Political conflict in African regional organizations: the case of Kenya’s implementation of the protocol on the "Rules of Origin" in the preferential trade area (PTA) for eastern and southern Africa

Godfrey Ngunyi

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POLITICAL CONFLICT IN AFRICAN REGIONAL ORGANIZATIONS:
THE CASE OF KENYA'S IMPLEMENTATION OF THE PROTOCOL ON
THE 'RULES OF ORIGIN' IN THE PREFERENTIAL TRADE AREA
(PTA) FOR EASTERN AND SOUTHERN AFRICA

BY

GODFREY MUTAHI NGUNYI

A thesis submitted in partial fulfillment of the Degree
of Master of Arts at the University of Nairobi.

1989
The writing of a book (Thesis) begins as a hobby, it later turns into a mistress and finally degenerates into a tyrant

(Winston Churchill)
DECLARATION

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

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This thesis has been submitted for examination with my approval as university supervisor.

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(VISITING LECTURER, INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES)
DEDICATION

To my three brothers: Sam for being a guiding light from childhood; Bob for being my intellectual model for all my days in school; And Kim for teaching me all the bad and daring things of life - this has indeed been a daring enterprise.
ACKNOWLEDGEMENTS

For this work, I am indebted to several people. To my supervisor Dr. Guy Martin who has watched me keenly put this thesis into one, shaping it with great patience, valuable criticism and input in terms of useful documents, papers and books. Thanks.

To Dr. Domenico Mazzeo who laboured with me in the conceptualization of my research questions and the coherent presentation of the same in form of a research proposal, Dr. Michael Chege for guiding me in the early chapters of this work, and Dr. Katete Orwa, for introducing me to international relations and rekindling in me a keen interest in the PTA at undergraduate level.

My special appreciation go to my three classmates Kasoa Muli, John Nyaduwa Odhiambo and Ireen Wanjiru Wagema for empathy and constant reminder that 'we shall finish - one day some day'. To Mr. Patrick Mwaurah of Kabete Laboratories for typing and correcting my work, my colleague at the IDS Mr. Kamau Gathiaka for most valuable comments on the work, and Nancy Asiko for materials and moral support.

Finally my admiration goes to Judy C. Langat. Your zeal and interest in this discourse made work enjoyable. Thanks for being there.
ABSTRACT

As historical evidence shows, political conflict has been a salient feature of international trade from the days of classical political economy, to date. The most contentious issue in this conflict centres around the question of costs and benefits commensurate with international trade and accrued by the domestic economies. In the PTA, this question finds expression in the conflict over the Protocol on the 'Rules of Origin' of the PTA Treaty.

Hence the central purpose of this study has been to investigate the factors accounting for the political conflict over this Protocol. We have first and foremost established the parties involved in the political conflict and the bone of contention between them. We have argued that Kenya belongs to one side of the political conflict while Ethiopia, Uganda, Tanzania and Somalia belong to the other. The issue at stake between these two parties is the application of rule 2(1)a of the PTA 'Rules of Origin' to PTA preferential trade. Kenya is opposed to the application of this rule, because it seeks to limit the participation of foreign firms in PTA preferential trade, while Ethiopia, Uganda, Tanzania and Somalia see it as a conditio sine qua non if PTA is to be meaningful.
Secondly, we have proceeded from here to single out the factors accounting for this conflict. In this exercise, we have supported our arguments with statistical evidence acquired basically from international trade documents. We have also buttressed our case with information acquired from interviews and discussions with a number of Government officials, and members of the business community in Kenya.

Using the Realist approach to the study of international politics, we have argued that power asymmetry between these four PTA member states and Kenya, in non-preferential trade in PTA, has bred political conflict. For instance, asymmetry between the four advocates of the 'Rules of origin' in the percentage share of intra-PTA trade, is great. Kenya's percentage share of this trade is ten times Somalia's, six times Tanzania's, about four times Ethiopia's and close to twice Uganda's.

The study has adopted the Realist's theoretical proposition that conflict becomes the most visible aspect of an interaction between states whose power is asymmetrical. But the conflict we set out to investigate finds its expression in the protocol on the 'Rules of Origin' because asymmetry between the parties in conflict as we have concluded, is largely a function of the role of foreign firms in Kenya's export trade.
We have further asserted in this work that the political conflict under study is also a function of the different levels of foreign investments in the parties in conflict. Using statistical evidence, we have demonstrated that Kenya has the highest level of foreign investments in the northern part of PTA and among the member states in conflict.

Given that about three-quarters of Kenya's intra-PTA exports come from foreign firms, Kenya stands opposed to the application of rule 2(1)a to PTA preferential trade. On the other hand, to the advocates of the PTA 'Rules of Origin', whose levels of foreign investments are also low, if the foreign firms are allowed to participate in intra-PTA preferential trade, gains from co-operation would be unfavourable. Hence, their insistence on the restriction of foreign firms from participating in PTA trade through rule 2(1)a results in political conflict.

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Thirdly, in view of the importance of PTA to the Kenyan economy and the fact that the mechanism of the 'Rules of Origin' is ultimately critical to the viability of the PTA, this study offers a few possible solutions to the political conflict on rule 2(1)a, which policy makers and interested parties would do well to think over.

Emphasis in our policy prescription however, favours no side in the conflict under study. Our observation is that the resolution of this conflict must provide a point of convergence between the national interests of the parties in conflict.
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CHAPTER ONE

INTRODUCTION

1.1 FOCUS OF STUDY

Despite a marked expansion in world trade in the last three decades, the share of the less developed countries (LDCs) in that trade has been on the decline. In this period, the LDCs recorded a growth rate in trade of 6.0% per annum with a major part of it presenting an increase in price and not volume (UNCTAD: 1984, p. 39). In world exports, the LDCs' share was halved from 1.6% in the 1950's to 0.8% in the 1970's, this worsening to a mere 0.37% in 1985 (UNCTAD: 1984, p. 39).

The foregoing, coupled with continuous difficulty of African economies to penetrate the markets of the developed countries, and the failure of the New International Economic Order (NIEO) which was aimed at providing fairness to the LDCs with respect to international trade, has led to the increasing need to expand intra-African trade. The PTA was established as a deliberate response to this need. Paramount to the regional arrangement is trade expansion in the Eastern and Southern African sub-region through a reduction and ultimate elimination of tariffs and non-tariff barriers.
Since the establishment of the PTA however, disagreements on how benefits would be distributed in the scheme has been perennial. It has been argued that in the past such arrangements have only served the interests of externally based firms at the expense of nationals. To ensure against such an occurrence however, the PTA adopted the Protocol on the "Rules of Origin" as part of the Treaty.

This protocol aims at minimizing the circulation in the PTA market, of goods imported or produced by foreign companies that would attract the larger PTA market. In this respect, benefits from preferential trade in the PTA are confined to products which have bona fide origin in the PTA member states.

The main elements of the 'Rules of Origin' thus include, the origin criteria; ownership of the enterprises producing the goods; consignment conditions; and documentary evidence that establishes compliance with the above conditions. In addition, there are supplementary rules to be observed.

Under the origin criteria, there are two types of rules. The first one concerns those commodities that are 'wholly' obtained from the sub-region. These are commodities that are either grown, harvested or extracted in a PTA state or manufactured without imported contents. The second type comprises
commodities that contain imported materials or components that have been transformed by local processing. It specifies that the cost, insurance and freight (C.I.F.) value of all goods imported from outside PTA and used in the production of certain local products does not exceed 60% of the total cost of production. It further states that the value added resulting from the process of production in such a case is not less than 45% of the ex-factory cost.

The second element of the 'Rules of Origin' which concerns itself with the management and ownership of products receiving preferential treatment, aims at promoting locally owned and managed enterprises within the PTA by discouraging re-export trade within the PTA and imports from non-PTA states. It specifies that a product must have been produced in the member states by a majority of nationals before receiving preferential treatment in PTA. It further specifies that at least 51% of equity holding of the enterprises producing such products must be by nationals of member states, or institutions, agencies, enterprises, or corporations of such governments, or governments.

Lastly, if goods are imported, they must have undergone some transformation in the process of production to receive preferential treatment. This
rule however does not apply to goods that undergo simple mixing and assembly, labelling, packing, bottling, preservation activities and other minor changes.

Although the Protocol on the 'Rules of Origin' is one of most the important mechanisms for attaining the fundamental objectives of the PTA, its implementation has proven difficult mainly because manufacturing in most PTA states is dominated by multinational corporations (MNCs). This study therefore focuses essentially on the 'Rules of Origin', their implementation, and political struggles associated with them.

In the political conflict over the PTA 'Rules of Origin, two contending views exist. The bone of contention between them centres around the participation of foreign owned and managed firms in the PTA sub-region in intra-PTA preferential trade. One party argues for the restriction of multinationals from participating in intra-PTA preferential trade by immediately implementing the PTA 'Rules of Origin' especially rule 2(1)a. In this way, they argue, benefits accruing from PTA trade would go to nationals of the sub-region. On the other hand, the other party argues for the relaxation or even the complete deletion of the local equity holding rule (rule 2(1)a) and the
value added clause of the 'Rules of Origin' from the PTA Treaty. Their argument is that the two provisions dampen the scope of trade in the PTA. Moreover, exports from foreign firms operating in their economies are the raison d'être of intra-PTA trade.

Of these two sides, Kenya belongs to the latter and probably one cannot discuss her position in this conflict without dating it back to the heydays of the now defunct East African Community (EAC). Trade in the EAC was largely dominated by Kenyan firms, a majority of them foreign owned and managed. By 1974 statistics show that Kenya's percentage share of total intra-EAC trade stood at 77%, while Tanzania's stood at only 17% and Uganda's a mere 6% (Olatunde, O.: 1985, P. 159). Tanzania and Uganda became increasingly dissatisfied with these unequal tendencies in intra-EAC trade especially after efforts to institute satisfactory compensation arrangements proved futile. This dissatisfaction was to later plague the entire regional scheme finally leading to its demise.

Hence, when the idea of the PTA was mooted, Tanzania and Uganda were apprehensive about a possible re-play of the EAC in PTA. They had some lingering doubts about trade facilitating integration in PTA. Although trade liberalization as the vehicle for economic integration was not quite a bête noire, to them, trade expansion and especially the laissez-faire
variant was not a preference. They opted for the establishment of joint ventures such as joint research programmes, communication networks, industrial complexes, inter alia, as the cardinal objective of the PTA. Ethiopia and Somalia agreed with this view.

Kenya and Zimbabwe who are also the most advanced economies in the PTA, adopted a contrary view. They saw trade as the only possible way toward economic co-operation in PTA. To them trade liberation would bring untold benefits to the economies of PTA especially if foreign firms which produce most of their exports, were allowed to participate.

In the last analysis, however, trade liberalization as the vehicle for economic co-operation in the PTA was adopted. But member states still took divergent views - this time on what approach trade liberalization should take. Tanzania and Ethiopia, probably apprehensive about possible maldistribution of benefits from PTA, advocated a more interventionist approach in which trade expansion by one party would be contingent on its buying more from the other. While Kenya and Zimbabwe were on the other hand not opposed to this interventionist approach, they preferred the laissez-faire approach, applied concomitantly with the principle of comparative advantage.
But probably the most critical point of divergence between the PTA member states with regard to trade had to do with whether or not foreign firms operating in the sub-region should benefit from the preferential arrangement in PTA. This conflict between member states can be said to have developed in two phases.

The first phase dates back to June 1978 when negotiations for PTA by the Intergovernmental Negotiations Team (INT) began, and stretches all the way to May 1981. The bone of contention between the member states during this period centred around the percentage level of equity holding by nationals in respect to enterprises, the products of which would receive preferential treatment in intra-PTA trade, and the level of management by nationals of such enterprises. While some countries argued that the local equity holding level of such enterprises should stand at 100% for their products to get preferential treatment, others argued that this percentage level was rather unrealistic and would restrict trade expansion in PTA.

However, after much negotiations, in May 1981, PTA member states agreed on 51% as the local equity holding level any company had to meet to enjoy preferential treatment in PTA. This was later ratified by the PTA Authority in December 1981 as rule 2(1)a of the PTA Protocol on the 'Rules of Origin'.
The ratification of rule 2(1)a did not however end the conflict over the Protocol. Six months after the operational phase of the PTA in July 1984, those issues on the 'Rule of Origin' that had been thoroughly debated between 1978 and 1981, and resolved, resurfaced. This time, the contentious issue unlike in the first phase arose not over the percentage level of local equity holding, but over the timing of the implementation of the agreed levels of equity holding and management of enterprises in PTA.

In the second phase of this conflict therefore, Kenya, Zimbabwe and Malawi on the one hand, argued against the immediate implementation of rule 2(1)a to PTA trade. They argued that they needed time to restructure their economies to suit PTA arrangements by examining their capital management structures, and the composition of imported and local contents in commodities they traded in the sub-region before adopting the 51% equity rule. Kenya supported her case with very good reasons.

She argued that in a survey conducted by Kenya's Ministry of Commerce in September 1985, it was observed that 77.4% of all Kenya's intra-PTA exports had been made by foreign firms that do no qualify to trade through the clearing house (Kenya Ministry of Commerce; 1985, p.4). It was further argued that of the K£2.65
billion worth of trade between Kenya and the PTA in 1984, only K£10 million, was by local firms.

But probably the survey by the Kenya Chamber of Commerce and Industry demonstrates Kenya's position with regards to foreign firms best. The study shows that of the 181 enterprises producing 90% of exportable products in Kenya, 153 are controlled by nationals, while 26 are foreign owned. However, the 26 enterprises produce 80% of total exportable products of which, 74% go to PTA market (F.N. Macharia: 1987). This means that a substantial amount of Kenya's intra-PTA exports would be exempted from receiving preferential treatment if the 'Rules of Origin' and in particular rule 2(1)a were to apply.

