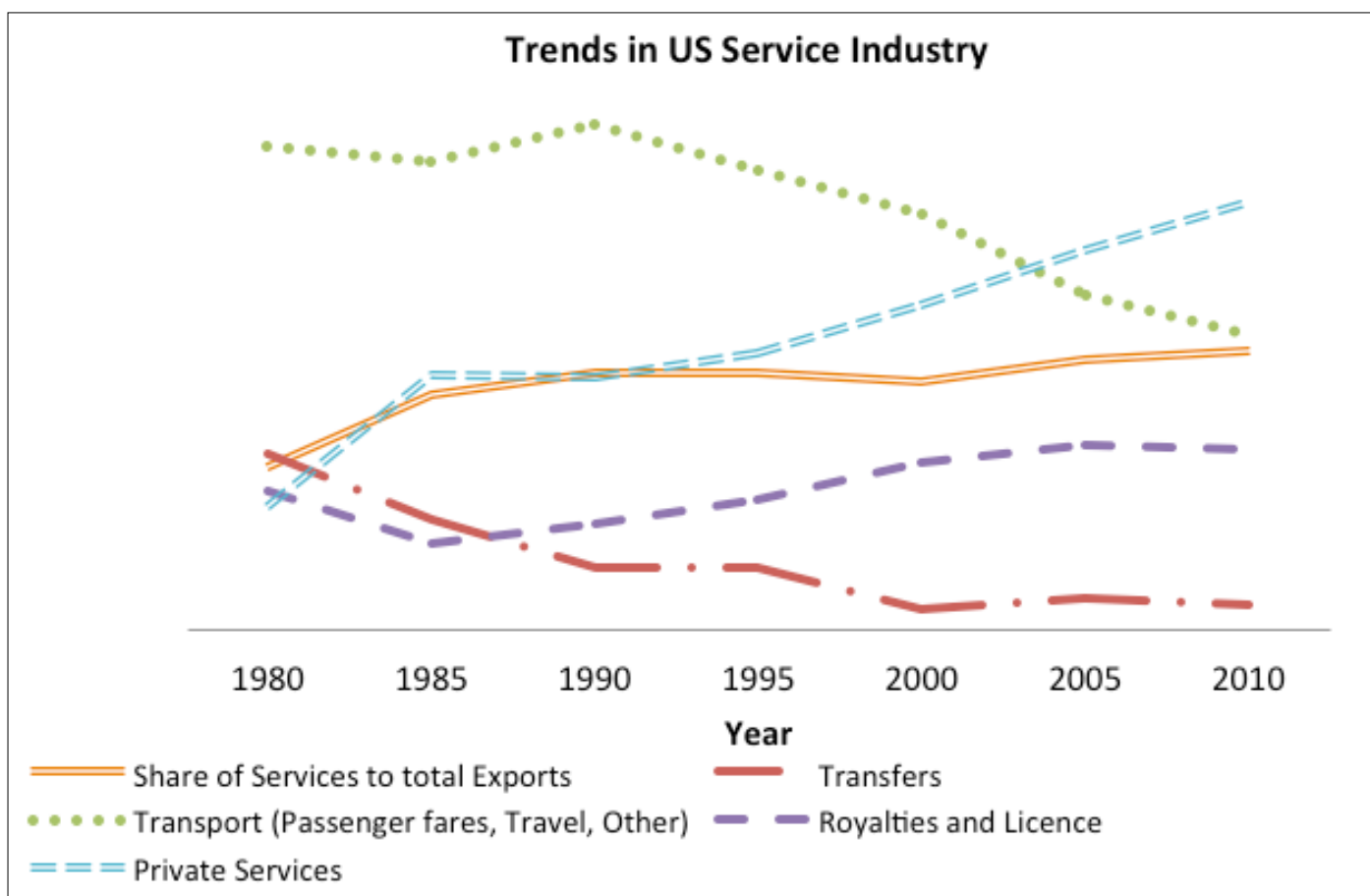
<sup>12</sup><https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

