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The impacts of EPAs on Kenya

Jesuit Hakimani Centre (JHC) Kenya

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Research report

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Acronyms

ACP	African, Caribbean and Pacific
AFDB	African Development Bank
CAP	Common Agricultural Policy
COMESA	Common Markets for East and Southern Africa
CSOs	Civil Society Organisations
DC	Developed Countries
EAC	East Africa Community
ECA	Economic Commission of Africa
ECCAS	Economic Community of Central African States
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
EU	European Union
FTA	Free Trade Area
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
IEA	Institute of Economic Affairs
IGAD	Inter-governmental Authority for Development
KAM	Kenya Association of Manufacturers
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
LDCs	Least Developed Countries
MSMEs	Micro, Small and Medium Enterprises
MAR	Market Access Regulation
MDGs	Millennium Development Goals
MFNT	Most Favoured Nation Treatment
MTSP	Medium-Term Strategic Plan
MUB	Manufacturing under Bond)
PQRs	Prohibition of Quantitative Restrictions
PTA	Preferential Trade Area
SADC	Southern African Development Community
SAP	Structural Adjustment Program
SID	Society for International Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organisation

EXECUTIVE SUMMARY

International trade is not just important in the present global world but it can also be a major contributor to economic and social development for the developing countries through the efficiency, dynamism and innovation associated with it. There is a need for the developing countries to expand their markets not just through South-South cooperation but also by accessing those of the developed nations in order to reduce the existing imbalance in North-South trade relations. In essence, this was the initial objective of the Lomé Convention between the European Union (EU) and the ACP (African, Caribbean and Pacific) countries – to support and facilitate trade between the two blocks (ACP and the EU) and to eradicate poverty. To this end, the inherent advantages for the ACP in the non-reciprocal trade relations of the Lomé Convention was justifiable given certain historical differences that set these worlds apart. Nonetheless, the movement from a non-reciprocal to a reciprocal trade agreement that complies with WTO (World Trade Organization) requirements may arguably be understandable.

It is this demand for reciprocity that underpinned the Cotonou Agreement (2000) which later paved the way for the Economic Partnership Agreements (EPAs); it required ACP countries to open up their markets to EU products. This, however, was to take into account the varying needs and levels of economic development of the different states, with each ACP country allowed to offer market access when they were ready. The agreements were also intended to be concluded between the European Union and a defined group of countries such as the East African Community (EAC), Economic Community of West African States (ECOWAS) or Southern African Development Community (SADC). These considerations can to some extent be viewed as attempts to strike a balance between the justifiable non-reciprocal agreements between ACP and the EU countries and the reciprocal requirements of the WTO. Yet, it is the extent to which these two considerations were followed, if at all, that is the subject of discussion and the source of disputes.

The EPAs clearly and fundamentally give producers from Kenyan and the EAC region access to a significantly wider market without quotas or duties. Thus, the EPAs will boost trade between Kenya and the EU with major benefits accruing to specific sectors such as the horticultural industry. By agreeing to the terms of the EPAs, Kenya alongside many other developing countries, seeks to benefit from these opportunities. However, there are genuine concerns relating to the provisions of the EPAs that need to be reviewed for the ACP countries in general, and Kenya in particular, to realize these benefits. We therefore advocate for recognition of the challenges raised by the EPAs to Kenya's development agenda and for practical steps to ensure that ACP countries in general and Kenya in particular benefit from the arrangement.

This is born out of the contention that:

a) Despite the often made theoretical allusion to welfare gains arising from the liberalization of the developing countries' economies, there has been little development for the majority of citizens in ACP nations since independence. This points to the fact that more needs to be done alongside liberalization for most people, especially those on the developing countries, to really benefit. In fact, some level of protectionism for the lowest echelon of society is not only desirable but also necessary to protect the infant industry of the developing countries that gives employment to most of the population. The short term structural unemployment, the increased instability in the domestic economy due to international trade cycles, the uneven international markets, pollution and other environmental problems are issues that ACP countries should be assisted in tackling because of their weak capacity. Advocates for reciprocity in trade, therefore, have to be cognizant of these facts. Still, a number of other factors are important in guaranteeing development besides reciprocity. Infrastructure, transfer of technology and institutional support to trade are just as crucial in the equation.

Even within that reciprocity, there is still the use of NTBs (Non-Tariff Barriers) in form of SPS (Sanitary and Phyto-sanitary Measures) and TBT (Technical barriers to Trade) that put Kenyan agricultural exports at risk of losing out on free access to the EU market. The high costs of conforming to quality standards, new traceability regulations, adherence to MRLs (Maximum Residue Levels) and adoption of EurepGAP[1] (Good Agricultural Practices) for instance are less known by the majority of Kenyan agricultural producers and the costs of compliance with these new standards are especially prohibitive for small-scale farmers. This increasing use of TBT and SPS measures in the Organization for Economic Cooperation and Development (OECD) markets poses serious challenges that will undermine whatever tariff liberalization gains made.

Overlooking these facts has led to trade benefits being enjoyed by big industry players such as the flower industry at the expense of small players in the agricultural sector, thereby exacerbating the inequitable wealth distribution in the country. The nature of Kenyan industries may require a longer period of nurturing than the stipulated 15 years under which 82.6 percent of its market should be opened.

b) Reciprocal trade such as the EPAs should consider the nature of the tradeable commodities the countries have and whether or not the countries stand to benefit from agreements that leave their economies exposed without elaborate mitigation measures on the outcomes of such agreements. Kenya's trade flows in agriculture and manufacture represent her unique production structure as well as her geographical location. Her agricultural exports are mainly destined for the EU while she exports manufactured goods to the regional markets. This leaves Kenya to export raw agricultural commodities that have very little value for its economy. Tea, coffee and horticulture are Kenya's dominant agricultural exports to the EU and have benefited from the market access provisions in both the Lomé Convention and the Cotonou Agreement as evidenced by significant growth in the 1995-2003 period. The EPA will be more beneficial to Kenya if it is accompanied by genuine and serious measures to help the country's transition to a manufacturing economy, export more and earn better prices for the commodities. Furthermore, the COMESA market (Common Market for East and Southern Africa) which is one of the key markets for Kenyan manufactured goods will be under serious competition from the EU exports. As such market access gains arising from the EPAs must adequately compensate the possible loss of jobs, revenue and income that may arise from the increased exposure of the manufacturing sector to competition from the EU.

There is a noteworthy proliferation of NTBs in developed countries even with systematic reduction of tariffs to embrace globalization. The evidence shows that agricultural exports from all developing countries to the EU (whether or not they enjoy preferences) face higher barriers than do manufactured exports.

1.- EurepGAP is a common standard for farm management practice related to food safety, shelf life and quality created by European supermarket organisations and their major suppliers. GAP stands for "Good Agricultural Practices". Source: Reo Veiling, retrieved September 2015 from: http://www.reo.be/eng/eurepgap/wat.asp

Agricultural exports from preference receiving developing countries enjoy a slight advantage over exports from the middle-income countries and OECD economies. Preference erosion through WTO and other trade negotiations therefore significantly undermines the competitiveness of these exports in the EU - where market access is higher than in other OECD countries.

c) There should be ways of regaining the lost income from such trade agreements. Non-tariff barriers and other impediments may limit the benefits that Kenya and other low-income countries derive from the trade preferences granted by developed countries as a substitute for aid. Further, the effectiveness of the preferences in targeting the poor may be compromised if productive resources are highly concentrated. The Common Agricultural Policy (CAP) poses real threats to the benefits to be enjoyed by Kenya from the EPAs; the price reductions - in the EU and globally - that will arise from the CAP will significantly threaten export earnings from Kenya's agricultural exports to the EU. Further, they may displace, from global and EU markets, developing countries' agricultural exports.

From the foregoing, we offer the following recommendations:

i. There should be deliberate steps towards ensuring knowledge and technological transfers to developing countries in order to help them integrate into the world economy and benefit from the EPAs.

ii. The tariff phase-down period for Kenya should not be static but elastic enough to sufficiently enable her to consolidate gains from regional integration and to gradually transit into other means of revenue generation. There should also be full compensation for the expected revenue loss in form of increased budget support for the expected revenue loss and to address the major supply-side constraints that impede competitive production.

iii. There should be a mitigation of costs of complying with the creeping TBT and SPS requirements through, for example, seeking equivalence recognition for the existing verification arrangements in the ACP and EU.

iv. The EU should focus more on development and therefore increase its assistance to development projects in Kenya and the EAC region at large.

v. Standards to protect EU citizens through animal and plant health regulations should be designed to minimize trade obstacles to Kenya's small-scale farmers who may be interested in exporting to the EU.

vi. The EU should facilitate increased access to accurate information on changes in the standards on traceability, MRLs and EurepGAP. There should be harmonization of varying individual OECD country standards to an internationally accepted base so as to reduce the compliance costs.

vii. There should be a deliberate commitment to upholding and enhancing regional integration among the ACP nations given the importance of these integration processes. The presence of both LDC (Least Developed Countries) and non-LDC countries within EPAs negotiating groups did not help regional integration initiatives. The rules of origin may further pose problems within the blocks. Regional blocks therefore need to be strengthened to develop rigorous border controls.

1. INTRODUCTION

The Economic Partnership Agreements (EPAs) are trade and development agreements negotiated between the EU and African, Caribbean and Pacific regions engaged in a regional economic integration process. Initially granted in the Lomè Convention, EPAs seek a change of the preferential access of the EU markets from a non-reciprocal to a reciprocal access by requiring that ACP countries open their markets to EU products and the liberalization of other areas such as investment and service. These, it is argued by the EU, seek to promote trade between the two groupings – and through trade development, sustainable growth and poverty reduction – as they allow tax exemption on products from ACP countries to EU markets. They are also intended to help ACP countries integrate into the world economy and share in the opportunities offered by globalisation.[1] This opportunity presumably includes cheaper prices of food imports from the EU for the ACP consumers, especially for African consumers.

It should be recognized that:[2]

- At least 75 percent of Africans are small-scale farmers cultivating less than 2.5 ha.
- ACP countries, especially African countries, have little capacities to monitor and control quantity, quality and safety of imports for their consumers; these lead to supply-demand distortions that do not help the countries.
- Education, infrastructure and technology transfer are low in Africa.
- Most African countries rely heavily on tariff/revenues for their recurrent and development expenditures; these tariffs/revenues are mainly accrued from the export of raw materials.
- Multinational enterprises control the world's food industry and have often forced small players out of business through pricing mechanisms.

African countries were not oblivious of these facts at the time of discussion with their EU counterparts. Hence, many ACP countries are not happy with the deal on the table and only 36 out of the original 76 ACP countries had accepted in principal to initialize the EPAs by the end of 2007. The EU, however, was unrelenting in its push for the EPAs confirming that its position was correct, making some deliberate decisions to step-up information and communication efforts to convince ACP actors of this approach. They also resorted "to continue offering aid for trade for the EPAs, saw "variable geometry" as a chance to reach deals with as many ACP countries as possible, set new deadlines for the negotiations and invoked the issue of legal certainty to possibly withdraw the market access offered to countries that initialed (interim) EPAs at the end of 2007, on the basis of EU Market Access Regulation 1528" (ACCORD 2010). This new push led to the 2011 proposal of making significant changes to two trade regulations – reform of the General System of Preferences (GSP) and the phasing out of the Market Access Regulation (MAR) which were passed by the EU parliament. Both of these mean higher tariffs for ACP countries that do not sign EPAs.The EUs approach was denounced by the African Union and other ACP delegations that congregate in Tripoli in 2010 seeking to look for alternative resolutions (ACCORD 2010).

The African countries showed a strong resistance against the proposals at the beginning with serious disagreements emerging on issues of provisions of subsidies that farmers in EU get, duties and taxes on African exports as well as non-trade issues relating to good governance and transparency spelled out in the Cotonou Agreement. Other complications surrounding the EPA negotiations include the possibility of ACP countries negotiating with the EU separately yet they belong to different economic blocs. This tactical approach put African regional blocks, some of which comprise both LDCs and non-LDCs, against each other. Eventually, a number of African countries, Kenya among them, that had initially rejected the initialization of the EPAs accepted and initialled them with the fear of losing the EU markets among other justifications.

Kenya is a key partner of the EAC and a key trade partner of a number of EU countries. She sought to continue having access to the EU market in a way that makes her produce competitive. However, Kenya is categorised as a non-LDC country, which sets her apart from the other EAC countries which are all LDCs. Given Kenya's fear in the loss of access to the EU markets especially for her flower exports, unlike her EAC neighbours who would still benefit from tax exemptions even the October 1st 2014 deadline, Kenya accepted to sign an interim agreement of the EPAs in on 9th February 2015, four months after the EU-set deadline during which Kenya's products fell under the generalized System of Preferences (GSP) standard regime which attract a tax of between 5-8% for flowers and other horticultural products, and 12% for fish products. Kenya exports flowers worth $537 million and vegetables worth $307 million yearly to the EU which is about 40% of Kenya's fresh produce. A lot of the pressure that resulted into the signing of the EPAs came from owners and representatives of flower firms that claimed that the failure for the Kenyan government to sign the EPAs made them lose out on the EU market, which the biggest for them, under the GSP regime which rendered Kenyan flowers uncompetitive. They estimated to have lost an excess of 100 million Kenyan shillings a week in the period before the agreement.

The question, however, is whether the EU's arguments and promises of a sustainable growth through market access and integrating ACP nations into the world economy can spar growth and reduce poverty in ACP nations. Are these sufficient in their suggested form? Who is actually benefitting (and who will benefit in the future) out of this agreement, ACP nations or the EU nations? Were the negotiations within a fair trade framework? This study seeks therefore to focus on the impacts of the signing of EPAs by Kenya in relation to the aforementioned questions. It shall also give organizations leads on possible intervention mechanisms in terms of lobbying and advocacy on economic/trade justices that may be appropriate. Key linkages shall be explored to bring these impacts and to unravel the nature and possible lines of intervention in line with the conceptual framework below:

1.- http://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/ accessed on 12/ 10/2014.

2.- Cf. "EPAs in a time of crisis," ACCORD.http://www.acordinternational.org/our-work/a/livelihoods/trade/epas

1.1. Conceptual Framework

This study understands the EPAs as interweaving the relationship between the two blocs (EU and EAC). Both the EU and the EAC have inter-state agreements on common market and trade agreements which have been agreed on. What EPAs do is to add another layer that the EAC nations have to abide by so as to access the EU market with tax exemptions. The rules of origin here have to be specific and acceptable, just in case a country like Kenya is opted out of the EPAs list. The nature of interaction amongst players is not necessarily linear or direct.

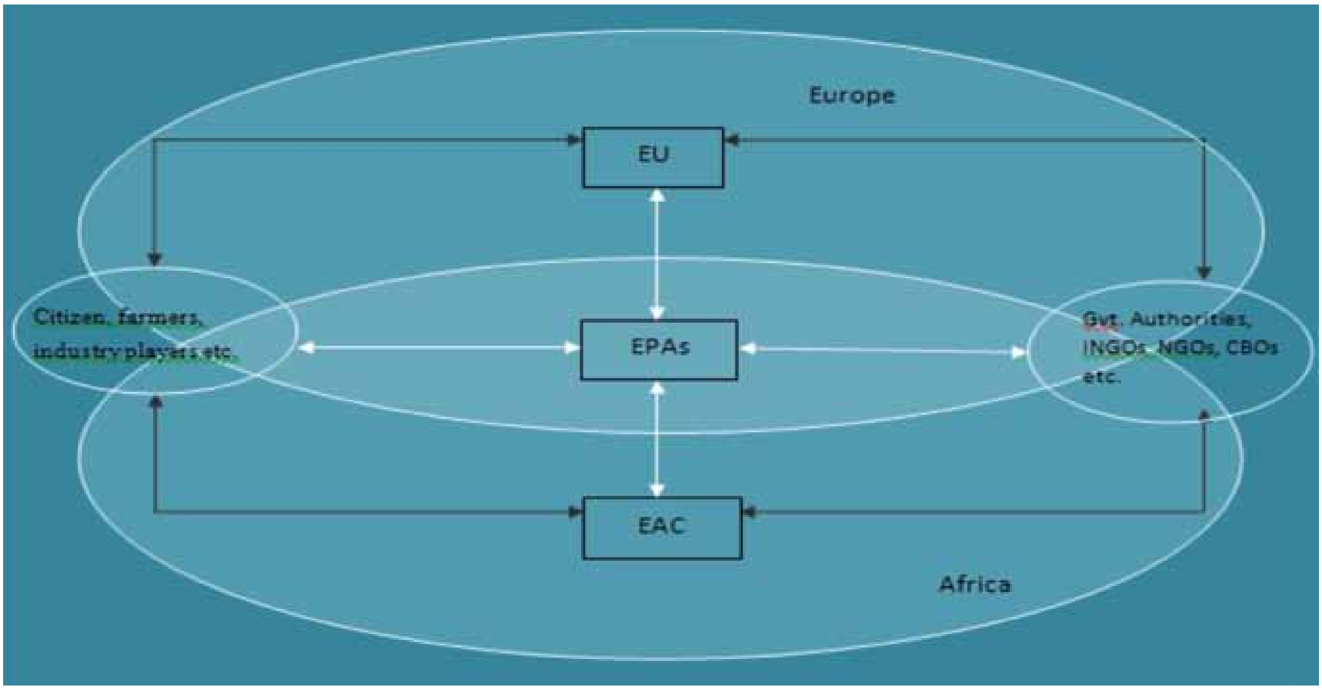


Figure 1 Conceptual framework

1.1. Objectives:

The main objective of this study is to analyse the potential impacts of the signing (or failure thereto) of the Economic Partnership Agreements (EPA) between the EAC and the EU on Kenya. The key study questions shall be:

a) What are the guiding principles of Kenya and the EU trade and what is the performance of trade between the two blocs?
b) What impacts does this trade situation have on Kenya's development?
c) What would be the impact(s) of Kenya's signing (or failure thereto) of EPA on her development?
d) What are the possible interventions by different stakeholders (groups/organizations/ governments) to remedy the situation?