On the other hand, the other countries of the sub-region led by Tanzania and Ethiopia argued that the adoption and immediate implementation of the 'Rule of Origin' is a sine qua non to PTA trade if sustainable and beneficial trade is to occur between the cooperating states. After all, they argued, the 51% level was reached as a compromise formula preceded by painstaking discussions, and ratified by all signatories of the PTA Treaty. To them, if the 'Rules of Origin' especially rule 2(1)a, do not apply, their
fragile economies would be turned into 'captive markets' by multinationals operating in Kenya and Zimbabwe.

In response to this, Kenya and Zimbabwe argued that progress in the regional body should not be dictated by the ability of the less developed economies to move at the same pace with the developed ones. Using this argument, they managed to push for the expansion of the Common List (CL), a move that was met with non-implementation of PTA provisions in some states, a delay in the tariff reduction process at the insistence of two states, and a threat of outright withdrawal from another (Susan Hall: 1987 p. 50).

The question that should be raised at this juncture is: were the basic differences featuring in the INT meetings between 1978 and 1981 genuinely resolved or was the treaty hurriedly signed to avoid further delay? One also wonders whether the failure to resolve some of these differences has caused some member states to take refuge in the non-implementation of the technical measures that are required to initiate active participation.

Although in 1985 the PTA secretariat conducted two surveys to ascertain the extent to which the 'Rules of Origin' are restrictive to intra-PTA trade or not, consensus was far from reached. Hence, the period
between 1984 and 1986 was characterized by constant hecklings between PTA member states over the rules. This resulted in a quagmire that ground the PTA to a near halt. It was this stalemate that the PTA Bujumbura Summit of 1986 was to try to resolve.

During this summit, the PTA Authority decided to phase out the 'Rules of Origin' for a duration of five years. The summit adopted the principle of derogation and a three-tier system with a sliding scale of preference. Hence, those firms with a local equity holding of 50% were to receive 100% PTA tariff reductions, while firms with up to 41% local ownership to receive 60% of preferential treatment and firms with between 30% - 40% ownership were given a 30% reduction. It was however made clear that after five years the 51% equity rule would re-apply.

Today, three years after the derogation of the rules, very little has been done to restructure the PTA economies to suit the Protocol under study. This in effect means that when the derogation period expires, the same arguments raised before and after the adoption of the 'Rules of Origin' by the feuding parties would re-emerge, maybe this time in a different cloak. This is so because Kenya for instance is waiting for 1991 when the derogation period expires, to lobby for the deletion of the 'Rules of Origin' (her original pursuit
before the 1986 Bunjumbura Summit,) as our survey shows*. But one wonders how far and how fast Kenya will be able to push her own interests in the PTA as she has so far managed to do, before the less developed states turn from foot dragging to withdrawal (Hall: 1987, p. 50).

The central research question raised by this study therefore is the following: what are the factors accounting for the political conflict associated with the PTA 'Rules of Origin' and how significant are these factors?

1.2 OBJECTIVES OF STUDY

The main objective of this study is to identify the sources of political conflict in the PTA over the implementation of the Protocol on the 'Rules of Origin' and more specifically, rule 2(1)a of this Protocol. Emphasis in this exercise will be on Kenya's position in this conflict vis-à-vis the PTA member states in the northern part of the regional group.

* Discussion with Dr. Mwanzia, Head of the Economic Division, Ministry of Foreign Affairs, August 1988.
1.2.1 **SPECIFIC OBJECTIVES**

1.2.1(a) To establish the role played by the asymmetrical power patterns in the PTA in bringing about the political conflict over the 'Rules of Origin' and the subsequent non-implementation of the rules.

1.2.1(b) To gather and analyze information and later establish the relationship between the political conflict associated with the PTA 'Rules of Origin' and the different levels of foreign investments in the PTA sub-region.

We also hope to show that the conflict over the PTA 'Rules of Origin' has something to do with the question of uneven distribution of benefits from intra-PTA trade. Although the Protocol was nominally adopted to ensure that benefits from co-operation accrue to the nationals of PTA as opposed to foreign firms operating in the sub-region, we hope to show that in practice, this Protocol was also adopted to ensure an even distribution of benefits from intra-PTA preferential trade. This is so because most of the PTA member states to whom substantial trade surpluses from intra-PTA trade accrue especially Kenya and Zimbabwe, have a substantial percentage of their intra-PTA exports coming from foreign firms.
Hence, it was envisaged that, to ensure against benefits from intra-PTA preferential trade accruing to only two dominant economies, most of the key exporters to PTA in these economies, who are foreign firms anyway, should be restricted from participating in intra-PTA trade. In this way, benefits from intra-PTA trade would not only accrue to nationals of PTA alone, but would also accrue to the PTA member states evenly.

1.3 JUSTIFICATION AND SIGNIFICANCE OF STUDY

Numerous reasons account for both the justification and the significance of this study. These can be divided into two; the policy and the academic justifications. The policy justification and significance of this study largely derives from the importance of intra-PTA non-preferential trade to Kenya. This is especially so with regard to export trade. Up to about 75.6%* of Kenya's intra-African exports annually go to the PTA. Hence anything touching on intra-PTA trade the way application of rule 2(1)a does becomes a central issue to Kenya's policy makers. Secondly, over 80% of Kenya's total exportable products

* See chapters two and three for more information on Kenya's intra-PTA exports. This figure is for 1986 but the percentage share for other years averages about this much.
come from foreign firms with about 74% of these products going to the PTA markets as already mentioned. Given that the PTA 'Rules of Origin' especially rule 2(1)a on equity holding aims at marginalizing the participation of foreign firms in intra-PTA preferential trade, the most dynamic export firms in Kenya would be excluded from PTA trade in the event trade is liberalized. And this is certainly a critical policy issues to the Kenya Government.

What we have here is a conflict between the national interest and the regional objective. Kenya would certainly want all firms operating locally to enjoy the preferential treatment offered by the PTA. But at the same time, Kenya would also want to move in unison with the other PTA states where consensus holds it that foreign firms' participation in intra-PTA preferential trade should be restricted, a stand that runs contrary to her interests. To the policy maker, this situation certainly spells out a predicament.

While this study does not claim to offer a solution to this predicament, the fact that it seeks to understand the forces that have so far made the conflict over the PTA 'Rules of Origin' perennial, provides the policy maker with a reasonable premise from which he can operate when weighing options about the rules. This is so because a problem clearly understood is as good as half-solved.
On the academic justification, several reasons can also be cited. For instance, given the newness of the PTA, very few significant surveys on it exist. And where such significant surveys exist, they are rather general, like Elliot Berg's *Intra-African Trade and Economic Integration* or Susan Hall's, *The PTA For Eastern and Southern African States: Strategy Progress and Problems* or take a comparative approach like D.G. Anglin's expose, "Economic Integration in Southern Africa: SADCC and PTA".

So far, no survey has delved into a specific analysis of a small unit like Kenya and none has devoted itself to the study of the mechanism of the 'Rules of Origin'. Hence, the attempt to fill in this gap and the fact that this study is undoubtedly expected to generate many more research questions about the regional arrangement, makes this survey both significant and justified academically.

1.4 **SCOPE AND LIMIT OF STUDY**

While it would have been a worthy venture to study wider aspects of the PTA, covering numerous countries of the scheme, time limit and inavailability of funds do not allow. Hence, this study has covered only one country in the scheme, Kenya, and a very small aspect of intra-PTA relations.
Emphasis in the study, is in the conflict generated by rule 2(1)a of the broader Protocol on the Rules of Origin. The choice of this rule as our area of emphasis is in the fact that of all the rules in the Protocol, it has been the most controversial and has generated the most debate. The fact that a study of the whole Protocol is not possible in a work like this has also made us concentrate mainly on rule 2(1)a.

In this analysis, it will also be noted that we are associating the conflict over rule 2(1)a with the question of distribution of benefits from co-operation to PTA member states. It should be noted that the conflict over rule 2(1)a is only a very small part of the broader issue of costs and benefits in PTA trade. But since we cannot cover the whole question of costs and benefits from PTA trade, we have chosen to take this small aspect of the question. Our emphasis on this rule also derives from the fact that we are not examining the question of cost and benefits of PTA trade per se, but that we are also looking at possible political repercussions of the question.

As per the duration of time the study covers, we have chosen to take the period between 1979 and 1986 because it is the period the conflict under study was most pronounced. This is the period when the PTA Treaty was negotiated, rule 2(1)a adopted (after much
debate), and the principle of derogation which saw rule 2(1)a phased-out for five years, adopted. This was therefore, a period of much conflict over the nature and application of the rule.

However, in some instances, our statistics cover some years outside this period. This is basically for the purposes of illustrating a point that statistics in the chosen period of time cannot demonstrate.

1.5 REVIEW OF LITERATURE

Two prominent schools of thought about integration in developing countries have developed. These include the traditional or classical approach and what we will call the 'development approach'. The point of divergence between these two schools centres around two basic consequences of economic integration namely the 'static effects' and the 'dynamic effects'. Static welfare effects refer to the welfare gains or loses from a marginal re-allocation of production and consumption patterns under given assumptions (T.A. Jaber: 1977, p. 256). They include, production effects or intercountry substitution of trade, which are further divided into 'trade creation' and 'trade diversion' effects; and the consumption effects which refer to change in consumption patterns arising from integration.
'Dynamic effects' on the other hand refer to the various possible ways economic integration affects the rate of gross national product (GNP) of participating countries. They are also referred to as potential effects. (Jaber: 1987, p. 256).

While the traditional approach analyses the desirability of integration using static welfare effects as a criterion, the development approach's emphasis is on the dynamic effects.

1.5.1 The Traditional Approach

The traditional approach is consistent with the static approach in international trade theory which conceives economic integration as the '... branch of tariff theory which deals with the effects of geographically discriminatory changes in trade barriers' (M. Manundu: 1985, p. 12). The theory's emphasis is not on the problem of economic development but more on relatively marginal adjustments in production and consumption patterns. Hence, two important results from economic co-operation must result. These are, 'trade creation' effects and 'trade diversion effects'. Trade creation will occur if the reduction and ultimate elimination of tariffs will lead to the replacement of inefficient domestic industry in one member state with a more efficient industry from another member state. Trade diversion will on the
other hand occur if the reduction and ultimate elimination of tariffs will result in the replacement of an efficient industry in a non-member state by an inefficient industry in a member state (Bela Balassa: 1961).

The foremost proponents of this school of thought include Amitai Etzioni, (1964), Domenico Mazzeo, (1984; 1985), Elliot Berg, (1985; 1987), Jacob Viner (1950) and R.G. Lipsey (1960), et al. These analysts of economic integration in developing countries have argued that economic integration is only beneficial if trade creation effects outweigh trade diversion effects. Since the trade diversion effects outweigh trade creation effects in most integration schemes in developing countries, such schemes fall far short of their raison d'être. Hence, economic integration in developing countries does not work.

They have further observed that economic integration in Europe was a strategy for the creation of a consumer society and not for the satisfaction of basic needs (Mazzeo: 1984, p. 162). Hence, applying the European model apriori and indeed uncritically to the developing countries is a cause for profound concern because co-operation is not a vehicle for achieving development, it is rather, a result of development (Mazzeo: 1984, p. 158). That is, where
economic co-operation is used for the creation of conditions and capacities necessary for economic development, if the levels of development are low, as the foregoing presupposes, then a low level of integration ensues (Mazzeo: 1984 p. 165). This, according to this school of thought explains to some extent, the failure of many integration schemes in most developing countries.

This line of thought, however, fails to distinguish between the needs of developing countries from those of the European economies. Hence, it analyses all integration schemes in the light of the European experience. It is this drawback that has prompted the development of the second line of thought - the 'development approach'.

1.5.2 The Development Approach

This approach to the study of economic integration derives from the theory of 'second best' applied to international trade analysis. Its central thesis is that economic integration in developing countries should be analysed within the context of development economics rather than as a branch of tariff theory. Any evaluation of economic integration in developing countries should therefore concentrate on the dynamic or potential effects (i.e. the long-run benefits commensurate with economic integration) rather than the
static effects. Focus should be on dynamic growth and emphasis on the long-run positive effects resulting from the creation of a regional market.

In studying economic integration in developing countries the development approach further stresses structural transformation as a critical aspect of Africa's process of increasing material output, changing the structure of production and trade, and evolving a new trade mechanism based on regional specialization. It also conflates the priorities of trade liberalization with those of joint industrial strategy. In effect therefore, it views the gains of integration as deriving not from the fusion of material markets as much as from the change in economic structure. (Brewster, et al: 1969, p. 115).

Although this approach's emphasis is on dynamic effects, it does not mean that it overlooks the static effects when analysing economic integration arrangements in developing countries. This is so because dynamic effects can only be fully exploited after an integration scheme has overcome difficulties paused by the initial unfavourable static effects. That is, dynamic effects are long-run effects and can only be generated if a regional scheme survives as a
going concern. Nevertheless, it would be inappropriate to judge the performance of a regional scheme *apriori* (using static effects for instance) before such long-term effects have been realized.

As a way of realizing these long-term gains of co-operation, this approach stresses on a greater diversification of national economies to satisfy as many national needs as possible through domestic production (Mazzeo: 1984, p. 8). It also stresses the need to reduce dependence on the north-south trade axis using co-operation as a vehicle for self-sustained development.