### 5.3.2 Service Sector of the U.S.

The United States, according to WTO International Trade Statistics Data, was as at the end of 2014 the single largest exporter of services in the world with a total value of US\$ 688 Billion, which represented 13.9% of total world service exports. It is also important to note that the US is also in the lead as pertains to imports of services which was US\$452 Billion in 2014 which represents 9.4% of total world service imports. According to the U.S. Census Bureau, the service sector primarily consists of truck transportation, messenger

services and warehousing; information sector services; securities, commodities and other financial investment services; rental and leasing services; professional, scientific and technical services; administrative and support services; waste management and remediation; health care and social assistance; and arts, entertainment and recreation services. Collectively, service industry in the US accounts for approximately 80% of private sector jobs.

Figure 9: Trends in various items input to the Service Sector, 1980-2010.



Source: United States Bureau of Statistics, Accessed online

Growth of the service sector in the US has been phenomenal to say the least, growing from contributing 17.5 percent to world trade in 1980, to 26.8 percent in year 2000, and stood at 30 percent in the year 2010. Individuals employed in this sector produce services (intangible output) rather than products. Examples of service sector jobs most lucrative in the US include housekeeping, psychotherapy, tax preparation, guided tours, nursing and teaching.

### 5.3.3 Service Sector of the European Union

The European Union, which as at the end of 2014 had a membership of 28 countries, came into being in November 1993 with a membership of only 5 countries According to WTO<sup>13</sup>, as at 2011, the exports of commercial services

accounted for a total contribution of 10.1 percent of EU27 GDP and yielded 64.9 percent of total employment. The main areas in commercial services include Transport, Travel, Telecommunication, and Finance and Insurance. The service sector has played an important role in the growth of EU member states.

Most of the services are exported to countries within the EU, accounting for 56.1 percent of total services exports (Intra-EU Trade). United States follows second as the second largest recipient of services from the EU receiving 10.5 percent of total services whereas Switzerland closes the top 3 recipients with 5.8 percent of services.

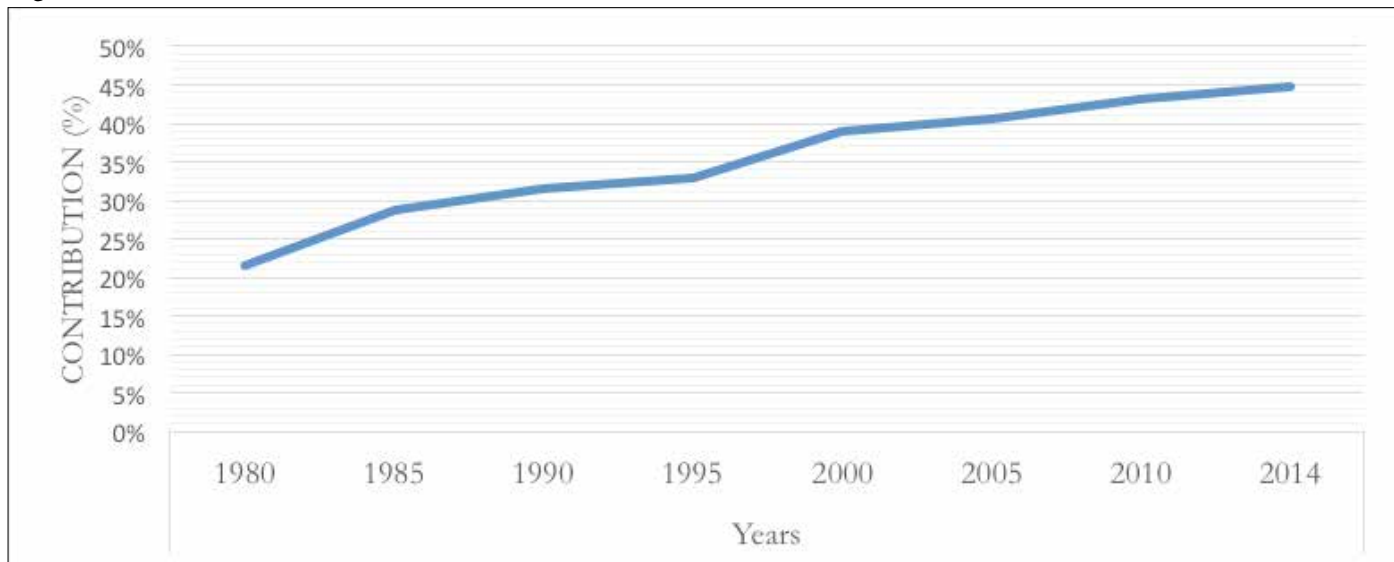
<sup>13</sup><http://stat.wto.org/ServiceProfile/WSDBServicePFView.aspx?Language=E&Country=E27>