1.2. Methodology

The study will utilize two main methods. First, relying on secondary data, the study shall carry out a literature review on EPA and its impacts on Kenya, and shall analyze trade policies in Kenya and within the East Africa Community with a view to determining the impacts/strengths and weaknesses of such policies to key industries in the country and their possible relations to provisions in the EPAs. This shall be based on secondary data that is already available.
Second, the study shall interview a sampled number of respondents from key sectors in the industry under broad categories as under to further probe their understanding of EPAs, their underpinnings, intentions and possible impacts in their lines of engagements:

1. Policy makers and state institutions charged with overseeing/guiding trade within and without the country such as *Kenya Institute for Public Policy Research and Analysis (KIPPRA),* Ministry of trade, East Africa Community. Kenya's Export Promotion Council among others.
2. The second shall be persons, companies or institutions that trade across the border (export) with their (potential) market segment in the European Union. These will be drawn from a range of sectors – agriculture (Kenya flower council - horticulture, livestock and mining), the manufacturing industry as well as the informal sector locally referred to as *jua kali* sector among others.
3. Non-governmental organizations and research firms that deal with issues of international trade and development e.g. Oxfam, ActionAid, Kenya Human Rights Commission,Agency for Cooperation and Research in Development (ACORD), Trademark East Africa among others.

These shall be instrumental in unravelling the possible avenues of interventions/enhancement for lobbying and advocacy.

The interviews shall be in form of structured/unstructured self-filled questionnaires where appropriate. Further probing (for thick answers) shall be followed on respondents' answers where appropriate for clarification or expounding on the themes. These responses shall be analysed and grouped appropriately. It is envisioned that an in-depth discussion/interviews with a sampled set of these groups shall reveal key elements embedded in EPA and its operationalisation that will lay bare assumptions fears and potentials of EPA on Kenya's trade and development. This will also reveal possible avenues of interventions in terms of lobbying and advocacy, their nature and linkages.

The overall output of the study shall lead to conclusions and recommendations to the Kenyan Government, NGOs and CSOs as well as to the European Commission, EU parliament and national governments of the EU.

2. KENYA'S TRADE POLICY

It is proper to have an overview structure of Kenya's trade that can help isolate issues of importance in relation to her engagement with other partners in trade. Kenya's trade performance, for instance, and the structure of her trade will not only inform the evaluation of whether or not she stands to benefit from the EPAs but offer us some avenues for possible engagement. This section therefore presents a short historical perspective of the transitions taken by Kenya in her trade policy up to the existing policy together with their objectives, strengths and weaknesses. Other trade related issues as well as Kenya's performance are also presented here.

2.1. Recap of Kenya's International Trade Policy

Four epochs can be identified in Kenya's trade policy transition and reforms since her independence (in 1964).[3] First, there was the import substitution of the post-independence era (1960-1970s) that advocated for the replacement of foreign imports with domestic production and that was guaranteed by the state's greater role in the economy. It was characterized by strong regulatory and protectionist policies in key sectors of the economy and the provision of incentives that were "biased against exports"(Maureen Were, Moses Sichei and Chris Milner 2009, 2). The accompanying expansionary fiscal policy and growth in export within the East African Community's Common Markets of the time guaranteed steady growth in the first decade that spurred an economic growth between 1964 and 1973 (ibid). Although some economists have argued that it was aimed at ensuring continued supply of agricultural produce and raw materials for overseas markets, especially to UK as a continuation of the colonial policy, the import substitutions regime saw the economy of the country grow. However, other differing reasons for this growth have been given which include the hikes in prices of coffee and tea during this period. The manufacturing industry concentrated on goods for domestic consumption.

The second epoch (in the 1980s) made up the first attempts of liberalization which implemented through the Structural Adjustment Programmes (SAPs). These were borne out of the weaknesses of the import substitution policy which were exposed by the external shocks of the 1970s. Were et al. (2002, 2007) argue that, for instance, "high effective rates of protection, foreign exchange controls, import licensing, bureaucratic and cumbersome administrative procedures and an overvalued currency discouraged the growth of non-traditional exports." The protectionist strategies, it is also argued, distorted resource allocation and hampered technological transfers from abroad (S. Lall and Pitrobelli 2002). These problems were accompanied by reduction in economic growth of the country and necessitated a re-think of the trade strategies hitherto applied. The objective of the liberalization was, therefore, to shift the leanings of policies from a protected domestic market to a competitive environment that "would facilitate increased use of local resources, outward oriented policies that would promote employment creation and export expansion" (Manyara 2008).

Geared towards the promotion of exports and the conversion of quantitative restrictions to their tariff equivalents (Were et al., 2009), the implementation of the SAPs involved, among other things, the promotion of non-traditional exports, liberalization of market systems and reform of international trade regulations" (Manyara 2008). Thus, the outward-looking policies led to the adoption of Export compensation schemes in 1974 that were characterized by the Export Promotion Schemes and a conversion of quantitative restrictions to tariffs equivalent (Were et al., 2009).

The SAPs were introduced in the early 1980s to address the structural rigidities, price instability and macro-economic imbalances that had become embedded in the economy and led to poor delivery of services by the public sector. They were marked by the reduction of tariffs and other measures that protected the domestic agricultural and manufacturing sectors and the deregulation in the financial sector. These were pushed for by the World Bank and the Brettonwood institutions.

The 1990s saw trade reforms that led to comprehensive liberalization of Kenya's economy in the attempt at correcting the ills of the preceding policy orientations. The failing economic state led to the push for quick and comprehensive reforms by the multilateral donor agencies. Foreign Exchange Bearer Certificates in 1991 liberalized the foreign exchange market; the abolition of trade licensing requirements was introduced in 1993 (KIPPRA, 2007, 35).

The third epoch (1990s) in the trade policy of Kenya saw the upstaging of export oriented policies embodied in the sixth development plan of 1989 – 1993. These were geared towards ensuring export growth through "institutional reforms, reduction and restructuring of tariffs, abolition of export duties, introduction of export retention schemes, improvement of foreign exchange and insurance regulations and the establishment of the National Export Credit Guarantee Corporation" (Manyara 2008). Aimed at improving efficiency, stimulating private investment and increasing foreign exchange earnings, the strategy saw the introduction of several incentive strategies. These incentives and promotional programmes included the creation of the Manufacturing Under Bond (MUB) introduced in 1988, Export Processing Zones (EPZ) in 1990 and the revival of the Kenya Export Trade Authority (KETA), Export Guarantee and Credit Scheme and, Duty and Value Added Tax (VAT) exemptions administered under the Export Promotion Programmes Office for tax rebates on imported inputs for exporters and essential products like drugs (Were et al., 2009). The Export Promotion Council was also established in 1992 to address bottlenecks faced by exporters.

The EPZs enjoyed 10 year tax holiday, exemption from import duties on machinery and intermediate inputs and exemption from VAT. They were established to generate employment, earn foreign exchange, harness investment, promote technology transfer and increase value addition of domestic inputs (Republic of Kenya, 2005). MUB ensured that firms exporting their total output are exempted from payment of import duties and VAT on inputs. The export promotional programmes were geared toward promoting manufactured exports. MUB and EPZ targeted new investments while others like duty and vat exemption schemes targeted existing investments.

The last development strategy stretches into the current one through Kenya's Economic Recovery Strategy for Wealth and Employment Creation (ERS, 2003). The ERS sought three things: to restore a high economic growth; to improve equity and reduce poverty; and to improve governance. Economic growth, to be achieved through "a strengthening of the macroeconomic framework, a more responsible fiscal stance, increasing the role of private sector in economic development and improvement in physical infrastructure" (Njuguna Ndung'u, Kamau Thugge and Owino Otieno 2009), was expected to lead to the achievement of other development objectives. Equity and poverty reduction were to be approached through universal primary education, improved access to basic health, expansion of agriculture, development of the arid and semi-arid areas and by upgrading the conditions of urban dwellers. Governance was to be enhanced through extensive reform programs in the judiciary, strengthening the rule of law and security, and implementing reforms in public administration systems that are critical to improving government transparency and accountability (ibid).

3.- Cf.Maureen Were, Moses Sichei and Chris Milner (2009), "Trade Policy in Kenya," http://www.csae.ox.ac.uk/conferences/2009-edia/papers/510-were.pdf accessed on 10/10/2014. Also National Trade Policy (2009), p.6.

2.2. Present National Trade Policy

At present, Kenya is guided in her trade by the *National Trade Policy 2009.* The National Trade Policy is largely inspired by the "market-driven principles of liberalization under the World Trade Organization (WTO)"[4] and the importance of regional economic integration in Africa, among them the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and the Inter-governmental Authority on Development (IGAD) to which Kenya is a signatory. Kenya has signed a number of bilateral agreements with other nations. The instruments spelled out in all of these agreements form the National Trade Policy on issues relating to import and export policy, procedures and institutions (Ministry of Trade 2009, 18-24).

The National Trade policy also draws a lot from Kenya's development programme, *the Vision 2030,* which covers the period from 2008 to 2030 in response to the National Economic and Social Council's (NESC) recommendation to have a long term development agenda for the nation. *The Vision 2030* seeks to make Kenya "globally competitive and prosperous country with a high quality of life by the year 2030" (Republic of Kenya 2007) aiming to, among other things, "transform the country into a newly industrialising, middle income" (Vision 2030, viii). The vision is anchored in three pillars: Economic, Social and Political. The document recognizes the contribution of trade to Kenya's development through its linkages with various sectors of the economy such as the industrial, service and agricultural sectors – it generates markets for goods and services for consumers and has the potential to reduce poverty through the employment it creates in informal, retail, and wholesale trade and by providing Micro, Small and Medium Enterprises (MSMEs) with opportunities of accessing more favourable prices in international markets (ibid).

The WTO principles underpinning Kenya's current trade policy include those of the Most Favoured Nation (MFN), National Treatment, Prohibition of Quantitative Restrictions (QRs), Tariff Bindings/Commitments and Transparency (World Trade Centre 2015). Under these requirements, Kenya's policy is designed to commit herself to the reduction of tariffs and non-tariff barriers and embrace progressive liberalization of trade in goods and services.

2.2.1. Trade Policy Objectives

The country's National Trade Policy seeks to make Kenya "become an efficient domestic market and export led globally competitive economy" and "to facilitate Kenya's transformation into a competitive export led economy, enhance regional integration and widen participation in both domestic and international trade" as spelled out in its vision and mission respectively (Ministry of Trade 2009). The mission is to be achieved through two broad approaches:

(i) Promotion and expansion of Kenya's exports of goods and services "through value addition in export oriented manufactures and in the service sector." This has seen further reductions in tariffs and non-tariff barriers in Kenya's export markets with a sole purpose of improving market access to Kenya's products leading to gains in the EAC and COMESA markets; and

(ii) Development of an efficient and competitive domestic market (Ministry of Trade 2009).

Thus, the National Trade Policy (2009) approach is both inward and outward looking in its desire to guide both domestic and international trade through both private sector partnership and global competitiveness that can guarantee and sustain annual economic growth targets of 10 percent (NTP, 2009). This is a departure from the earlier policies that had unilateral leanings on either export promotion or import substitution strategies.

The policy's two broad objectives are to be achieved through

Setting and re-defining Government Policy relating to international and Domestic trade; Designing appropriate complementary measures to improve the business regulatory and macro-economic environment; increasing investment in infrastructure to support trade development; improve co-ordination of institutions responsible for promoting and regulating trade; and ensuring effective participation of key stakeholders (Members of parliament, Government ministries, private sector, civil society, and development partners) (Ministry of Trade 2009, 14).

The policy, at the international level, seeks to enhance a conducive investment climate, mainstreaming micro, small and medium Enterprises (MSMEs) in the global trade in order to create job, reduce poverty and further export diversification and economic development (Ministry of Trade 2009, 25). The National Trade Policy also enumerates several complementary support policies and measures which include trade facilitation, infrastructure needs and development, capacity building and human capital development, trade finance support measures, support to competitiveness of business services, and telecommunication and web access (Ministry of Trade 2009, 37).

2.2.2. Other Trade Related Issues

Several other issues relating to consumer protection, competition and fair trade are addressed by the NTP. These issues have serious impacts on the trajectory of trade in Kenya in the wake of the current trade liberalization and globalization. A look at the issues reveal quite a number of constraints and challenges that need to be surmounted for trade, both domestic and international, to have a positive impact on the country's development.

Despite having more than 5 government parastatals and several private organisations overseeing consumer protection issues that the policy points to, for instance, there exist several constraints impeding effective consumer protection, namely, lack of effective and well coordinated intervention measures to protect consumers; inadequate legal institutional capacity for enforcement; and inadequate consumer protection awareness (Ministry of Trade 2009, 60). On competition, weaknesses in the Restrictive Trade Practices, Monopolies and Price Control Act cap 504 (1990) make it difficult for coordination of trade practices as "some economic activities are regulated by specific acts of parliament but are exempted from the provisions of the restrictive trade practices, monopolies and price control Act cap 504 (1990)." Though sustainable fair trade should be anchored on dialogue, transparency, respect and should seek greater equity among trade partners (Ministry of Trade 2009, 62), there lacks a necessary legislation to ensure compliance with WTO provisions on safeguards, anti-dumping and countervailing despite there being a customs and excise act 2001 which can only be applied in a limited manner. Further insights on these issues are presented in the table below:

Constraints to trade can be divided into two: external and internal constraints (KIPPRA 2007). Externally driven constraints include cyclical changes in international primary commodity prices, which alongside competition in global markets have adversely affected producers in Kenya. Domestically, there is increased competition too and MFN tariff restrictions. Kenyan producers therefore need to achieve greater production at minimal costs and to effect improvements in transportation and

4.- Cf. National Trade Policy (2009), p. 6.

marketing to remain relevant in the markets. KIPPRA (2007) argues that "protecting Kenya's place in the regional market by strong regional integration supported by a Common External Tariff (CET)" will be required. Yet the signing of EPA as it is puts both the domestic and international markets for Kenyan goods (both agricultural as well as manufactured) at stake as goods from EU countries are more competitive.

Internally driven constraints include high costs of power and regular power cuts; poor road and rail infrastructure; poor port facilities (including limited pre and post-shipment facilities); information asymmetries; costly, low quality telecommunications and ICTs; costly, low access to credit; poor contract enforcement; poor governance/ lack of an enabling environment; low labour productivity; border insecurity and the convertibility of local currencies (KIPPRA 2007, 51). These constraints still make Kenya's good uncompetitive and burden investors with high production costs.

Table 1: mechanisms and challenges in trade related issues

Trade Related Issue	Mechanisms in Place & Government Strategy	Constraints & Challenges
1. Consumer Protection	1. More than 5 government parastatals. 2. Several private organizations	1. Lack of effective and well coordinated intervention measures to protect consumers; 2. Inadequate legal institutional capacity for enforcement; 3. Inadequate consumer protection awareness
2. Competition	1. Restrictive Trade Practices, Monopolies and Price Control Act cap 504 (1990) 2. A number of acts of parliament	1. Restrictive Trade Practices, Monopolies and Price Control Act cap 504 (1990) is inadequate restrictive trade practices, collusive tendering, monopolies & concentration of economic powers and of controlling mergers 2. Lack of harmonization of specific acts of parliament regulating some economic activities with those of Restrictive Trade Practices, Monopolies and Price Control Act cap 504 (1990) 3. Inadequate regulations of players in the industry with respect to market dominance and market malpractices
4. Fair Trade	1. A Customs and Excise Act 2001	1. Lack of necessary legislation to ensure compliance with WTO provisions on safeguards, anti-dumping and countervailing 2. Lack of enforcement trading in subsidized products, dumping of products in the domestic market.
3. Investment issues	1. Improvement of roads and rail networks 2. Increasing the available power to the national grid through renewable energy	1. Inadequate incentives for local investors 2. High cost of power, labour, infrastructural impediments, cumbersome legal and regulatory framework in investment
4. Intellectual Property rights	1. Legal and institutional frameworks: Industrial Property Act 2001, the Trade Marks Act, theCopyright Act 2001, the Seeds and Plant Varieties Act, and the Universal CopyrightConvention. 2. World Intellectual Property Organization (WIPO) and African Regional Intellectual Property Organization (ARIPO),	1. Lack of adequate capacity to effectively deal with intellectual property rights protection
5. Trade & Environment	1.The National Environmental Management Authority (NEMA)	1. Inadequate institutional and legal frameworks for compliance with environmental requirements 2. Low appreciation of environmental issues related to trade by stakeholders
6. Trade & Gender	1. Gender and equality commission	1. Inadequate legal framework to address gender discriminatory practices 2. Inadequate access to capital by women owned enterprises due to lack of collateral
7. Trade & Labour Standards	1. International Labour Organization (ILO) Conventions 2. National labour laws: Employment Act labour organization – the Central Organization of Trade Union (COTU) and the various employers' Associations, Federation of Kenya Employers (FKE) implement these laws	1. Uncompetitive cost and productivity of labour; 2. Strained relations between labour organization and the Government; 3. Inadequate representation of employers by their respective labour organizations; 4. Lack of protection of small producers with respect to prices fluctuations 5. Inability to hold big companies and High Net Worth individuals to comply with taxation laws and un-harmonized tax system 6. Unregulated informal sector
8. Democratisation & trade promotion	Political pluralism, rule of law and anti-corruption systems	1. Inadequate and weak institutional and legal framework to enhance democratic participation that can ensure a stable micro-economic environment 2. Social and political
9. Dispute settlement mechanism	1. Kenya judicial System 2. The Public Procurement and Disposal Act 3. The Landlord and Tenant (Shops, Hotels and Catering establishments) Act, Cap 301 4. EAC Custom Union (Dispute Settlement Mechanism). 5. EAC Competition Act 6. COMESA Court of Justice	1. Outdated legal provisions and institutions dealing with dispute settlement (Landlord and tenants Act. 2. Inadequate human and physical resources e.g. magistrates' office, court clerks

Generated from the National Trade Policy (2009)

2.3. Kenya's Trade Performance

The overall deficit in Kenya's balance of trade as she leans heavily against imports, her tradable commodities being concentrated on primary agricultural products as well as her fixed list of trading partners, are just but her isolable characteristics. These expose Kenya's trade strengths and weaknesses. Though Kenya's ratio of trade to GDP has been increasing in the recent past years, her merchandise export has remained fairly constant at between 15-17% over the last fifteen years. Her service exports have also remained fairly stagnant at around 9%-11% of GDP. 72% of the export growth has been driven by traditional/existing products in existing markets, in what the world bank refers to as “intensive margin” as opposed to “extensive margin” where the growth is driven by “existing products into new markets, new products into existing markets or new products into new markets” (World Bank 2012).