Among the notable exponents of this school include Adebayo Adedeji (1985), SKB Asante (1984), Edward Milenky (1971), John Sloan (1971), Suleiman Kiggundu (1983), William Demas (1965), et al. In their literature on co-operation among developing countries they have attempted to marry the two concepts of regionalism and development, arguing that regionalism is irrelevant unless seen within the spectacle of development. It is in this respect that Milenky calls the integration process in developing countries development nationalism' (Milenky: 1971) while Sloan chooses to call it 'Development Regionalism' (John Sloan: 1971).
While Arthur Hazlewood (1979; 1985), Domenico Mazzeo (1984) and John Ravenhill (1979; 1986) have taken a line closer to the traditional approach in their separate analysis of the EAC, SKB Asante (1984) and Suleiman Kiggundu (1983) have taken the development approach in their study of ECOWAS and regional economic schemes in Africa respectively. Otherwise, very few analysts of the PTA have used any of the two approaches to study the PTA. This is probably with the exception of Elliot Berg (1985; 1987) who has used a line closer to the traditional approach in his study of regional co-operation in Southern Africa, and Manundu (1985) whose approach in his survey of PTA closely relates to the development approach.

However, none of these two has covered political conflict in the PTA. In fact political conflict in the PTA must be seen as a potential effect of economic co-operation if one is to use the development approach.

5.3 The 'Raison d' être of PTA.

Literature available on the raison d' être of PTA indicates that at its inception, views over the usefulness of PTA as a vehicle for economic co-operation in the PTA region, were divergent. While some countries saw the PTA as, at best, a wasteful duplication of effort especially because both the PTA
and SADCC share very many similar objectives, others saw it as an appropriate solution to the economic problems of the region. (Anglin: 1983, pp. 689, 691).

These divergent opinions among potential PTA states about the importance of PTA have been seen as accounting for the different reactions of PTA states about the formation of the regional body (for instance in Anglin 1983;). Contrasting the enthusiasm of Zambia and the reluctance of Zimbabwe for instance, Anglin has noted that, while Zimbabwe's treaty signing ceremony in Livingstone on June 19th 1982 occasioned front-line headlines in Zambian papers, in Zimbabwe, the ceremony was barely mentioned by the press. (1983, p. 690).

It has also been argued that one reason why the PTA has found it difficult to justify its existence is because it was largely an abstract creation of the ECA, given to the ESA member states for implementation with no consideration of the member states' economic, cultural and political differences, (Anglin: 1983, Ngunyi; 1988(a)).

But probably the most blatant observation about the raison d' être of PTA has been made by Anglin. To him, PTA emerged only after an initial miscarriage, a frustrating period of apparent infertility, and eventually, a long and difficult pregnancy'. He further argues that towards the end of
this pregnancy, ... the weary midwives might well have abandoned the attempt and aborted the birth if they had not been challenged by the sudden and unexpected arrival of a rival infant in the form of SADCC'. (1983, p. 694).

However, what most writers on the raison d' être of PTA have failed to mention is whether or not this divergent views over the usefulness of PTA has in any way bred conflict among member states after the operational phase of PTA.

1.5.4 PTA'S Membership Composition

The geographical attempt to integrate both 'giant' and 'pygmy' economies has been blamed for the failure of most regional arrangements in developing countries. Joseph Nye has actually asserted that this diversity among integrating members in developing countries seems to produce not a process of 'gradual politicization' as asserted by the Vinerian customs union theory, but one of 'Over politicization' (1970, p. 831-2). This assertion is further attested to by Hazlewood (1979) and Mazzeo (1984(b)) in their separate studies of the defunct EAC, blaming its collapse on both political and economic differences between the member states of the regional arrangement. In the Latin American scenario, Saldago Phenaherrera (1980) and Miguel Wionczek (1970),
have separately also observed that, vast differences between member states in Latin American regional economic groupings have not only led to the politicization of such schemes, but have also resulted in disintegration. Analysing the Andrean Pact for instance, Phenaherrera has blamed Chile's withdrawal on such differences.

In his survey of the West Indies economic groupings, William Demas, has also stressed on the need to integrate compatible economic and political systems for better results (1965; p. 259). Similar assertions have been made by different authors about the asymmetry between member states in ECOWAS favouring Nigeria (Asante: 1984; G. Martin: 1985), and the asymmetry in CEAO favouring Senegal and Ivory Coast (Elliot Berg: 1985).

Turning now to the PTA, the scheme's membership composition has also been discussed by several authors. It has been argued that the economies of the scheme differ widely in size, resource endowment, political orientation, trade structure, development ideologies, among others. It has for instance been observed that Kitui district in Kenya is about ten times the size of the Comoros, a fully-fledged PTA economy. (Nguni: 1989(a)). Other analyses have questioned the rationale behind creating a broad proto-economic zone stretching north to south from Ethiopia to Lesotho, and east to
west, from Mauritius to Angola (Anglin 1983; Ngunyi 1988(a); R.H. Green 1988). This has been seen as unrealistic because most of the states covered by such a vast geographical area have little in common and lack a broad range of possible activities, thus making the PTA a 'bureaucratic illusion' hard to administer.

A further consequence of such a vast regional scheme whose economies differ widely in their levels of economic development would be the polarization of growth. In the PTA, the question of benefits from the scheme accruing with differentiation to member states has been discussed by most authors as we shall see later in this section. However, in most analyses on the asymmetry between member states in PTA, very little has been said about the political conflict resulting from such a diverse membership and maldistribution of benefits. It is worth noting that almost all surveys covering regional schemes from Latin America to East Africa mentioned above, attribute political conflict in the economic arrangements to an incompatible membership. But in contrast, although surveys on PTA have discussed this incompatible membership, these surveys have overlooked the resulting political conflict from such incompatibility, an issue this study ventures into.
Multiple Institutional Membership

Another issue discussed in most of the literature available is that of multiple institutional membership among PTA member states. Apparently, this is also a problem in ECOWAS as observed by Guy Martin (1985).

Those who have commented meaningfully on this problem include Anglin (1983), Berg (1987), Ngumyia (1989(a)), Susan Hall (1987), and T.M. Mutugu (1988). In their separate analyses, most of these surveys on the PTA have observed that seven of the PTA member states are also members of SACU. These include: Tanzania, Malawi, Zambia, Zimbabwe, Lesotho, Swaziland and Botswana. Ironically, Botswana, Lesotho and Swaziland (BLS states) are also members of SACU. This in effect means that some PTA members belong to as many as three institutions all aimed at economic integration.

This multiple institutional membership poses several problems as the literature available shows. First and foremost, there is the question of divided loyalties among the member states (Mutungu: 1998, p. 12). This is particularly so among the BLS states given their 'structural dependence' on South Africa and hence on SACU. Secondly, there is the problem of conflicting objectives between the different regional
arrangements this being particularly true between PTA and SADCC. (Anglin 1983; Berg 1987; Hall 1987). Thirdly, there is the problem of different trade liberalization schedules between the different regional bodies all reaching zero tariff level at different times. (Ngunyi; 1989(a)).

None of these surveys on PTA, however, has looked at potential, even actual political conflict as a result of multiple institutional membership.

1.5.7 The PTA, SADCC and South Africa

Among the authors who have discussed the relationship between the PTA and SADCC include, Anglin (1983), Berg (1987), Ngunyi (1989(a)) and Susan Hall (1987). The question raised by these authors is whether or not PTA and SADCC will co-exist, if necessary in creative tension, complementing and reinforcing each other and not dissipating their energies in wasteful competition. Most of these authors have singled out the occasion for conflict between the two regional bodies as arising from their overlapping jurisdictions and the fact that upto seven of the SADCC member states are also members of the PTA.

Anglin has taken this argument a little further by asserting that the different perceptions of and commitment to PTA by its member states will also
constitute a possible problem area especially for SADCC members who are also in the PTA. Illustrating the commitment of the southern PTA states to SADCC as opposed to the PTA, Anglin has observed that '... whereas PTA was an example of painstaking development from below, SADCC was much a deliberate act of political will, carrying the personal imprint of its presidents and prime ministers'. (1983, p. 686).

On South Africa and the PTA, literature available indicates that, although South Africa is less vocal about PTA, she remains a potential threat to the regional body (Anglin: 1983; Berg: 1987, Hall: 1987, Ngunyi: 1989(a)). This is particularly true given that most of the Southern PTA states are structurally dependent on South Africa.

1.5.8 Intra-PTA Trade

Most analysts of the PTA have observed that intra-PTA trade as a percentage of total PTA is rather low. For instance, as observed by Prag Ramsamy, while the sub-region's trade with the outside world sums up to 93.46% of it's total world trade, intra-PTA trade as a percentage of total PTA trade stands at a mere 6.54% (1987, p.9). Further statistical evidence provided by Cateora and Hess (1979) indicates that only about 10% of all African trade is intra-PTA.
Literature available attributes this low intra-PTA trade to the competitive rather than complementary nature of most PTA economies. This competitive nature of PTA economies is further compounded by the fact that the industrial capacities of most of these economies is rather low. (Berg: 1985, 1987, Hall: 1987; Ngunyi: 1988(a)). Hence, trade in the subregion is confined basically to non-traditional products especially manufactured goods which means that those economies with a well-developed manufacturing sector dominate intra-PTA trade. It is in this light that several writers on PTA have discussed the question of maldistribution of benefits in the regional body.

1.5.3(a) Maldistribution of Benefits

The question of distribution of benefits from integration efforts in Africa and Latin America has been extensively discussed. In Africa for instance, Hazlewood, (1979, 1985) Mazzeo (1988(b)), and Ravenhill (1979) have discussed this with respect to EAC, while Asante (1984) and Martin (1985) have discussed the same in relation to ECOWAS. In the PTA, this has been discussed by Anjaria (1982), Berg (1987), Hall (1987), Mutungu (1988), Ngunyi (1988(b); 1989(a)) and Ochien (1988).
In their respective discussions of the PTA, these analysts of the regional body have observed that Kenya and Zimbabwe are bound to benefit most from intra-PTA preferential trade due to their well developed industrial capacity. For instance Zimbabwe ran up to $12 million as trade surplus against Zambia during the first six months of PTA's clearing house operation (Africa Business: December, 1984, p. 51).

However, what all these writers have failed to underscore is the probable political conflict accruing to such maldistribution of benefits favouring only two countries. While this is probably not their intention, this study hopes to show the relationship between distribution of benefits in the PTA and conflict.

1.5.3(b) Kenya's Intra-PTA trade

There is probably very little literature that focuses specifically on Kenya's intra-PTA trade. Most surveys on the PTA have taken a broader perspective encompassing the entire regional body, although almost all of these surveys have mentioned Kenya's preponderance in intra-PTA non-preferential trade. Nevertheless, none of the literature focusing on Kenya's intra-PTA trade has mentioned probable political conflict arising from Kenya's position of preponderance in PTA trade.
In his study of Kenya's trade relations with PTA, Ngeno (1984) has observed that Kenya's trade with non-PTA economies has in recent times been on the increase. His data indicates that, while before 1974, 90% of Kenya's exports to Africa went to PTA states, by 1984 this had declined to a low 67% (Ngeno: 1984, p. 14).

On Kenya's direction of trade in the PTA, Hall (1987), Ngeno, (1984), and Ngunyi (1989(b)) have with statistical evidence separately observed that Kenya's main export market in PTA is Uganda. Other markets in the PTA that seem to be gaining pre-eminence to Kenya according to these sources include, Rwanda, Burundi and Mozambique (see Ngeno: 1984, pp. 15-16).

In their separate analysis, Ngeno (1984) and Nancy Asiko (1989) have discussed the composition of Kenya's exports to the PTA. According to Ngeno, Mineral fuels and lubricants are Kenya's key exports to PTA accounting for up to 53% of Kenya's total exports in 1984 (Ngeno; 1984, p. 16). Asiko's findings however indicate the impact of PTA on Kenya's exports of food items, live animals, alcoholic beverages, tobacco, petroleum products, animal and vegetable oils, as great.

Apart from Asiko (1989), Berg (1987), Hall and Ngeno (1984(a)), no one else has made a comprehensive analysis of Kenya's import trade within PTA.
1.5.8(c) The PTA 'Rules of Origin'.

Although the 'Rules of Origin' are discussed in almost all meaningful analysis of the PTA, intensive diagnosis of the same is avoided in most of the available literature.

Discussion on this Protocol proceeds in two ways. While Berg (1987) and M. Manundu (1985) see the rules as comprising a deep seated problem likely to grind the PTA to a halt, Hall (1987) and Kipkoech Ngeno (1984) among others see the rules as being a blessing in disguise.

Both Manundu (1985) and Ngunyi (1988(a)) have separately argued that, the PTA Common List (CL) already reduces the potential for increasing intra-PTA trade, while the 51% rule and the value added clause which determine the CL could actually paralyse the entire PTA. They further observe that the region is still very undeveloped in the availability of indigenous capital, technology and entrepreneurship. Until such a time as the PTA members will have achieved available indigenous capital, technology and entrepreneurial ability, the 'Rule of Origin' should be shelved. Apart from discouraging foreign investments
and dampening the scope of increased trade, they argue, some provisions of the 'Rules of Origin' also discourages simple manufacturing process like assembling of components, and labelling, among others.

Apart from Hall (1987) who sees the difficulties in implementing the Protocol on the 'Rules of Origin' as resulting from political conflict between member states, most literature on the 'Rules of Origin' merely discusses the merits and demerits of the rules and the implications of either the merits or demerits on intra-PTA trade. Discussion on the factors responsible for the political conflict over PTA 'Rules of Origin' and the impact of this conflict on the implementation of the rules, is thus conspicuously lacking in the literature on PTA.

The task of this study is to discuss a specific question whose mention is made in most analysis of the PTA but very scantily, the question of the Protocol on the 'Rules of Origin'. This study further focuses on a very specific unit of analysis - Kenya. No study so far has covered the political conflict in PTA, and specifically on the 'Rules of Origin, with Kenya as a case study. The task of this study is therefore to bridge this lacuna.
1.6  **Theoretical Framework**

The principle purpose of a theory is to describe, explain and predict relationships between variables. While most theoretical approaches to integration do have these qualities, we have chosen the power theory, and its national interest approach as our theoretical framework because of its usefulness in analysing conflict among states. Before justifying our theoretical framework, it is worthwhile examining alternative approaches to the study of regional arrangements.