### 5.3.4 Service Sector in China

Often referred to as the Tertiary industry in China, the service sector has grown steadily since China's ascension to the WTO in December 2001. Its contribution to Gross Domestic Product (GDP) was 31.6 percent in 1990, rising to 32.9 percent of GDP five years later in 1995. As at the year 2000, just when china joined the WTO, the service sector contributed 39

percent to the GDP of the country. Post WTO figures have risen to 40.5 percent and to 43.1 percent for years 2005 and 2010 respectively. In 2014, the sector's contribution to GDP rose to comprise 45% of GDP. This steady rise in the tertiary sector's contribution has become an important determinant of national economic growth.

Figure 10: Service Sector Contribution to China's GDP, 1980-2014



Source: China Statistical Yearbook 2011. Accessed online.

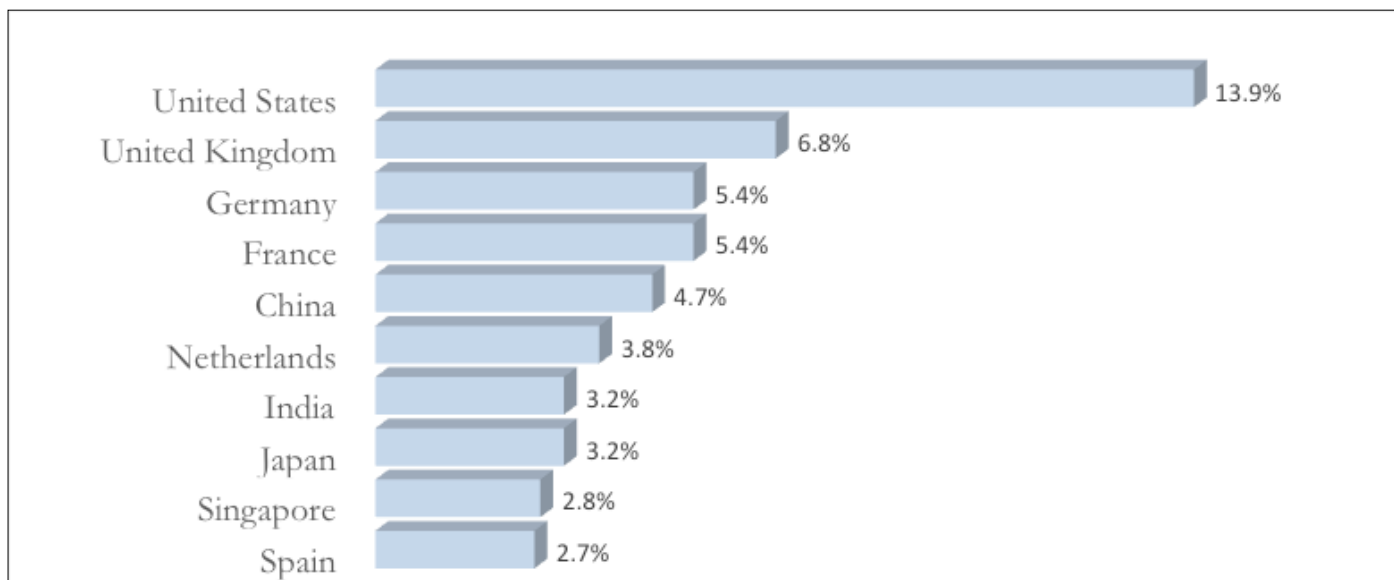
Among the services in the tertiary industry that have contributed immensely to the rise in the service sector in China include Wholesale and Retail trades which contributed 20.7 percent in 2010, Real Estate with 12.9 percent, Financial Intermediation at 12.1 percent, Transport, Storage and Post at 11 percent, and Hotels and Catering services contributing 4.7 percent. The rest of the tertiary industry components make up the remaining 38.7 percent contribution.

