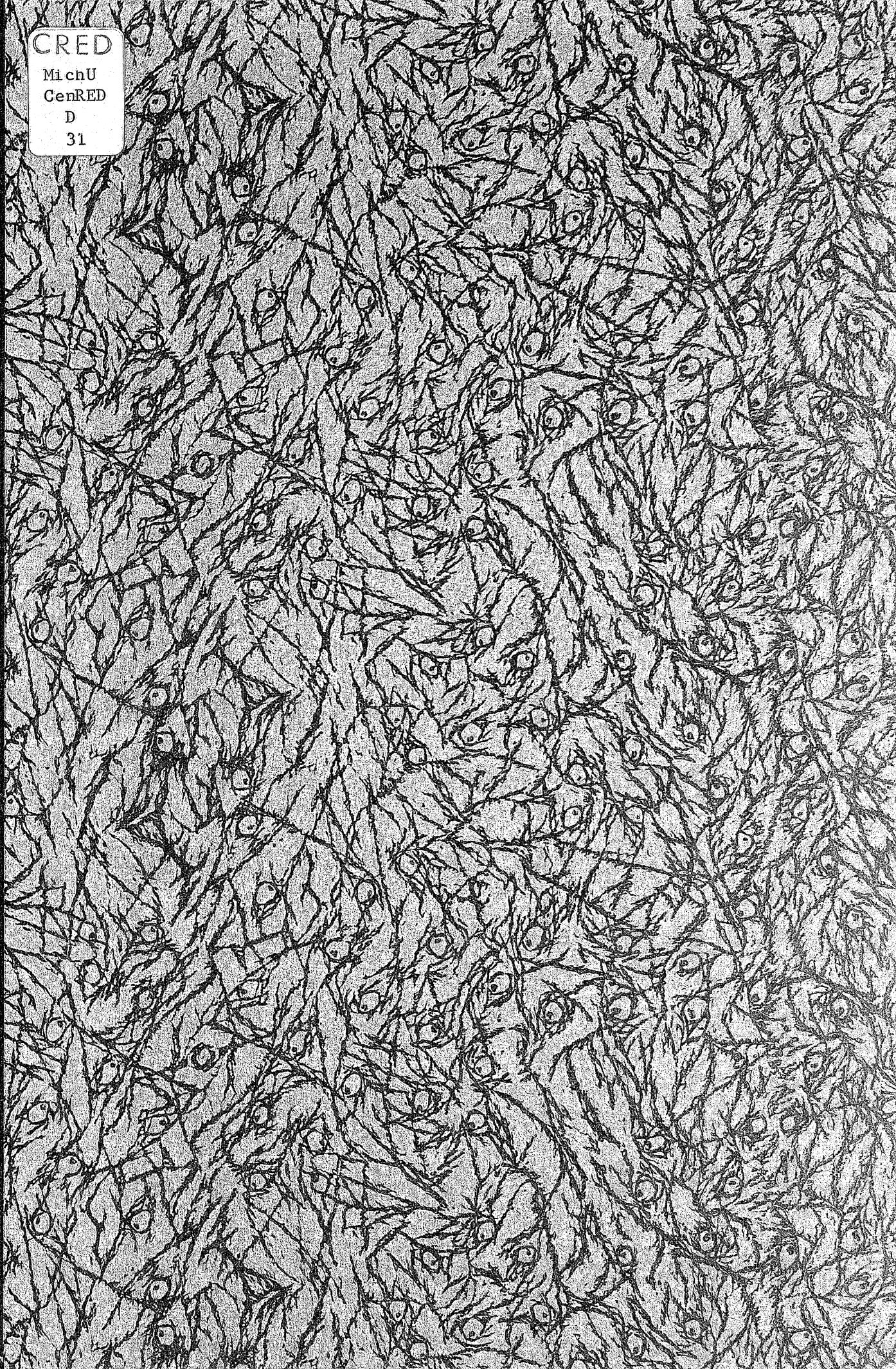

Some Doubts about Kenya's Future As an Exporter of Manufactures

by

Richard C. Porter

31

Discussion Paper 31
October 1973

Center for Research on Economic Development
University of Michigan
Ann Arbor, Michigan 48108

Some Doubts about Kenya's Future as an Exporter of Manufactures

Richard C. Porter*

October 1973

Even for a less developed country (LDC), Kenya is heavily involved in foreign trade. Its visible exports, which do not include its foreign exchange earnings from tourism, amount to shs. 2-1/2 billion,[1] more than one fourth of the total output of the "monetized" part of the Kenyan economy. Moreover, the Kenyan export picture is much more varied than that of most African economies. Primary products account for only about half its exports; the remaining half, manufactures,[2] are destined about equally to Kenya's East African Community (EAC) partners and to the rest of the world. Even within its exports of manufactures, Kenya's situation is complex, for the products which it exports to the developed world bear almost no resemblance to those it exports to its neighbors; and there are interesting differences between the exports to its EAC partners and those to other African and Middle Eastern destinations.

These differences are explored and the general tenor of my doubts about Kenya's future as an exporter of manufactures is presented in Section I. I argue that Kenya's industrialization and trade policies discourage exports to the advanced countries and encourage those to Kenya's neighbors, and especially to its EAC partners. But the export of manufactures to African countries appears doomed to encounter ever greater resistance abroad and ever greater cost at home. The birth-and-death cycle, whereby Kenya's manufactures are continually acquiring and losing export markets in neighboring countries, is examined in detail in Section II. The manner in which policy affects the volume and pattern of exports is discussed in Section III.

I. The General Argument

By 1969, Kenya had reached shs. 1 billion of exports of manufactures, about half of which were destined for countries other than its EAC partners.[3] Within the half-billion shillings of non-EAC manufactured exports, much is "manufactured" only slightly (e.g. hides and skins, pyrethrum extract, wattle extract and soda ash); and the rest is largely accounted for by a mere handful of firms--East African Oil Refineries, Kenya Meat Commission, Bamburi Portland Cement, and Kenya Canners (Del-Monte). Only when one gets to the dozens of firms that complete the final few percent of manufactured exports do the products of typical LDC comparative advantage--unskilled-labor-intensive products like footwear, textiles, clothing, leather and wood products--begin to appear, and these exports go almost totally to non-EAC Africa and the Middle East. Kenya's sizeable volume and variety of non-EAC "manufactured" exports do not therefore represent widespread inroads into advanced-country markets; rather, with a few exceptions, chiefly beef products and tinned pineapples, they represent the marginal disposal in neighboring countries of goods essentially produced for the domestic and EAC

market. Typically, these products are high-cost by world standards--as the manufactures of newly industrializing nations often are--but penetrate nearby markets due to a combination of factors: the high transport costs of the products, the absence of nearby competitive production, the small size of the destination markets which invites their neglect by lower-cost exporters, a well developed Kenyan marketing network, and an export price which is reduced below the internal Kenyan price.

The half-billion shillings of Kenya's manufactured exports to its EAC partners, Tanzania and Uganda (hereafter T&U) consist of a different group of products. Until ten years ago, when industry in East Africa was essentially located in Kenya and the Community was a genuine free-trade area, Kenya's exports to T&U were largely the stable-technology, unskilled-labor-intensive products that are an LDC's principal output in the first stages of industrialization. During the 1960s, however, these exports diminished in importance, at first relatively and then absolutely, as T&U began to restrict the entry of such merchandise from Kenya and to introduce production in their own countries. But the result was not a decline in Kenya's EAC exports, for Kenya was meanwhile advancing to the "later" stages of industrialization and beginning to displace non-EAC suppliers of these products in T&U markets.

Kenya's exports of manufactures to its EAC partners are most accurately viewed as a temporary by-product of the general EAC strategy of import-substituting industrialization. As long as Kenya's industrialization remains "ahead" of its EAC partners and it enjoys tariff preferences within the EAC in its "latest-stage" products, then there will continue to be scope for exports within the EAC. Over 1964-71, the total of Kenya's exports of manufactures in the EAC remained quite stable,[4] but the aggregate data hide the appearance of many new exports and the disappearance or decay of many others. As an extreme example, Kenya's EAC exports of cigarettes went from shs. 32 million in 1964 to zero in 1971. And for many other products of the early stages of Kenya's industrialization, EAC exports dwindled absolutely in the 1960s; the EAC exports of beer, soap, paints, bicycle tires, sisal bags, blankets, simply processed metals (e.g. iron and steel plates, nails, and domestic aluminum ware), leather bags and cases, clothing, footwear, and matches declined from shs. 164 million in 1964 to shs. 49 million in 1971. Appearing and/or growing rapidly to replace these were such "later-stage" manufactures as flashlight batteries, insulated wire, gramophone records, printed matter and plastic products.