1.6.1  **The Dependency Approach**

The dependency approach which emphasizes the politico-economic nature of international relations, attempts to link rural poverty and underdevelopment to historical forces, north-south trade, world capitalism, and surplus extraction. The model stresses the need to understand development as a long-term historical process, and to consider the linkage between national economies and the world system to development (Claude Ake: 1981, p. 162).

Central to this theory, is the concept of 'unequal exchange' in which the world capitalist centres are said to be linked to the national economies in an
'unequal' relationship. In this linkage, the centre is said to siphon off surplus from the periphery through a chain of connections from the national economies to the provincial to the local 'economies'. According to this theory therefore, underdevelopment is as a result of this linkage and one way out of it is either through a 'de-linkage' or the socialist path.

However, there has been a disagreement among the proponents of this theory over 'de-linking'. This has actually led to yet another prescription to the condition of underdevelopment in Africa - regional economic co-operation. This approach is advocated particularly by the ECA.

The theory's faith in regional co-operation rests on the assumption that south-south trade in general and intra-African trade in particular, can occur on a different basis to the 'unequal exchange' that is perceived as characteristic of contemporary north-south commercial interactions. This argument however, rests on what John Ravenhill has called the 'second image' fallacy (Ravenhill: 1985, p. 46). That is, trade is not necessarily equal when an impoverished African country imports from a better-off neighbour. In fact, sometimes such trade is even more 'unequal'.
Although the theory addresses itself to the dependence of one African country on another, it does not tackle the question of political conflict as a result of trade imbalances between them. Hence, the fact that this theory does not explain the cause of political conflict between countries of the south like those of the EFTA subregion, and that it does not seem to deal with the question of trade imbalances between countries of the south which as we hope to show, is a major cause of political conflict, makes it untenable for our present purposes.

1.6.2 Theories of Integration

There are several approaches to the study of integration but for the purposes of this study, we shall examine just a few of them.

1.6.2(a) The Federalist Approach

According to the federalist approach, integration can best be attained by integrating the political system.

The theoretical approach asserts that political actors should be persuaded to shift their expectations, loyalties and political activities to a single centre of decision making. In the words of Johan Galtung, it should be a process in which 'two or more actors form a
new actor' (1968: p. 377). The approach therefore seeks to reduce the sovereign power of the nation state through the creation of federal institutions such as the military, police, a common legal system, adoption of a common constitution, and finally by ensuring a division of power both at the federal and the national levels. This process would later develop into an integrated economy.

The fact that the PTA is an economic co-operation arrangement without a supreme political authority makes the federalists approach, irrelevant for our analysis. In fact, political unification in the PTA sub-region is not in the least a priority. The PTA Treaty does not call for it, and leaders in the region do not favour it anyway.

1.6.2(b) The Functionalist and Neo-Functionalist Approaches

Unlike the federalist approach, the functionalist theoretical approach emphasizes a gradual predominance of economics over politics in promoting integration. The approach asserts that world peace and international economic co-operation would be best promoted if international activities were to be organized along basic functional needs such as transportation, research, health, cultural activities, trade etc., David Mitrany (1966) in his doctrine of 'ramification'
observes that co-operation in one sector would lead to co-operation in yet another sector and through a gradual process, this would move from an easier to a more complex aspect of co-operation.

To further demonstrate this principle of gradualism, Bela Balasa (1961), has identified five stages of economic integration, falling in hierarchy viz; a free trade area (in which the PTA falls); a customs union; a common market; an economic community; and finally a political union.

In a free trade area, there is a free movement of all goods produced within the area. In the case of a custom union, added to a free movement of goods is the adoption of a common external tariff against goods from outside the free area. In the case of a common market, added to all the above aspects, there is a free movement of all factors of production including labour, within the area. In an economic community, there is a harmonization of economic policies, social policies, fiscal policies, investment policies etc. This is the highest form of economic co-operation. A political union is a form of co-operation that results in the formation of a single national entity with a national government.
The neo-functionalist theoretical approach does not differ from the functionalist approach as such. While the two differ in that the functionalists emphasize the creation of supranational institutions, and the neo-functionalists emphasize on loosely knit communities, the principle difference between them lies in the elaborate, modification, and testing of hypothesis about integration (J. Dougherty et al. 1981, p. 430).

Although the functionalist and neo-functionalist theoretical approaches are useful as tools in describing, explaining and predicting relationships between variables in any given study on economic co-operation, the two approaches are not very useful to our study. This is because the approaches do not look at political conflict between states, and the possible effects of such conflict on co-operation.

Nevertheless, some aspects of the functionalist approach will be useful to our study especially in our policy recommendations as we shall point out later.

The theory that is best suited to analyse the question of political conflict over the PTA 'Rules of Origin' must be a theory that best explains conflict of interests in inter-state relations. The power theory apparently best explains such a conflict.
1.6.3 The Power Theory

This study therefore adopts the power theory as a theoretical framework, but more specifically the national interest approach of this theory.

The rationale behind our choice of this framework rests in its ability to describe and explain with a reasonable degree of precision the political conflict over the PTA 'Rules of Origin' and to predict the outcome of the same using power as a criterion. We will particularly emphasize in this theory that statesmen will enter into international pacts only if they are convinced that such pacts are to their national advantage either directly or indirectly. And in the event of conflict between national and international loyalties, the statesman's first duty is to the state.

Before we examine the national interest approach as applied to this study, it is probably important that we define power as a concept and briefly show its usefulness in political analysis at the international level.

As a concept, power has a plethora of definitions. A survey conducted by Denis, G. Sullivan actually identifies seventeen different plausible definitions, (1970, p. 335). While Karl W. Deutch sees power as '... the ability to prevail over conflict... to change
the distribution of results particularly of people's behaviour', (1968, pp. 22 and 41). Robert Lieber sees power as '... the currency of the political system in the way that money is the currency of the economy' (1972, p. 93).

Other definitions of power have been provided by Michael P. Sullivan who sees it as '... the psychological control over others' (1976, p. 169); Charles Kindleberger who defines power as '... the strength plus the capacity to use it effectively', (1970, pp. 56, 65). K.J. Holsti and Nicholas Spykman view power as an influence relationship and comprising the ability to fashion the actions of men. To Spykman, fashioning the actions of men should be done through 'persuasion, purchase, barter and coercion', (1942, p. 11). Robert Dahl has also attempted to give a definition of power seeing it as '... the ability to shift probability', (1957, p. 201) while to William Coplin power is the ability to cause others '... do what they would otherwise not want to do, (1971, p.6).

Given the foregoing, it suffices to argue that power as a concept '... lies in the eye of the beholder' (Dougherty: 1981, p. 38), and the validity of any of its definitions is substantially a matter of '... argued plausibility and consensus of opinion', (Wiseman: 1969, p. 41).
Through the years, power has been regarded as the axis around which the understanding and practice of world politics rotates. Traditional theorists like Nicolo Machiaveli and Thomas Hobbes, to the contemporary ones like Frederick L. Schuman and Hans J. Morgenthau have regarded power both as an end in itself and as a means to such varying objectives as security, peace, aggrandizement, prosperity and justice.

Hans Morgenthau has for instance argued that power is the most dominant factor in world politics and is in fact'... the ultimate goal in every state, overriding'... all other factors' (1978, p. 5). To him, statesmen'... think and act in terms of interests defined as power ' (Morgenthau: 1978, p. 5) and hence, international politics like all politics is'... a struggle for power' (Morgenthau: 1978, p. 5).

To Robert Strausz - Hupé, decision makers throughout history have been obsessed by the question of power and in almost all epochs in history, '... several states locked in deadly conflicts all desiring the augmentation or preservation of their power, can be cited, (1954, p. 5-6). A further observation about the centrality of power in international politics is made by Schuman. He holds that, due to lack of a common government in the international political system, each
political unit of necessity seeks '... safety by relying on it's own power and viewing with alarm the power of it's neighbours', (1967, p. 271).

Hence, any serious analysis of international politics, (1969, p. 22) must of necessity deal with national power as a prelude to arriving at conclusions about conflict. This is so because, conflict is the most visible aspect of a general interaction of separate entities possessing autonomous power.

1.6.3(a) Definition of Political Conflict

There is probably no single general theory of conflict acceptable to all social scientists and there is considerably less agreement that the social sciences will achieve an aesthetically and scientifically unified general theory capable of explaining 'why men fight', (Dougherty: 1981, p. 18). Hence opinion is still divided over the actual cause of conflict in society. While to some, conflict is naturally inherent in the individual, to others conflict is a function of social institutions.

To the Hobbesian tradition for instance, conflict is inherent in the nature of man. In Hobbe's state of nature, due to this inherent conflict in man, the life of man is solitary, poor, nasty, brutish and short', (Leviathan: 1966, pp. 39ff). In the advent of
municipal society however, the predisposition to fear, aggression and conflict is not as such extinguished, but the organized government only routinizes conflict replacing it with peaceful competition where possible, although potential for outbursts of violence still remains.

From yet another perspective, the social psychologists have in the past seen conflict through the platonic spectacle, that the state is the individual 'writ large'. Hence using a pseudoscientific analogy, they have viewed society as the psychological organism 'writ large' in which group aggression is seen merely as a corollary of individual aggression.

Conflict must however not be confused with competition. Competition can be said to shade into conflict when the parties involved try to enhance their own positions at the expense of others, (Dougherty: 1981, p. 182). Otherwise, two people may be in competition with each other without necessarily seeking to prevent the competitors from achieving their own ends, (Dougherty: 1981, p. 182).

Conflict must also be distinguished from 'tensions'. Tensions always imply latent hostility, fear, suspicion, the perceived divergence of interests and perhaps the desire to dominate or gain revenge.
But it should be noted that tensions do not as such go beyond attitudes or perceptions to encompass actual overt opposition and mutual effort to thwart one another.

Social scientists have not yet come forth with a generally acceptable taxonomy of distinguishing, classifying and arranging coherently various types of conflict as already demonstrated, (Dougherty: 1981, p. 188), but for our present purposes, we shall adopt Mack and Snyder's definition of 'political conflict'. To them, 'political... conflict in organized society is a struggle over 'position scarcity' .......... within an organized structure of rewards' (1957; p. 218). Position scarcity can be said to occur because very few people can occupy the same position in the reward structure at the same time. Only a small number of people can 'occupy positions of great power, privilege and prestige' and 'since many people seek them, and... only a few can fill such a limited number of valued positions, conflict frequently develops, over them', (Pirages: 1976, p. 7). We should further observe that, 'since the roots of much conflict are found in scarcity of valued material rewards, a substantial portion of conflict could be said to be economic in origin', (Pirages: 1976, p. 7).
Political conflict in the PTA over the Protocol on the 'Rules of Origin' shall for our present purposes therefore be defined as a struggle over 'position scarcity' in the reward structure of intra-PTA trade. That is, if the 'Rules of Origin' apply immediately to PTA trade, Kenya's position of preponderance in intra-PTA trade will be at stake given that most of her intra-PTA exports are by foreign firms. On the other hand, if the 'Rules of Origin' do not apply to intra-PTA preferential trade, the positions of countries like Ethiopia or Tanzania in the preferential trade reward structure would not only be insignificant but these economies would also possibly be reduced to 'captive markets' probably the lowest position in the reward structure.

Therefore, in opposing the PTA 'Rules of Origin' especially rule 2(1)a, Kenya is out to retain her position of preponderance in intra-PTA trade otherwise at stake if the Protocol applies. At the same time, countries like Ethiopia or Tanzania are vehement advocates of the implementation of the 'Rules of Origin, because they would also want to be well-placed in the intra-PTA reward structure. Hence, the two parties are in a struggle against each other for certain positions in PTA trade's reward structure.
1.6.4 The National Interest Approach

Turning our attention now to the concept of national interest but having the foregoing in mind, it can be said that the concept has been central to the study of international behaviour. Borne from his experiences in ancient Greece, Thucydides for instance asserted that in any international interaction '... identity of interests is the surest bond...', (Dougherty et al: 1981 p. 899). Lord Salisbury was to later echo this in the 19th century when he observed that the only bond of union that endures between nations is the absence of clashing national interests, (Dougherty et al: 1981, p. 89). Max Weber, a more contemporary writer, puts it even more clearly. He asserts that '... interests... not ideas dominate directly the actions of men. Yet the 'image of the world' ... have often served as switches determining the track on which the dynamism of interests has kept the actions of men moving', (Dougherty et al: 1981, p. 90).

But precisely how do we arrive at a generally acceptable or standardized definition of national interest? What exactly is in the national interest of any given country? And given the diversity of interest in any given country, who defines national interests and how do we sort them from class, elite-establishment or foreign inspired interests?
For instance, Napoleon said he was acting in France's interests when he initiated the Russian campaign and when later he mounted a last desperate battle at Waterloo. Hitler on the other hand justified his expansionist policies in the name of German national interests. Lyndon B. Johnson also argued that the interests of the Americans and the western world were at stake in the historic Indo-China confrontation, (Couloumbis, et al, 1986, p. 106).

As much as a definition of national interest is difficult, it is not impossible. Two schools of thought have attempted to give a definition of the concept. The elitist school led by Plato has asserted that the national interest of the polity should be arrived at by the philosopher-king aided by a few well taught and fair-minded advisors. These wise and well-informed leaders trained to think in terms of the collective good, would arrive at some prudent decisions about the polity which would be executed by loyal and obedient bureaucracies. In this way, the decision making machinery of the polity would not give to '... the yearnings of lesser minds or accommodating selfish and sectarian pressures', (Couloumbis et al: 1986, p. 107). Decision making would be the prerogative of the wise.
This elitist notion of national interests has been used to inspire paternalistic and authoritarian regimes. Their justification lies in the belief that '... one person with strength, wisdom and knowledge and above all, power, can make good and sound decisions, (Couloumbis et al: 1986, p. 108) whereas extremely complex and rule bound collectivities usually produce a lot of rhetoric but very little substantial action.