Generally, while Kenya’s share in total world trade remains low, at an average of 0.05% between 2006 and 2010, it accounted for 64% of the GDP between 2006 and 2010. Imports accounted for over 37% on average (World Bank 2012, A2-181). The value of imports also increased between 2005 and 2010 from US$5.8 billion to US$12 billion according to World Bank figures, 60% of it being of manufactured products (ibid). Though the broad composition of the imports has remained unchanged across years, agricultural products increased from 12% to 13.6% while the share of manufactured products declined from 64.3% to 62.7%. 42% of Kenya’s imports originated from Asia with China and India leading the way. Imports from Europe represented 20.6% of the total imports with 18.6% from EU member countries. South African products were the only significant imports from Africa.

There has not been a change in the proportion of Kenya’s share in the global trade but changes in the exports and imports have been recorded. Though both exports and imports have been growing steadily, imports grew higher than exports resulting into consistent reduction of the export/import rations between 2011 and 2013 from 38.8 in 2011 to 37.7 in 2012 to 35.5 in 2013 signifying the inability of the country to service its import bill from exports.[5]

2.3.1. Characteristics of Kenya’s Trade

2.3.1.1. Balance of Trade

In the history of the country, the balance of trade for Kenya has not only been in deficit since her independence in 1963 (except for two years 1963 (US$ 5.7m) and 1977 (US$18.1m)), but also this deficit has been on an increasing trend over the years (Kennedy 2013, 177). In fact, were it not for the coffee boom of 1977 (Van Der Hoeven, Rolph and Jan Vandemoortele 1987, 2) this deficit would have extended for almost the entire period since Kenya’s independence. The decline in the terms of trade is explainable in their three clusters as Rolph Van Der Hoeven and Jan Vandemoortele (1987) have highlighted, namely 1964-73, 1977-79 and 1980 – 85.The only time that Kenya experienced relative stability in her terms of trade was during colonial days until 1972 (ibid). This stability declined from 1972 and had a steep fall from then to 1979 (Van Der Hoeven, Rolph and Jan Vandemoortele 1987). There followed a fairly stable terms of trade period from 1980 even though the decline persisted until 1984 when there was an up-turn in the economy occasioned by high tea prices (Van Der Hoeven, Rolph and Jan Vandemoortele 1987, 2). Osoro Kennedy (2013) reports the increase in this deficit to a peak of US$ 5649m, US$ 6303m, US$ 1019m in 2008 and 2010 in 2012 respectively. The WTO compiled data for 2008-2010 shows Kenya’s current account deficit, as a share of GDP, having deteriorated between 2006 and 2011 from 2.1% to 9.8% mainly due to a rise in the import of oil, machinery, and transport and telecommunication equipment (WTO Annex 2).[6] Trade in goods and services averaged 64% of the GDP between 2006 and 2010, of which the larger part was attributed to imports (over 37% on average). Kenya’s share in total world trade remained low, at an average of 0.05% over the same period.

The value of imports grew markedly between 2005 and 2010, from US$5.8 billion to US$12 billion, with a large share attributed to manufactures (over 60% of import value on average). The broad composition of imports also remained mainly unchanged. However, the share of agricultural products increased from 11.2% to 13.6%, influenced by increasing food products, and share of manufactured products declined, from 64.3% to 62.7%.

According to the 2012 *Economic Survey,* there was an increase in Kenya’s international trade in 2011 by 34.6 % with a substantial increase in the value of imports and export by 38.9% and 24.7% respectively (Kenya National Bureau of Statistics 2012, 115). There was a corresponding widening of trade deficit from KSh. 537,412 to a deficit of KSh. 804,633 attributable to high import bill on machinery and transport equipment, manufactured goods, mineral fuels and food (ibid).

The volume of external trade went up by 1.2% in 2013 with, however, declines in the total exports by 3% but with increases in imports by 2.8%. Trade balance deteriorated further by 6.3 per cent in 2013 mainly on account of a reduction in domestic exports against increased imports of petroleum products, industrial machinery, iron and steel; and road motor vehicles (Kenya National Bureau of Statistics 2014, 114).

	Description	2007	2008	2009	2010	2011	2012	2013
Exports (f.o.b)								
	Domestic Exports	261,685	322,660	323,571	385,441	484,507	479,706	455,689
	Re-Exports	12,973	22,287	21,378	24,353	28,097	38,141	46,598
	Total	274,658	344,947	344,949	409,794	512,604	517,847	502,287
IMPORTS								
	Commercial	597,877	763,704	780,323	934,730	1,283,111	1,360,408	1,403,225
	Government	7,235	6,947	7,773	12,476	17,639	14,179	10,091
	Total	605,112	770,651	788,097	947,206	1,300,749	1,374,587	1,413,316
Balance of Trade		-330,454	-425,705	-443,147	-537,412	-788,145	-856,740	-911,029
Total Trade		879,769	115,598	1,133,047	1,357,176	1,813,354	1,892,434	1,915,602
Cover Ratio (in percentage)		45.4	44.8	43.8	43.3	39.4	37.7	35.5

COVER RATIO = (Total Exports/Total Imports)*100 (From Kenya Economic Survey Reports)

5.- Cf. “Kenya National Economic Survey” (2011, 2012 and 2013), Kenya National Bureau of Statistics. http://www.knbs.or.ke/index.php?option=com_phocadownload&view=category&id=107&Itemid=1181

6.- http://www.wto.org/english/tratop_e/tpr_e/s271_e.zip

2.3.1.2. Nature of Kenya's Export and Imports

Kenya's trade, like many other of developing countries, is heavily reliant on the agricultural sector with overall exports of raw agricultural type – plants and flowers, tea, coffee and vegetables. Tea, coffee and horticultural products form the bulk of Kenyan export commodities. Between 2005 and 2009, for instance, coffee and tea accounted for the large part of the 31% growth in merchandise exports (World Bank 2012). Similar trends have been exhibited from 2009 to 2012, albeit with some minimal changes. The tea industry has been relatively stable over the years and has experienced increased production and earnings from its exports. However, the industry has faced problems of overproduction, declining prices in the world markets and poor institutional management. The coffee sector has been declining over years even though it has shown signs of rebounding due to government assistance. (KIPPRA 2013, 90). Prior to that, the coffee industry had declined in production from 117,000 tonnes in 1989 to about 53,000 tonnes in 1998 occasioned mainly by liberalization of the input markets in 1993 and removal of government subsides which led to a rise in the cost of inputs, therefore adversely affecting production (Maureen Were, Njuguna S. Ndung'u, Alemayehu Geda, Stephen N. Karingi 2002).

Table 2: Top 10 Export commodities 2008 to 2010[7]

	Top 10 Export commodities 2008 to 2010			
HS code	4 digit heading of Harmonized System 2007	Value in (million US$)		
		2008	2009	2010
902	Tea, whether or not flavoured	931.6	894	1163.6
603	Cut flower and flower buds of a kind suitable for bouquets	446	421.5	396.2
901	Coffee, whether or not roasted or decaffeinated	152.8	201.2	207.5
2710	Petroleum Oils, other than crude	173.3	177.9	205.2
709	Other vegetables, fresh or chilled	206.4	175.4	150.3
2836	Carbonates; peroxocarbonates (percarbonates)	193.9	109.5	95.5
2523	Portland cement, aluminous cement, slag cement	117.2	104.5	94.6
2402	Cigars, cheroots, cigarilos and cigarettes	91.4	85.8	92.7
7210	Flat-rolled products of iron or non-alloy steel	99.2	69.7	77.3
3923	Articles for the conveyance or packing of goods, of plastics	69.5	59.8	68.4

The manufacturing industry of Kenya, though better than its EAC and COMESA partner states, is still in its nascent stage. In 2012 both the sector's contribution to GDP as well as the growth rate declined to 9.2% from 9.6% and from 3.4 to 3.1 respectively (KIPPRA 2013, 77). The changes are attributed to among other things, high costs of production, stiff competition from imported goods, influx of counterfeit goods, and high cost of credit, political uncertainties and volatility of international oil prices (ibid). Kenya's exports have therefore remained the same over the years with mainly primary commodities and hardly any diversification. However, there is significant exports of apparel to the US have been boosted by the AGOA.

In contrast to Kenya's low value exports, the bulk of Kenya's imports are made up of high value industrial supplies, machinery and equipment and, transport equipment (Institute of Economic Affairs (IEA) 2006, 12). The 2013 KIPPRA Economic Report itemizes non-food industrial supplies, fuel and lubricants, and other capital equipment to have represented 30.4 per cent, 24.1 per cent and 18.7 per cent of the total value of imports in 2012. This has been the case since the 1960s through the 1990s as the table below shows. The disparity between the nature of the imports and that of exports explains Kenya's current account deficits over the years.

Table 3: Top 10 Import commodities 2009 to 2013

Value of Principle Imports 2009-2013 in million Ksh.					
Commodity	**2009**	**2010**	**2011**	**2012**	**2013**
All other Commodities	207,359	260,488	347,657	417,442	386,978
Industrial Machinery	130,929	158,721	177,174	194,666	231,440
Petroleum Products	99,550	122,004	199,120	237,557	252,673
Crude Petroleum	54,495	72,598	124,042	68,086	41,037
Road Motor Vehicles	50,115	55,812	62,870	73,768	83,330
Maize	33,945	5,471	11,479	6,451	2,291
Iron and Steel	33,776	43,558	62,087	56,667	80,749
Anima/vegetable fats and oils	27,569	38,956	56,733	54,876	48,371
Plastics in primary & non-primary forms	26,462	35,995	49,296	47,650	55,182
Medicinal & Pharmaceutical Products	22,994	27,879	39,681	41,307	40,114

Compiled from The Kenya National Economic Survey 2014.

7.- Cf: UN Comtrade database on http://comtrade.un.org/pb/FileFetch.aspx?docID=5302&type=country%20pages

The structure of Kenya's trade in general as a share of total exports and imports between 1990 and 2004 (Institute of Economic Affairs (IEA) 2006, 12).

Table 4: structure of Kenya's trade in general as a share of total exports and imports (2006 to 2013)

Type of Commodity	Nature	2006	2007	2008	2009	2010	2011	2012	2013
food and beverages	Export	42.90	40.30	40.40	42.26	44.12	40.36	41.17	42.81
	Import	6.10	7.00	7.00	11.50	7.40	8.15	7.94	7.19
Industrial supplies (Non-food)	Export	23.50	25.50	28.70	26.99	28.07	30.26	29.61	27.69
	Import	30.90	32.10	31.00	29.40	31.60	31.21	29.63	31.87
Fuel & Lubricants	Export	3.00	3.40	1.40	1.41	1.93	2.07	0.84	0.35
	Import	23.90	20.90	26.80	21.00	22.10	26.90	24.50	23.09
Machinery &other capital Equipments	Export	1.50	1.70	1.70	2.10	2.34	2.31	2.86	2.14
	Import	13.70	16.10	16.60	17.40	18.70	16.15	18.43	17.75
Transport Equipments	Export	1.20	1.30	1.10	1.80	1.71	1.56	1.64	1.78
	Import	18.40	16.10	11.60	13.10	12.34	9.98	11.85	11.38
Consumer Goods not elsewhere specified	Export	27.80	27.80	26.70	25.40	21.80	23.42	23.74	24.92
	Import	6.90	7.50	7.00	7.30	7.50	7.16	6.98	6.81
Goods not elsewhere specified	Export	0.00	0.00	0.00	0.00	0.10	0.02	0.15	0.31
	Import	0.1	0.4	0.1	0.2	0.4	0.46	0.68	1.91

Compiled from National Economic Survey from the Kenya Bureau of Statistics (2007 – 2014)

2.3.2. Kenya's Trade Partners

Kenya's trade with the EU is highly skewed to the latter's advantage as the EU imports less of Kenya's exports compared to what it exports. While the EU, COMESA and Asia are overall key export markets, the main import partners are India, China, UAE, South Africa, Saudi Arabia, United States and Japan. Uganda, the UK, Tanzania, Netherlands and the US lead in the list of Kenya's export markets in that order. The nature of Kenya's imports determines her main import partners, which for now comprises India, China, UAE, South Africa, Saudi Arabia, United States and Japan. However, the magnitude of both imports and exports of products from the EU is significant as per the table below *Table 6.* Notable is the fact that the share of exports to the EU have, however, been declining over the years since the 1990s.

A key destination for Kenya's manufactured products, which has seen increases over the years contrary to the Kenya-EU trade, is the COMESA region. COMESA as a Kenyan destined market may be threatened by the EPAs as the region gets similar products that Kenya supplies from EU at very competitive prices. However, the EPAs may not increase Kenya's market access for her exports to the EU (Institute of Economic Affairs (IEA) 2006, 13).

Kenya's exports between 2005 and 2010 were largely made up of agricultural products, mainly tea, coffee and horticultural products. These expanded significantly in the same period. However, Kenya's fuel exports, which represented 18.3% of total exports in 2005, reduced during the same period to 4.2% (ibid). The EU accounted for 24.8% of Kenya's export markets, also under the interim Economic Partnership Agreement. Kenya's exports remained weak in 2012 "as a result of subdued global demand, and lower commodity prices" (Kenya Economic Update, June 2013). Tea remained a major contributor to the export earnings (increasing from 17% to 20% of the total earnings), followed by horticulture (which reduced from 15% to 11%) and manufactured goods (11%). Contrary to importation figures, the main destination of Kenya's products within the period and in 2012 is Africa (where 48% of its exports go) with the leading markets for Kenyan goods being Uganda, Tanzania, Sudan and Egypt, countries which Kenya has preferential access to.

2.3.3. Kenya's Trade with the European Union

The significance of the EU as a trade partner has already been hinted at above in the nature of Kenya's exports and imports. The EU, alongside COMESA and Asia, are amongst the trading blocks that trade with Kenya. COMESA has, however, displaced the EU in the recent years as number one destination of Kenya's exports, especially with regards to manufactured goods (Institute of Economic Affairs (IEA) 2006, 13). Given the nature of trade between the EU and Kenya, the balance of trade resulting from trade between Kenya and the EU member states is tilted heavily towards the EU member countries. The 2010 – 2012 period depicted in the Table 6 below captures this skewed balance of trade.

Among Kenya's highest exports to the EU are plants and flowers, tea and vegetables and coffee (KIPPRA 2007, 35). In 2001 plants and flowers accounted for 22% of all its agricultural exports to the EU, tea 17%, vegetable 14%. Tea accounts for around 20% of Kenya's total export earnings and Kenya is the among the top five world's largest producers. The production of tea in Kenya is dominated by small holders who in 2003, for instance, produced 60% of the country's production. Its production and marketing is mainly done by the private sector (Institute of Economic Affairs (IEA) 2006, 18).

Coffee, especially the highly valued Arabica coffee, has been contributing a substantial amount to Kenya's export earnings for years. However, the production costs of coffee has been increasing over time and, coupled with the collapse of world market prices, erratic weather, pests and diseases, and poor governance, its production has greatly dwindled. Just like tea, the sector is dominated by small holders who produce about half of the country's production.

The export of horticultural products which include Fruits, Vegetables, Flowers, Spices and Herbs has been increasing over time. Though the biggest market for these products is the domestic market, up to 85-90% of Kenya's cut flowers vegetables and fruits are exported to EU member countries accounting for 55%, 45% and 5% of the value of exports in 2003 (Institute of Economic Affairs (IEA) 2006, 18). Like the other sectors the bulk of these producers are small holders who account for up to 70% of the horticultural production. However, a significant thing to note as the Institute of Economic Affairs reveals is that the "bulk of export horticulture is produced in the exporters own farms, leased land or large commercial farms" (ibid). These firms hold substantial powers in the industry. The production of fruits is still low and has not attracted the required technical skills. It is further hampered by poor road networks, high costs of farm inputs, high incidences of pests and diseases as well as strict and complex Sanitary and Phyto- sanitary measures in the EU.