Can Kenya not continue to specialize in the "one-step-ahead" export of "next-stage" products to its neighbors? After all, Kenya's industrialization is far from the final stages--few industrial intermediate inputs and almost no capital equipment are yet produced. While this sequence of growth and decline may be traumatic for particular firms and may defy the precepts of static comparative advantage, might it not be socially desirable as a strategy for exports--or more accurately, as a strategy for industrialization?

Certainly the firms that undertake EAC exporting must anticipate that it will be privately profitable. This is not surprising since the EAC import-substitution policy is essentially aimed at making internal markets privately profitable. And so long as T&U are willing to pay the Kenyan

price, Kenyan exports to them will also be socially profitable (to Kenya, though perhaps not to the EAC taken as a whole). But even from the narrower viewpoint of Kenya, social and private profitability may differ for several reasons:

1. Kenyan entrepreneurs seem to be congenitally overoptimistic about the permanence of their EAC exports; or alternatively, their assessment of future intra-EAC trade barriers has been lagged or inadequately extrapolated in a period of ever-rising barriers. Again and again, Kenyan plants have been constructed on the premise that they would long serve the entire EAC market, whereas competing plants have been created in T&U within a few years. There is a well known, if not fully explained, tendency toward excess capacity in late-stage factories under strategies of import-substituting industrialization, and an unexpected collapse in the size of the market greatly compounds this already serious problem.[5]

2. The long-lived streams of export revenue which can be earned in advanced-country markets, though at high penetration cost, may be socially quite profitable, but the high discount rates and short horizons of business firms may make them privately unprofitable. Or, if the ability to export is constrained, it may mean that EAC exports--with shorter life, higher revenue and lower initial marketing cost--are privately more profitable than those to more distant markets, even though such EAC exports may be socially less profitable. Moreover, an overvalued currency can lead to the same sort of distortion in the export pattern.[6]

3. Kenyan exporters do not consider the quid-pro-quo involved in EAC trade. When high-cost Kenyan exports are accepted by T&U, Kenya is expected to accept in return, and hence to subsidize, high-cost T&U manufactures.[7] To the extent that this reciprocity operates at the margin, then any Kenyan EAC export is less profitable from the national viewpoint than it appears to the exporter.

Although the transitory export of ever "more advanced" products to its EAC partners may be less beneficial from a Kenyan viewpoint than from the viewpoint of the businessman involved, it may still be socially profitable. However, the question of social benefit may be ever more irrelevant, for it is becoming increasingly difficult for Kenya to pursue an export strategy that relies upon sales to its EAC partners. The reasons:

1. A growing Kenyan economy needs growing foreign exchange earnings, and all the EAC activities and trends of the 1960s suggest that at best a very modest growth of intra-EAC trade can be expected.

2. The pace of the T&U mimicry of Kenya's industrialization appears to be accelerating, and the gap between Kenya's industrial achievements and those of its EAC partners is steadily shrinking. Yet it is this narrowing gap through which Kenya's "one-step-ahead" EAC exports must fit.

3. The ever higher prices of the "late-stage" products which increasingly make up Kenya's EAC exports confront an ever greater T&U unwillingness to underwrite the excess costs of Kenya's industrialization. This unwillingness, implemented chiefly through increased importation by state-trading agencies, is leading T&U to discriminate against Kenyan exports

even where their excess cost is less than the agreed EAC external tariff.

If reliance upon EAC exports is not practicable, perhaps Kenya can look increasingly to its quasi-protected sales to nearby (non-EAC) African, Middle Eastern and Indian Ocean markets. Unfortunately, such exports cannot provide much of a foundation for an export strategy. In many of these countries, demand is growing too slowly; the competition from T&U and Kenya's other industrializing neighbors is reducing the profitability of these markets; and ironically, those "early-stage" manufactures in which Kenya's productive efficiency is highest are the very ones in which the smallest and least developed economies are planning, and undertaking, their own import-substituting industrialization.

In short, my doubts stem from the fact that Kenya's exports of manufactures are not the result of "outward-looking" businessmen or policymakers, but represent a Kenyan variation on the old import-substitution theme. Kenya's reliance on exports to its EAC partners appears to be driving it ever further from the products in which it has comparative advantage and may imply ever greater difficulty in expanding and benefiting from its exports. Exports to nearby non-EAC LDCs allow but a partial escape. And Kenya's import-substitution policies increasingly discourage exports to advanced-country markets. The sum of these doubts is that despite appearances, Kenya is not developing an efficient and viable long-term export alternative to coffee, tea and tourism.

In the remainder of the paper, two aspects of these doubts are treated in some detail. The transitory nature of Kenya's T&U exports during the 1960s is displayed in Section II. And the bias of Kenyan policy against exports to advanced countries is shown in Section III.

II. The Export Cycle for Manufactures

For the last quarter century, Kenya's exports have included a sizeable and growing quantity of manufactured goods. By the early 1950s, Kenya was exporting not only to its EAC partners but also to several other African and Middle Eastern nations such manufactures as cigarettes, soap, paper products, sisal bags, cement, steel doors and windows, household aluminum articles, furniture, clothing and footwear. And in more than token magnitudes. By 1955, manufactures already represented 35 percent of Kenya's EAC exports and nearly shs. 10 million of such goods were going to other African and Middle Eastern destinations. While the specific manufactures which Kenya exported to its EAC partners changed over the next decade and a half, "manufactures" as a fraction of its total EAC exports remained above one-third. And exports of manufactures to other African and Middle Eastern countries grew to nearly shs. 100 million, becoming almost 5 percent of Kenya's total exports.

More interesting than the magnitude of total manufactured exports is the ever-changing composition. The Kenyan industrialization has, up to now, been accompanied by a sequence of short-lived exports. The rough pattern of the rise and fall of a particular export is easily described. As the most developed of the East African economies, Kenya has typically been the first to produce any particular manufactured good. It has then begun the export of the product, first—and quickly because of its tariff

advantages--to its EAC partners, and later to the other African and Middle Eastern (OAME) countries with which it has transport advantages, product rapport, and established sales networks. Soon or late, however, production of the product has begun in Tanzania and Uganda, and gradually Kenya has not only lost its EAC exports of the good but also found itself pressed in its OAME markets. By then, however, Kenya has begun to produce other manufactures and to export them to its EAC partners; and the cycle has begun anew.

The fairly stable aggregates of Kenya's exports almost completely hide this drama of birth and death. A glimpse at these aggregates is offered in Table 1, which disaggregates only by broad region of destination and for the so-called manufacturing categories of the one-digit SITC classifications.[9] Since 1964, Kenya's total exports have risen at an annual rate slightly greater than 5 percent;[10] but exports to its two EAC partners grew at less than 2 percent per year over 1964-71. This after a more-than-fourfold increase in its EAC exports in the preceding decade (i.e. 1955-64). This is not the place to document the ebbing of the EAC, but it should be remembered that the period, 1964-71, began with the Kampala Agreement and moved on through the imposition of unilateral quotas by Tanzania and Uganda upon Kenyan goods, the introduction of transfer taxes, increased T&U government purchasing preferences for local goods, and expanded T&U state trading which often sought to import at lowest economic cost or greatest political effect. Furthermore, the five-year industrial plans of T&U for this period indicate a careful reading of Kenyan surveys of industrial production.[11] It should be noted that none of this was intended as anti-Kenyan. Rather, T&U 1) were tired of paying, as they perceived, for Kenya's industrialization,[12] 2) sought their own import-substituting industries for all the reasons that most LDCs--including Kenya--do, and 3) were reaching the economic stage where the local introduction of many of Kenya's industries was appropriate.