The second school of thought is the Aristotelian school. Unlike the Platonic approach, this school believes that national interest must be the sum total of the interests of all the individuals in a polity synthesized through the democratic process. Hence, national interests here should be equated to the will of the majority fairly and freely arrived at on an issue by issue basis. But once arrived at, public interest decisions are '... not sacred, they are subject to review or reversal on the basis of public dialogue, (Couloumbis: 1986, p. 108).

Historically, although the Aristotelian approach has gained more applause compared to the Platonic one, in contemporary politics it is difficult to arrive at national interests with inputs from all the sectors of the polity. This is even more difficult in the formulation of foreign policy especially in the Third World where the public has little or no bearing in the
formulation of foreign policy. It is in this regard that a British political scientist has chosen to call national interests 'government interests' or 'state interests' because governments, not nation-states make national interests, (Seton-Wason: 1972, p. 209).

According to Hans Morgenthau, the concept of national interests is similar in several respects to the great 'generalists' of the constitution. It contains a residual meaning which is only inherent in the concept itself... but beyond this minimum requirement, its content can run the whole gamut of meanings which are logically compatible with it', (1958, p. 65). However, in a dynamic system, national interests must always emerge from a contest of conflicting sectional interests, a synthesis which must be more than any particular sectional interest on their sum total. It must be the lowest common denominator where sectional interests and the national interests meet.

Given the plethora of approaches to the study of national interests, our study will adopt Hans Morgenthau's and George Kennan's definitions of national interests. To Hans Morgenthau, national interests is a compromise of conflicting interests. It is not an ideal that is arrived at abstractly and scientifically, but is rather a product of constant internal political competition, (Couloumbis et al:
1986, p. 114). Kennan sees national interests as standing above and absorbing the united and parochial claims of sub-regional groups although such groups seek to interpret the national interest in their own terms, (1951; p. 100).

In international politics, therefore, national interests must define the outermost limits of choice beyond which responsible statesmen must not trespass because to do so risks the security, perhaps even the survival of the state. However, exactly where this boundary line runs and precisely what programmes are to be pursued within its limits will remain a matter of constant debate among the many analysts of the national interest. This is so because 'security' and survival are not fixed points on the political terrain (R.C. Good; 1960, p. 1).

1.6.5 The National Interest Approach and the PTA

In the study of an international organization like the PTA, two approaches to the question of national interest must be mentioned. One tends to be ethically oriented while the other is policy oriented. The latter is championed by the realists and the former by the idealists. Although the two overlap in the blurred double-vision of real choice situations, there is purpose in sorting them out.
To the idealist, policy options ought not to take into account national self-interest alone. In a multi-national world, policy options must also be guided by a loyalty higher than that owed to the parochial community. That is, foreign policy must always seek to find a point of concurrence and reciprocity between self-interest and the interests of the wider community. It must seek to reconcile parochial interests and universal moral principles; allegations owed to the national community and claims deriving from loyalties to the larger community. And although amour de soi is a universal law characteristic of the human existence, love and not self-love must be seen as the law of human existence'. A law that demands the giving of self in the interest of one's neighbour, (R.C. Good: 1969, p. 3).

On the other hand, the realists assert that the ends of policy should be guided by nothing else but national interests. This is so because nations always pretend devotion to morality and loyalty to the wider community than they actually achieve in practice. Thus such universal moral principles like 'The Rights of All Men', 'In Defence of Democracy' and many others are too general and vague to provide guidance to policy ipso facto becoming pretentious. Morgenthau actually compares invocation of moral principles for the support of national policies and the dressing of parochial
interests in the garb of morality with '... something tantamount to the fascist mind which identified political and military successes with moral superiority', (1947, p. 8-10).

Hence, foreign policies should be formulated on the basis of concrete and demonstrable national advantage rather than on abstract and impersonal criteria of morality, law and ideology, (Couloumbis: 1986, p. 115). And foreign policy should be conducted in such a way as to satisfy one's own ideas of morality, having no obligation to any one but to one's own nation, and not expecting one's view of morality to be valid for others.

To the realists therefore, selfishness is not obnoxious in the case of nations. It is actually reasonable. In fact, the national leader may have to lie, cheat, steal and deal with the devil if necessary, in order to ensure that the national interests of his nation is met (Couloumbis, 1986, p. 116).

The political conflict over the PTA 'Rules of Origin' must be seen within this framework of the national interests. This is a conflict with two sides to it. It is first and foremost a conflict between the national interests of certain PTA member states and the regional interests as embodied in the PTA Treaty, and secondly, a conflict of interests between different PTA
countries. The bone of contention in this conflict as already stated is the involvement of foreign owned and managed firms in intra-PTA preferential trade.

Hence, while it is in the region's interest for the local equity rule to apply so that benefits from PTA trade would accrue to PTA nationals and not foreign firms, this interest runs contrary to that of certain PTA member states.

But this regional interest probably conflicts most with Kenya's national interests. To her, if the local equity rule applies to intra-PTA preferential trade, up to three quarters of her intra-PTA trade would be denied preferential treatment because such huge a fraction of her PTA trade came from foreign firms. If the realist's proposition that states for most part seek power holds, then the local equity rule applying to intra-PTA preferential trade would not only run counter to Kenya's national interest but would also become an impediment to her pursuit of regional power. Hence, the objectives and interests of PTA as embodied in this rule run counter to those of Kenya in as far as intra-PTA trade is concerned.

At the second level, what we have is a conflict of interests in intra-PTA preferential trade between PTA economies with high levels of foreign investments on the one hand and those economies whose foreign
investments are rather insignificant on the other hand. Hence, for Kenya, the local equity rule should not apply because it disqualifies most of the firms operating in her premise from participating in intra-PTA trade. If these firms, most of which are foreign, do not participate in intra-PTA preferential trade, then the PTA to her lacks a *raison d'etre*.

Tanzania, Ethiopia, Somalia and Uganda have on the one hand insisted on the implementation of the local equity rule for their own national interests too. It should be noted that all the four PTA share a common border with Kenya with especially Uganda and Tanzania running substantial trade deficits with Kenya. To them therefore, if the local equity rule does not apply and the process of trade liberalization commences, their infant industries would be crippled by foreign firms operating in Kenya. It is therefore this need to protect their national interest in industrial production that they support the immediate implementation of the PTA 'Rules of Origin'.

To this extent therefore, the national interest approach meets the two aspects of theory viz., describing and explaining the conflict over PTA 'Rules of Origin'. This approach has also got some predictive value. It asserts that, while a nation may have some
interests to pursue in international politics, it's ability to do so effectively rests on the power at it's disposal. This is what Hans Morgenthau means by '... interests defined in terms of power', (1963: p. 14).

Although this proposition is not true for all cases in PTA, it is at least true that the powerful economies of PTA are able to push for their national interests more successfully than say Djibouti or Lesotho whose power is limited. The derogation of the 'Rules of Origin' is such a case in point. In spite of much disagreements over the derogation principle, Kenya and Zimbabwe were able to push for its adoption at the dismay of the other economies.

Hence, we can predict using this approach that the resolution of this conflict over the 'Rules of Origin' will favour the powerful PTA economies either directly or indirectly if our theoretical propositions are valid.

It is this capacity to explain and describe the political conflict over PTA 'Rules of Origin' in terms of national interests and to predict the resolve of the same using power as a criterion that renders the national interest approach a more useful theoretical framework for our present purposes.
1.7 HYPOTHESES

Two hypotheses have been generated to permit an exhaustive investigation into the conflict under study. These are:

1.7.1 If there exists an asymmetrical pattern of power among the PTA member states especially with regard to intra-PTA non-preferential trade, then, political conflict over the PTA 'Rules of Origin' ensues.

1.7.2 The higher the levels of foreign investments in a PTA state, the lesser its willingness to accede to the implementation of the PTA 'Rules of Origin', while the lower the levels of foreign investments in a PTA member state, the more its insistence on the implementation of the PTA 'Rules of Origin'.

1.8 METHODOLOGY OF RESEARCH

Data Collection Techniques

In this study, two basic methods of data collection have been used. These are: primary and secondary sources although we have relied mostly on secondary sources with primary data supplementing the latter.
1.8.1 Primary sources

Primary data was collected through discussions with a cross-section of heads of different institutions in Kenya. These discussions covered the Senior External Trade Officer, Kenya's Ministry of Commerce, in charge of the PTA; The Head of the Economic Division Ministry of Foreign Affairs*, Head of the PTA Desk Ministry of Foreign Affairs; officer in charge of PTA in the Ministry of Industry.

The executive officer in charge of the PTA affairs in the Kenya Association of Manufacturers, the chairman and technical officer of the Kenya Chamber of Commerce and Industry, were also talked to. These three people provided us with the general sentiments of the entire business community in Kenya which they represent. To complement the discussions with these three people, we further took a random sample of 15 foreign owned firms that are also members of the two organizations and held discussions with their sales/export managers.

* Dr. Mwanzia, Head of this division was present from the first day in the intergovernmental Negotiation Team meeting, representing Kenya.
1.8.2 Secondary sources

This study relied mainly on secondary data. The source of this data included, the PTA Treaty; PTA summit papers; conference, consultancy and different discussion papers on the PTA available at the REDSO library USAID offices in Nairobi, the Kenya External Trade Authority (KETA) library, and different other information centres of both local and international organizations in Nairobi.

Also consulted were different statistical yearbooks. These provided us with the raw data that went into making the tables on the basis of which a lot of our analysis has been made. Such statistical yearbooks included various issues of the Kenya Bureau of Statistic's Statistical Abstracts and the Economic Surveys. We also consulted the World Bank's statistical yearbooks of various years; Direction of Trade Statistical Yearbook 1986 and 1988 issues; IMF's International Financial Statistics Yearbook, 1988; World Tables; World Development Report 1988 issue; and many other international trade statistical documents.

To provide us with some historical analysis and also supplement the statistical deficiency of some of the aforementioned documents, we also consulted Africa South of Sahara 1986 and 1988 issues; Africa
Contemporary Record; not to mention various articles in journals, magazines (especially the (Financial Review, (PTA News), Industrial Review), and Newspaper cuttings.

Tabular analysis was used in processing the data collected. This choice of technique derives from the fact that the relationship between the different variables tested is a simple relationship whose testing called for a simple data processing technique.

1.9 CONCLUSION

Our attempt in this chapter has been to demonstrate the existence of a political conflict within the PTA over the Protocol on the 'Rules of Origin' in the PTA Treaty. We have also presented some hypotheses that could possibly explain the origins of this conflict arguing that this conflict can best be analyzed by the 'national interest approach' a variant of the power theory as a conceptual model. That is, we have hypothesised that national interests at play in any international process inevitably breed conflict such as the conflict over the 'Rules of Origin'.

We should however note that, although there are some inherent problems in settling the 'modus operandi' governing the practice of trade within the PTA, these problems only exist because the PTA is a living organization and will continue to adopt to the changing
environment as a system. Thus, it would be wrong to cast a pessimistic shadow on the PTA on the basis of these problems. Nevertheless, a diagnosis of the ills that impede trade development within the regional arrangement, and a clear definition of the same, is an important step towards solving the problem.

1.10 CHAPTER LAYOUT

In the first chapter of this thesis, we have given a definition of the problem under investigation and generated a few hypotheses that could possibly explain this problem. In this chapter, apart from discussing the methodology of research and the objectives of study, we have discussed in extenso a theoretical model within which our analysis falls. A review of literature available on the subject under discussion has also been made with a view to identifying the gap our study intends to fill.

Chapter two of this study is basically a background chapter which we have repeatedly referred to in the entire thesis. The first section of this chapter is an attempt at finding out the source of political conflict in international trade from classical political economy to date. This is done with
special reference to regional economic schemes in Africa. The second section looks at some general features of intra-PTA trade while the third delves into certain details of Kenya's intra-PTA trade.

In our third chapter, attention turns to the power patterns of PTA states. Our observation here is that asymmetry in power patterns of PTA member states who are inevitably in constant interaction, breeds conflict. We have endeavoured to demonstrate the existence of this asymmetry in PTA with special regard to those elements of power with a direct bearing on intra-PTA trade like, population, area in square kilometers, GNP, GDP, growth in GNP per capita, manufacturing, manufacturing Value Added, sectoral breakdown of GDP, percentage distribution of the share of intra-PTA trade among member states inter alia. Apart from an attempt at showing that Kenya is the major power in PTA with regards to intra-PTA trade, this chapter has also tried to explain the conflict over the PTA 'Rules of Origin' within this context of power analysis.

Our fourth chapter deals with the politics of foreign investments in the PTA sub-region. We have demonstrated the existence of different levels of foreign investments in the first part of this chapter, emphasizing on the fact that Kenya's level of foreign
investments is the highest in the northern part of PTA where the conflict over the PTA 'Rules of Origin' is most pronounced. In this chapter, we ascribe the causes of the conflict under investigation to this asymmetry in patterns of foreign investments in PTA.

Our last chapter deals with summaries and conclusions. It is in this chapter that we also look at the policy implications of the conflict under investigation and what measures should be adopt.
CHAPTER TWO

KENYA AND THE PTA

2.0 INTRODUCTION

This chapter provides our analysis with background information which the entire work turns to every now and then. The primary purpose of this chapter is to give a historical background to the root cause of political conflict in international trade and to draw a parallel between this historical data and the case as it is in the PTA. The chapter also seeks to draw a general picture of the nature of trade in the PTA, and trends in Kenya's trade in the scheme.