Table 5: Export and Imports

		Value in Million KSh.						As a % of Total Export/Import					
Region	**Nature**	**2009**	**2010**	**2011**	**2012**	**2013**	2,014	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Europe	Exports	6,268	7,734	9,844	10,784	11,705	138,965	1.8	1.9	1.9	2.1	2.3	25.9
	Imports	140,846	166,646	193,505	204,133	207,628	285,945	17.9	17.6	14.9	14.9	14.7	17.7
America	Exports	18,961	24,380	27,592	28,740	33,765	45,664	5.5	5.9	5.4	5.5	6.7	8.5
	Imports	64,916	55,647	79,168	119,293	84,477	187,476	8.2	5.9	6.1	8.7	6.0	11.6
Africa:													
South Africa	Exports	3,580	2,444	2,835	2,684	3,277	5,936	1.0	0.6	0.6	0.5	0.7	1.1
	Imports	70,561	59,781	70,683	61,954	70,724	63,893	9.0	6.3	5.4	4.5	5.0	3.9
Tanzania	Exports	30,087	33,211	41,743	46,036	40,496	42,725	8.7	8.1	8.1	8.9	8.1	8.0
	Imports	7,809	10,549	15,670	14,402	11,666	18,364	1.0	1.1	1.2	1.0	0.8	1.1
Uganda	Exports	46,240	52,108	75,954	67,450	65,362	60,783	13.4	12.7	14.8	13.0	13.0	11.3
	Imports	4,426	9,227	10,337	15,323	16,086	17,549	0.6	1.0	0.8	1.1	1.1	1.1
Other	Exports	56,808	67,042	84,189	91,494	86,239	18,215	16.5	16.4	16.4	17.7	17.2	3.4
	Imports	21,876	35,247	54,564	49,077	49,363	32,851	2.8	3.7	4.2	3.6	3.5	2.0
Total Africa	**Exports**	**162,732**	**188,914**	**247,600**	**250,589**	**231,474**	**115,565**	47.2	46.1	48.3	48.4	46.1	21.5
	Imports	**104,672**	**114,804**	**151,254**	**140,755**	**147,839**	146,141	13.3	12.1	11.6	10.2	10.5	9.0
Asia:													
Middle East	Exports	19,300	30,525	32,940	42,065	39,502	35,806	5.6	7.4	6.4	8.1	7.9	6.7
	Imports	148,874	168,726	299,611	284,117	219,880	227,969	18.9	17.8	23.0	20.7	15.6	14.1
Far East	Exports	39,935	51,075	62,673	63,395	68,056	64,212	11.6	12.5	12.2	12.2	13.5	12.0
	Imports	293,251	399,195	509,556	572,408	676,820	762,204	37.2	42.1	39.2	41.6	47.9	47.1
Australia & Oceanic	Exports	914	767	1,049	1,894	2,858	3,465	0.3	0.2	0.2	0.4	0.6	0.6
	Imports	4,354	3,932	2,997	8,112	13,040	7,500	0.6	0.4	0.2	0.6	0.9	0.5
All Other Countries	Exports	427	1,661	1,022	1,191	1,456	1,166	0.1	0.4	0.2	0.2	0.3	0.2
	Imports	152	987	3,214	134	624	1,086	0.0	0.1	0.2	0.0	0.0	0.1
Total Exports	**Exports**	**344,949**	**409,794**	**512,604**	**517,847**	**502,286**	**537,236**						
	Imports	**788,097**	**947,206**	**1,300,749**	**1,374,587**	**1,413,316**	**1,618,321**						

Compiled from the Kenya National Economic Survey (2014, 2015)

2.3.3.1. EU's Common Agricultural Policy (CAP)

The biggest challenge in Kenya's agricultural sector with respect to the EPAs is the EU's Common Agricultural Policy (CAP). As provided for in *Title II* of the Treaty of Rome, the CAP sought to provide a framework to comprehensively tackle concerns relating to food security and stability of supplies of agricultural products including raw materials by developing the European Union's agricultural sector (Institute of Economic Affairs (IEA) 2006, 19). Specifically, the CAP proposes the following as its objectives: "increasing agricultural productivity, improve the standard of living for EU's agricultural community, stabilization of markets, ensuring the availability of supplies, and ensuring that supplies reach consumers at reasonable prices" (ibid). This opened the way for the areas of cooperation in the common markets to agriculture and trade in agricultural products under a common European policy, which insulated the agricultural sector from the requirements of multilateral liberalizations (as per Article 42 of CAP).[8]

The CAP functions in three interconnected dimensions: market support (pillar 1), income support (pillar 2) and rural development (pillar 3). In the uncertainties ensuing from demand signals and supply responses that affect pricing and consumption, the CAP provides market safety nets for both producers and consumers. Tariffs and non-tariff barriers such as quotas and guaranteed prices for the main agricultural products are the main instruments that the CAP utilizes in the attempt at attaining its goals. These shield the domestic EU producers from foreign competition while providing income support and safety net mechanisms for producers.

Direct income support to farmers provides a cushion against adverse uncertainties as farmers are guaranteed of a basic income (European Commission 2014, 7). The research by the Institute of Economic Affairs (IEA) (2006, 19) further reveals the basis of CAP's system of guaranteed prices:

a) Target prices, which are the minimum price the EU farmers receive in the EU market.
b) Entry prices which is the minimum price at which the products may be imported into the EU.
c) Export subsidies, which pay EU exporters of agricultural products the difference between the EU price and the world market price.

Rural development, on its part, seeks "to address specific needs and challenges facing rural areas" (European Commission 2014, 7). The budget ceilings for these three components are substantial despite having been scaled down in the reforms:

Table 6: MFF Ceiling 2014-2020 (in billion EUR)

	2014-2020 Ceiling	**2014-2020 Ceiling**
	(Current Prices)	(2011 Prices)
Pillar 1	312,74	277,85
Pillar 2	95,58	84,94
Total CAP	408,31	362,79

8.- The provisions, however, are in tandem with WTO requirements. Cf. (Institute of Economic Affairs (IEA) 2006) pg.19.

From (European Commission 2014, 3)

The CAP, therefore, has an overall effect of making prices of EU farmers competitive in the world market and increases domestic consumption of EU-produced products due to low prices. This also gives the EU products an advantage in the world market. Given the structure of ACP trade with EU, these effects are adverse to the ACP countries as they undermine the competitiveness of prices of agricultural products, the most tradable products for ACP countries and Kenya in particular. The export revenues accruing to ACP countries shall therefore most probably fall substantially.

The reforms that the CAP has undergone culminated in the 2013 but are, unfortunately, a continuation of the past. They were necessitated by challenges facing the agricultural sector in EU members' observations and made shifts from the old "product based support towards producer support and considerations for the environment" that specifically include (European Commission 2013, 4):

a) Economic (including food security and globalisation, a declining rate of productivity growth, price volatility, pressures on production costs due to high input prices and the deteriorating position of farmers in the food supply chain);
b) Environmental (relating to resource efficiency, soil and water quality and threats to habitats and biodiversity) and;
c) Territorial (where rural areas are faced with demographic, economic and social developments including depopulation and relocation of businesses).

The justification for such aid to farmers is in itself interesting from a Kenyan perspective: Farmers don't get a fair deal because "the vast majority of farms are relatively small. The average EU farmer has only 12 hectares of land ... and 70% of farms are less than five hectares in size" (European Commission 2014). Kenyan farmers would find this ridiculous as majority of them have less and 2.5 acres.

Coincidentally, consultations on this agreement have been done with full view of the possible disquiet among ACP members in the negotiations for the EPAs. It would have been hoped that the views of the ACP members should have been considered and reflected in the new draft of the CAP even in its minimal sense.

2.4. Trade Performance of Kenya's Agricultural Sector (some examples)

The agricultural sector is key to Kenya's development and growth of the economy contributing directly to about 25.7 per cent of the GDP in the five years preceding 2006 (Economic Survey 2004) and about 24.5 per cent for the period 2008 to 2013.[9] The agricultural sector's contribution to rural employment, food production, foreign exchange earnings and rural incomes is enormous. The sector employs about 70 per cent of the country's labour force and earns the country 60 percent of her foreign exchange (Institute of Economic Affairs (IEA) 2006, 14). The sector however is made up of largely small holders who contribute to about 75 per cent of agricultural production (Government of Kenya 2010, 11). This number of small holders is increasing in number and in the share of marketed production of both food crops as well as cash crops such as coffee and tea since the 1980s. An abstract from the Institute of Economic Affairs (IEA) (2006) report indicates the key agricultural commodities according to their importance (land area utilization over time) and their tradability. The major tradable food crops in Kenya include maize, wheat and rice while the key non-tradable food crops comprise sorghum, millet and pulses (beans and peas). Tea, coffee and horticulture (fruits, vegetable, cut flowers) are important export commodities and key foreign earning contributors for Kenya contributing "60 per cent of the country's foreign exchange earnings, 34 per cent of the agricultural Gross Domestic Product in addition to employing over 40 per cent of the agricultural labour force" (Institute of Economic Affairs (IEA) 2006, 14). The key industrial crops, which constitute major raw material inputs into the country, are: Sugar Cane, Cotton, Sisal and Pyrethrum.

Table 7: Agricultural and Forest contributions to GDP 2010-2013

	Unit	2010	2011	2012	2013
Contribution of Agriculture to GDP+	Percent	21.2	23.8	24.6	25.3
Major Commodities Marketed					
Coffee	000 tonnes	38.9	30	46.1	38.4
Tea	"	399	377.9	369.4	432.5
Maize	"	294.6	405.8	387.3	316.4
Wheat	"	190.2	100.9	155	185
Sugar-cane	mn. tonnes	5.7	5.3	5.7	6.7
Pyrethrum (extract equivalent)	Tonnes	5.8	7	1	4.2
Milk	Mnltr	515.7	549	495.2	523
Forest Plantation area	000ha	119	122	127	129

From the KNBS, Kenya Facts and Figures (2014)[10]

With regards to agricultural exports to the EU, cut flower, black tea, vegetables (chilled or fresh), beans (fresh or chilled), coffee rank high in Kenya's trade contribution. Exports of cut flowers (rose and carnations) and coffee/tea, for instance, accounted for 264 million Euros and 247 million Euros respectively in 2011(Delegation of the EU in Kenya n.d.).This points to the need in safeguarding the market access for these key commodities; the EU market, despite its recent decline in trade with Kenya is therefore an important market to retain.

As stated earlier, the producers of these commodities are largely small holders. These categories of farmers experience difficulties in acquiring the high level of technical and management skills required, poor infrastructure, high prices of farm inputs, high incidences of pests and diseases, complex sanitary and Phytosanitary measures in the EU market among other challenges (Institute of Economic Affairs (IEA) 2006, 18).

9.- Calculated from Kenya National Bureau of Statistics' Facts and Figures for the relevant years downloadable from KNBS site: http://www.knbs.or.ke/index.php?option=com_phocadownload&view=category&id=20&Itemid=1107

10.- Cf. http://www.knbs.or.ke/index.php?option=com_phocadownload&view=category&id=20&Itemid=1107

2.4.1. Sectoral Analysis

Two examples in the agricultural sector, namely the sugar industry and horticulture, are discussed here given their contribution to livelihoods and the economy as a whole. A number of other sectors have been widely discussed elsewhere.

2.4.1.1. Sugar

The sugar industry in Kenya is facing challenges despite the fact that it supports more than two million people and is a major source of income to more than 100,000 small farm households in some of the poorest parts of the country (KIPPRA 2007, 54). It contributed to about 15 percent of Kenya's GDP in 2009 (Monroy L., Mulinge W. and Witwer M. 2013). Its future is therefore at stake and raises serious questions for this study. In fact there has been a steady decline in the acreage under sugar and the production of cane in the last five years (Kenya NAtional Bureau of Statistics 2015).The area under cane, for instance, declined by 1.2 per between 2013 and 2014 leading to a decrease in total cane deliveries by 3.0 per cent from 6.7 million tonnes in 2013 to 6.5 million tonnes in 2014 (ibid).

The sector's production is dominated by smallholder farmers (out-growers) and very few factory owned farms (nucleus estates); out-growers supply more than 92 percent of the sugarcane processed by Kenyan sugar factories. There are 11 public, private and mixed-owned factories distributed throughout the country's sugarcane production areas that have a capacity to process more than 24,000 tonnes of cane per day although the factories operate at a capacity utilization of only 55 to 60 percent because of significant technical and management limitations (Monroy L., Mulinge W. and Witwer M. 2013).

Sugar producers do not get value for their produce, yet they do not have a diversified source of income. The on-farm and off-farm diversification is hampered by distance from markets and poor infrastructure. The absence of successful markets increases the spatially and seasonally based price gradients and worsens terms of trade thereby increasing income poverty and food insecurity in the sugarcane growing zones.

Harvesting and transportation represent the largest costs for sugarcane out-growers, accounting for 45 percent of total production costs. Kenyan sugar is three times the international market price making it impossible to compete with sugar produced from Sudanese and Brazilian imports, for instance, despite protection from tariffs and import quotas. The KIPPRA report (2007) further mentions under-investment in processing capacity and poor management as problems in the sector suggesting further that "bringing Kenyan sugar prices in line with world prices through the removal of tariffs and quotas will not immediately benefit consumers unless attention is given to supporting market functioning" (KIPPRA 2007, 55). There is a strong influence of the industry by domestic and international policies and the government issued a set of temporary protective measures to help ease the sugar industry's transition to full market liberalization. The expiring import tariff and quota regulations have been extended again and again to 2016, in recognition of the fact that Kenya's sugar industry still cannot compete with more efficient producers in the international market.The COMESA moratorium, for instance, which currently enables Kenya to impose a tariff on sugar imports from COMESA countries has been extended four times – in 2000, 2003, 2007 (KIPPRA 2007,56) and for a year in 2014 (Agritrade 2014) and again in 2015 March so that it will end in 2016 at Kenya's request. The end of the moratorium will coincide with the operationalisation of the EPAs both of which will open up markets for cheap sugar in Kenya. It is envisioned that this imports will worsen the sector's problems and may cripple the industry.

Despite this extension, Kenya has not made any progress in increasing her sugar exports substantially, let alone satisfying its domestic needs, even with the EU Protocol on sugar quota which would allow it to sell sugar onto the European market at an advantageous price (KIPPRA 2007, 56). Many other constraints are to blame for this, such that access to the EU market alone cannot help the industry.

Table 8: Production, Imports and Exports of Sugar in Kenya

	Production	Imports	Exports
2010	523.7	258.6	0.0
2011	490.2	139.1	16.7
2012	493.9	238.6	0.4
2013	600.2	238.2	0.5
2014*	592.7	192.1	0.6

*Provisional

From National Economic Survey 2015.

Kenya's sugar industry is thus by far inferior to EU's complex system under the CAP which produces surpluses of more than 5 million tonnes under guaranteed subsidies and prices despite its denial (Oxfam 2004). These subsidies must be removed if the EPAs have to benefit ACP nations. Market accessibility for ACP countries should also be deliberately improved and quotas be retained by ACP countries. The EU should also put mechanisms for supporting ACP countries especially small scale farmers.

2.4.1.2. Horticulture

Kenya's horticulture sector is deemed to be successful due to the involvement of the private sector. The sector is growing rapidly and employs more than 3 million people despite increased competition from other countries (KIPPRA 2007, 60). Exports of horticultural products rank high among Kenya's export and by 2007 Kenya was the second largest horticultural exporter in Sub-Saharan Africa (after South Africa), the second largest developing-country exporter of flowers in the world (after Colombia), and the second largest developing-country supplier of vegetables to the European Union (after Morocco) (ibid). The centrality of the horticultural sector in Kenya's economy is seen in the exports of horticultural products in the past five years according to the *Economic Survey 2015:* 2010 (228 million tonnes), 2011 (216 million tonnes), 2012 (206million tonnes) and 2013 (214million tonnes) and 2014 (220million tonnes). Cut flower forms the bulk of Kenya's horticultural export together with fruits and vegetable. Majority of these products are sold in EU markets. However, market saturation has driven profits margins for exporters down and the demands by importers for traceability have negative impacts on smaller producers who sell their produce to larger players (KIPPRA 2007, 61).

While the cut flower industry is dominated by big firms, the fruits and vegetables sector is full of small scale farmers who produce and market their produce. These small scale farmers find it difficult to produce as facilities for credit are scarce and inputs to efficiently increase and diversify their production expensive. As such they can hardly compete for the international market despite the strong demand for new, high-value products with a lower carbon footprint, as afforded by products produced, processed, packaged and branded in Kenya. Investments in capacity building for farmers and technical support in science and technology are highly needed.

Table 9: Export of Fresh Horticultural Produce from Kenya 2010-2014

YEAR	CUT FLOWERS		FRUITS		VEGETABLES		TOTAL	
	Volume in '000 Tonnes	Value KSh Billions	Volume in '000 Tonnes	Value KSh Billions	Volume in '000 Tonnes	Value KSh Billions	Volume in '000 Tonnes	Value KSh Billions
2010	120.2	35.6	32.5	2.8	75.6	18.6	228	56.9
2011	110	58.8	27.1	3.5	79.2	26.3	216	88.6
2012	108.3	65	31.1	4.7	66.4	20.2	206	89.9
2013	105.6	56	31.1	4.8	77.2	22.9	214	83.7
2014*	114.8	59.9	35.1	5.4	70.3	18.8	220	84.1

2.5. Trade policy and Poverty Reduction Interface

Poverty incidence has been increasing since independence. Kenya's human development indicator has been worsening since the 1990s with life expectancy, malnutrition, maternal deaths among others. The government on its part has been working on poverty reduction mechanisms for years and many policy changes are argued to have had poverty reduction as their main focus. The reason for the introduction of SAPs in the 1980s despite its negative effects such as increases in income inequality, inflation, unemployment and retrenchment of the civil servants, for instance, is said to be the transformation "of the daily life of ordinary Kenyans" (Kenya National Bureau of Statistics 2014, 290).

The argument presented in the current Kenya's National Trade Policy is that rapid economic growth shall reduce poverty in Kenya. This is based on the assumption that "increased trade openness (irrespective of initial conditions or the need for complementary measures) will drive improved efficiency in resource allocation, support faster economic growth and thus lead to poverty reduction" (Kenya Institute for Public Policy Research and Analysis (KIPPRA) 2007, 4). The policy thus takes one side of the debate on the linkages between trade, growth and poverty, the neo-classical economic theory, giving the other a blind eye. This neo-classical theory argue for free trade insisting that "it allows for resource re-allocation from a less efficient sector to a more efficient one, which is likely to result in growth and increased average incomes" (KIPPRA 2007, 7) which may have other positive effects.

There are dissenting voices against this liberalisation-growth link. The moderate among these dissenting voices argue that liberalisation has to be done gradually since "countries reduce barriers as they get richer" (KIPPRA, 2007, pg.22). It is argued that the developed countries generated growth under protective trade and that it would be in order for developing countries to maintain some sort of protectionism for them to survive and develop as the Asian nations did. Perhaps, then, the bone of contention is in deciding at what stage of development should an economy be opened up. The truth is that the economic growth associated with growth in trade does not necessarily lead to poverty reduction in the absence of pro-poor policies or deliberate efforts directed towards growth.

Positive linkages can existat least conceptually, according to Booth and Kweka (2004)[11], if:

1. The poor people are able to participate in production of tradable goods or services (or share indirectly in the economic benefits from tradable' productions) given the production structure of the country, and the kinds of commodities that are tradable under prevailing conditions.