### 5.4 Service Sector Worldwide

In the recent past, the service sector has been a major contributor to growth in many economies all over the world, steadily rising to unprecedented levels in most countries. It is well known that the US is the leader in terms of both export and import in the services sector worldwide. Their value of exports of services as at 2014 was USD 688 Billion while imports stood at USD 452 Billion. These represent percentages of 13.9 and 9.4 for export and import respectively. The second place in terms of exports is taken by United Kingdom with volume of USD 337 Billion which represents 6.8 per cent and is closely followed by France in third with USD 267 Billion representing 5.4 percent. Closing the top 5 are Germany with USD 266 Billion, and China with USD 232 Billion representing 5.4 and 4.7 percent of total world service exports respectively. The other five comprising top 10 service exporters include Japan, Spain, India, The Netherlands and Singapore. This is represented in Figure 14.



Figure 11: Top 10 Exporters of Services in the World, 2014



Source: WTO<sup>14</sup>

**NOTE:** Total World exports for 2014 was US\$ 4940 Billion. The representation above looks at the top 10 exporters only and their share of the total.

### 5.5 Service Sector Input to GDP, 2015 – Country Comparison

Table 7: Sector Contribution to GDP, 2015

	Kenya	China	U.S.	European Union
Agriculture	29.9%	8.9%	1.6%	1.6%
Industry	19.5%	42.7%	20.8%	24.3%
Service	50.6%	48.4%	77.6%	71.2%

Source: CIA World Fact book, 2015<sup>15</sup>

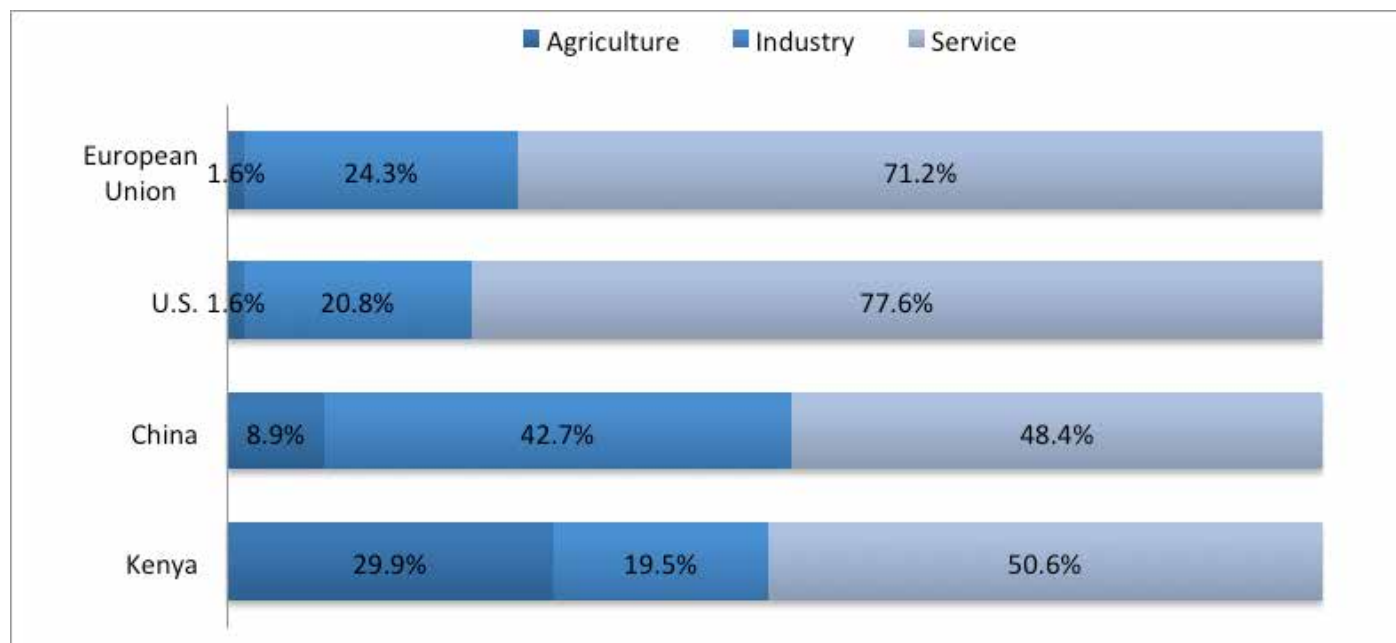
It is evident that from the above country studies, there has been an increased level of activity in the service sector thereby leading to a major shift in terms of contribution to a country's GDP. Table 8 above details this for the year 2015 for Kenya, China, US and the European Union, and depicts the same in the Figure 15 below.