The remainder of this section is devoted to the collection of evidence on the transitory nature of Kenya's manufactured exports by means of a disaggregated stroll through SITC/1 and 5-8.[13]

SITC/1: Beverages and Tobacco. In his review of EAC trade ten years ago, Massell (1962) noted that SITC/1 comprised 17 percent of the total trade within the EAC (p. 20). And a majority of the exports were Kenyan. By 1971, Kenyan exports in this SITC group had essentially ceased. Table 2 gives the details for the two largest components of SITC/1.[14]

The decline is not hard to explain. Both T&U developed their own beer and tobacco industries. For example, "tobacco" represented only 1.1 percent of total Tanzanian manufacturing output in 1961, and 2.7 of the 3.0 million pounds of tobacco consumed was imported; by 1969, "tobacco" represented 5.3 percent of its total manufacturing.[15] Self-sufficiency in both tobacco and beer had been primary goals of the Kampala Agreement in 1964, and hence the Kenyan export decline was no accident. But two things are surprising. One, the extent of the decline--in cigarettes, for example, not the smallest interchange based on brand preferences or transport advantages lingers on. And two, the effect on Kenya's OAME markets: between 1964 and 1971, Kenya's cigarette exports to OAME countries (excluding Zanzibar) fell from shs. 335 thousand to shs. 30 thousand, while T&U's cigarette exports to these countries rose from shs. 45 thousand to shs. 746 thousand. As shown in

Table 1

Kenyan Exports by Region and by One-Digit SITC Class

(Figures in shs. 1.000s)

Year	Destination	Total	1	3	5	6	7	8
1964	EAC	517.596	60.170	51.839	60.506	126.086	3.590	87.192
	OAME	106.755	512	11.925	6.387	27.744	2.103	3,946
	Other	835.544	129	32.817	30.512	20.306	249	578
	Total	1.459.894	60.810	96.581	97.405	174.136	5.942	91,716
1971	EAC	677.858	9.960	144.203	104.668	150.943	30.063	69.134
	OAME	288.730	1.117	62.890	33.889	68.131	4.785	22.700
	Other	1.174.973	611	149.199	48.708	30.025	259	3.736
	Total	2.141.561	11.689	356.291	187.265	249.100	35.108	95.571
1964-71	Growth Rate							
	EAC	1.93%	neg.	8.22%	7.32%	1.40%	36.76%	neg.
	OAME	14.34	6.24%	9.25	26.13	16.31	20.51	22.06%
	Other	5.34	49.87	14.25	4.87	0.64	3.92	24.81
	Total	5.03	neg.	10.87	8.44	4.12	33.61	neg.

Notes:
1. Totals may not exactly add due to rounding.
2. EAC means East African Community and OAME means other Africa and the Middle East.
3. "neg." means negative growth rate.
4. Zanzibar is treated as OAME for 1964-67 and EAC for 1968-71. (Total Kenyan exports to Zanzibar were shs. 4,310 thousand in 1967.)
5. Various small African countries are treated as other for 1964-68 and OAME for 1969-71. (Total Kenyan exports to these countries were shs. 9,841 thousand in 1969.)

Table 3, T&U decimated Kenya's exports not only to themselves but to Burundi and Rwanda as well. The amounts involved here are not critical, but the pattern begins to be seen--no sooner have T&U replaced Kenya's exports at home than they begin to threaten Kenya's domination of neighboring markets.

Table 2

Exports by Kenya in SITC/1 to T&U

(figures in shs. 1,000,000s)

Product	1964 (SITC)	1971 (SITC)
Beer	19.2 (112-3)	7.6 (112.3)
Cigarettes	32.5 (122-2)	- (122.2)
Sum of above	51.7	7.6
Other SITC/1	8.5	2.4
Total SITC/1	60.2	10.0

Table 3

Exports by Kenya and T&U of Cigarettes to Major OAME Destinations

(figures in shs. 1,000s)

Destination	Kenya 1964	Kenya 1971	T&U 1964	T&U 1971
Burundi	192.2	-	-	82.0
Rwanda	19.6	-	-	663.4
Somalia	122.8	30.0	45.1	-

Notes: 1. OAME excluding Zanzibar.
2. The figures will not add to totals due to the omission of minor OAME destinations.

SITC/5: Chemicals. The duality of Kenya's industrial sector is nowhere more clearly displayed than with chemicals. For the more distant world markets there is one set of products, and for Kenyan and African markets another; the former change little over time, while the latter have altered considerably even in so short a period as 1964-71.

The exports that travel beyond Africa and the Middle East consist almost entirely and about equally of soda ash (514.28) and wattle extract (532.401). The combined exports of these two products moved from shs. 28.4 million in 1964 to shs. 43.9 million in 1971. The growth rate of the two is respectable, despite continued substitution for wattle by chemicals in tanning processes; but both are closer to one's traditional view of a primary product than a manufacture.

But Kenya's SITC/5 exports to its EAC partners consist of quite a different set of products. As Table 4 shows, they are indeed what one thinks of as manufactured chemicals. And they exhibit the cyclical nature typical of Kenya's industrial exports. There are, to be sure, some products for which T&U's import demand grew rapidly and in whose growth Kenya's

Table 4

Exports by Kenya and Others in SITC/5 to T&U

(figures in shs. 1,000,000s)

Product	SITC		Kenya's Exports to T&U		Non-EAC Countries' Exports to T&U	
	1964	1971	1964	1971	1964	1971
Industrial gases	513-1	513.1	0.7	0.9	0.0	0.4
Paints	533-3	533.3	7.6	1.5	5.2	8.4
Medicaments	541-7	541.7	2.5	16.9	23.9	64.1
Industrial flavorings	551-2	551.2	2.3	7.9	1.0	2.4
Perfume, cosmetics	553-09	553.009	5.5	6.2	4.0	4.6
Toilet soap	554-11	554.101	5.1	14.0	4.7	5.9
Other soap	554-19	554.109	22.5	4.4	2.8	0.3
Polishes, pastes	554-3	554.3	2.6	4.6	1.1	1.0
Polymers	581-2	581.2	0.6	2.0	4.4	33.5
Insecticides, disinfectants	599-2	599.2	8.5	8.5	10.8	25.9
Sum of above			57.9	66.9	57.9	146.5
Others SITC/5			2.2	37.8	62.0	105.7
Total SITC/5			60.1	104.7	119.9	252.2

Note: The ten products detailed above are all those for which Kenyan exports to T&U exceeded shs. 1/2 million in 1964.

exporters expansively participated--e.g. medicaments. But these are the lesser among the ten products. Among the larger of Kenya's 1964 exports within SITC/5, there occurred by 1971: 1) a near cessation of T&U imports of non-toilet soap, 2) a dramatic decline in Kenya's share of T&U imports of insecticides and disinfectants, and 3) a large decline in Kenya's share of T&U's declining imports of paints.

The totals in Table 4 tell the same story. For the ten products that represented more than 90 percent of such Kenyan exports in 1964, the T&U import demand less than doubled by 1971; for all other SITC/5 imports by T&U, the demand more than doubled. Since a glance at the products involved makes it clear that this is not a matter of low income elasticity of demand, the conclusion is inescapable: what Kenya was exporting to T&U in 1964 was, to a great extent, being produced in T&U by 1971.

Moreover, Kenya's share of the total T&U imports of the products detailed in Table 4 drops from 50% (i.e. 57.9/115.8) to 31% (i.e. 66.9/213.4) between 1964 and 1971. There are only two explanations for this decline: 1) the new production of chemicals in T&U replaced the imports from Kenya to a much greater extent than it replaced the technologically more advanced imports of other nations; and/or 2) T&U increasingly switched its purchases to lower-cost suppliers elsewhere.[16]

Of course, during this decline in its major EAC exports, Kenya was developing new ones. Its SITC/5 exports other than those detailed in Table 4 rose from shs. 2.2 million in 1964 to shs. 37.8 million in 1971. By 1971, Kenya was exporting to T&U millions of shillings of printing inks, opium alkaloids, bacterial products, dentifrices, etc., many of which were not even produced in Kenya in 1964. Kenya increased its share of these "other" SITC/5 imports into T&U from 3% (i.e. 2.2/64.2) to 26% (i.e. 37.8/143.5) over 1964-71.

For many of the products which were declining in the EAC markets, however, Kenya's exports were growing to the OAME. Table 5, which lists the

Table 5

Kenya's Exports in SITC/5 to OAME
(figures in shs. 1,000,000s)

Products	Kenya's Exports	
	1964 (SITC)	1971 (SITC)
Soda ash	2.2 (514-03)	14.9 (514.28)
Wattle extract	1.2 (532-41)	2.5 (532.401)
Paints	0.1 (533-3)	1.1 (533.3)
Bacterial products	0.1 (541-61)	0.7 (541.63)
Medicaments	0.1 (541-7)	3.4 (541.7)
Industrial falvorings	0.1 (551-2)	1.7 (551.2)
Polishes, pastes	0.0 (554-3)	0.8 (554.3)
Fertilizers	0.0 (554-3)	1.2 (561.9)
Polymers	0.1 (581-2)	1.6 (581.2)
Insecticides, disinfectants	2.0 (599-2)	4.3 (599.2)
Sum of above	6.0	32.2
Other SITC/5	0.4	1.7
Total SITC/5	6.4	33.9

principal Kenyan SITC/5 exports to OAME, contains many of the same products as Table 4. The difference is that Kenya's exports in these products rose rapidly over 1964-71 to OAME, whereas they fell (or rose slowly) to the EAC. This too is consistent with the typical Kenyan export cycle; once the export infrastructure is built up for T&U sales, most firms naturally begin to look to Kenya's other neighbors, although the expansion of OAME exports is sometimes a later effort to compensate for the loss of T&U markets.