Hence, the first part of this chapter focuses on a general historical background to the formation of PTA, and political conflict in international trade from the classical political economy to date. Our assertion here is that, conflict over the benefits of international trade to the domestic economy has through the years and the world at large, had something to do with the benefits that accrue to the parties involved. That is, since benefits from trade need not necessarily accrue to the trading parties equitably, those to whom minimal benefits accrue will for the most part strive to get a bigger share of the trade. Looked at another
way, each of the trading parties will seek to occupy a better position at any one time, in the trade's reward structure. Since such positions are scarce, a contest between the trading parties ensues. It is this contest for 'position scarcity' in the reward structure of a given trade arrangement that we have called political conflict.

In the second part of this chapter, we have singled out some general aspects of intra-PTA trade. Our purpose here is to show the trade patterns in the PTA with an aim of demonstrating later how these patterns can be said to influence trade relations in the scheme.

The last part of this chapter focuses on Kenya's intra-PTA trade. Our intention here is to establish Kenya's trends in intra-PTA trade especially in the northern part of PTA where all the advocates of the 'Rules of Origin' are resident. This will help us show how trade trends between Kenya and her neighbours has in the past led to conflict and how current intra-PTA trends which are almost similar to those in the defunct EAC for instance, are in themselves sources of political conflict.

In this part, we have gone further to mention the actual and possible impediments currently facing Kenya's intra-PTA trade.
2.1 BACKGROUND TO THE FORMATION OF THE PTA

Notwithstanding past experiences, African leaders and key policy makers continue to favour regional economic co-operation as the continent's development strategy. In fact, some even see it as a \textit{conditio sine qua non} for Africa's economic development. The argument advanced in favour of regional economic co-operation is that, the strategy has ceased to be an effort inspired solely by considerations of pure economic efficiency. It has become a process redefined to reduce dependence on the industrial capitalist states and to promote self-reliance and development (Asante: 1985, p. 80). According to Karl Sauvant, regional economic co-operation has become 'a means to achieve non-dependent development' (1977, p. 99).

That regional economic co-operation is still a preferred development strategy for Africa can be attested to by the continued proliferation of regional economic groupings in Africa in the past two decades. This strategy was even given stronger emphasis by the Organization of African Unity (OAU) when, it adopted the \textit{Lagos Plan of Action} (LPA) in April 1980. According to this plan, sub-regional common markets are to be established in specified parts of Africa, and later merge into a Continental African Economic Community by the year 2000.
The **LPA** was adopted as a blueprint for the strategy of regional co-operation for Africa's economic development, and central to the plan is the concept of self-reliance both at the national and regional levels. At either levels, self-reliance is a strategy for obtaining a set of objectives rather than a condition or endstate (Biersleker; 1986, p. 213). At the regional level, the strategy of collective self-reliance has been seen by the **LPA** as aimed at restructuring the international economic system so that African countries would be linked to one another rather than to the northern developed capitalist countries. It also entails the creation of joint institutions, implementation of joint projects, the harmonization of development strategies, financial and monetary policies.

Hence, the **OAU** and the United Nations Economic Commission for Africa (**ECA**) have helped oversee the establishment of regional economic groupings in Central Africa, - the Economic Community of Central African States (**ECCAS**); and in West Africa - the Economic Commission of West African States (**ECOWAS**). The Preferential Trade Area (**PTA**) for Eastern and Southern African States, which is our focus of study, was also established within the framework of the **LPA**.
The rationale behind the establishment of these regional economic groupings derive from the fact that most African economies have small market sizes that cannot enjoy adequate economies of scale; have a low level of industrial capacity; distorted patterns of economic activities and uneven resource endowment; among other impediments inhibiting their economic development. Hence, regional economic groupings would help exploit resources which have had limited or no value at the local level; expand the market size for the member states to exploit their development potential; allow the member states to enjoy the economies of scale; and it would finally facilitate a more efficient division of labour among the member economies. But of paramount importance, the regional economic groupings would be seen as agents of change especially with regard to international trade.

Although the PTA was established within the framework of the LPA, its origins can be traced to the efforts of the ECA to promote regional economic cooperation as a strategy for economic development in Africa in the early 70's. But it was not until 1975 when the ECA undertook to examine and re-appraise the entire development strategy pursued by African governments since independence seriously leading to the

This was followed by the ECA's conference held in Kinshasa Zaire in March 1977 which established Multinational Planning and Operational Centres (MULPOCs) in the Eastern and Southern African sub-region, Central African sub-region, North Africa, and the Economic Community of the Great Lakes Countries. These MULPOCs were supposed to facilitate the creation of sub-regional common markets which would later be linked in a regional relationship to form an African common market and eventually an economic union. Most of the countries in the Eastern and Southern African region with the exception of Zimbabwe yet to attain it's independence, were specified as members of the Lusaka-based MULPOC. The establishment of this MULPOC was a prelude to the creation of the PTA.

In March 1978, the ECA held it's first extraordinary conference of Ministers of Trade, Finance and Planning in Lusaka, Zambia which flagged off the negotiations for PTA. This conference was important in two ways. First and foremost, it established an Inter-governmental Negotiating Team (INT) whose task was to negotiate a treaty. Secondly, it signed the 'Lusaka
Declaration of Intent and Commitment to the Establishment of a Preferential Trade Area for Eastern and Southern African States.

After a series of meetings that ran between June 1973 to January 1981, the Council of Ministers approved the draft treaty in October 1981, making it ready for signature by the heads of state and government. The treaty was finally signed by the heads of state and government on 21st December of 1981 at Lusaka but it came to force upon ratification by seven member states by 20th September 1982. However, the operational phase of the treaty was not launched by the PTA Authority* until 1st July 1984.

Currently, the PTA has sixteen members including Mozambique which joined in March 1989. The other fifteen member states include, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Swaziland, Somalia, Tanzania, Uganda, Zambia and Zimbabwe.

Since the inception of the PTA however, there has been constant disagreements over the role trade would play as a vehicle for economic co-operation in the scheme. But before we look at conflict over this role in PTA, we should first and foremost look at the source

* The PTA Authority comprises all heads of state and government of the member countries
of political conflict in international trade from classical political economy to date. Our next section therefore examines in epitome, political conflict in international trade.

2.2  POLITICAL CONFLICT IN INTERNATIONAL TRADE

2.2.1 Conflict in Classical Political Economy

Conflict over why nations engage in trade, which is quite prominent among African economies today, is as old as the controversy on the same issue in classical political economy. The gist of the matter in this conflict centres around the costs and benefits realized by the domestic economies from international trade.

In classical political economy, two contentions in this regard, exist. The 'free trade theory' or the 'liberal tradition' can be traced from Adam Smith and David Ricardo and several other neo-classical formulations. In this tradition, it is argued that, given national specialization, the long-term benefits accrued from international trade by the domestic economies outweigh any associated costs from the same. In his law of comparative advantage, which has now become the cornerstone for the whole edifice of the 'liberal tradition'; Ricardo has argued that nations should produce and trade in those products in which
they have a comparative advantage. This, according to him this would not only maximize the benefits from international trade to the domestic economy alone, but to the international economic welfare as well. To Ricardo, and the 'liberal tradition' therefore, the economic growth of any domestic economy is to a large extent determined by the benefits accrued from international trade.

On the other hand, the 'nationalist theory' of international trade, largely resident in the German Historic School of Economic Analysis, and the marxian tradition, argue for the reverse. To them, international trade is pernicious, while specialization and interdependence make states insecure, dependent and vulnerable to external developments. The cost of international specialization, they argue, is also too high especially to an industrially weak economy and ranges from a possible loss of national sovereignty to vulnerability of national welfare (Robert Gilpin: 1987, pp. 172-183).

Friedrich List, one of the most vocal exponents of the nationalist tradition which developed as a counter-view to the liberal tradition, has argued that the free trade theories of the classical British economists were the economic policies of the strong and were merely motivated by selfish national interests
After all, List argues, Britain pursued a nationalist (protectionist) policy for many years and only adopted a free trade orientation after her industry had become strong enough to out-compete the other economies in Europe. To List, and indeed to the nationalist school therefore, international trade can only be beneficial if all the nations of the world are equal in industrial power. This would ensure against uneven distribution of gains, and unfavourable terms of trade which for most part accrue to the less developed states.

The 'nationalist tradition' therefore emphasizes the costs of trade to particular groups and states and favours economic protectionism and state control over international trade. Unlike the liberal tradition, it emphasizes the '... distributive effects of trade rather than absolute gains'. (Robert Gilpin: 1987, p. 182).

These two traditions also differ in their conceptualization of the effects international trade has on the political set-up. To the 'liberal tradition', international trade is not a zero-sum game. It is a force for peace based on a harmony of interests and creates positive bonds among people from different types of societies (Robert Gilpin: 1987, p. 171). On the other hand, the nationalists see trade as inevitably conflictual. International trade according
to them is a source of political tensions and economic leverage especially where asymmetrical levels of economic development of the trading partners exist. They also see it as jeopardizing the sovereignty of especially the weaker trading parties.

This differing conceptualization of benefits from international trade in classical political economy, now phrased as one between a positive balance of trade versus gains from international specialization, is to be found in constant arguments for and against economic co-operation in Africa. The issue at stake is not whether or not there are aggregate benefits commensurate with international trade, but rather how these benefits are distributed. Is the distribution of such benefits equitable, or is it distribution with differentiation?

2.2.2 Political Conflict in African Economic Co-operation Schemes

The African experience in economic co-operation has shown a tendency for benefits to be unevenly distributed more so where the co-operating states have differing levels of economic development. This has been a major source of conflict between states sometimes worsening to political acrimony and the
disintegration of even viable economic co-operation schemes. This problem is compounded by a resource and factor movement from the less developed states to the more developed ones, subsequently causing a polarization of growth. In the end, this reinforces and increases the gap between the advanced and the less developed co-operating economies.

Given our assertions in chapter one that nations for the most part are guided by their national self-interests, political conflict in an economic co-operation scheme becomes inevitable if growth is concentrated in some areas only. The political acrimony characteristic of the EAC just before its collapse and after, is such a case in point.

The constant arguments between Kenya and Tanzania in the days of the EAC arose in part from Kenya's positive trade balance with Tanzania and Uganda which never seemed to change. Kenya's trade surplus against Tanzania and Uganda put together steadily rose from a total of K£15.5 million in 1970 to K£53.4 million in 1976 as table 2.5 indicates. But probably Kenya's trade surplus against Uganda alone was the highest in 1977 standing at K£51.4 million.

If the law of comparative advantage which stresses the free movement of factors to their most effective location or use was to apply to the EAC case, matters
would have worsened. Both labour and capital would have moved from Tanzania and Uganda into Kenya hence leaving Tanzania and Uganda worse off.

To show how serious the uneven distribution of benefits in the defunct EAC was, Domenico Mazzeo has observed that '... one could state with a high level of confidence that regional co-operation in East Africa would have survived if the question of the maldistribution of benefits had been resolved satisfactorily (1984, p. 152).

Conflict as a result of an uneven distribution of benefits from co-operation is also present in the Central African sub-region. The treaty creating the Central African Customs Union (UDEAC) was signed in 1964 but as asserted by A.A. Jalloh, 'UDEAC has been in a state of encapsulation since 1966 with very little or no progress made in creating a complete union or in coordinating the economic development of the member states' (1985, p. 213). One of the problems plaguing this scheme has to do with unequalizing tendencies of regional trade. This has in fact caused the less developed economies of the scheme, Chad and the Central African Republic, to see their more powerful neighbours like Zaire and Nigeria as alternatives to UDEAC. In fact, at one point, the two economies had withdrawn from UDEAC and joined Zaire in forming the Union of Central African States (UEAC). Although they
reintegrated later, it can be argued that as long as uneven levels of development in the UDEAC states exists, political conflict over the benefits accrued from trade will persist.

The West African scenario is no exception. In the West African Economic Community (CEAO) for instance, Senegal, and Ivory Coast, the dominant states in the scheme, get about 80% of the benefits accruing from the Special Tax Regime (TCR) (Berg: 1985, p. 31) which is the main instrument of trade liberalization in industrial products within CEAO. Although political conflict in CEAO is not quite pronounced, the dominant role played by the more advanced member states Senegal and Ivory Coast - has been a constant source of conflict in the scheme.

ECOWAS, the most impressive regional arrangement in West Africa with a population of 170 million people and a combined GNP of US $125 billion is also plagued by regional trade imbalances. As the 1977-78 statistics indicate, Nigeria, which is the dominant state in ECOWAS accounted for 57% of the population, 70% of the GDP, 60% of the agricultural production, 60% of the manufacturing, 69% of the commerce and transport, 94% of the mining, 70% of the total exports, and 64% of the total imports of the West African
Economic grouping (Ojo: 1981, p. 31). This dominance by Nigeria has for long bred political conflict in the scheme.

Given all the above mentioned experiences of regional economic co-operation schemes in Africa, one can assert that the struggle for scarce positions in these schemes' reward structures, (which we have called political conflict), has characterized regional co-operation in Africa through the years and the PTA is no exception. In the PTA this conflict has however manifested itself through a single Protocol of the PTA Treaty probably because of the implications this Protocol has on the national interests of the different PTA states. But before looking at this conflict in detail, it is worthwhile looking at intra-PTA trade in general. This will help us put the conflict in clear perspective in the latter sections.

2.3 SOME GENERAL ASPECTS OF INTRA-PTA TRADE

Our attention now turns to some general aspects of trade in the PTA. Later in our analysis, we will use these general aspects to show that the different patterns of trade in PTA have had a bearing on the political conflict in the scheme.
One striking aspect of intra-PTA trade is its smallness as a percentage of the region's total world trade. In 1980, the share of intra-regional exports to total exports was 5% while the share of intra-regional imports to world imports was 4.1% (Anjaria: 1982, p. 4). Although intra-PTA trade as a percentage of the regional total trade was lowest between 1973 and 1980, evidence from table 2.1 indicates that this had climbed to 7.2% on average, between 1979 and 1985 - a percentage that is still low in absolute terms.