The US leads in this comparison by contributing a whopping 77.6 percent from its service sector to its GDP, followed by the EU with 71.2 percent. Kenya follows in third with an input of 50.6 percent to her GDP whereas China, whose growth in this sector is, to say the least, phenomenal, contributes 48.4 percent to the GDP.

<sup>14</sup>[https://www.wto.org/english/res\\_e/statis\\_e/its2015\\_e/its2015\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2015_e/its2015_e.pdf)

<sup>15</sup><https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

Figure 12: Country Sectoral Composition of GDP, 2015



Source: CIA World Fact book 2015, accessed online.

# 6.0 Key Elements Shaping Kenya, China, EU And US Trade Flows

## 6.1 Introduction

The driving force that keeps the relationship between Kenya and her partners is anchored on the various policies that each has put in place to guide, not only their relation with Kenya, but with East African region and with the African continent as a whole. The EU has been Kenya's trading partner for a long time as has been indicated in earlier sections, through the ACP agreement. This partnership is in a wide range of areas including energy, roads, healthcare, education exchange programmes, as well as provision of aid and technical assistance, just to mention but a few. The relationship between Kenya and the US has existed for a long time. Over this period, Kenya and China have partnered in a number of areas which include education, military support, technology transfer, infrastructure development, and healthcare among others.

It is a well-known fact that the agricultural sector has been touted as the backbone of Kenyan economy and as such has been the basis for her economic growth. This comes about as a result of creating employment for farmers and their workers, as well as in export of cash crops such as tea, coffee and pyrethrum among others, thereby earning foreign exchange in return when exported, and also generating extra revenues from extended services such as marketing and advertising. Tourism is the second most important source of foreign exchange (Onjala, 2010). This is in terms of increased foreign exchange earnings, increased tourists arrivals and employment creation.

## 6.2 Issues that Anchor Co-operation

Among the areas in which China, EU and US partner in with Kenya include Infrastructure development, Education, Raw Materials Acquisition, the need for Market Access, Peace and Security Issues and in Trade and Investments, among others. The balance of trade between Kenya and China is largely to the latter's advantage. As compared to her erstwhile partners, it is clear that there has been a decline in trade between Kenya and US and Kenya and the EU (28), which has been conveniently filled by China. The burning urge to acquire minerals to sustain growth of industries in China has been the major factor that drives her partnership with African countries, Kenya being one of them. This also holds true for EU and the US, as well as the need to increase market availability for their products.

For most of the past decade, China's involvement with Kenya has been mainly in areas of infrastructure development, education, and raw material resource acquisition among others. According to Patroba (2012), there are approximately 44 Chinese firms that are working on various projects in

Kenya. They include small and medium enterprises that provide auto repairs and maintenance, home furnishings, construction, agricultural machinery and restaurants. These are areas that directly affect the *'mwananchi'* and measures have to be put in place to stem the influx of Chinese operators in these areas. The flipside is that these products and services come at a cheaper cost to the Kenyan taxpayer thereby making them more affordable, though in the same vein also leading to negative effects such as retrenchment in some companies, and or closure of various business ventures that operate in these industries giving rise to joblessness.