Unfortunately, it is usually just a matter of more time until even those OAME exports begin to decline (in any particular product). The final stage of the cycle is increased competition from T&U in the export of the very products Kenya used to export to T&U. Indeed, the T&U exports outside the EAC of the ten products listed in Table 4 increased nearly six-fold over 1964-71. The absolute magnitude of such exports is small--still less than shs. 2 million in 1971--but the pattern is evident. Meanwhile, T&U exports of all other SITC/5 products (excluding wattle and clove extract)[17] barely doubled over 1964-71 and were less than shs. 1 million in 1971.

SITC/6: Manufactured Goods Classified Chiefly by Material. Not surprisingly, considering the early stage of Kenya's industrialization, the export of manufactures to the advanced countries is still small. Moreover, few products are involved. Throughout 1964-71, more than three-fourths of Kenya's SITC/6 exports beyond Africa and the Middle East[18] consisted of leather, fur skins, wood carvings, paper bags and sisal products. Such exports almost doubled in the seven years after Independence.

By 1964, Kenya was already exporting a wide variety, as well as a large volume, of manufactured products to T&U; as Table 6 shows, such exports exceeded shs. 2 million for thirteen products. But here too, early success did not mean lasting success; for only one of the thirteen products (i.e. paper bags and boxes) did Kenya acquire a larger share of a growing market between 1964 and 1971, and for only one other product (i.e. bicycle tires) did Kenya acquire a larger share of a declining market. For the three largest of Kenya's SITC/6 exports to T&U in 1964, one finds 1) a doubling of the T&U cement imports but Kenya's T&U cement exports rising by barely one third, 2) a decrease in T&U imports of iron and steel plates by nearly two thirds, almost entirely at the expense of Kenyan purchases, and 3) a halving of Kenya's export of steel housing parts despite a near tripling of T&U imports.

Here, as with SITC/5, we note that: 1) T&U imports of these thirteen products rose by less than one half over 1964-71, while imports of all other SITC/6 products nearly doubled; and 2) Kenya's share of the T&U imports of these thirteen products fell, from 74% to 42% over the period.[19] Again the conclusion: T&U were increasingly producing, over 1964-71, the very manufactures that Kenya had been exporting to them in 1964. The export statistics of T&U further support this conclusion. Between 1964 and 1971, T&U nearly doubled their non-EAC exports of the thirteen products (in Table 6) while their other non-mineral, non-sisal SITC/6 exports barely increased.[20]

While Kenya's exports to T&U of its thirteen major SITC/6 products declined by one fifth over 1964-71, it found new manufactures to export to T&U. Kenya increased its "other" SITC/6 exports to T&U from shs. 26.9 to shs. 70.6 million over 1964-71 and raised its share of such "other" SITC/6 imports of T&U from 5% (i.e. 26.9/536.7) to 7% (i.e. 70.6/1,040.1). Almost

Table 6

Exports by Kenya and Others in SITC/6 to T&U

(figures in shs. 1,000,000s)

Product	SITC		Kenya's Exports to T&U		Non-EAC Countries' Exports to T&U	
	1964	1971	1964	1971	1964	1971
Bicycle tires	629-11	629.102	4.6	4.1	2.7	0.5
Paper bags, boxes	642-1	642.11	10.9	19.0	1.0	0.9
Exercise books, etc.	642-3	642.3	4.7	2.5	3.4	3.8
Sisal bags, sacks	656-12	656.102	9.9	0.7	-	0.0
Blankets, not wool or cotton	656-69	656.69	3.9	0.1	3.1	1.1
Portland cement	661-21	661.2	17.7	23.6	0.4	18.3
Glass bottles, etc.	665-1	665.1	2.7	3.6	1.0	1.9
Iron, steel plates	674-9	674.5	16.2	4.7	7.6	4.9
Aluminum circles	684-22	684.222	2.0	0.7	0.4	0.7
Steel housing parts	691	691	11.0	6.5	10.4	51.7
Metal containers	692	692	3.6	11.0	1.9	8.1
Nails, bolts, etc.	694	694	3.9	2.4	2.9	17.2
Domestic aluminum ware	697-25	697.23	8.1	1.4	0.8	2.6
Sum of above			99.2	80.3	35.6	111.7
Other SITC/6			26.9	70.6	509.8	969.5
Total SITC/6			126.1	150.9	545.4	1,081.2

Note: The thirteen products detailed above are all those for which Kenyan exports to T&U exceeded shs. 2 million in 1964.

half this increase occurred in a few products--plywood (631.21), yarns of artificial fibres (651.7), fabrics of synthetic fibres (653.5), iron and steel bars and rods (673.2), and wire products (693).

Although Kenya's SITC/6 exports to the EAC were rising at a mere 1.4% over 1964-71, those to OAME were rising at 16.3%. As Table 7 shows, this was occurring over a wide range of products, many of whose OAME exports were growing even as their EAC exports declined. But here too, competition from new T&U output has already appeared. From shs. 1.5 million in 1964, T&U exports of the eleven products of Table 7 to OAME had more than quadrupled to shs. 6.2 million by 1971. T&U exports of all other SITC/6 products to OAME had meanwhile risen only from shs. 3.2 to shs. 5.1 million. Again, T&U move from recipients of Kenya's exports to a threat to its OAME exports within a few years.

Table 7

Kenya's Exports in SITC/6 to OAME

(figures in shs. 1,000,000s)

Product	Kenya's Exports 1964 (SITC)	1971 (SITC)
Leather	0.1 (611)	1.9 (611)
Builders' woodwork	0.1 (532-4)	1.2 (632.4)
Paper bags and boxes	1.4 (642-1)	17.6 (642.11)
Exercise books, etc.	0.0 (642-3)	2.7 (642.3)
Sisal rope	1.6 (655-63)	0.7 (655.613)
Portland cement	15.4 (661-21)	20.6 (661.2)
Glass containers	1.1 (665-1)	6.1 (665.1)
Housing parts of steel	1.8 (691)	0.6 (691)
Metal containers	1.5 (692)	5.0 (692)
Nails, bolts, etc.	0.2 (694)	1.2 (694)
Domestic aluminum ware	1.6 (697-25)	0.9 (697.23)
Sum of above	24.9	58.5
Other SITC/6	2.8	9.6
Total SITC/6	27.7	68.1

SITC/7: Machinery and Transport Equipment. The products of this group, for the most part capital equipment, are for well known reasons of demand, technology and tariff structure usually late entrants into an LDC's industrial activity. Indeed, in 1964, Kenya produced and exported very few of these products. More than half the subsequent rapid growth of such exports, especially to T&U, occurred in flashlight and radio batteries, and much of the remaining growth involved but a few more products (see Table 8). The rapid increase in Kenya's exports to OAME has been largely in the same products.

Although the totals involved in this SITC group are not large enough to warrant lengthy analysis, it is worth examining the two larger exports, batteries and insulated wire, in some detail because they offer evidence that the length of time between the beginning of Kenyan production and the

Table 8

Kenya's Exports in SITC/7 to T&U

(figures in shs. 1,000,000s)

Product	Kenya's Exports 1964 (SITC)		1971 (SITC)	
Insulated wire	-	(723-1)	4.4	(723.1)
Motor vehicle batteries	0.1	(729-11)	1.4	(729.121)
Flashlight, radio batteries	-	(729-12)	15.8	(729.111)
Electric light bulbs	0.2	(729-2)	1.2	(729.201)
Sum of above	0.3		22.8	
Other SITC/7	3.3		7.3	
Total SITC/7	3.6		30.1	

arrival of T&U export competition is diminishing. As Table 9 shows, for each of these products, T&U exports within EAC began within one year of the appearance of the Kenyan export, and T&U competition for OAME makkets also began within one year of the initial Kenyan penetration there. For many of the products examined under SITC/1, 5, and 6, it required most of the seven-year period, 1964-71, for the Kenyan production and export advantage to become seriously eroded; but for these recent arrivals on the East African industrial scene, the lag is much shorter. The sample is small, to be sure, but it suggests either that politically, the desire and ability of T&U to emulate Kenya's industrial structure are becoming stronger[21] or that economically, infrastructure and entrepreneurship in T&U have developed sufficiently that price signals for import substitution are more quickly transmitted into production.

SITC/8: Miscellaneous Manufactured Articles. The conceptual distinction between the SITC/6 and 8 groups is fuzzy and, at most, slight. Presumably, it is advantageous to group certain products by function rather than by principal raw material--e.g. it is surely more useful to locate footwear in one area of the trade statistics than to distribute it across manufactures of leather (612), rubber (629), canvas (656) and plastic (893). Nevertheless, I presume by coincidence, SITC/8 is especially interesting in that it contains (among others) many of the products that are usually produced in a country's earliest stages of industrialization--e.g. clothing, footwear, furniture, and matches. At the time of Independence, Kenya was still exporting significant quantities of these goods to T&U, as is shown in Table 10, indicating that its headstart in the industrialization process had not yet been overcome even in such first-stage industries.[22] But, over the next seven years, Kenya's exports of its major SITC/8 products to T&U fell by over half, and even the initiation of new exports could not prevent the absolute decline in Kenya's total SITC/8 exports to its EAC partners.