Table 2.1 gives a broad outline of the share of regional trade to total trade. The significance of intra-regional trade for different PTA member states varies widely although its share of total world trade has never exceeded 1/5th for any PTA economy (except for Djibouti) (Anjaria: 1982 p. 4). Evidence from the table further indicates that in the period between 1979 and 1985, the percentage share of intra-regional trade to total trade ranged on the continuum from 28% for Djibouti a a predominantly service economy, to a meagre 2.2% for Mauritius.

Traditionally, members of the defunct EAC viz Kenya, Uganda and Tanzania, are the main trading partners in the PTA. Together, they account for roughly 2/3rds of total intra-PTA trade and about 50% of the same in the period 1979-85.
**TABLE 2.1: INTRA-PTA TRADE AS PERCENTAGE OF TOTAL TRADE: (ANNUAL AVERAGES) 1979-85**

<table>
<thead>
<tr>
<th>COUNTRY*</th>
<th>TOTAL TRADE in US$ MILLION</th>
<th>PTA TRADE in US$ MILLION</th>
<th>PERCENTAGE SHARES OF INTRA-PTA TRADE TO TOTAL TRADE</th>
</tr>
</thead>
<tbody>
<tr>
<td>BURUNDI</td>
<td>290.6</td>
<td>24.9</td>
<td>8.5%</td>
</tr>
<tr>
<td>DJIBOUTI</td>
<td>256.1</td>
<td>71.85</td>
<td>28.05%</td>
</tr>
<tr>
<td>ETHIOPIA</td>
<td>1483</td>
<td>70.46</td>
<td>4.75%</td>
</tr>
<tr>
<td>KENYA</td>
<td>2964.4</td>
<td>267.4</td>
<td>9.02%</td>
</tr>
<tr>
<td>MALAWI</td>
<td>599.2</td>
<td>45.56</td>
<td>7.6%</td>
</tr>
<tr>
<td>MAURITIUS</td>
<td>300.5</td>
<td>19.9</td>
<td>2.2%</td>
</tr>
<tr>
<td>RWANDA</td>
<td>362.7</td>
<td>57.4</td>
<td>15.8%</td>
</tr>
<tr>
<td>TANZANIA</td>
<td>1483</td>
<td>50.51</td>
<td>3.4%</td>
</tr>
<tr>
<td>UGANDA</td>
<td>883</td>
<td>143.6</td>
<td>16.8%</td>
</tr>
<tr>
<td>ZAMBIA</td>
<td>1755.5</td>
<td>79.26</td>
<td>4.5%</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>1561.6</td>
<td>85.75</td>
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</tr>
<tr>
<td>SOMALIA</td>
<td>545.6</td>
<td>24.7</td>
<td>4.52%</td>
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</table>

**TOTAL** | **13,085.2** | **246.39** | **7.2%** |

*Figures for Swaziland and Lesotho not available.

Source: Compiled for Direction of Trade Statistical Yearbook (IMF, 1986 and 1988)
Among the East African economies, Kenya has retained her dominant role with her intra-regional trade amounting to well over US$ 200 million annually, or about 1/3rd of total intra-PTA trade (Anjaira: 1982, p. 7). In the period 1979-85, this stood at a significant 28.3%. With the exception of Zimbabwe, the other key countries in intra-PTA trade are Zambia, Ethiopia and Djibouti with each averaging a total of roughly $ 79 million in the period 1979-85. The remaining eight economies' combined trade amounts to less than 20% of total PTA trade.

2.3.1 Direction of Trade in PTA

Trade in the PTA is dominated by a small number of bilateral flows as shown by table 2.2. The table further shows that the direction and intensity of bilateral trade flows in the sub-region are largely determined by the geographical proximity of the trading partners. Evidence from the table shows that a large number of PTA member states basically trade with their neighbours. For instance, Djibouti's intra-PTA trade is confined to only three countries - Ethiopia, Kenya and Somalia - her immediate neighbours. There exists virtually no trade between her and the Southern PTA economies of Zambia, Zimbabwe, Swaziland or Malawi.
Figures from table 2.2 can further confirm the assertion that the intensity of trade flows between any two PTA states is a function of the geographical proximity between them. For instance, much as Malawi trades with the East African economies of Kenya and Tanzania, her trade flows with neighbouring Zimbabwe and Zambia are more intense. In fact, Malawi's trade with Zimbabwe is about 16 times greater than her trade with Kenya.

Kenya and Zimbabwe are no exceptions. Although the two have extended their trade links far and wide, trade with their immediate neighbours is much more intense compared to that with the rest of the PTA. For instance, while about 46% of Kenya's total intra-PTA trade between 1979 and 1985 was with Uganda alone, Kenya's trade with Malawi stood at a mere 0.6% of her total intra-PTA trade in the same period.
Table 2.2: TRADE FLOWS OF MAJOR PTA COUNTRIES: (ANNUAL AVERAGES) 1979-85 (in US Million Dollars)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>KENYA</th>
<th>UGANDA</th>
<th>TANZANIA</th>
<th>RWANDA</th>
<th>ETHIOPIA</th>
<th>DJIBOUTI</th>
<th>MALAWI</th>
<th>ZAMBIA/ZIMBABWE</th>
<th>OTHER PTA</th>
<th>TOTAL PTA</th>
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</thead>
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</table>


- Some figures are rounded up to the closest decimal point.
Figures from table 2.2 further show that intra-PTA trade is concentrated on the northern part of PTA probably because co-operation among these states predates political independence. As for the Southern PTA states, economic co-operation is rather recent, probably because of the South African factor in the region. The dependency of these Southern African states on South Africa, also accounts for the low level of intra-PTA trade in the Southern part of the scheme.

2.3.2 Regional Trade Imbalances

Regional trade flows in PTA are highly unbalanced, with Kenya and Zimbabwe running favourable trade surpluses against the entire PTA sub-region. Except for Kenya, Zimbabwe and Ethiopia, all other PTA members are net importers mainly from Kenya.

The foregoing implies that bilateral trade deficits in intra-PTA trade are for the most part not off-set by bilateral trade surpluses. Trade between Kenya and Uganda provides such a case in point. As figures from table 2.2 illustrate, Uganda's trade deficit with Kenya in the period 1979-85 stood at $132.3 million, a deficit she could not offset with her meagre trade surpluses with Rwanda and other PTA economies. Kenya's trade surplus with Rwanda was
similarly substantial standing at $43.2 million, or 93.7% of Rwanda's total trade deficit with the whole region in the period 1979-85.

The dominance of Kenya and Zimbabwe in intra-PTA non-preferential trade can be explained in part by the competitive nature of PTA economies. Given that most of these economies are producers of primary products most of which are exported to countries of the West, intra-PTA trade is confined to non-traditional products particularly manufactured goods. Hence, because very few PTA economies have a developed manufacturing sector to supply the sub-region with manufactured goods, Kenya's and Zimbabwe's fairly developed manufacturing sectors, (accounting for up to 13% and 27% of total GDP respectively), have given them an edge over the other PTA members in intra-PTA trade and hence their dominance.

2.4 TRENDS IN KENYA'S INTRA-PTA TRADE

2.4.1 Kenya's Global International Trade

Probably before looking at Kenya's trade in the PTA, we should look at her global international trade. Kenya's foreign trade is highly concentrated both geographically and in commodity. The European Economic Community (EEC) and Africa have over the years accounted for over 67% of Kenya's export trade which
mainly includes tea, coffee, petroleum and petroleum products. As indicated by table 2.3, the EEC is the principal destination for Kenya's exports accounting on average for 39.8% of total exports between 1981 and 1986. Africa has maintained its position as the second principal consumer of Kenyan exports accounting on average for 26.7% of total exports during the same period.

Kenya's leading trading partners in Africa include Uganda, Zambia, Burundi, Rwanda, Sudan - and Tanzania since 1986. Uganda has however taken a very conspicuous position as the third most important trading partner with Kenya next, to West Germany and Britain.

Turning now to specific aspects of trade, Kenya's exports as a percentage of world total has been on the decline reaching record lows in 1977 and 1978. This can be explained in part by the continuous increase in volume of world exports of coffee and tea, and the closure of the Kenya - Tanzania border after the demise of the EAC.
TABLE 2.3: PERCENTAGE DISTRIBUTION OF KENYA'S WORLD TRADE BY SELECTED REGIONS (1981-86)

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Imports into Kenya have predominantly come from Europe but Middle East has become an important source in recent times. Table 2.3 shows that between 1981 and 1983, these two regions on average accounted for a total of 66% of Kenya's imports in form of non-food industrial supplies, and fuel and lubricants.

On the other hand, African countries especially those in East Africa have remained insignificant to Kenya as sources of imports. For instance, while Kenya obtained 11% of her imports from Africa in 1970, this declined to a low 2.0% in 1984 and averaged at 3.0% between 1981 and 1986. (Ngeno: 1984, p. 14).

Table 2.4 gives a broad category of commodities traded by Kenya in the world market. While the table clearly portrays the richness in variety of Kenya's export-import trade, the percentage share of the commodities traded between Kenya and the world market to the total, is uneven. For instance, of Kenya's total exports between 1982 and 1986, the average percentage share of food and beverages supercedes the percentage share of all the other commodities exported by Kenya put together. As table 2.4 indicates, while in 1986 the export of food and beverages to total exports recorded the highest percentage at 67.5%, the second highest percentage which was non-food industrial supplies stood at a meagre 15.3% of total exports.
Commodity concentration is also reflected in Kenya's import trade although not as conspicuously as in export trade. The percentage share of commodities imported into Kenya to total imports is more evenly distributed compared to that of exports. But as table 2.4 clearly shows, non-food industrial supplies and fuel and lubricants, dominate Kenya's import trade. These two categories of commodities for instance accounted on average for a total of 59% of total imports between 1982 and 86. However, as further illustrated by table 2.4, machinery and other capital equipment are both becoming important imports for Kenya, accounting for about 19.0% of total imports in 1986.
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<td>0.2</td>
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</table>

Source: Economic Survey (Republic of Kenya, 1988)
2.4.2 Kenya's Intra-PTA Trade in Global Context

Kenya's intra-PTA trade as a percentage of the world total has remained one of the highest in the sub-region at 9.02% on average. (see table 2.3). Nevertheless, as table 2.5 illustrates, Kenya's intra-PTA trade as a percentage of total trade has been on the decline. For instance, while in 1982, Kenya's intra-PTA exports as a percentage of total world exports stood at 21.3%, by 1986, this had declined to 16.2%. As for imports, Kenya's intra-PTA imports as a percentage of her world total imports has remained erratic. This for instance fell to a low 1.6% in 1984 from 2.58% in 1982, to later climb back to 2.6% in 1986 - the 1982 level.

Although traditionally most of Kenya's trade with African countries is confined to the PTA countries, available data indicates that up to 1984, trade with non-PTA countries has also been going up. For instance, while 90% of Kenya's exports to Africa went to the PTA countries between 1970 - 74, by 1977, this had declined to 77% (Ngeno: 1984 p. 14). From 1977 however, this percentage share registered some sporadic increases until after 1980 when it fell to reach a record low of 66.4% in 1984 (see table 2.5). But from 1985, there has been a marked increase in the share of exports to the PTA standing at 75.6% in 1986 - the 1982 level.
**TABLE 2.5: KENYA'S INTRA-PTA TRADE AS A PERCENTAGE OF AFRICA AND WORLD TOTAL, (1982 - 1986)**

(‘000 Kenya pounds)

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<td>TOTAL PTA:</td>
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<td>EXPORTS:</td>
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<td>133,129</td>
<td>134,694</td>
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<td>159,782</td>
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<td>14,274</td>
<td>17,150</td>
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<td>TOTAL AFRICA (OUTSIDE PTA)</td>
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<td>61,673</td>
<td>51,613</td>
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<td>4,809</td>
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<td>2,645</td>
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<tr>
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<td>195,725</td>
<td>202,800</td>
<td>206,937</td>
<td>211,395</td>
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<tr>
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<td>22,232</td>
<td>21,959</td>
<td>28,056</td>
<td>36,872</td>
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<tr>
<td>TOTAL PTA AS % OF GRAND**</td>
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<tr>
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<td>TOTAL PTA AS % OF WORLD</td>
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<td>TOTAL:</td>
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</tr>
<tr>
<td>EXPORTS:</td>
<td>21.3%</td>
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<td>17.33%</td>
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<td>16.2%</td>
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<tr>
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<td>2.58%</td>
<td>1.6%</td>
<td>1.5%</td>
<td>2.0%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

** Percentages are rounded up to the nearest whole.

Source: Compiled from *Economic Survey* (Republic of Kenya, 1988)

Mean exchange rate (1982 - 86) KE1 = 1.34US$
Kenya's imports from PTA as a percentage share of total imports from Africa have also taken an oscillating trend. Before 1972, and from 1976 (except 1977) to 1981, Kenya's imports from PTA amounted to over 90% of Africa's total (Ngeno: 1984, pp. 14-15). The decline between 1972 and 1975 can be explained by the economic disorder created during President Idi Amin's regime in Uganda, while the 1977 slump can be attributed to the collapse of the EAC. But as table 2.5 shows, the share of Kenya's import trade within PTA as a percentage of Africa's total fell to its lowest level in 1982 - a mere 36.9% to later climb to 92.8% in 1986.

2.4.3 Kenya's Trade Flow Within PTA

It is probably not possible to look at Kenya's trade within the PTA without looking at trade patterns in the now defunct EAC. This is because Kenya's trade in the PTA is basically an extension of her trade with the East African economics.