### 6.2.1 Infrastructure development

Kenya has been a beneficiary of many agreements between her and China in terms of infrastructure development; roads, rail, and currently port of Lamu. Most notable are the development of the Thika Superhighway, the signed agreement to undertake building of the Lamu port, and the contract given to Chinese government to build a standard gauge railway from Nairobi to the coastal city of Mombasa. All these are multi-million dollar projects that upon completion, or even when ongoing will yield to a host of advantages to the people of Kenya in terms of employment and trade opportunities both in the country, regionally and also internationally. On the flipside, what does China stand to gain in all this? For one, raw materials. As has been mentioned in earlier sections, China is seeking to acquire raw materials for her ever expanding industries thus the gusto with which they are entering into agreements with African countries, Kenya included.

One of the pillars of partnership as stated in the Joint Africa EU Strategy Action Plan 2011-2013 is the in the area of Trade and Infrastructure. It states that well integrated regional markets with efficient infrastructure will attract investment and facilitate business, enhance employment creation and revenues, and improve access to better and more goods and services. The main focus thus will be in energy, transport, and ICT infrastructure development. These are areas that key to development of the Kenyan economy and full implementation would ensure a more robust economy for the Kenyan populace while in the same breath encouraging partnership between the two countries, and by extension, the continent.

The United States Strategy toward Sub-Saharan Africa released by the American government in June 2012 encapsulates four major strategic objectives: Strengthening Democratic Institutions; Spur Economic growth, Trade, and Investment; Advance Peace and Security; and Promote Opportunity and Development. To further zero in to the East African region, the US released a fact sheet for trade in Africa, focusing in its initial stages on the member states of the East African

Community. There are various programmes in this initiative that will no doubt improve the livelihood of the inhabitants of this region if fully and well implemented.

## 6.2.2 Education

One of the key drivers of development and growth is education which is integral part of any economy that seeks to improve the economic status and up the living standards of her populace. China set up Confucius Institute in December 2005, based in Nairobi University. Through this, China aims to provide a peek into their culture not only to the Kenyan people but also to the continent at large. In the same vein, China has awarded many African students scholarships to study in China, undertaking various programmes, while also encouraging student exchange programmes with their universities. They are also keen to ensure that through these initiatives, they come out or appear to be a positive partner out to assist and aid the African continent in this aspect. The US can be said to be a pioneer in this sector since in the early independence years, there were airlifts to the US for study purposes. This has been ongoing to date and it is in the public limelight that the US is the preferred destination for students in Kenya, and indeed the whole of East African region. The same can also be said for EU which offers various incentives for students wishing to study in their numerous colleges and universities.

## 6.2.3 Access to Raw Materials

In the recent past, the US has been seen to have launched an attack on China, accusing the emerging superpower of using unorthodox means to acquire raw materials from African countries – a claim that China has vehemently denied. Nonetheless, the US relation with Africa, though stemming from the AGOA initiative, has not been to the benefit of most African states. This notwithstanding, there are numerous opportunities therein. For instance, of the 6400 product lines that AGOA allows for trade opportunities, only about 300 are utilized. This means that the onus is on both Africa and the US to find ways of ensuring uptake of more products lines which will in turn increase export and import between the two countries.

There have been significant discoveries in mining; where oil and gas deposits have been unearthed in the East African region (Kenya, Tanzania and Uganda), as well as in other countries within the African continent; Cameroon, Ghana, Equatorial Guinea and the Republic of Congo. According to John P. Banks (2013), failure to expand energy access, reduce energy imports, diversify energy sources and manage newfound oil and gas wealth for the benefit of society, especially the poor, directly impacts U.S. interests. This also holds true for China and for the European Union, to some extent. To run successfully production in their industries, these partners need steady supplies of energy sources. Consequently, there is a 'scramble' for these resources amongst the countries

enumerated above, with each offering various incentives to get a piece of the pie in Kenya, in the East African region, and in the continent at large.