For every one of the twelve major EAC exports detailed in Table 10, Kenya's share of the T&U imports fell;[23] for eight of the twelve products Kenya's T&U exports fell absolutely; and for seven of the products, the total T&U imports from all sources fell absolutely over 1964-71. Inferior goods these are not--rather T&U production had largely completed the import-substitution process in these goods by 197.. One should note that here, as

Table 9

Exports by Kenya and T&U of Insulated Wire and of Flashlight and Radio Batteries

(figures in shs. 1,000s)

Year	Exports of Insulated Wire				Exports of Flashlight and Radio Batteries			
	by Kenya		by T&U		by Kenya		by T&U	
	in EAC	to OAME	in EAC	to OAME	in EAC	to OAME	in EAC	to OAME
1964	-	-	-	-	-	-	-	-
1965	47	-	-	-	-	-	-	-
1966	898	59	7	-	-	-	-	-
1967	3,255	30	94	46	-	-	-	-
1968	3,617	467	289	18	5,902	20	1,455	1
1969	4,944	671	806	-	8,162	976	1,930	384
1970	5,136	2,226	1,143	399	12,349	181	4,351	5
1971	4,380	1,705	849	362	15,838	297	6,135	181

Table 10

Exports by Kenya and Others in SITC/8 to T&U

(figures in shs. 1,000,000s)

Product	SITC		Kenya's Exports to T&U		Non-EAC Countries' Exports to T&U	
	1964	1971	1964	1971	1964	1971
Furniture	821-01, 821-02, 821-09	821.01, 821.02, 821.09	5.7	8.3	3.2	8.3
Mattresses	821-03	821.03	2.2	5.3	0.4	1.9
Travel goods	831-01	831.001	1.3	0.0	3.5	5.9
Shirts	841-11	841.11	13.4	1.1	18.5	21.2
Other outer garments	841-12	841.12	11.1	1.0	4.6	8.2
Undergarments	841-13	841.13, 841.14	1.3	3.1	0.8	4.4
Vests	841-43	841.43	12.2	5.2	0.8	2.0
Footwear, rubber or plastic	851-01	851.01	14.4	3.0	0.8	2.6
Footwear, leather	851-02	851.091	10.6	4.7	6.2	11.6
Footwear, canvas	851-03	851.092	2.6	4.0	0.6	1.4
Paper labels	892-91	892.91	1.1	0.5	0.4	0.4
Matches	899-32	899.321	1.7	0.0	2.9	0.0
Sum of above			77.6	36.2	42.7	67.9
Other SITC/8			9.6	32.9	89.1	222.7
Total SITC/8			87.2	69.1	131.8	290.6

Note: The twelve products detailed above are all those for which Kenyan exports to T&U exceeded shs. 1 million in 1964.

with SITC/5 and 6, 1) the growth of total T&U imports is smaller (indeed, negative) for Kenya's major exports than for the other products of SITC/8, and 2) Kenya's share of the T&U market in its major exports fell during the period from 64% (i.e. 77.6/120.3) to 35% (i.e. 36.2/104.1).[24]

Kenya was of course finding new SITC/8 products for export to T&U. Kenya's "other" exports to T&U did rise over 1964-71, from shs. 9.6 to shs. 32.9 million. Much of this growth took place, as Table 11 shows, in a few products, notable in that they all seem to "belong" to a later stage of industrialization than the twelve products of Table 10.

Table 11

Kenya's "New" Exports in SITC/8 to T&U
(figures in shs. 1,000,000s)

Product	1964 (SITC)	1971 (SITC)
Gramophone records	0.9 (891-21)	2.3 (891.201)
Books, pamphlets	0.6 (892-1)	9.5 (892.1)
Newspapers, periodicals	0.4 (892-2)	3.6 (892.2)
Plastic bags	0.4 (893-02)	2.4 (893.002)
Plastics for domestic use	0.2 (893-03)	1.6 (893.003)
Brushes	0.9 (899-2)	1.3 (899.2)
Sum of above	3.4	20.7
Other "new" SITC/8	6.2	12.2
Total "new" SITC/8	9.6	32.9

Note: Total "new" SITC/8 exports are other than the twelve products detailed in Table 10.

At the same time, Kenya's exports of SITC/8 products to OAME were growing at over 20% per annum, largely in Kenya's traditionally important SITC/8 products. As Table 12 shows, more than half the absolute increase took place in the twelve products of Table 10 (which had represented Kenya's major T&U exports in 1964--i.e. clothing, footwear, furniture, etc.); and most of the remaining increase took place in the six "new" exports of Table 11. Meanwhile, T&U were not only beginning to produce the clothing,

Table 12

Kenya's Exports in SITC/8 to OAME
(figures in shs. 1,000,000s)

Product Group	Kenya's Exports 1964	1971
12 major 1964 T&U exports[1]	2.0	12.1
6 important "new" T&U exports[2]	1.5	6.8
Sum of above	3.5	18.9
Other SITC/8	0.4	3.8
Total SITC/8	3.9	22.7

Notes: 1. For 12 major 1964 T&U exports, see Table 10.
2. For 6 important "new" T&U exports, see Table 11.

footwear, furniture and matches they formerly imported from Kenya (and elsewhere), they were also beginning to export them. As Table 13 shows, almost all the growth in T&U exports of SITC/8 products outside the EAC occurred in the very products which, in 1964, had been Kenya's major exports to T&U.

Table 13

T&U's Exports in SITC/8 to Destinations Other than EAC
(figures in shs. 1,000,000s)

Product Group	T&U Exports 1964	1971
The 12 products of Table 10	0.4	1.8
Meerschaum pipes by Tanzania	2.0	1.5
Sum of above	2.4	3.3
Other SITC/8	0.7	0.9
Total SITC/8	3.1	4.2

Note: Meerschaum pipes are SITC/899-35 in 1964 and 899.35 in 1971.

The Kenyan experience within the EAC offers some hints about the economic basis of the persistent tendency toward disintegration wherever such regional trade groupings of LDCs have become established:

1. The members of an LDC customs union, being typically neighbors with a similar history and at a comparable standard of living, share many attributes of factor endowment; as a result, the broad outlines of their comparative advantage tend to be similar. This means that the late-developing partners are able to use the leader's industry as a feasibility study for their own industrial planning.

2. Imports from countries other than the customs union partners bear tariffs, but once a partner-produced product slips in behind this barrier, the real cost of the import leaps from the "world" price to the partner price. Thus, the less industrialized partners of a union can usually industrialize at least cost by replacing partners' rather than non-partners' imports.

Thus, there is nothing unique about the problem that Kenya's EAC exports face. The emergence of an industrial leader and a subsequent treadmill of industrial mimicry would seem to be the inevitable fate of any LDC free trade area. Even where gains could be made from such union, the incentives offered the individual partners encourage the undermining of these gains.

III. Kenyan Export Policy

There are two kinds of export policies, those that are directly concerned with exports and those that indirectly affect exports. In many LDCs both kinds of policies abound--as, for example in India with its development strategy: "India should produce whatever it can, and India should export whatever it produces."[25] In Kenya, however, export "policy" has consisted

almost entirely of the side-effects of policies aimed at import-substituting industrialization. There have been, in Kenya, only three areas of policy that can be said to have been directly concerned with exports: 1) the operation of the Export Promotion Council (EPC), 2) the remission of the import duties on raw materials (i.e. a customs "drawback") to exporters, and 3) the mutual tariff preferences of the EAC which provide an effective subsidy for Kenyan exports to T&U.

In Kenya, the policies that indirectly affect exports will be seen to be largely biased against exports, and especially manufactured exports. And, of the three direct policies listed above, only the third has sizeable impact, providing a stimulus to exports to EAC partners. The clear qualitative result is that there is a general bias against non-EAC exports implicit in the Kenyan policy matrix.[26]

The EPC has been in operation since 1966, and conducts the traditional activities--it produces an export newsletter, it assists exporters in their international bureaucratic difficulties, and it arranges Kenyan participation in trade fairs. It has also sought to be the spokesman to government for exporters, though it speaks quietly. Its approach to export promotion is typical of such organizations, namely that the potential exporters must be surrounded by benefits. It has simultaneously proposed 1) a Kenya government exporting company, 2) tax allowances based on exports, 3) preferential interest rates for exporters, 4) a "President's Award" for leading exporters, 5) government market research ("and hang the cost"), and 6) public capital participation in export companies.[27] The EPC has increased the government's budgetary committment to "export promotion" from shs. 132 thousand in fiscal year 1965/66 to an annual average of shs. 920 thousand over 1966/67 through 1970/71.[28] Few details are publicly available about the expenditure of this money; according to the budgets, shs. 900 thousand were allocated to the Montreal Trade Fair and shs. 300 thousand to a market survey of various African and Middle Eastern markets; according to an unpublished World Bank report, 24 firms received a total of shs. 220 thousand in 1969 to assist them in developing export sales. In brief, like many other similar organizations, the EPC seems to play a useful, if at best minor, role in the export drama.