2. The international opportunities for trade exist, and these are adequately transmitted to producers and traders by price signals and other processes under the control of policy makers in the country.

3. The internal barriers to production and exchange of tradables are moderate scale; so there is reasonably wide distribution of the factors of production; there are minimal physical and administrative blockages to trade and business, and that intermediate markets are competitive resulting in limited trading margins and profitable production (including output, input and credit markets).

At policy level, policies should create international trading opportunities for them to have a positive impact in poverty reduction. This, according to Booth and Kweka (2004), could be through;

- Securing free or preferential access to foreign markets.

- Maintaining conducive macroeconomic conditions (including exchange rate that transmits correctly to producers the relation between international; and domestic prices).

- Establishing a rational tariff structure, that is, one that encourages efficient specialization according to comparative advantage.

Policies can also help to improve the quantity and quality of the assets at the disposal of the poor, (so that they are better-placed to take advantage of any income-generating opportunities that arise) and can also remove internal obstacles to production and exchange (through investments in infrastructure, ensuring equitable and efficient tax regimes, institutionalizing competitive intermediate markets by removing administrative bottlenecks and removing barriers to entry).

Overall however, the results of trade policy change are influenced by the depth of the policy changes, their speed and their sequencing as the KIPPRA (2007) investigation states. For, "fully implemented reforms, which liberalise the economy or increase openness, may be expected to improve price transmission from border to

11.- Cf. (Kenya Institute for Public Policy Research and Analysis (KIPPRA) 2007, 26).

producer via a set of intermediate effects. These are influenced by the institutional and policy environment, which modify the transmission of prices to producers and their response to such changes – potentially blunting the transmission of positive effects or exacerbating negative effects" (KIPPRA 2007, 28).

The effect of trade-related policies on four key population groups: poor agricultural producers, poor consumers, poor workers (unskilled) and poor workers (skilled) through three main routes – enterprise, distribution and government has been studied and summarized in the KIPPRA report (2007). The lowering of import tariffs, for instance, can stabilise domestic prices, benefiting net consumers. Export promotion strategies on the other hand are said to encourage the emergence of domestic traders, improving price transmission, stimulating local supply responses and local demands for unskilled labour, driving up relative wages for the poor. Likewise, relaxing quantity restrictions on imports can result in the increased availability of inputs and the variety of goods for consumers. The commercialisation of agriculture in Rwanda was found to result in a 5.3% growth in agricultural output, which in turn prompted a 6.7% growth in labour intensive rural non-farm employment, benefiting the poor (KIPPRA 2007, 84). These issues present possible mitigation for enhanced engagements in trade that benefits the poor.

2.5.1. Poverty[12] in Kenya

Various methods of analysis show that poverty incidence had increased in the 1990s from 45% in 1992 to 52% in 1997 to 56% in 2000 (KIPPRA 2007, 37). This resulted in decreased food security, inadequate access to basic social amenities such as health and education, unemployment, escalating insecurity, lawlessness and general economic decay. The worsening of the Human development indices and the deepening of multidimensional poverty between 1998 and 2001 (UNDP, 2003 and 2000) are marks of this worsening scenario. There have been improvements in the National poverty rates in the recent past with 2009 recording 45.2% (Mwangi 2014). This improvement is however minimal and much needs to be done.

There are many factors that have led to poverty in Kenya. These include lack of or slow economic growth; income inequality and unequal access to productive resources like land; natural shocks such as drought, floods and fire; inadequate spread and access to basic social services especially education and health; poor implementation of development programmes; lack of effective social policies and mechanisms and high incidence of diseases such as TB and HIV/AIDS (KIPPRA 2007, 39). Other important correlates of poverty in Kenya include gender, education and occupation. Although gender-related poverty varies by marital status, women in general are more likely to be poor than men as their denial of rights to own property especially land and other productive resources accompanied by their lack of legal protection, poor access to credit and limiting social norms (KIPPRA 2007, 38). Yet majority (up to 69%) of women are into farming as a livelihood activity, a group that the KIPPRA report categorizes as "most likely to be poor in Kenya" (ibid) with the decline in production across years. Besides women as a cluster, people with certain occupations such as subsistence farmers, pastoralists, and unskilled casual labourers have a high poverty incidence (KIPPRA 2007, 38).

Income inequality on the other hand points to a negative effect of trade to poverty reduction "as increased trade flows are likely to increase income inequality, if not countered by other policy measures" (KIPPRA 2007, 39). Yet Kenya is already among the most unequal societies in the world. With an estimated 20% of the Kenyan population controlling about 59% of the national income and the bottom 20% control 2.5% of the income by 2002 (UNDP 2002). By 2014, an estimated 38% of total income [was] in the hands of the top 10% of the population, while the bottom 10% control only 2% of income according to the African Tax Justice report 2014 (Kumar 2014).

Overall, however, the country has exhibited some growth in different economic sectors. But that growth has not reduced the existing inequalities due to the narrow growth model that has been assumed. Employment has grown only minimally, smallholder agriculture seems to have been totally excluded from the positive growth story and only a limited diversification of economies has taken place and the extractive industry has contributed little to wealth creation. As such there has been serious questioning of the growth-poverty relationship (Kumar 2014, 14).

Trade has not managed to make majority of Kenyans cross the poverty line. This has been attributed to a number of factors among them the lack of pro-poor policies and actions due to flawed trade policy formation and implementation. Suggestions have been made to improve the situation: making Kenyan trade policy pro-poor; enabling Kenyan producers, manufacturers, entrepreneurs, workers and consumers to benefit from trade; lobbying for the government's action to improve trade-policy formation and to enable pro-poor export growth (KIPPRA 2007, 106). How these can be done and the contributions that the EU can make for mutual benefices are subject to further discussion and analysis and, could be subject matters of lobbying and advocacy.

3. REGIONAL INTEGRATION ARRANGEMENTS IN AFRICA

Regional integration[13] can be relied upon in fortifying the ability of nations in international trade, politics and in tackling various social ills that countries encounter. The degree on what the state is willing to share and what it shares dictates the extent of integration. This varying willingness leads to varying forms of integration such as economic or political. Having preoccupied many African leaders' minds since independence as an instrument of fighting the impact of colonialism and building a united Africa, regional integration is of late seen and advanced "as a tool for promoting economic growth and sustainable development and improving the living standards of the African people" (United Nations Economic Commission for Africa 2010, 7). These cooperation arrangements are critical in realizing development in Kenya, EAC and Africa at large. This arrangement could reduce unusually high transactions costs which inhibit trade, investment and economic growth. They could also play a major role by assisting African countries to establish a stable macroeconomic policy environment through regional co-ordination and harmonization of macroeconomic and sectoral policies. Nonetheless, the integration efforts in Africa carry with it challenges in their approach and constitution that may not only hinder their growth but also affect the member countries.

The Economic Commission for Africa (ECA), in its vision to establish a continental integration, supports three regional integration arrangements: the Economic Community of West African States (ECOWAS) established in 1975; the Preferential Trade Area (PTA) covering East and Southern Africa, a precursor of the Common Market for Eastern and Southern Africa (COMESA); and the Economic Community of Central African States (ECCAS). The Arab Maghreb Union (AMU) was established in 1989. These arrangements were expected to lead to an all-African common market by the year 2025. However, there are other groupings within the aforementioned ones including the Southern African Development Community (SADC), the East Africa Community (EAC), the Intergovernmental Authority on Development (IGAD), Economic and Monetary Union of Central Africa (CEMAC) and the West African Economic and Monetary Union (WAEMU). Kenya, like many other African states, is a member state of a number of these regional blocks among them the EAC, COMESA and IGAD. EAC and COMESA are the most engaging and the most visible regional block for Kenya. This section will refer mainly to the EAC and COMESA integration efforts.

12.- Poverty is herein understood generally as the inability to meet basic needs such as food, clothing, housing, health, education for children.

13.- Is here-in defined in line with (Soomer 2003, 1) to mean the unification of nation-states into larger contiguous blocs.

3.1. Strengths and Weaknesses of Regional Integration Arrangements

Africa's historical underpinnings of her regional integration efforts are her great strength. Though established to fight colonialism, pan-African sentiments provide for an initial unity of purpose in her integration efforts that could be enhanced and directed towards more noble agenda. Furthermore, the common challenges faced by the region and her need to consolidate her agenda based on these pressing challenges and to have a significant share of presence in the global map should serve the continent's integration arrangements well.

Africa's population projections show a steady growth expected to hit 1.6 billion people by 2030 which would represent 19% of the world's population (Mubila 2012). The bulk of this population will be youthful. This has significance impacts in livelihoods and trade patterns as globalization, urbanization and industrialization take root in Africa. First, though Africa's market as a share of global market has been very low and unattractive, not just in terms of numbers but also in terms of the purchasing power of the population, the expected population increase may increase the size of the markets in Africa. Second, the increasing population has to be provided for in terms of basic needs such as food, shelter, clothing, health and education in line with the MDGs, which unfortunately are still to be met by many of these countries. This will expand her consumption and validate her need to incorporate herself in the world trade substantially. The rising middle class in most of these countries is an indication of the rising purchasing power of the people in Africa. The numbers will therefore reverse the double tragedy of an insignificant population with low purchasing power mentioned above (Rodrik 2014). Third, the rising population may form the much needed labour force in the wake of Africa's attempt towards industrialization.

The gradual acceptance of democratic values, at least in principle, has created a common fabric within which African leaders can operate. The ideological differences that shaped the disagreements of the post-colonial period in Africa, and that led to serious suspicions between countries thereby hindering constructive engagements in the continent have greatly reduced. This sets the stage for close collaborations between countries and regions in Africa with mutual benefits.

Other opportunities in the eastern Africa regional integration efforts which can be counted as strengths are highlighted by AFDB (2011) report as:

(i) Abundant natural resources, minerals and hydropower potential offer great opportunities.

(ii) The Tripartite Arrangement will encourage the three RECs and their development partners to scale up infrastructure development and intra-regional trade.

(iii) A vibrant private sector plays a critical role in stimulating regional integration.

It is the aforementioned strengths that have contributed to the achievements in trade, transport, communication, energy, knowledge sharing, free movement of people, and peace and security accrued from the current regional integration efforts. For instance, different blocks have moved into customs union arrangements such as the West African Economic and Monetary Union, the Central African Economic and Monetary Community, the East African Customs Union and the Southern African Customs Union. There are massive infrastructural programmes implemented at regional levels in Africa including one stop borders, roads and axle load harmonization in EAC region. Regional energy grids are being developed to ease the cost and accessibility of power to citizens in EAC and SADC. The latter has been a pioneer, with 12 members creating the Southern African Power Pool in August 1995 (Economic Commission for Africa 2006, 8). More on these achievements is highlighted below.

Nonetheless, weaknesses abound in these integration efforts. The insecurity accompanying the population boom due to high levels of unemployment poses a challenge to the porous borders of Africa as levels of crime go up. Threats from the Horn of Africa, mainly Somalia, have found its way into Kenya and Uganda. This and the political strife in South Sudan continued putting pressure on Kenya and the neighbouring countries in terms of giving refuge to the numerous people fleeing these conflicts. While a concerted regional effort shall be instrumental in bringing down these threats, the threats are a definite threat to the presumed fabric of integration.

Similarly, despite the advances in democratic principles, the lack of trust and faith in the integration process among member states still linger in the background of many member states in a manner that hinders integration efforts in Africa. This leads to lack of fulfilment of obligations and the unwillingness to submit to supranational bodies. This was the main reason behind the collapse of the first EAC in the 1970s.

Furthermore, the overlapping membership,[14] lack of adherence to the implementation programme, insufficient technical and analytic capacity, divergent and unstable macroeconomic policies and lack of a link with the AEC objectives (ECA 2004) all count as weaknesses in the nature and manner of implementation of the integration efforts in Africa. Different countries and regions pursue the goals of integration from the point of view of narrow economic interests, rather than as part of a broader and single vision towards continental unity and development. (Qobo 2005).

The AFDB report (2011) highlights a number of other challenges faced by regional integration in eastern Africa, which include:

(i) Poor regional transport infrastructure network limits growth and trade expansion.

(ii) Energy deficit limits productivity.

(iii) Significant gaps in the ICT networks.

(iv) Weak institutions and human capacity limit REC effectiveness.

(v) Lack of complementarities hampers regional integration.

(vi) Water scarcity and management of shared water resources remain major challenges.

(vii) Common challenges in financial sector deepening.

14.- Cf. *"The spaghetti bowl of overlapping regional economic community membership"* in (Economic Commission for Africa 2006).

3.2. Major Regional Organisations for Kenya

3.2.1. The East African Community (EAC)

The East African Community (EAC) is the regional intergovernmental organization of the Republic of Kenya, Uganda, the United Republic of Tanzania, Republic of Burundi and Republic of Rwanda with its headquarters in Arusha, Tanzania. The Treaty for Establishment of the East African Community was signed on 30th November 1999 and entered into force on 7th July 2000 following its ratification by the Original 3 Partner States – Kenya, Uganda and Tanzania. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18th June 2007 and became full Members of the Community with effect from 1st July 2007[15]. The EAC aims at widening and deepening co-operation among the Partner States in, among others, political, economic and social fields for their mutual benefit[16]. It is on this basis that the EAC community signed Economic Partnership Agreements (EPA) with the EEC. The main achievement has been the implementation of confidence-building measures that have spurred and energized Partner States' efforts in regional integration. Partner States have expanded the spirit and enhanced the basis of the Community from the initial threshold of mere cooperation to a higher level of integration, with the ultimate objective being political federation.

The EAC objectives as stated in Article 5 (1) of the treaty is to develop policies and programs aimed at deepening cooperation in the region on political, economic, security, social and cultural fields. Having gone through two cycles, the main goal in the current third cycle is to develop a strategy for 2011-2015 period that will improve global competitiveness and move the region to industrialization. This will include heightening development of legal and administrative framework to facilitate the regional economy's ability to generate more income and wealth; infrastructure expansion; improvement of health, primary education and training; investment in higher education and training; development of financial markets; technology and innovation; increased trade with other RECs, the CES Tripartite FTA as the most important (African Development Bank 2011, 8).

3.2.2. The Common Market for Eastern Africa Community (COMESA)

The COMESA Agreement was initiated as a preferential trade zone with the ultimate aim of establishing a common market following the establishment of a free trade area and a customs union among member states. It was signed in December 1994. According to the treaty by which COMESA was established, it is an organization that promotes cooperation among the sovereign states in developing their natural and human resources. It also promotes among other things the peace and security among the states. All the states would collectively endeavour to improve their economic situation.

There are 19 states, which happen to be the member of COMESA. The transaction has amounted to $32 billion in the import sector and $82 billion in the export sector. This is evident of the international market where traders trade their goods and earn quite a lump sum.

In 2000 all the tariff barriers were eliminated among the member states and COMESA achieved its goal of a free trade. Two other states namely Burundi and Rwanda joined the list of COMESA on 1st January 2004. All the eleven members of the FTA are working towards eliminating the tariff barriers so that a free trade could be carried on within the countries, which would boost up the economy of the countries.

The AFDB reports highlights on COMESA's Medium-Term Strategic Plan (MTSP) which outlines six objectives: removing barriers to facilitate mobility; building capacity for global competition; addressing infrastructural constraints; peace and security; cross-cutting issues; and institutional development. COMESA has achieved trade facilitation through elimination of tariff and non-tariff barriers among member states and, establishment of a COMESA Fund to facilitate implementation of infrastructure programs. COMESA is also in the process of creating a Multilateral Fiscal Surveillance Framework with Bank support.

3.2.3. Intergovernmental Authority on Development (IGAD)

The Intergovernmental Authority on Development (IGAD) in Eastern Africa was created in 1996 to supersede the Intergovernmental Authority on Drought and Development (IGADD) which was founded in 1986.

The IGAD mission is to assist and complement the efforts of the Member States to achieve, through increased cooperation: Food Security and environmental protection, Promotion and maintenance of peace and security and humanitarian affairs, and, Economic cooperation and integration.

3.3. Gains of Integration

Among the gains of integration include those accrued on a one-time reallocation of economic resources such as land, labour, capital, or natural resources (referred to as static gains) and those that are accrued from impacts on productive capacity and potential output, and the resulting impact on income growth (referred to as dynamic gains) (SID 2011, 16). The effect of the static gains depends on the relative sizes of trade creation and trade diversion.

At macro level, the effects of EAC customs union was expected to lead to a reduction in regional average tariff both on intra-EAC as well as third country imports, which by 2010 would result into increased imports from outside the EAC region (SID 2011, 19). In Kenya and Tanzania where the tariffs would reduce, and in effect lead to a net reduction in tariffs for the EAC region, the anticipated increase was 11.2 and 14.6 percent respectively (SID 2011, 19). For Kenya, the elimination of Tanzanian and Ugandan tariffs on Kenyan goods would result in increased imports from Kenya by 3 and 6 per cent respectively but with a corresponding net trade creation loss of up to US$113 million (ibid). the estimates given in the stud show that Kenya will be the most affected country by revenue loss due mainly to tariff liberalisation for third country imports (not intraregional liberalisation) despite the fact that its share of intra-EAC imports is the smallest among the three main EAC partners (SID 2011, 20).