## 6.2.4 Market Access

Africa is home to a combined population of about 1.069 Billion<sup>16</sup> as at 2016. This provides a robust market for any producer who seeks market for their goods and/or services. On the same note is the fact that finished products must be sold to some existing market which going by the numbers, exists in the African continent. In East Africa, the best place to begin is Kenya as it is the economic hub of the region and also serves as the entry point for goods to her neighboring landlocked countries of the EAC, Rwanda Burundi and Uganda, thereby making her quite an asset for cooperation by her trading partners. It is a well know fact in the Kenyan scene that goods imported from China cost a fraction of the total cost of a similar product produced in Kenya. This has made the market saturated by Chinese products, thereby leading to closure of local industries and consequently loss of jobs and livelihoods for many people. The US seeks to increase visibility of its products by use of the AGOA provisions to increase her product exports to the African market whereas African countries seek the same in the American market.

## 6.2.5 Peace and Security Issues

One other area that has gained prominence over the years is peace and security, without which it would almost be impossible to conduct any meaningful trade across borders, whether national, regional, or even international. There has been a growth in terrorist cells all over the world and it is important that necessary steps be taken to mitigate them and their negative effects. The US has been on the forefront in this area and has command troops in some African countries while also offering aerial support when need arises. The EU has also captured this aspect in its Africa EU Strategy – Action Plan 2011 – 2013 as one of the areas of partnerships that it will focus on. One of its pillars therein is exclusively on peace and security which has outlined the initiatives that it has taken in improving the state of security in Africa and the efforts aimed at combating terrorist movements that are still active. As for china, it is during the 5th Ministerial Conference of the Forum on China Africa Cooperation (FOCAC), Beijing Action Plan that she pledged to launch “Initiative on China-Africa Cooperative Partnership for Peace and Security” and will provide, within the realm of its capabilities, financial and technical support to the African Union for its peace-support operations, the development of the African Peace and Security Architecture, personnel exchanges and training in the field of peace and security and Africa’s conflict prevention, management and resolution and post-conflict reconstruction and development (Ministry of Foreign Affairs, the People’s Republic of China 2012). It is important to note that these efforts will lead to a safe and friendly environment that favors various activities, including trade.

<sup>16</sup><http://www.worldpopulationstatistics.com/population-of-africa/>

## 6.2.6 Trade and Investments

One of the key areas that transcends across for all Kenya partners is in commercial relationship, specifically in trade and investments. For the US, it is clear that there are ongoing talks at the congress level to further extend the AGOA provision past its 2015 September expiry. The same was also mentioned by President Obama when he made a tour of Africa at the end of June 2013, and worth noting is that the Kenyan National Committee on AGOA (NC-AGOA) has prepared a Country Position Paper that urges extension of AGOA. The European Union Action Plan 2011 – 2013 gives weight to completion of the pending EPA talks while at the same time realizing the

need to strengthen regional integration efforts e.g. currently ongoing for the East African Community. China on the other hand has been on the forefront in fostering integration efforts for the East African region in a variety of aspects, for example by undertaking to build railway lines to connect countries within the EAC, while also helping to build the Lamu Port and various road construction projects that are ongoing in the various member states. The items of trade and areas of investments between these partners vary, though there are overlaps in some instances of the former as shown in table 9 below:

Table 8: Kenya Top Trade Items, 2012

	Exports to...	Imports from.....
<b>United States</b>	Coffee, Tea, Tea Nuts Leather, Shrimp	Machinery, Aircrafts, Electric Machinery, Dairy Products, Optic and Medical Instruments, Electrical Machinery
<b>European Union</b>	Cut Flowers, Vegetables and Fruits, Tea, Coffee, Handicrafts	Motor Vehicle Parts, Aircraft & associated equip., Iron & Steel Equip., Electric & Electronic goods
<b>China</b>	Tea, Coffee, Fish Products, Leather, Iron, Manganese, Chromium	Machinery, Electric & Electronic Equipment, Vehicles, Fertilizers,

Source: CIA World Fact book 2015, accessed online.

## 6.3 Emerging Areas

In the recent past, Kenya has been exploring natural resource availability within her borders and China, the British (EU) as well as the US have shown interest in this in terms of availing resources for excavation, manufacture and transportation of the same to various destinations. It is imperative moving forward that various policy guides be put in place to ensure that Kenya gains from such ventures, if and when they are carried out. Among the benefits that can accrue immediately include creation of employment for the vast majority of the population who are unemployed, and finding of raw materials that will drive the local industries production of various goods and services.