Drawbacks of import duties on the directly imported intermediate-input content of exports is the second aspect of direct Kenyan export policy. There are actually two different laws under which such drawbacks can be authorized:

1. The Local Industries (Refund of Customs Duties) Act, which authorizes the Minister of Commerce and Industry to refund the customs duties of "approved" industries "to such extent, for such period and subject to such terms and conditions as may be declared by the Minister" (Section 3). The schedule of approved industries lists many—but by no means all or only--industries whose products are exported.

2. The Customs Tariff Act, which authorizes the Minister for Finance and Economic Planning to "remit in whole or in part any ... duty ... on any goods imported, if he is satisfied that it is in the public interest to do so" (Section 6). While exporters sometimes gain under this law, they currently form a small minority of the beneficiaries.

There are three stages to the process of getting a refund under The Local Industries Act: 1) the product a firm produces must be declared "approved" by Legal Notice; 2) the rights and conditions of the particular firm with respect to remission must be negotiated (and also broadcast by Legal Notice); and 3) the firm must submit and get approved a request for a remission of duty on a specific import. The difficulties many exporters experience in successfully traversing the three stages are now well known[29]--for example, the application form for remission, as spelled out in Legal Notice 159 (1969), involves three pages of procedural instructions and three pages of forms, in which are required precise details of time and place at which the input was imported, used in production, and exported.[30]

Moreover, the negotiations involved may be complex. This is perhaps best documented by illustration; Table 14 lists the public details of the remission rights and conditions over five years, 1968-72, for the House of Manji, a typical entry into these Legal Notices.[31] While much negotiation and time must have gone into each of these decisions, one is nevertheless struck by the imprecision of the result. Not until 22 January 1970 did the House of Manji learn officially that it would get a refund after 1 July 1969 on the imported sugar it used in the manufacture of sweets. For five months in 1969, the drawback was apparently paid not in shillings but in biscuits. For a while after 1 July 1970, the sugar import remission for biscuit export is made per kilogram of boiled sweets and toffee. And one wonders throughout what and why are the differences 1) between sugar and imported sugar, 2) between "for export", "for export only", and "for export market only", and 3) between exports inside and outside East Africa.

What is wrong with the Kenyan system of drawbacks is what is wrong with most such LDC arrangements, and needs only a brief recital here:

1. The criteria are vague and hence decisions are ad hoc. The process wastes scarce administrative resources and risks the intrusion of politics, influence, corruption and irrationality into the decision.

2. Potential exporters can never be certain beforehand that they will qualify, nor can actual exporters be certain that they will continue to qualify. An uncertain subsidy is worth less than its full value and perhaps even less than its expected value. Thus, the belated authorization and payment of rebates always contains an element of windfall.

3. Established or large exporters have an easier time acquiring the rebates than new or small exporters. Aside from the purposeless discrimination involved, this makes the subsidy partly a windfall to those who have already found exporting sufficiently profitable.

4. The size of the rebates, and perhaps the probability of successfully acquiring them, is greater the more imported inputs an exporter uses. This discourages the use and development of Kenyan production of intermediate goods.

5. The system cannot take into account the indirect import requirements,[32] and hence the implicit export subsidy is available only for products whose intermediate inputs are not locally assembled.

Table 14

Application of Local Industries (Refund of Customs Duties) Act to House of Manji, 1968-72

Date	Legal Notice Number	To Amend Previous Legal Notice	Effective Period	"Approved Industry"	Product	Extent of Refund of Customs Duties
2 Sept. 1968	281	-	1 July 1968-30 June 1969	Biscuits manufacture	Sugar used in the manufacture of biscuits for export only	100%
				Sweet manufacture	Imported materials used in the manufacture of Palm English toffee and Parkinson's English boiled and soft-centered sweets for export market only	100%
7 Feb. 1969	57	281 (1968) addition	1 July 1968-30 June 1969	Manufacture of pasta products	Semolina wheat flour imported	100%
22 April 1969	123	281 (1968) alteration	1 July 1968-30 June 1969	Manufacture of biscuits	Imported sugar in the manufacture of biscuits for export	20% of net weight of exported biscuits
17 July 1969	169	-	1 July 1969-30 June 1970	Biscuits manufacture	Sugar used in the manufacture of biscuits for export only	20% of net weight of exported biscuits
				Chocolate manufacture	Chocolate couverture imported and supplied to industrial manufacturers of chocolate inclusive foodstuffs approved by the Commissioner and subject to review of approval as may be deemed necessary	Duty in excess of 17-1/2%
11 Dec. 1969	286	169 (1969) alteration	1 July 1969-30 June 1970	Biscuits manufacture	Sugar used in the manufacture of biscuits for export only	Per 10 kg. of biscuits 88 cents

(Cont.)

Table 14 (Cont.)

Date	Legal Notice Number	To Amend Previous Legal Notice	Effective Period	"Approved Industry"	Product	Extent of Refund of Customs Duties
22 Jan. 1970	11	169 (1969) addition	1 July 1969-30 June 1970	Sweet manufacture	Sugar used in the manufacture of sweets exported outside East Africa	Per kg. of boiled sweets 24 cents; per kg. of toffees 14 cents
17 July 1970	151	-	1 July 1970-30 June 1975	Biscuits manufacture	Sugar used in the manufacture of biscuits for export only	24 cents per kg. of boiled sweets; 14 cents per kg. of toffees
25 Aug. 1970	172	151 (1970) alteration & addition	1 July 1970-30 June 1975	Biscuits manufacture	Sugar used in the manufacture of biscuits for export only	88 cents per 10 kg. of biscuits
				Sweet manufacture	Sugar used in the manufacture of sweets exported outside East Africa	24 cents per kg. of boiled sweets; 14 cents per kg. of toffees
14 Aug. 1972	176	151 (1970) alteration	1 July 1970-30 June 1975	Biscuits manufacture	Sugar used in the manufacture of biscuits for export only	shs. .35 per 10 kg. exported outside East Africa
				Sweet manufacture	Sugar used in the manufacture of sweets exported outside East Africa	shs. .51 per kg. (of boiled sweets) exported outside East Africa; shs. 0.42 per kg. (of toffees) exported outside East Africa

Notes: 1. Source: Kenya Gazette Supplements.
2. Phrasing and spelling of legal notices is retained, except where paranthetical material has been added.
3. With respect to Legal Notice 57 (1969), House of Manji also received rebates from the Wheat Board on its purchases of domestic semolina.

Kenyan policies that may indirectly affect exports are many, and only a few will be noted here. I have not made a detailed analysis, and two caveats are especially called for: I have made no effort to date the appearance and/or disappearance of various policies, nor have I attempted to assess their quantitative impact upon exports. Despite this, two general conclusions seem clear: 1) most of these policies discourage exports, especially discourage manufactured exports, and discourage most of all exports of processed Kenyan agricultural products; and 2) exports have low priority among Kenyan policy-makers' objectives.

1. Export Duties. These taxes influence exports not only in the obvious way, by reducing the supply and export of the product taxed, but also in that the supply (and export) of goods which use the taxed product as a raw material is increased. In Kenya, according to the Export Duty Bill, such taxes may be levied only on coffee and sisal. But export taxes have in effect been levied on a variety of goods at various times. A few examples. Under The Hide and Skin Trade Act, a "cess" is imposed upon exported hides and skins that currently represents a tax of a few percent of value. For many years, a cess was imposed on canned corned beef which, since most of the production is exported, amounted to an export tax. Under The Canning Crops Act, cesses have been imposed upon certain crops "sold for the purpose of canning" (Section 25) or "canned for the purpose of sale" (Section 26). Inasmuch as these taxes have been primarily applied to passion fruit and pineapple, which are largely exported, they contain elements of a differential, or "cascaded", export tax system.