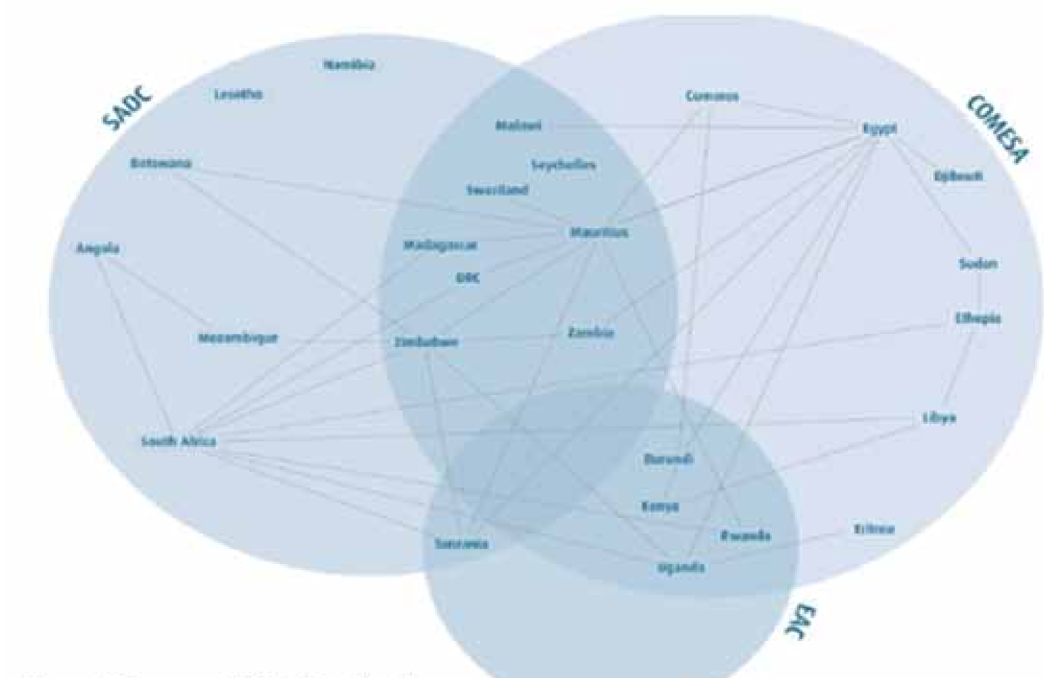
For firms, RTAs subject them to greater competition which is expected to enhance their efficiency and to reduce costs (SID 2011, 24). A study on firms in EAC customs union showed that firms reported business expansion of 60-80%, with Kenyan firms reporting up to 86% expansion, since the launch of the customs union in 2005 (ibid). Greater integration is expected to lead to more competition and more advantages to firms that are already competitive.

15.- http://www.au.int/en/recs/eac

16.- http://www.nepad-ippf.org/about-ippf/our-partners/african-stake-holders/recs/eac/

3.4. EPA and Regional Integration

Complications surround the EPA in view of regional integration given the multiple memberships of countries to different groups. The diagram below aptly captures this maze of confusion:



From (George 2013), Ecobank.

The confusion in the negotiation between the EAC and EU as discussed in the next section had part of the complications resulting from this. However, there are major concerns raised with regard to regional integration and the EPAs. The Africa-EU integration compromises regional integration efforts in Africa which have myriad challenges to face. This is further complicated by the existence of LDCs and no-LDCs within the same blocks such as EAC therefore complicating the negotiations. Imposing different market access arrangements on countries in the region makes it impossible for the regions to consolidate their customs union given the weak and porous borders these countries have. The EU's approach in dealing with disagreements in content of EPAs by pulling individual countries to the negotiating table further weakens regional blocks. It is worrying that there is less effort from the EU in addressing the obvious contradictions between the explicit EPA objective to foster regional integration and the reality of undermining regional customs unions.

Second, while the EU is insisting on 80% of liberalisation of the goods market in African countries, African countries argue that this level of liberalisation is too high (Buchholz 2012). While most scholars agree that liberalisation in important sectors could build countries' productive capacities, EPAs could expose regional markets for such sectors to direct and unfettered competition with EU goods. The EU is adamant on allowing adequate provisions to safeguard infant industry by African countries and has fought against restricting the use of export taxes and export restrictions. Buchholz therefore sees the possibility of countries running the risk of remaining commodity exporters with limited employment benefits and generating little revenue, instead of moving up the value chain and diversifying their economies (ibid).

4. ECONOMIC PARTNERSHIP AGREEMENT (EPA)

The Lomé Convention signed by Kenya and other seventy countries in 1975 provided for non-reciprocal trade preferences for goods from ACP countries into the European market on renewable terms (Institute of Economic Affairs (IEA) 2006, 1). Up to 97 per cent of ACP export products enjoyed this duty free preferential access to the EU market. These agreements were geared towards increasing the export income of developing countries, promoting their industrialization and accelerating these countries' economic growth[17]. At the expiry of the Lomé IV in February 2000, the two blocks entered into the Cotonou Agreement which required ACP countries to reciprocate the duty free access to the EU market from 2008 (ibid). As a temporary unilateral scheme before the signing and application of the revised Economic Partnership Agreements after 31 December 2007, the EU adopted an interim regulation (Market Access Regulation - MAR) on 20th December to allow countries which had initialled[18] a WTO-compatible agreement to benefit from improved "Cotonou" rules of origin (European Union 2014).

The revised Economic Partnership Agreements envisions liberalized markets in ACP countries that allow EU imports in line with WTO requirements. It further provides for the liberalization of investments and service industries, which the EU is pushing for despite these being outside WTO commitments. These changes espoused in the Cotonou Agreement sparked off rounds of negotiations between ACP countries and EU, with ACP countries having the option of negotiating as individual countries or as regional economic blocks, in view of trade-offs that countries have to make in the wake of the trade liberalisation.

The EAC countries – Burundi, Rwanda, Tanzania, Kenya and Uganda – initialled an EPA framework (mainly dealing with trade in goods) on 28 November 2007, and entered into negotiations for a comprehensive regional EPA. There have been ministerial meetings as well as meetings involving technical and senior officials from both the EU and the EAC geared towards working out an agreement. From these meetings, export taxes and the non-execution clause emerged as the main outstanding issues. (European Commission 2014). Items categorised as *Contentious issues of Negotiations* are given in the sub-section below.

17.- Cf. Ikiara et al (2003) in "Implications of an EPA for Kenya's Agricultural Market Access in the European Union," IEA.

18.- Initialling an EPA means that the negotiators conclude negotiations and accept a text as the genuine outcome of the negotiations; signing is the official acceptance of that text by the governments; ratifying the official endorsement by the constitutionally designated authorities. Cf. Buchholz, Rebecca Varghese (2012). "Economic Partnership Agreements – still pushing the wrong deal for Africa?"Traidcraft Exchange.

Despite the contentions, the EU states and believes that EPAs are geared towards:

- Promoting trade between the two groupings – and through trade development, sustainable growth and poverty reduction.

- Helping ACP countries integrate into the world economy and share in the opportunities offered by globalisation (European Commission 2013).

In fact the European Commission believes that the Economic Partnership Agreements "are 'tailor-made' to suit specific regional circumstances" and that they "go beyond conventional free-trade agreements, focusing on ACP development, taking account of their socio-economic circumstances and include co-operation and assistance to help ACP countries implement the Agreements"(ibid). The opening up of the EU markets "fully and immediately (unilaterally by the EU since 1st January 2008)," and allowing ACP countries 15 (and up to 25) years to open up to EU imports while providing protection for the sensitive 20% of imports" as stated on the EU site seems to have been sufficient for the ACP to make use of the opportunity and to prepare their economies for the EU products.

The trade preferences under the EPAs, at least from the perspective of the EU, are also argued to provide scope for wide-ranging trade co-operation on areas such as services and standards. Their development agenda for ACP countries espoused by their formulation "are also designed to be drivers of change that will kick-start reform and help strengthen rule of law in the economic field, thereby attracting foreign direct investment, so helping to create a "virtuous circle" of growth" (Eropean Commission 2013).

The institute of Economic Affairs (2006) in its analysis of costs and benefits of trade preferences highlights on three expected benefits to recipient countries, namely (i) Increased returns to exporters who receive them and (ii) Promotion of the industrialisation of these countries (iii) Acceleration of the economic development of the same albeit with a caveat: that these remain expectations (9). Overall the report argues that "there is compelling evidence in support of the argument that such trade preferences are beneficial to the ACP countries" based on price differentials between developed countries against those in the world market (ibid). However the benefits to exporters from recipient countries depend on (i) Range of goods eligible for preference (ii) The extent of preferential treatment provided to the products (iii) Costs incurred in complying with preferential access arrangements (iv) Quantitative limits imposed on goods imported with preferences (v) Extent to which the available preferences are utilized (Institute of Economic Affairs (IEA) 2006, 10).

With the aforementioned benefits notwithstanding, however, many ACP countries were of the opinion that the offer at the table of negotiations restricted their developmental options (Buchholz 2012). Economically, in fact, it may be argued that Africa may well develop better under some restricted form of controls that protect their nascent industrial base as did the West which include the EU countries. Some opponents of free trade have further argued against free trade based on the nature and limited sources of comparative advantage that developing countries have compared to their more developed counterparts and the limiting scope in terms of intervention of these countries in such agreements (Institute of Economic Affairs (IEA) 2006, 5).

With respect to LDCs and the evaluation of the significance of the trade preferences, the Institute of Economic Affairs (2006, p.10), trade preferences may fail to reach the intended expectations due to:

(i) The costs incurred in meeting the conditions set by the preference giving countries, which may undercut the potential benefits to exporters;
(ii) The complexity of such schemes
(iii) Exporters limited knowledge of these schemes
(iv) Exporters' inability to fulfil the regulatory barriers that are imposed by the industrialised countries.

Furthermore, the research points to the inadequacies of determining the benefits of trade preferences to low developed countries. Financial benefits, for instance, are said to accrue to owners of factors of production that produce products on the preferential export lists, which may be Foreign Direct Investors.

The number of products covered by the trade preferences is also limited allowing for a limited number of products to access the developed markets. Trade preferences may also "increase the dependency of industries that rely on it as well as that of entire countries hence increasing their vulnerability to external shocks" (Institute of Economic Affairs (IEA) 2006). It is also argued that preferences can never shake themselves off the desires of the advancing countries that seek to provide "some sort of justification for continued protection of certain industries in preference giving countries. Developing country producers will as a result lobby strongly for the continuation of the preferences in developed countries" (ibid).

These contrasting positions form the background of negotiations presented an opportunity and a platform as well as challenges for the operationalisation of the EPAs. It is therefore important to seek to understand the nature of the goods that are exported to the EU market and the kind of market access conditions that are presently available for these goods in those markets. What is certain is that EPAs with its merits will have serious repercussions on ACP countries.

4.1. Negotiations

Of the ACP countries negotiating for EPAs, 47 are African countries with 32 of these categorised as Least Developing Countries benefiting from the *Everything but Arms* arrangement (EBA)[19] with the EU. These LDCs had nothing to lose in the event of failure to reach an agreement with EU as they are protected under the EBA but stood the unfortunate chance of losing more from the signing of the EPAs. The 15 non-LDCs benefits of exporting to EU markets through the interim Market Access Regulations (MAR) or through the GSP has expired on the 1st of October 20014 and their products therefore attract higher tariffs as proposed amendments at the EU parliament in 2011[20] being higher tariffs for their exports to EU countries. For these non-LDCs, it is argued, the preferences are very important if their export sectors are to remain viable.

The areas covered in the negotiations included trade in goods, customs and trade facilitation, technical barriers to trade, sanitary and phytosanitary measures, agriculture, fisheries, economic and development cooperation as well as institutional arrangement, dispute settlement and final provision. However, concerns related to export taxes, export subsidies and relationship between Cotonou agreement and EPAs that became thorny for EAC countries. One of the provisions in the Cotonou agreement is the desire to have "those countries opting against signing an EPA should end up no worse than under the current trade preferences" (Hoppe 2007). Mombert Hoppe of the World Bank Group narrows these disagreements to issues of "special and differential treatment, and the highly debated issue of whether related aid-for trade should be included as legally binding in the EPAs" (Hoppe 2007). Hoppe further opines that the issue of the impact that alternatives to an EPA would have on market

19.- EBA allows LDCs to export anything but arms to EU markets irrespective of whether the sign EPAs or not.

20.- These included *reform of the General System of Preferences (GSP) and the phasing out of the Market Access Regulation (MAR) cf.* Proposal for a regulation of the European Parliament and of the Council amending Annex I to Council Regulation (EC) No 1528/2007 as regards the exclusion of a number of countries from the list of regions or states which have concluded negotiations (COM(2011)0598 – C7-0305/2012 – 2011/0260(COD)) access and preferences in the EU, none of which has been offered by the EU, is a key issue in the negotiations for non-LDCs. These were complicated by the internal organization in each of the six negotiating regions with the EU.

Kenya negotiated for the EPAs under the EAC trading block. Notable is the fact that it is only Kenya in EAC that is categorized as a non-LDC country. Also, as per provisions in the EC the negotiations were open to the involvement of non-government bodies including civil society and members of the business community (European Commission 2010). The levels of these negotiations and, contributions by specific EAC countries and that from CSOs are subjects of more research and shall be highlighted later. Interestingly though is the effect of multiple regional membership for countries within the block; Tanzania which belongs to SADC had reservations in signing the EPAs yet SADC had already agreed to the EPAs and signed an agreement earlier than EAC.

Fears from African countries were borne out of the contention that they may find themselves bound to poor trading terms with EU countries if the contentions are not amicably resolves. Rebecca Varghese Buchholz, for instance, argues that "EPAs do not address the fundamental challenges countries in Africa are facing" (Buchholz 2012). The observed high unemployment linked to weak productive capacity, vulnerability to external shocks because of very limited diversification, and food insecurity because of lack of investment in agricultural production and infrastructure all of which are not addressed by the EPAs justify her claims. For Buchholz, cognisance of Africa's development concerns should precede the EU's and WTO's trade policies. For Africa should be should be moved more by her impetus to shaping her economic future more than by fear of losing market access, even though market access is important for economic growth.

4.2. Contentious Issues in EPAs

The current form of EPAs as pushed for by the EU and negotiated by the ACP countries point to some contentious issues.The first is disagreement on provisions for agricultural subsidies that farmers in the EU continue to benefit from. The EAC argue that allowing subsidized agricultural products from the EU would destroy the local market and block the growth of agric-based industries in their member countries which do not receive any subsidies despite being a source of livelihoods for millions of people. The EAC therefore maintained that provisions to restrict such products to the EAC markets should be added. The EU however argues that the EU does not provide domestic agricultural support for exports. This differs greatly from EU's Common Agricultural Policy discussed above (Ssali 2014) as the CAP expressly provides for provisions that amount to subsidies. It is approximated that the EU's 2013 budget for direct farm payments (subsidies) and rural development - the twin "pillars" of the CAP - is 57.5bn Euros (£49bn), out of a total EU budget of 132.8bn Euros (that is 43% of the total) (BBC 2013). This then puts EU countries at an advantage against developing countries as it encourages EU agri-businesses to export huge quantities of food worldwide that poor farmers cannot compete with on price.

The other contentious issues highlighted by the EAC secretariat include export taxes, Most Favoured Nation Treatment (MFNT), and economic and development cooperation. On export taxes, though FEPA preserved EAC's right to levy existing and new export-related taxes in order to foster the development of domestic industry or for foreign exchange (East Africa Community Secretariat 2012), this use of export taxes was not supported by the EU that sought to checknew export taxes from being imposed, or their current levels from being increased, except under very specific circumstances. (Ancharaz 2014). "The decision on whether to allow the use of export tax on the conditions specified is to be made by the EPA Council, which will also review its effects after 24 months" (East Africa Community Secretariat 2012). This insertion has been argued by Ancharaz to be in view of EU's need to safeguard important raw materials which could be subjected to export taxes that will restrict market access. The EAC Customs Management Act on the other hand provides for prohibition and restrictions of certain goods, an exercise that is carried out mostly through the application of export taxes. Agreeing to EPA's control of export taxes therefore may have implications on EAC's policy space in the use of export tax as trade policy instrument. The WTO rules do not prohibit the use of export taxes.

The Most favoured Nation Treatment provided for by Article 16[21] of FEPA was feared for its impact on bilateral negotiations between members of the EAC and other partners as any preferences to a developed nation would be extended to EU nations. WTO rules recognize bilateral agreements in the promotion of South-South trade especially given the low intra-trade levels in Africa.

Contention on the Economic and Development Cooperation were based on the EAC's desire to have additional resources to assist member countries in "taking advantage of opportunities stemming from implementation of the agreement and access to new markets" (East Africa Community Secretariat 2012). For Economic and Development Cooperation was included in the EPAs in recognition of the fact that changes to the trade regime will entail certain costs – linked to institutional implementation of new rules and the adjustment of economic operators to the new regulatory work – for the EAC in the short to medium term.

4.3. CSOs concerns over the EPAs

The concerns of civil society are difficult to capture given the divisions in the organisation and their limited participation. CSO's concerns can be categorised into two: those that relate to the negotiations and those concerning the philosophy behind the EPAs. It is recognised that generally there was less involvement of CSOs in the negotiations (Montoute 2011). In areas that had this involvement like in East and southern Africa, some civil society collaborated with national governments even though they felt helpless in influencing the negotiations. Oxfam in 2006, for instance, complained about the "extreme disparities in negotiating power [that] could all too easily produce unfair results," that Oxfam feared could jeopardize the future development of the ACP countries (Oxfam 2006).

In terms of the philosophy, a number of CSOs were opposed to the signing of the final EPAs with their core argument challenging "the European Commission's argument that free trade EPAs are the only way to meet WTO requirements and to integrate African countries into the global economy" (ActionAid 2004). These organisations therefore argue for the developing countries to retain the right to special and differential treatment under WTO rules that should be safeguarded in any new trade agreement between the EU and ACP. ActionAid further sees the EU as capitalising on the EPA negotiations to push through agreements on investment, government procurement and competition policy that developing countries rejected at WTO negotiations in 2003 (ibid).

A number of local civil society groups voiced concerns over the potential negative impacts of reciprocal trading arrangement with the EU on the majority of the African people. One of the impacts that these organizations anticipate is the threat that EPAs pose on regional integration. Regional integration, the argue, "has sought to ameliorate the economic problems created by the colonial fragmentation of Africa into many nation states with little economic coherence" (ActionAid 2004). Yet EPA divides the groupings and undermines existing African economic blocs. Some people have even argued that the EPAs are about resource acquisition and not market accessibility (Trade Mark East Africa 2014).