## 6.4 Conclusion and Recommendations

From the foregoing, it can be concluded that the scramble for African resources (which seems like has just begun) has both its merits and demerits to countries in the African continent. For Kenya, it would be important however to enumerate positive as well as negative effects of her involvement with China, against US and EU. From the study, it is clear to see that each has their strong points and to some extent play complementary roles in the development and stability of the Kenyan economy at large.

Kenya is an active country in international trade even though her performance against her longtime allies as well as new ones is, to say the least, quite dismal. However, in the East

African region, Kenya leads and is often looked up to, 'to provide direction'. The development relation between China and Kenya has been quite substantial and as can be seen from the above analysis of the various sectors evident that Kenya has got to the level it is at today in terms of development in many areas as a result of Chinese investments that it has been accorded on the basis of win-win relationship and mutual benefit and understanding which is based on the Chinese White Paper). Needless to say, Western and some African intellectuals view Chinese relations with African countries as soft colonization, posing questions as regards the strategies employed by China to access resources on the African continent. This notwithstanding, it is important going forward to note that the EU and US have been, and continue to be an important partner to Kenya in various areas. We can view these relations, the EU and US, against the Chinese newfound friendship to Kenya as being complementary to each other as there are areas that are covered by one and not another and therefore requires clear cut, precise and concise policies going forward.

There may be areas of collaboration and partnership where the US and the EU have lost ground to their Chinese counterparts. The reverse is also true, and this is bound to happen as each angles itself for positive relations by leveraging on their strong points to push forward their various agenda for mutual and beneficial relation with Kenya.

The following recommendations will look at points of strength that Kenya can take advantage of, as well as weaknesses that need to be analyzed so as to forestall and mitigate negative

effects that may they result to from Kenya's trade relation with her partners; China, EU and US.

key importance to provide training in various service sectors, while offering incentives to investors interested in this sector.

## **Lobby for Extension of AGOA Provisions**

Since AGOA came into play, there have been tremendous gains that Kenya has accrued from it. The extension of AGOA will no doubt be of an advantage to many an African, and especially to Kenyan firms that have taken up selling products by way of exports to the US market. Nonetheless, efforts should be taken to create more market awareness to the Kenyan producer of the opportunities available in this Opportunity Act and in trade as well, and how to uptake them.

## **EPA Negotiations to be concluded**

Ongoing negotiations on the initialed EPA have been ongoing for a long time now and in order to bring it to an end, a deadline of 1st October 2014 was set through a vote by the International Trade Commission of the European Union Parliament in March 2013. All ACP countries involved in these negotiations are encouraged to conclude their agreements with the EU. Measures needed to be put in place to ensure that gains that have accrued from this partnership are not eroded, while at the same time encouraging more players to be part of the process. Nonetheless, it would be important to scrutinize the impact of fully signing the agreement, its perceived pros and cons, as well as cost implications, not forgetting the effects to the economy of Kenya, the east African region, and Africa as a whole.

## **Review of Bilateral and Multilateral Relations**

Kenya and China have had a one-on-one relationship for a long time which can be seen as to have been more beneficial to, between the parties, China. From the onset, it clear to see that the Chinese have set their goals and needs from her partnership with African countries precise and concise, according to the China White Paper. On the other hand, African states do not have a common ground that they can use as a bargaining chip to their advantage from this partnership. Moving forward, it is time that Kenya take a lead role, on behalf of the EAC countries to chart a way forward for the regional block. One way of gaining an advantage position is to bargain as a regional community rather than as individual countries.

## **Resource Allocation to foster growth in the Service Sector**

Growth in the service industry/sector world over has been on a steady rise contributing immensely to the GDP of all the countries in this study. It would be an important step to allocate funds to develop the service sector, especially for Kenya as she seeks to be the Hub of the East African region. This will go a long way in creating employment and the positive spillover effects that accrue from it. On the same note, it would be of

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