2. Export Licensing. Quantitative restrictions (i.e. "QRs") are a special case of taxation on exports just as on imports, and they can range from the mere formality of registering exports to absolute prohibition. In Kenya, The Imports, Exports, and Essential Supplies Act empowers the Director of Trade and Supplies generally to "prohibit absolutely or restrict" exports (Section 4) and more specifically to, "in his absolute discretion, either grant or refuse to grant an export license" (Section 6). While export licenses are currently mere formalities for the most part, they signal to exporters the potential for stern licensing and even prohibition, whenever it is deemed necessary "to ensure at all times an adequate supply in Kenya" (The Jute Control Bill, Section 4). The discouragement to long-term exporting search and committment clearly cannot be assessed by measuring the actual strictness with which export licensing is at any moment implemented.

3. Internal Taxes for Which Export Drawbacks Are Not Allowed. In Kenya, both "excise" and "consumption" taxes[33] are levied, and often on exported or exportable goods. The Excise Tariff Act affects beer, sugar, cigarettes, matches, spirits, biscuits, soap and soap powders; while it can be remitted for many reasons, export is not one of them. The Consumption Tax Act affects petroleum, beer, spirits, cigarettes, motor vehicle tires, batteries, crown corks, cement, footwear, paints and fabrics; the Minister of Finance may remit this tax "where he is satisfied that the circumstances of a particular case so require" (Section 10), which permits export drawbacks.

4. Import-Substituting-Industrialization Policies. The gamut of policies used by LDCs to encourage domestic production of imports--import restrictions, credit subsidies, tax holidays, etc.—is, as need not be

elaborated here, generally biased against exports. Kenya has gone far enough along this path that the bias has become clearly visible. While most raw materials and capital goods still carry low rates of duty, there are many exporters who pay 30 percent and some even 60 percent on their imported raw materials. But these, at least in principle, can be "drawn back" by exporters. What cannot be recovered are the excessive costs, by world standards, of Kenyan intermediate inputs. For example, tin cans cost 50-70% more in Kenya than in Great Britain because of short production runs and other productivity disadvantages; and the proposed Broderick Falls paper mill is expected to raise the cost of paper, and hence labels and containers, by 30-60%. And finally, the apparently inevitable distortions in the pricing of capital and labor provide further bias against industries in which Kenya has comparative advantage, and hence, a fortiori, against exports.

5. Agricultural Prices. In Kenya, the Ministry of Agriculture and various "boards" fix most internal agricultural prices. The practice has many objectives, such as reduced farm uncertainty, prevention of monopsonistic exploitation of farmers, and crop-production goals (independent of efficiency). From the viewpoint of exports, the practice is relatively harmless if the prices are kept in harmony with world price trends, as is the case with most minor crops in Kenya. But for the major products--meat is the only exception--the internal price has come to be set well above the world price. The implications of such a policy are multifarious, but one must be particularly noted: the processing of such products for export is discouraged. Kenya has developed a number of policies to offset this, such as, for exporters of processed agricultural products, i) a lower price, ii) remission of various taxes or cesses, iii) direct subsidies, or iv) special compensatory concessions (e.g. on freight rates). But these are too incomplete, uncertain and ad hoc to offset the bias against export that the prices provide.

In short, the broad spectrum of Kenyan economic policies, though not concerned with exports, is consistently and strongly biased against exports. Moreover, the Export Promotion Council and the "drawback" system provide very little quantitative offset to this bias. Thus, for most Kenyan exports, the net direction of policy influence is unquestionable. For exports to T&U, however, the result is not so clear once the nature of the EAC is recognized.

A little-noted, though obvious, aspect of a free-trade area such as the EAC is that each of the members agrees to subsidize the exports to it of the partners, to an extent not to exceed the external tariff borne by the product. Kenya's participation in the EAC and its concomitant willingness to subsidize T&U exports to Kenya is the price of its own efforts to increase Kenyan exports to T&U. While the erosion of the EAC has much reduced the mutual export subsidies involved, the promise of such preference still provides a powerful stimulus to Kenyan exports to T&U. Kenya's membership in the EAC generates a significant offset to the anti-export bias of other policies, but it of course supplies it only with respect to exports to T&U.

Footnotes

*I am indebted to many colleagues at the Institute for Development Studies of the University of Nairobi and the Center for Research on Economic Development for comments on an earlier draft which appeared as I.D.S. Working Paper No. 105.

[1]All trade data in this paper are taken from East African Customs and Excise Dept., various years.

[2]"Manufactures" are defined as products that originate in the "industrial" sectors of the economy (i.e. the 2s and 3s of the ISIC one-digit classification or as products in the SITC/6, 7, and 8 classes, depending upon whether industry or trade data are used.

[3]See Table 1 for further information on the destination of exports.

[4]The total rose at less than 1 percent per year for manufactures (i.e. products in the SITC/6-8 groups). The growth rate was higher if chemicals (SITC/5) are included, but negative if tobacco and beverages (SITC/1) are included. See Table 1. 1971 is taken as the terminal year for all comparisons in the paper. Although 1972 trade data are available, the disruption of the Ugandan trade within the EAC in that year makes it inappropriate for discussion of trends.

[5]For example, if Kenya provides half the market for a product, if the plant size is just adequate for the entire initial EAC market, and if Kenyan demand grows at 5% per year, the loss of the T&U market dooms the plant to 14 years of excess capacity.

[6]Consider, for example, a firm that purchases a raw material in exogenously fixed quantity and, after satisfying the internal market, seeks foreign outlets for the remainder in processed form (where greater "processing" merely means at higher cost). Assume that it has two potential outlets, as a more processed product to the advanced countries, and as a less processed product to its neighbors. The private profit it derives is given by the equation

$$\pi = p_1 q_1 + p_2 q_2 - c(q_1, q_2),$$

where π is private profit, p_i the price received on sales in the i^{th} market, converted to local currency at the official exchange rate, q_i the quantity sold in the i^{th} market (with units chosen so that each product uses the same amount of the raw material) and c the total cost function. The firm will, in maximizing this profit, produce and export the two products in such combination that

$$p_1 - p_2 = c_1 - c_2 ,$$

where c_i is the partial derivative of c with respect to the i^{th} quantity. If the exchange rate is overvalued, however, the <u>social</u> profit function is different, namely,

$$\pi^* = (1 + \alpha)(p_1 q_1 + p_2 q_2) - c(q_1, q_2)$$

where π^* is social profit and α measures the degree of overvaluation. Maximization of π^* requires

$$(1 + \alpha)(p_1 - p_2) = c_1 - c_2 ,$$

i.e. that there be a larger absolute gap between the marginal costs of the two products than private profit dictates. With rising costs, this means greater production and export of the higher-priced product. To the extent that Kenya's neighbors buy "less processed" exports than more distant buyers, Kenya's exporters may be directing too much to those nearby markets, and neglecting the socially more profitable distant markets.

[7]An increasing amount of "quid" is involved for Kenya's "quo". T&U's exports of manufactures to Kenya have roughly doubled since Independence while the return flow has stagnated--although Kenya still exports to its partners nearly twice as much of manufactures as it receives from them.

[8]The phrase, "other African and Middle East" (hereafter abbreviated to OAME), always refers to: 1) all continental Africa except i) Rhodesia, ii) South Africa, and iii) the EAC (i.e. Tanzania and Uganda): 2) the Arab countries of the Middle East (i.e. Bahrain, Iran, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia, Southern Yeman [Aden], and Syria); and 3) the nearby islands of the Indian Ocean (i.e. Malagasy, Mauritius, Réunion, and the Seychelles).

[9]The SITC groups are:

0 Food and live animals
1 Beverages and tobacco
2 Crude materials, inedible, except fuels
3 Mineral fuels, lubricants and related materials
4 Animal and vegetable oils and fats
5 Chemicals
6 Manufactured goods classified chiefly by material
7 Machinery and transport equipment
8 Miscellaneous manufactured articles
9 Commodities and transactions not classified according to kind.

[10]All figures and calculations are in Kenyan shillings (unless otherwise noted). The Kenyan shilling was worth exactly US $0.14 throughout the period, 1964-71. The growth rates calculated in Table 1 (and elsewhere) are those rates per annum which, if they had applied in each year over the period would have in fact generated the 1964-67 and 1968-71 sums of exports actually recorded. That is, if

$$X_t = X_{1964}(1 + g)^{t-1964},$$

then

$$\Sigma_{1964}^{1967} X_t = X_{1964}[1 + (1+g) + (1+g)^2 + (1+g)^3]$$

and

$$\Sigma_{1968}^{1971} X_t = X_{1964}(1+g)^4 [1 + (1+g) + (1+g)^2 + (1+g)^3];$$

and hence

$$\Sigma_{1968}^{1971} X_t \; X_t / \Sigma_{1964}^{1967} X_t = (1 + g)^4$$

may be used as an estimator of the growth rate per annum, g.