21.- These are given as follows: (1) if the EC gives better treatment to a third country, they have to give it to the EAC as well; (2) if EAC gives better treatment (i.e. deeper market access) to a developed country or any country accounting for more than 1% or regional entities (such as a customs union) accounting for over 1.5 percent of world merchandise trade, EAC has to extend the same treatment to EU; and (3) Members of the ACP group and other African countries are not covered by the MFN provisions covered in (2) above.

4.4. Implications of the EPAs

Impacts of EPAs on specific sectors in the Kenyan economy are to be expected in recognition of the nature of the goods that are exported to or imported from the EU market and the kind of market access conditions that are presently available for these goods in those markets. Two things will determine to a large extent whether Kenya will benefit from the EPAs or not: first, the use of NTBs and second the EU's CAP that have undergone reforms as discussed above. The IEA (2006) report had already alluded to these arguing that "the increasing use of NTBs as health standards to preserve human and animal health and safety may have protectionist effects that may erode the market access gains that may be made through Tariff liberalization"(32).

The CAP reforms already undertaken will continue assisting EU farmers putting them at an advantage over their ACP partners as tariffs and non-tariff barriers such as quotas and guaranteed prices for the main agricultural products with which the EU uses to fulfil her ACP goals continue being applied. Price stabilization mechanisms may also temper with prices in the global agricultural market.

The EU will also pose stiff competition to Kenyan manufacturers who have a myriad of problems ranging from poor infrastructure, inferior technology and high energy costs among others. That these manufacturers can compete with EU producers for local or regional markets is an absurd expectation. Local companies may be faced with threats of closure resulting into huge revenue losses for the government and loss of employment. We have to acknowledge, however, the trade gains that may result from all these as consumers benefit from low priced, high quality goods and inefficient domestic producers are shoved out.

Though some studies done point to an economic and social benefits arising from EPA, these are underpinned by assumptions that may not be fulfilled such as the non-exemption of any EU sector (including the sensitive ones) from full tariff liberalisation and the minimization of adjustment costs associated with FTA under the EPAs (which could be politically costly) (IEA, 33).Furthermore, FTA could increase income inequality which is already at its peak in Kenya as it increases returns on some factors of production such as land, capital and skilled labour but not those of unskilled labour which abounds in Kenya's and many African countries' agricultural sector. Revenue losses by the government of Kenya may also increase due to the operationalization of the EPAs. Revenue losses for Kenya resulting from the EPA had been predicted to be US$ 107,281,328.00 in a study by UNECA in 2005 (Karingi, S. Lang, Oulmane, Perez, Jallab and Hammouda 2005). Kenya relies a lot from import duties as a source of government revenues as shown in table 14. Revenues from tariffs constituting about 16 % of total tax revenue.

Overall, for there to be a "net welfare benefit" for Kenya, the report puts it, the combined benefits accruing to consumers from lower priced goods and producers from increases export revenues must outweigh the losses incurred by producers from import competing manufacturing sector, the loss of employment from collapsing sectors and foregone government tariff revenues that arises from the trade reciprocity (IEA 2006, 33). Now that Kenya has agreed to and signed the EPAs, the question as to whether this net welfare benefit will be accrued is the most crucial question of investigation. Nonetheless, the negative effects of the EPAs could be ameliorated by the effectiveness of the instruments provided for in the EPAs and those of the ACP- EU support institutions listed in Annex 2.

CONCLUSIONS AND RECOMMENDATIONS

There are both benefits and losses to be incurred from the implementation of EPAs. However, the benefits are outweighed by the losses in the EAC case that Kenya stands out to lose in the whole implementation. Unfortunately, it is the benefits that the sampled representatives of the manufacturing sector (EPZ and KAM) who were interviewed emphasized on.

i. Openness and Flexibility:

There was no flexibility on the part of the EU as far as negotiations were concerned. The EU had a fixed agenda that they pursued in disregard to EAC's views; the deadline set never took considerations of the prevailing conditions of Kenya or of any EAC country despite the EACs call for the extension of the EU's Market Access Regulation 1528/2007. Kenya felt helpless in the negotiation as the Cotonou agreement had expired yet there was the desire to maintain access to the EU market by the horticultural and some manufacturing sectors.

Still there are contradictions in what the EU says and the practice on the ground. The EU's Common Agricultural Practice (CAP), for instances, is explicit on what its mandate is and practices what is stated therein. This includes subsidizing its farmers and guaranteeing minimum prices for their produce. The EU however denies claims of subsidies to farmers and claims that it is the ACP farmers who stand to benefit.

ii. Free Trade Area versus Development:

The EPAs have a limited focus on development and,as a free trade area, they have no additional financial package that can be used to address fiscal challenges that they could bring. The negotiations should have focused on sustainable development.

Kenya's trade is predominantly around agriculture; agriculture employs more than 70 percent of the population and accounts to over 30 per cent of the GDP for 2014. Yet the agricultural sector will be the worst affected sector by the EPAs with the free entry of more of the subsidized agricultural produce from the EU region. Still, the interest of the EU on Africa's raw materials cannot be washed away. Yet Kenya will not develop by exporting these raw materials.

Reduction of import tariffs will lead to serious losses of revenue to African countries and they will need alternate ways of raising revenue. Overall, Sub-Saharan African governments will lose euros 1.516 billion a year in tariff revenues through the full implementation of the kind of Food security is not currently a major criterion for EPAs envisaged by the EU according to the United Nation's Economic Commission for Africa (UNECA) estimates. The most likely alternate ways for these governments is taxing basic commodities, which will increase the strain on the few formally employed citizens and households that are struggling to survive.

iii. Control Measures versus Protectionism

Kenya recognizes the need to integrate her economy to the world economy and the need to gradually eliminate protectionism. This is evident in Kenya's, aims, under the EAC, customs union protocol to liberalise inter and intra regional trade. Products originating in third countries, that cover approximately 99 percent of all tariff lines, will be subject to a common external tariff (CET). However, Kenya's contribution to the world trade is very low.

Nonetheless, Kenya lacks adequate control mechanisms to control imports as exhibited by the lack of control of substandard goods from other nations. This is exhibited by weak institutional mechanisms instituted by the government and the ignorance of Kenyan producers, for instance, farmers of fresh produce. Yet the EU still insists on stringent requirements of fresh produce exported into the EU countries, which Kenyan farmers may not be able to meet unless various steps are implemented. This is going to be a serious challenge within the EPA framework. As such, consumers as well as producers are put at risk.

The protection of the sensitive products under EPA is inadequate and cannot be guaranteed. "Food security is not the only criterion for selecting sensitive products;" jobs and revenue for the government should be considered. But given the differences on this aspect between the EU and the ACP, tariff reductions on sensitive products, rather than duty-free treatment, may provide a workable compromise.

The supply side constraints such as infrastructure, productive capacity and marketing are not addressed by EPAs. This implies that there may be no increase in exports from Kenya into the EU; most products have had this free market access for years yet this has not resulted into increased exports!

The debate Reciprocal on control measures versus protectionism spills over to one of the most differed on subjects of the EPAs – reciprocal versus non-reciprocal Preferences. This debate on the actual benefits of non-reciprocal preference for the developing countries is wide and varied. Nonetheless, some level of trade restrictions on the part of developing countries is not just helpful but necessary for the development of the developing countries; it helps in remedying the skewed balance of payments, protecting their nascent industry and increasing tariff revenue which frees up economic resources that could be used to improve market access for other, more important imports. Further evaluations are recommended for streamlining non-reciprocal preference programs and improving how they function.

iv. Regional Integration versus integration into world trade

EPAs actually threaten integration process in EAC, to which Kenya is a member state. The MFN treatment provision of the EPAs implies that Kenya will be forced to extend to the EU any more favourable treatment that she extends to any other major trading partner arising from a trade preferential agreement. Noteworthy in this scenario, is the fact that Kenya's major partners are the EAC and COMESA. The insistence on the MFN inhibits Kenya and the EAC partner states from exercising their right to freely associate with other regions of the world on terms that would bring economic, social and cultural development to their people and undermines the South-South trade prospects. It also denies Kenya as a member state of the EAC the right to use this MFN multilateral provision and the right to alternative routes for development.

The way forward

Although negotiating the EPAs was optional for the ACP countries, including EAC Partner States, the consequences for non-LDC nations like Kenya were too high a price to pay. Under the GSP regime, where Kenya's goods would fall in case of refusal to initialize the EPAs, meant that Kenya's goods would be treated like those from any other developing country. In the EAC region, the use of the GSP as an alternative could have brought complications for Kenya given her position as a developing country with no recourse to the use of the Everything-But-Arms option available to other EAC partner states classified as LDCs.

The impacts of EPA on the people and the economy of Kenya bestow on all stakeholders responsibilities. While this responsibility is greatest for the government, CSOs, the private sector and the community at large should act in definite ways to ameliorate the negative effects of the EPAs.

The Role of Civil Society Organizations (CSOs)

CSO have played a significant role in the negotiation of fair trade in general and the negotiations of the EPAs. At the current level of operation of the EPAs, CSOs will have to continue their engagement in evidence based researches and publications on the effects of the EPAs on the individual countries. This will be a continuous process throughout the lifespan of the agreement in order to raise the changing dynamics of the agreements and to hold the participating nations accountable for the effects of the agreements on their citizens.

It is necessary to maintain a flexible negotiation policy that allows revisions of the liberalized tariff lines; the EAC and the EU have agreed to review the agreement every five years (EPA and EPZ in Kenya 2015). The researches therefore will be very useful in informing these reviews with the hope that the researches and the parties involved will be objective and open to alternative options.

There is also need to hold forums/ meetings to sensitize the public on the EPAs and other trade and investment agreements so as to help them make the best out of the agreement. A noteworthy complaint from the interview with the EPZ representative is that "the conditions for such products to enter the EU market are so stringent and sometimes unreasonable and as such do not promote reciprocal bilateral trade" (EPA and EPZ in Kenya 2015). It is in regard to this that the forums are envisioned; yet this task has to pull in both the governments of Kenya and the EU for mutual and fairer trading relationship as well as to foster genuine benefits and economic opportunities for poor and the marginalized. Advocating for value addition on agricultural produce will be one of the areas of engagement in order to ensure benefits to producers.

CSOs have a duty to monitor the actual implementation of the EU's contribution to the EPA under the European Development Fund (EDF), Aid for Trade (AfT) and the EU budget funds for which the EU intends to utilize to assist ACP countries to address the supply side challenges even though these funds are insufficient. The cumbersome nature of the process of accessing such funds as well as issues of proportionality of the funds to the needs on the ground is issues of advocacy by the CSOs While, the private sector is represented by the various professional bodies such as the Kenya Association of Manufacturers (KAM), the Export Processing Zones (EPZ), and The Horticultural Association of Kenya among others that are in direct line of engagement with the EU and the Kenyan government, such organizations focus on narrow and selfish interests that may not necessarily be to the benefit of the majority of the people. It is important for these bodies to evaluate the effects of the EPAs objectively and widely; the effects to both the economy of the country and lives of the citizens need to be considered instead of taking a narrow approach that focuses on the immediate sectors that these bodies represent. There is, therefore, need for the sector to come together and engage the government to ensure that they have a say in the final evaluations of the agreements.

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ANNEX 1: Important Tables

Table 10: Domestic Exports by Broad Economic Category (in Ksh. '000), 2003 – 2012 (from KNBS Facts and Figure, 2013)

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
1. Food and Beverages	**70,070,048**	**75,070,633**	**91,127,021**	**97,802,431**	**105,548,764**	**130,272,523**	**136,751,418**	**170,050,014**	**195,564,681**	**197,490,756**
11 Primary	55,162,978	60,061,947	70,048,420	76,330,388	78,558,063	97,994,140	107,318,540	136,578,720	153,790,921	153,197,808
111 For Industry	7,350,136	7,317,332	10,505,739	11,151,209	11,689,069	11,380,892	16,710,086	18,099,122	22,447,944	23,894,551
112 For Household Consumption	47,812,843	52,744,615	59,542,681	65,179,179	66,868,994	86,613,248	90,608,454	118,479,598	131,342,977	129,303,257
12 Processed.	14,907,069	15,008,686	21,078,601	21,472,042	26,990,701	32,278,383	29,432,878	33,471,294	41,773,759	44,292,948
121 For Industry.	2,629,235	1,171,572	3,670,147	3,176,938	3,542,570	4,035,653	5,151,223	4,129,900	7,157,515	8,071,199
122 For Household Consumption..	12,277,834	13,837,114	17,408,454	18,295,104	23,448,131	28,242,730	24,281,654	29,341,394	34,616,244	36,221,748
2. Industrial Supplies(Non Food)	**34,742,952**	**39,478,327**	**51,219,583**	**53,714,373**	**66,677,623**	**92,499,371**	**87,342,355**	**108,200,712**	**146,601,371**	**142,019,078**
021 Primary	12,128,547	15,146,798	11,237,199	11,998,585	13,544,808	18,462,847	19,975,360	19,355,861	30,701,676	29,370,004
022 Processed	22,614,405	24,331,529	39,982,384	41,715,788	53,132,815	74,036,524	67,366,995	88,844,850	115,899,695	112,649,074
3. Fuels and Lubricants	**422,779**	**1,183,097**	**6,894,540**	**6,881,664**	**8,930,663**	**4,588,468**	**4,552,693**	**7,454,478**	**10,015,015**	**4,028,563**
031 Primary	2,742	5,310	6,782	14,779	11,952	11,567	9,342	6,808	10,274	8,004
32 Processed	420,037	1,177,787	6,887,758	6,866,884	8,918,711	4,576,901	4,543,351	7,447,670	10,004,741	4,020,559
321 Motor Spirit	8,898	31,462	2,334	199,214	417,101	237,771	318,448	560,566	538,456	395,188
322 Other	411,139	1,146,325	6,885,424	6,866,884	8,501,610	4,339,129	4,224,903	6,887,105	9,466,285	3,625,371
4. Machinery and Other Capital Equipment	**889,797**	**1,903,344**	**2,252,228**	**3,528,855**	**4,425,459**	**5,565,802**	**6,780,685**	**9,035,506**	**11,213,510**	**13,713,225**
0 41 Machinery and Other Capital Equipment	589,544	1,253,591	1,551,179	2,932,267	3,517,549	4,787,272	5,492,354	7,320,380	9,006,113	11,864,071
042 Parts and Accessories	300,254	649,753	701,049	596,588	907,910	778,530	1,288,332	1,715,126	2,207,397	1,849,154
5. Transport Equipment..	**1,034,068**	**1,716,907**	**2,205,570**	**2,762,000**	**3,475,038**	**3,672,367**	**5,828,131**	**6,576,331**	**7,545,043**	**7,858,197**
051 Passenger Motor Vehicles	81,342.30	147,447.00	75,053.71	67,537.70	114,690	69,342	100,394	228,157	160,052	102,956
52 Other	298,995	362,132	1,108,945	64,056,142	1,887,805	2,167,633	3,977,996	3,884,540	4,355,760	4,091,349
521 Industrial	190,506	348,788	1,060,247	62,203,434	1,814,764	2,123,634	3,943,628	3,516,949	4,245,194	3,942,249
522 Non-Industrial	108,489	13,344	48,698	1,852,708	73,040	43,999	34,367	367,591	110,566	149,099
053 Parts and Accessories	653,731	1,207,328	1,021,572	15,692,955	1,472,544	1,435,392	1,749,741	2,463,633	3,029,232	3,663,892
6. Consumer Goods not Elsewhere Specified	**26,340,273**	**33,648,370**	**56,072,244**	**63,435,750**	**72,623,797**	**86,035,169**	**82,291,141**	**84,044,100**	**113,450,121**	**113,869,215**
061 Durable	**373,387**	**380,534**	**539,573**	**628,705**	**2,210,899**	**2,559,617**	**3,234,339**	**1,325,613**	**1,720,081**	**3,802,736**
062 Semi-Durable	**5,081,477**	**6,525,457**	**20,512,352**	**22,938,751**	**22,278,488**	**24,090,945**	**20,238,598**	**22,035,699**	**28,466,952**	**27,998,781**
063 Non-Durable	**20,885,409**	**26,742,379**	**35,020,320**	**39,868,294**	**48,134,410**	**59,384,606**	**58,818,205**	**60,682,787**	**83,263,087**	**82,067,697**
7. Goods not Elsewhere Specified	**3,208,851**	**6,047,424**	**146,780**	**54,939**	**3,722**	**26,062**	**24,952**	**79,780**	**117,203**	**726,734**
Total	**136,708,767**	**159,048,102**	**209,917,966**	**228,180,782**	**261,685,065**	**322,659,761**	**323,571,375**	**385,440,920**	**484,506,944**	**479,705,768**

Table 11: Kenya's Imports and Exports per region (2010 – 2012)