[11]See Republic of Tanzania, 1964, pp. 38 ff. and Government of Uganda, 1966, pp. 85-93. Indeed, the Tanzanian plan explicitly stated

its intention to introduce industries with products "substituting for imports both from abroad and from other East African countries" (Republic of Tanzania, 1964, p. 38).

[12]The point here is not the much-discussed and still unresolved question of who really gained and lost from the free operation of the EAC, but that T&U perceived losses. Ghai (1964): "... it appears that Kenya has been the greatest beneficiary, that Uganda has on balance gained rather than lost, and that Tanganyika has suffered a substantial net loss" (p. 39). Newlyn (1965): "... there would be a clear gain to Tanganyika and an insignificant loss to Uganda from leaving the common market" (p. 135). Robson (1968): "there appears to the writer to be a strong presumption that ... gain could be derived by Tanzania from withdrawal..." (p. 147). While these authors usually made explicit the special assumptions and analytical framework on which their results were based and while other authors concluded "that no convincing evidence has been provided that any country has been an absolute loser" (Hazelwood, 1967, p. 81), the perception of loss by T&U was not unsupported.

[13]SITC/0 and 2 are essentially "primary" products, although they include many manufactures (e.g. tinned pineapple, milk products, canned beef, leather and wood products). SITC/3 is omitted as a special case, consisting of the products of one firm, although it too fits the thesis being presented. SITC/4 and 9 are too small to merit attention.

[14]The choice of "the product" is inevitably arbitrary. In the Kenyan case, the choice is constrained by the fact that 1) export data are variously published at the 3-digit, 4-digit, 5-digit and 6-digit SITC levels, and 2) the SITC code was changed somewhat in 1968. In Table 2 and throughout, three conventions are followed: 1) the SITC code of 1964-67 is given with a hyphen (it was at most a 5-digit code) and that of 1968-71 with a decimal point; 2) when the final SITC digits are omitted, zeros are implied, and 3) a trade value of 0.0 means that the figure, while not zero, was less than 0.05; a dash represents zero.

[15]Republic of Tanzania, 1964a, p. 46 and Appendix Table 3; and Republic of Tanzania, 1972, pp. 60, 61. The development of the Ugandan industry is less easily summarized, as sugar and tobacco are reported together in the industrial censuses.

[16]It is tempting to explain the decline of the Kenyan share in terms of a temporary, or at least once-and-for-all, shift of Tanzania's imports toward Mainland China. The magnitudes are not large enough to support the hypothesis. Even if all of Mainland China's exports to Tanzania of the products listed in Table 4 had come from Kenya instead, Kenya's share would have been only 33% as compared with 50% in 1964. (Mainland China's total SITC/5 exports to Tanzania were shs. 14.6 million 1971, but only shs. 4.4 million were of the products listed in Table 4.)

[17]On the grounds that the former is really a primary product--whose T&U export declined by more than one fifth--and that the latter, being a product of Zanzibar, must be excluded to keep the 1964 and 1971 figures comparable.

[18]Excluding copper, which is not a manufacture, and cement to "foreign countries, other" which, given the transport costs of this product, must have gone to unidentifiable nearby countries.

[19]Again, Mainland Chinese exports to Tanzania are not large enough to explain the fall in Kenya's share.

[20]T&U exports of the thirteen products of Table 6 rose from shs. 2.3 to shs. 4.4 million. Their exports of all other SITC/6 products (excluding as special cases Tanzanian diamonds, Ugandan copper, and Tanzanian sisal products) rose only from shs. 5.9 to shs. 6.9 million.

[21]Both EAC partners are involved, the Ugandan competition in insulated wire, the Tanzanian in batteries.

[22]Indeed, that was what the Kampala Agreement was all about.

[23]Technically, it did rise for matches, but the total of such T&U imports had fallen to barely shs. 5,000 by 1971.

[24]Here again, Mainland China's incursion into the Tanzanian market cannot account for more than about half of this decline in Kenya's share, even on the assumption that such Chinese imports exactly replaced Kenyan sales to Tanzania.

[25]Bhagwati and Desai, 1970, p. 466.

[26]This paper was written before the budget speech of June 1973, which "appears to mark the beginning of a clear change in policy" (Wasow, 1973, p. K27). That speech principally proposed more uniform import tariffs and an export subsidy.

[27]Kenya Export Promotion Council, 1970, passim.

[28]1970-71 is the most recent for which there are data.

[29]See, for example, Hopcraft, 1972.

[30]Ironically, a later Legal Notice, 207 (1970), altered the procedure in only one way, deleting the requirement that the supplicant be informed in writing of how he has failed to comply if the application for refund is rejected.

[31]Many firms experienced more frequent appearances. In addition to the references of Table 14, House of Manji received import remission from the Minister for Finance and Economic Planning, Legal Notice 34 (1972), with respect to its imports of chocolate or cocoa for its "sole use".

[32]Nor can it easily handle imported capital goods. But in Kenya, the duty is always small, and usually nil, on capital equipment.

[33]And now "sales" taxes; but it is still too early to know exactly how it will be administered with respect to export drawback.

REFERENCES

Bhagwati, J. D. and P. Desai, 1970. *India: Planning for Industrialization.* O.E.C.D. and Oxford University Press.

East African Customs and Excise Department, various years. *Annual Trade Report of Tanzania, Uganda and Kenya.* Mombasa.

Ghai, D. P., 1964. "Territorial Distribution of the Benefits and Costs of the East African Common Market." *East Africa Economic Review.* June.

Government of Uganda, 1966. *Work for Progress: Uganda's Second Five-Year Plan, 1966-71.* Kampala.

Hazelwood, A., 1967. *African Integration and Disintegration.* Oxford University Press.

Hopcraft, P., 1972. *Outward Looking Industrialization: The Promotion of Manufactured Exports from Kenya.* I.D.S. Discussion Paper No. 141, Nairobi.

Kenya Export Promotion Council, 1970. *Chairman's Report, 1970.* Nairobi.

Massell, B., 1962. "Trade Between East Africa and Neighboring Countries." *Economic and Statistical Review.* E. A. Statistical Dept., September.

Newlyn, W. T., 1965. "Gains and Losses in the East African Common Market." *Yorkshire Bulletin.* November.

Republic of Tanzania, 1964. *Five-Year Plan for Economic and Social Development, 1964-69.* Dar es Salaam.

_____, 1964a. *Census of Industrial Production in Tanganyika, 1961.* Dar es Salaam.

_____, 1972. *Survey of Industrial Production, 1969.* Dar es Salaam.

Robson, P., 1968. *Economic Integration in Africa.* Allen and Unwin.

Wasow, B., 1973. "Industry Must Turn to the Export Markets." *African Development.* September.

Center for Research on Economic Development

CRED Discussion Papers

(A list of the titles of Discussion Papers 1-19 will be sent upon request.)

No. 20 Izevbuwa Osayimwese, *"An Application of Control Theory to Rural-Urban Migration and Urban Unemployment,"* May 1972, 19 pp.

No. 21 George Johnson, *"The Determination of Hourly Earnings in Urban Kenya,"* May 1972, 36 pp.

No. 22 Charles Staelin, *"The Cost and Composition of Indian Exports,"* May 1972, 41 pp.

No. 23 Peter S. Heller, *"A Model of Public Sector Expenditure Dynamics in Less Developed Countries: The Kenyan Case,"* May 1972, 50 pp. Forthcoming in *Quarterly Journal of Economics.*

No. 24 Peter S. Heller, *"The Strategy of Health-Sector Planning in The People's Republic of China,"* July 1972, 62 pp. Forthcoming in a publication by the Josiah Macy Foundation. (Revised October '73 48pp.)

No. 25 C.R. Winegarden, *"Determinants of International Differences in Educational Effort,"* September 1972, 31 pp.

No. 26 Charles Staelin, *"A General Equilibrium Model of Tariffs in a Non-Competitive Economy,"* March 1973, 29 pp.

No. 27 Robin Barlow, *"Planning Public Health Expenditures with Special Reference to Morocco,"* April 1973, 72 pp. (French 81 pp.) A part of Task Order No. 3, to A.I.D. Contract No. afr-675.

No. 28 Theophile Lukusa Dia Bondo and Richard C. Porter, *"A Constant-Market-Share Look at African Exports in the 1960s,"* June 1973, 25 pp.

No. 29 Richard C. Porter, *"Labor Migration and Urban Unemployment in Less Developed Countries: Comment,"* July 1973, 19 pp.

No. 30 Peter S. Heller, *"An Econometric Analysis of the Fiscal Behavior of the Public Sector in Developing Countries: Aid, Investment and Taxation,"* October 1973, 39 pp.

No. 31 Richard C. Porter, *"Some Doubts about Kenya's Future as an Exporter of Manufactures,"* October 1973, 30 pp.


BRODART
MADE IN U.S.A.