	2010			2011			2012		
Geographical Area and Country	Exports and Re-exports	Imports	Trade Balance	Exports and Re-exports	Imports	Trade Balance	Exports and Re-exports	Imports	Trade Balance
Europe									
Western Europe									
European Union:									
Austria	536,757	1,240,491	-703,734	686,338	2,623,868	-1,937,530	369,870	2,994,942	-2,625,072
Belgium..	4,158,843	7,642,355	-3,483,512	4,569,310	10,715,674	-6,146,364	5,266,523	10,907,243	-5,640,720
Denmark..	180,925	4,617,347	-4,436,422	189,218	8,723,274	-8,534,056	397,377	4,824,809	-4,427,432
Finland	1,807,554	14,167,357	-12,359,803	1,240,706	4,782,542	-3,541,836	1,476,113	2,245,439	-769,326
France..	5,093,343	18,652,400	-13,559,057	5,603,818	19,852,247	-14,248,428	4,914,606	27,080,511	-22,165,905
Germany..	7,714,730	26,367,397	-18,652,668	7,747,165	31,871,601	-24,124,436	9,770,927	41,474,174	-31,703,247
Greece..	132,388	423,627	-291,238	180,703	659,367	-478,664	187,540	917,519	-729,979
Ireland (Eire)..	1,063,737	6,292,889	-5,229,152	1,001,626	5,320,855	-4,319,228	1,307,005	4,602,014	-3,295,009
Italy..	3,253,007	11,980,825	-8,727,819	6,668,395	14,502,587	-7,834,191	5,413,259	20,735,863	-15,322,604
Luxembourg..	87	138,663	-138,576	172,093	83,669	88,425	9,100	792,390	-783,290
Netherlands..	26,868,354	18,465,315	8,403,039	32,858,654	22,435,150	10,423,504	31,055,809	17,634,825	13,420,984
Portugal	394,387	554,391	-160,004	424,845	655,232	-230,387	325,147	868,970	-543,822
Spain..	2,034,460	3,254,649	-1,220,189	2,202,673	6,372,153	-4,169,479	1,934,414	7,980,846	-6,046,433
Poland...	1,169,627	1,839,133	-669,506	1,523,888	1,167,394	356,494	1,289,790	1,748,241	-458,451
Romania...	75,902	2,058,737	-1,982,835	87,804	4,218,610	-4,130,806	141,483	2,525,158	-2,383,675
Czech...				79,234	3,043,436	-2,964,202	16,093	1,343,450	-1,327,356
Hungary...	53,565	1,312,249	-1,258,685	21,907	2,540,469	-2,518,562	8,320	1,386,823	-1,378,502
United Kingdom..	40,211,073	37,869,111	2,341,963	47,109,868	43,160,280	3,949,589	40,630,333	43,848,587	-3,218,254
Other EU**	1,730,338	4,116,439	-2,386,102	5,934	24,433	-18,499	6,428,812	20,830,931	-14,402,119
Total	**97,921,808**	**166,646,390**	**-68,724,582**	**115,866,250**	**193,505,421**	**-77,639,172**	**108,718,787**	**204,132,970**	**-95,414,183**
Rest of Western Europe (Total):	**3,766,722**	**18,784,192**	**-15,017,470**	**10,535,553**	**34,093,766**	**-23,558,213**	**5,691,966**	**21,410,311**	**-15,718,345**
Total of Western Europe..	**101,688,530**	**185,430,581**	**-83,742,052**	**126,401,803**	**227,599,188**	**-101,197,385**	**114,410,753**	**225,543,281**	**-111,132,528**
Eastern Europe Total	9,053,232	25,571,421	-16,518,189	9,844,059	27,350,354	-17,506,295	10,784,311	24,225,686	(13,441,375
Total of Europe...	**109,422,367**	**203,914,331**	**-94,491,965**	**136,245,862**	**254,949,542**	**-118,703,680**	**125,195,064**	**249,768,968**	**-124,573,903**
America									
Canada..	1,169,832	7,067,926	-5,898,094	1,190,257	7,418,424	-6,228,167	1,515,599	13,371,573	-11,855,974
U.S.A...	22,522,182	39,315,581	-16,793,398	25,772,210	44,546,947	-18,774,737	26,404,810	65,966,435	-39,561,626
Rest of America	687,552	9,263,211	-8,575,658	629,984	27,202,885	-26,572,901	820,065	39,954,702	-39,134,636
Total..	**24,379,567**	**55,646,717**	**-31,267,150**	**27,592,450**	**79,168,255**	**-51,575,805**	**28,740,475**	**119,292,710**	**-90,552,235**
Africa									
(Top 10) COMESA***									
Uganda..	52,107,583	9,226,647	42,880,936	75,953,923	10,337,155	65,616,768	67,450,115	15,322,810	52,127,305
Tanzania..	33,211,109	10,548,967	22,662,142	41,743,395	15,670,393	26,073,002	46,036,163	14,401,599	31,634,564
Sudan..	18,814,689	167,691	18,646,998	22,153,665	818,847	21,334,818	6,633,308	955,403	5,677,904
Egypt.	18,116,441	18,408,906	-292,465	23,421,521	17,871,434	5,550,087	21,464,391	29,844,316	-8,379,924
Congo, Democratic Republic..	12,791,660	1,330,290	11,461,370	17,536,632	2,559,008	14,977,624	18,427,368	883,829	17,543,539
Rwanda..	10,535,060	430,122	10,104,938	13,553,558	422,246	13,131,312	16,151,363	822,286	15,329,078
Burundi..	5,458,011	144,855	5,313,156	5,903,760	468,845	5,434,915	5,308,763	310,424	4,998,340
Zambia..	4,688,273	2,458,857	2,229,416	6,138,007	5,573,694	564,313	6,666,568	2,879,769	3,786,799
Ethiopia..	4,384,842	247,569	4,137,273	4,826,340	369,149	4,457,192	4,578,469	354,122	4,224,347
Malawi..	4,262,365	534,856	3,727,509	5,818,314	6,496,237	-677,923	4,693,589	782,922	3,910,666
Mauritius..	1,481,428	2,885,646	-1,404,217	1,329,186	2,448,183	-1,118,997	1,296,488	3,057,571	-1,761,083
Total, COMESA	**169,020,929**	**51,566,559**	**117,454,370**	**223,235,579**	**70,959,740**	**152,275,840**	**221,768,506**	**75,973,934**	**145,794,572**
Rest of Africa:									
Angola	251,867	1,289	250,578	414,020	3,995	410,025	402,105	284,979	117,126
Namibia	141,073	345,986	-204,913	26,792	88,637	-61,845	22,923	103,092	-80,169
Somalia..	13,054,341	19,448	13,034,893	16,598,814	143,870	16,454,944	19,236,817	17,320	19,219,497
South Africa	2,443,737	59,781,318	-57,337,581	2,834,528	70,682,533	-67,848,005	2,684,280	61,953,797	-59,269,517
Export Processing Zones (EPZ).	48,598	115,985	-67,387	-	-	-	-	-	-
Rest of Africa	35,266,866	2,743,766	32,523,100	4,490,411	9,375,304	-4,884,894	6,474,424	2,421,929	4,052,496
Total	51,207,761	63,007,792	-11,800,030	24,364,564	80,294,338	-55,929,774	28,820,549	64,781,117	-35,960,568
Total , Africa..	189,113,218	115,095,981	74,017,236	247,600,143	151,254,078	96,346,065	250,589,055	140,755,051	109,834,004
Asia									
Middle East									
Bahrain..	84,078	4,591,877	-4,507,799	118,836	19,312,362	-19,193,526	115,249	22,914,992	-22,799,742
Iran..	858,609	3,139,609	-2,280,999	1,954,941	3,675,773	-1,720,832	1,310,349	3,685,707	-2,375,358
Israel..	1,547,170	4,718,757	-3,171,587	1,424,007	6,345,158	-4,921,151	2,058,280	7,229,565	-5,171,285
Kuwait..	468,441	2,853,921	-2,385,480	679,862	5,362,313	-4,682,452	451,121	16,882,454	-16,431,333
Saudi Arabia..	1,842,648	32,273,977	-30,431,329	2,353,129	53,494,299	-51,141,170	3,316,117	66,841,158	-63,525,042
United Arab Emirates..	18,856,437	116,045,424	-97,188,987	19,917,982	199,029,844	-179,111,862	28,607,593	149,878,991	-121,271,398
Rest. of Middle East.	6,867,694	5,102,788	1,764,907	6,490,970	12,390,996	-5,900,026	6,206,088	16,684,050	-10,477,962
Total..	30,525,078	168,726,353	-138,201,275	32,939,727	299,610,746	-266,671,019	42,064,798	284,116,917	-242,052,119

Far East and Australia									
Australia..	636,243	3,230,416	-2,594,173	914,237	2,320,224	-1,405,987	1,638,191	4,588,936	-2,950,745
China (Mainland)..	2,511,547	120,648,247	-118,136,700	3,802,589	143,816,706	-140,014,117	5,383,880	167,206,282	-161,822,402
Hong Kong..	2,220,279	4,296,961	-2,076,682	3,167,303	4,149,798	-982,495	2,795,189	4,458,690	-1,663,502
India..	8,477,565	103,241,609	-94,764,044	9,399,807	148,566,630	-139,166,823	7,528,306	195,230,087	-187,701,781
Japan..	2,090,909	58,244,154	-56,153,245	2,315,148	56,593,432	-54,278,284	2,456,501	63,134,830	-60,678,329
Malaysia..	486,758	7,404,766	-6,918,008	476,482	9,890,180	-9,413,699	2,123,852	7,035,563	-4,911,711
New Zealand..	119,832	673,187	-553,356	108,925	674,639	-565,714	177,601	566,423	-388,822
Pakistan..	18,069,266	8,219,459	9,849,807	21,009,544	17,256,793	3,752,751	23,888,817	12,880,891	11,007,926
Rest of Far East and Australia	17,229,806	97,168,361	-79,938,555	22,356,034	129,284,256	-106,928,222	19,297,382	125,417,678	-106,120,296
Total..	51,842,204	403,127,159	-351,284,955	63,550,068	512,552,658	-449,002,590	65,289,719	580,519,381	-515,229,662
Total , Asia. ..	82,367,282	571,853,512	-489,486,230	96,474,604	809,166,308	-712,691,704	105,460,119	856,524,643	-751,064,523
All Other Countries****	155,183	871,392	-716,209	2,625,435	3,214,123	-588,688	1,191,384	133,898	1,057,487
Ship Stores..	3,050,931	-	3,050,931	3,482,904	-	3,482,904	4,776,446	-	4,776,446
Parcels Post & Special Transactions..	-	-	-	-	-	-	-	-	-
Transactions.. ..									
Total..	4,408,871	871,392	3,537,479	6,108,339	3,214,123	2,894,215	5,967,830	133,898	5,833,932
GRAND TOTAL..	409,540,391	947,205,594	-537,665,203	512,604,108	1,300,749,433	-788,145,324	113,322,347	864,770,196	-751,447,849
GRAND TOTAL..	344,949,800	788,096,744	-443,146,944	409,793,687	947,205,594	-537,411,907	511,037,893	1,315,671,275	-804,633,383

Table 12: Domestic Exports Value by Country of Destination, 2007- 2012 KSh '000

Geographical Area and Country	2007	2008	2009	2010	2011*	2012*
Europe	**72,350,716**	**88,836,882**	**89,733,887**	**97,801,849**	**114,848,999**	**108,474,898**
Rest of Western Europe:						
Norway	253,139	516,368	915,582	1,150,267	1,145,715	1,734,224
Switzerland	3,102,633	1,844,783	1,048,692	1,709,765	7,676,754	3,115,281
Turkey	790,610	818,276	654,459	843,721	794,697	796,701
Other	57,374	1,124,195	67,884	58,893	10,756	20,530
Total	4,203,756	4,303,622	2,686,617	3,763,702	9,627,922	5,666,735
Total of Western Europe	**76,554,472**	**93,140,504**	**92,420,505**	**101,565,551**	**124,476,920**	**114,141,633**
Eastern Europe:						
Russia	1,920,522	3,412,471	3,611,838	4,513,885	5,785,465	6,576,875
Others	457,364	1,538,879	2,646,453	4,535,651	4,054,503	4,191,337
Total	2,428,338	6,005,848	7,458,046	9,049,537	9,839,968	10,768,212
Total of Europe	**78,982,810**	**99,146,351**	**99,878,550**	**109,295,693**	**134,316,888**	**124,909,845**
America	654,837	734,626	998,811	1,161,191	1,163,023	1,515,599
Canada	18,775,637	20,556,722	17,368,101	22,507,736	25,708,323	26,398,983
U.S.A	641,343	695,923	458,953	656,581	612,916	817,800
Rest of America	20,071,817	21,987,271	18,825,865	24,325,509	27,484,262	28,732,382
Total	**20,071,817**	**21,987,271**	**18,825,865**	**24,325,509**	**27,484,262**	**28,732,382**
Africa	**100,038,436**	**127,534,309**	**130,866,942**	**155,489,363**	**223,266,400**	**197,468,601**
Rest of Africa:						
Somalia	7,705,584	12,145,248	9,579,744	11,972,219	15,215,145	18,009,506
South Africa	2,279,623	3,412,149	3,476,587	2,029,286	2,668,865	2,419,214
Export Processing Zones (EPZ)	611	3,719	-	42,585	-	-
Rest	4,108,339	5,301,545	4,522,630	4,137,173	4,799,003	6,353,896
Total	14,094,157	20,862,660	17,578,961	18,181,264	22,683,013	26,782,616
Total for Africa	**114,132,593**	**148,396,969**	**148,445,902**	**173,628,041**	**245,949,413**	**224,251,217**
Middle East Total	13,328,205	15,199,049	17,279,156	26,604,076	30,215,336	38,449,534
Far East and Australia						
Australia	485,821	464,034	657,547	636,066	904,099	1,635,728
Hong Kong	1,087,117	1,287,100	1,473,155	2,018,985	2,915,000	2,767,841
Japan	1,298,889	2,339,966	2,227,018	2,090,909	2,187,216	2,453,832
India	5,772,963	6,687,492	5,059,032	8,373,502	9,310,450	7,306,008
Malaysia	279,575	566,160	294,672	486,758	470,636	442,696
New Zealand	70,767	138,468	135,673	119,832	93,928	177,601
Pakistan	13,426,693	13,879,205	15,034,273	17,812,491	20,835,275	23,747,718
China(Mainland)	1,439,436	2,021,493	2,393,759	2,506,214	3,765,517	5,309,617
Rest	8,952,816	10,915,729	11,233,656	16,807,975	20,839,640	19,107,326
Total	**32,814,077**	**38,299,648**	**38,508,785**	**50,852,731**	**61,321,760**	**62,948,366**
Total for Asia & Australia	**46,142,282**	**53,498,697**	**55,787,941**	**77,456,807**	**91,537,096**	**99,505,966**
All other Countries***	**143,885**	**24,283**	**1,214**	**155,007**	**2,073,578**	**330,913**
Ships Stores	2,211,678	490,173	381,471	391,115	3,482,904	83,510
Total	**2,355,563**	**514,455**	**382,685**	**692,285**	**5,556,482**	**414,423**
Total Domestic Export..	261,685,065	322,659,761	323,570,569	385,440,920	484,506,944	327,579,139

* Provisional
** Other EU includes data or new EU members namely; Estonia, Latvia, Lithuania, Malta, Bulgaria, Slovakia and Slovenia
*** COMESA includes Tanzania
****Other COMESA includes Angola, Djibouti, Eritrea, Ethiopia, Comoros, Lesotho, Madagascar, Namibia Swaziland , Seychelles and South Sudan from 2012
*****All Other Countries not elsewhere specified

Table 13: Kenya's Tax Revenue on Recurrent account

Description	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Average exchange rate	0.0111	0.0107	0.0103	0.0095	0.0091
		Amounts are in Euro Million			
Taxes on income,profits and capital gains	**1,271**	**1,401**	**1,700**	**1,750**	**2,006**
Income tax from individuals (PAYE)	671	746	885	935	1,062
Income tax from corporations (other income tax)	600	655	815	814	944
Taxes on property	**190**	**253**	**332**	**337**	**342**
Imoovable property	11	27	62	63	63
Financial and capital transactions	179	226	270	274	279
Taxes on VAT	**886**	**1,034**	**1,153**	**1,203**	**1,351**
VAT on domestic goods and services	511	550	600	628	689
VAT on imported goods and services	375	484	552	575	662
Taxes on other goods and services	**684**	**816**	**832**	**871**	**916**
Excise taxes	517	601	638	663	711
Royalties	4	4	2	1	2
Taxes on goods and services collected as AIA	135	193	191	203	197
others	28	17	1	4	7
Taxes on international trade transactions	**357**	**461**	**519**	**530**	**573**
Custom duties	227	299	339	343	370
other taxes	104	132	133	143	156
Other taxes not elsewhere classified	26	29	47	44	47
Total tax revenue	**3,198**	**3,711**	**4,204**	**4,355**	**4,847**

Source: Kenya National Bureau of Statistics – Economic Survey 2010

ANNEX 2: ACP- EU support institutions[22]

These conduct programmes to promote enterprise development and assist in building capacity, to enable Kenya, among other ACP countries, to overcome some of the obstacles that are constraining production and exports to the EU market.

• Centre for the Development of Enterprises (CDE): It supports, through co- financing, medium industrial and commercial enterprises, both in agribusiness and other sub-sectors. Under its decentralisation exercise, CDE opened a regional office in Nairobi to serve the Eastern Africa region at the end of 2004. The CDE antenna office in Nairobi has been operational over a time coordinating its regional activities.

• Pro Invest: This is a subsidiary of CDE which promotes investments and technology flow by supporting small, micro and medium enterprises through intermediary organisation, professional associations, and developing inter-enterprise partnerships.

• Investment Facility: The Investment Facility (IF) was established to promote the development of both private and commercially-run public enterprises in ACP countries. The European Investment Bank (EIB) manages and implements the Facility. Over and above the initial funds of 2.2 billion euros allocated to the Facility, the Bank has made available more funds from own resources for lending. EIB has opened a branch in Nairobi, one of the three in Africa, in line with its regionalisation exercise.

• Technical Centre for Agricultural and Rural Cooperation (CTA): CTA builds and strengthens the capacity of ACP states to produce for the EU market, through, inter-alia, processing and exchange of relevant market intelligence information, organizing support workshops and training seminars, and undertaking studies on areas of interest to ACP states. CTA builds capacity for trade negotiators as well.

• COLEACP (Pesticides Initiative Programme): The Pesticides Initiative Programme (PIP) has been instituted by the EU to handle issues of capacity building to the horticultural industry players, in the context of complying with EU standards, SPS and regulations. It assists the ACP horticultural producers to meet the standards required by the EU market. Currently, it is running a pilot project in Kenya, being implemented by the Fresh Produce Exporters Association of Kenya (FPEAK). Support normally includes sponsorships for workshops, seminars, short specialised trainings, research and dissemination of information to relevant industry stakeholders. The programme is in its second phase where training of technical personnel and other horticultural produce handlers, among other activities, is being undertaken. The programme is being reviewed with a view to expanding its mandate and activities, to include inter alia, provision of facilities to the testing laboratories for the relevant institutions.

22.- This is extracted from "Kenya Trade Relations" on *http://www.kenyabrussels.com/index.php?menu=6&leftmenu=87&page=91#Trade with EU*