The EAC was established in 1967 and by 1976, intra-EAC trade had grown to US $384 million from US $250 million in 1968 (Anjaria: 1982, p. 7). The growth of intra-EAC trade was however characterized by imbalanced trade flows between the partner states in spite of attempts at harmonizing it. As statistics in...
Table 2.5 show, Kenya's trade surplus with Uganda (K£51.4 million) in 1977 and with Tanzania (K£21.8 million) in 1976, were the largest recorded since the community came into operation. And it was in this period that the death knell of the regional body was sounded.

Table 2.6 further illustrates that in the period 1970-79, trade trends between Kenya and Uganda were becoming increasingly uneven with growth in trade between the two economies assuming an unevenly proportional pattern. Thus, while Kenya's exports to Uganda increased by 211.3% in this period, imports from Uganda decreased by an alarming 94.2% from K£10.04 million to K£0.58 million.
Table 2.6: KENYAT\'s TRADE WITH THE EAC (1970-79), (FIGURES IN '000 KENYA POUNDS)

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<td>16,507</td>
<td>29,557</td>
<td>39,676</td>
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<td>33,316</td>
<td>51,992</td>
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<td>8,026</td>
<td>7,583</td>
<td>6,580</td>
<td>5,843</td>
<td>1,466</td>
<td>818</td>
<td>801</td>
<td>1,777</td>
<td>804</td>
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<tr>
<td></td>
<td>16,650</td>
<td>11,124</td>
<td>8,924</td>
<td>24,697</td>
<td>35,833</td>
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<td>32,544</td>
<td>51,411</td>
<td>56,456</td>
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<td>33,442</td>
<td>9,822</td>
<td>2,756</td>
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<td>15,938</td>
<td>7,933</td>
<td>5,683</td>
<td>8,528</td>
<td>10,666</td>
<td>9,166</td>
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<td>1,622</td>
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<td>16,814</td>
<td>6,010</td>
<td>10,399</td>
<td>13,699</td>
<td>15,263</td>
<td>19,374</td>
<td>21,026</td>
<td>8,200</td>
<td>2,403</td>
<td>40,873</td>
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</table>


\*Mean exchange rate (1970 - 79)

\* £1 = 2.69 US$
In comparative terms, trade with Tanzania was much more even in this period except in 1979 when Kenya ran a record trade surplus K£40.8 million with her.

Following the demise of the EAC, and the closure of the Kenya-Tanzania border, Kenya's trade with Tanzania however, fell dramatically with imports from Tanzania reaching their lowest level ever at 0.1 million Kenya Pounds 1979 (Ngeno: 1984, p. 14). The repercussions of this closure were grave because, when Tanzania imposed a ban on heavy vehicles on its roads thereby disrupting transit traffic, Kenya not only lost the Tanzanian market, but the Zambian as well. Thus, exports to Zambia fell by 76.2% from K£6.89 million in 1977, to K£1.64 million in 1983 (see table 2.8).

However, in spite of the demise of the EAC, Kenya's trade flows to Uganda remained unchanged. In fact, Kenya's exports to Uganda in this period increased. While before 1976, Kenya met about 33% of Uganda's total imports, by 1980, Kenya met between 40% to 50% of Uganda's imports (Anjaria: 1982, p. 8).
### Table 2.7: East African Community Countries: Intra-Regional Trade as a Percentage of Total Trade, (1973 - 80)

(Figures in percentages)

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<td>4.5</td>
<td>13.5</td>
<td>19.0</td>
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</table>

Although Kenya's intra-PTA trade has over the years been concentrated geographically, in recent times, this trend has been reverted. For instance, while over 70% of Kenya's exports to the PTA sub-region before 1976 went to Uganda and Tanzania, this trend took a dramatic turn in the post-EAC period with exports to Tanzania being the worst hit and falling on average to 4% of total PTA. Markets for Kenyan exports were to later be found in Burundi, Rwanda, Sudan, Egypt, and Zaire. Similarly, imports from the PTA largely came from the East African countries comprising up to 90% of Kenya's intra-PTA imports (Anjaria, 1982: p. 17). But the post-EAC period has changed this trend as new sources of imports in Africa emerge.

Hence, Rwanda has become one of the most important trading partners in the post-EAC period. In only ten years, between 1977 and 1987, exports to Rwanda have risen by 281.2% from K£ 6.24 million in 1977 to K£23.8 million in 1987 (see table 2.8). In as far as imports are concerned, in recent times, Rwanda has replaced Tanzania as the main source of Kenya's imports (see table 2.8).

Uganda has maintained her position as the main destination of Kenyan exports to the PTA. In fact, exports to Uganda always amount on average to about one-half of Kenya's total exports to PTA. Imports from
Uganda have however assumed an insignificant level as aforementioned. As table 2.8 indicates, imports from Uganda in 1970 alone (K£10.04 million) were higher than imports from the same between 1979 to 1987 all combined (K£9.91 million).
### Table 2.8: Kenya's Direction of Trade in the PTA by Selected Years (1971 - 1987)

(Figures in '000 Kenya pounds)

| Year | Uganda Exports | Uganda Imports | Tanzania Exports | Tanzania Imports | Zambia Exports | Zambia Imports | Ethiopia Exports | Ethiopia Imports | Burundi Exports | Burundi Imports | Somalia Exports | Somalia Imports | Rwanda Exports | Rwanda Imports | Malawi Exports | Malawi Imports | Mauritius Exports | Mauritius Imports |
|------|----------------|----------------|------------------|------------------|---------------|---------------|----------------|----------------|----------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|-------------------|
| 1971 | 19,150         | 8,026          | 14,743           | 7,932            | 5,529         | 208           | 1,016          | 163            | 413            | 1              | 775            | 56             | 881           | 353           | 233           | 557           |
|      | 21,898         | 4,668          | 16,854           | 7,627            | 7,283         | 567           | 1,800          | 174            | 513            | 64            | 1,290          | 64             | 1,579         | 1            | 317           | 1376          |
|      | 25,855         | 1,447          | 20,302           | 8,445            | 8,207         | 500           | 1,190          | 104            | 809            | 91            | 3,057          | 91             | 4922          | 1            | 310           | 1461          |
|      | 51,992         | 581            | 9,822            | 1,622            | 6,897         | 1,030         | 1,923          | 245            | 1855           | 17            | 2,397          | 105            | 6241          | 1            | 376           | 3286          |
|      | 37,747         | 102            | 4075             | 5,199            | 5,847         | 1,243         | 2,346          | 8549           | 3,955          | 71            | 2,678          | 71             | 8549          | 3            | 348           | 4832          |
|      | 52,611         | 273            | 6307             | 6285             | 2,160         | 1,592         | 1,580          | 21,568         | 1,368          | 30            | 1,961          | 30             | 24,758        | 1            | 519           | 5231          |
|      | 71,476         | 1,015          | 6285             | 52,611           | 1,641         | 1,040         | 2,734          | 24,758         | 3,391          | 40            | 2,734          | 40             | 25,291        | 1            | 510           | 2687          |
|      | 70,071         | 1,713          | 19,176           | 1,713             | 1,564         | 1,712         | 5,526          | 25,291         | 6,711          | 71            | 5,526          | 71             | 23,793        | 1            | 1,368         | 2953          |
|      | 69,687         | 3,438          | 19,554           | 2,091             | 2,091         | 3,143         | 7,831          | 23,793         | 7,997          | 38            | 7,831          | 38             | 2184          |              |              |              |

103
### SWAZILAND:

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</table>

N/A = Figures not available


Mean exchange rate (1971-87) KES = 1.92 US$
The foregoing implies the existence of trade imbalances between Kenya and Uganda. For instance, while Kenya's exports to Uganda totalled K£71.4 million in 1983, imports from Uganda during the same year stood at a mere K£0.86 million. This represents a trade surplus of K£70.6 million for Kenya - actually the highest trade surplus ever recorded in PTA.

It is important to note that the sharp decline in imports from Uganda can be attributed in part to Uganda's shift in export market from Kenya to Sudan alone. In fact Uganda's exports to the Sudan exceeds all her exports to the rest of the PTA.

As for Tanzania, Kenya has managed to regain her market from 1985 when the border between the two countries was re-opened. In fact, except for 1975 and 1976, Kenya's exports to Tanzania in 1985 and 1987 are much higher than the exports to the same during the days of the community all combined as Table 2.8 indicates. Imports from Tanzania have also recovered from the 1977 tremor which saw them fall from K£11.6 million in 1976 to K£0.1 million in 1979. Although they are showing an upward trend from 1985, figures from 1987 indicate that imports from Tanzania are not even one-half of what they were in 1973 or 1975 (see Table 2.8).
Zimbabwe which is a recent trading partner for Kenya seems to have taken the Kenyan market by storm with such important goods as iron and steel. Between 1985 and 1987, Kenya's total trade with Zimbabwe has grown by 398.6% from K£3.37 million in 1985 to K£16.8 million 1987. In fact, imports from Zimbabwe at K£11.04 million 1987, were highest in the PTA.

While exports to Ethiopia, Burundi and Somalia have gained in significance in recent years as indicated by table 2.8, in the post-EAC period, exports to Zambia and Djibouti have continued to decline. Imports from Ethiopia and Swaziland have risen constantly in the 1980's but have been marked by slow growth. In fact, Swaziland is one of the PTA economies that runs trade surpluses with Kenya. Similarly imports from Zambia have been significant but erratic while those from the Comoros, Lesotho, Djibouti, Burundi, Mauritius and Malawi have over the years remained insignificant.

In terms of composition, Kenya's intra-PTA exports have changed over the years. While chemicals and manufactured goods which have for long formed a sizeable portion of Kenya's total exports have began to lose significance, table 2.9 indicates that fuels and lubricants and to a lesser extent cement, are becoming important exports for Kenya to the PTA.
Interestingly, although Kenya is a major exporter of tea, tea is her main import from the PTA accounting for 44.3% of her total imports from PTA in 1985. Rwanda is the main source of this import while small volumes also come from Uganda, Burundi, Mauritius and Malawi. It must be mentioned that Kenya imports tea from PTA basically for re-export trade.

On the whole, Kenya's trade with the PTA has been on the increase. For instance, in 1981, this stood at KES132.04 million but by 1987, this had risen to KES192.3 million a 45.6% increase in six years. With an increase in the volume of trade to PTA, Kenya has also continued to assume a dominant position in the scheme. The question we must raise in this respect is, does this trade dominance have any bearing on Kenya's intra-PTA trade relations? Our chapter three, which we will turn to shortly addresses itself to this question.
Table 2.9: **KENYA'S EXPORTS TO HER MAIN PTA TRADING PARTNERS BY COMMODITY CLASSIFICATION:**

**SELECTED CATEGORIES:** 1984 - 85 (in '000 K)

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>YEAR</th>
<th>UGANDA</th>
<th>RWANDA</th>
<th>BURUNDI</th>
<th>TANZANIA</th>
<th>SOMALIA</th>
<th>OTHER COUNTRIES</th>
<th>TOTAL</th>
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<td>1984</td>
<td>1,295</td>
<td>1,317</td>
<td>137</td>
<td>198</td>
<td>574</td>
<td>3068</td>
<td>6589</td>
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<tr>
<td></td>
<td>1985</td>
<td>2,962</td>
<td>569</td>
<td>21</td>
<td>741</td>
<td>1,466</td>
<td>3348</td>
<td>9,107</td>
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<td>INSECTICIDES</td>
<td>1984</td>
<td>871</td>
<td>666</td>
<td>63</td>
<td>177</td>
<td>51</td>
<td>6</td>
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<tr>
<td></td>
<td>1985</td>
<td>2,362</td>
<td>496</td>
<td>108</td>
<td>502</td>
<td>145</td>
<td>109</td>
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<td>LUBRICATING OIL</td>
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<td>1,971</td>
<td>778</td>
<td>291</td>
<td>586</td>
<td>8</td>
<td>731</td>
<td>4365</td>
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<tr>
<td></td>
<td>1985</td>
<td>2,566</td>
<td>921</td>
<td>373</td>
<td>568</td>
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<td>5039</td>
<td>251</td>
<td>76</td>
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<td>1985</td>
<td>10,551</td>
<td>6049</td>
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<td>600</td>
<td>19</td>
<td>-</td>
<td>10</td>
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<td>SPIRIT</td>
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<td>764</td>
<td>521</td>
<td>230</td>
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<tr>
<td>JET FUEL (KEROSENE TYPE)</td>
<td>1984</td>
<td>3916</td>
<td>846</td>
<td>1195</td>
<td>11</td>
<td>-</td>
<td>9</td>
<td>5977</td>
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<tr>
<td></td>
<td>1985</td>
<td>136</td>
<td>16</td>
<td>106</td>
<td>17</td>
<td>-</td>
<td>40</td>
<td>315</td>
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<td>MOTOR SPIRIT</td>
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<td>4380</td>
<td>471</td>
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<td>3169</td>
<td>6022</td>
<td>1916</td>
<td>8453</td>
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<tr>
<td></td>
<td>1985</td>
<td>32,414</td>
<td>6213</td>
<td>3072</td>
<td>11,700</td>
<td>3568</td>
<td>10,393</td>
<td>70,807</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1984</td>
<td>64,252</td>
<td>26,271</td>
<td>14,874</td>
<td>7,735</td>
<td>2,665</td>
<td>12,268</td>
<td>128,065</td>
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<tr>
<td></td>
<td>1985</td>
<td>67,072</td>
<td>24,835</td>
<td>8703</td>
<td>15,763</td>
<td>5,396</td>
<td>13,936</td>
<td>135,705</td>
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</tbody>
</table>

Source: **Statistical Abstract,** (Republic of Kenya, 1986)

mean exchange rate (1984-85) K£1 = 1.246 US$
2.4.4 **Some Impediments to Kenya's Intra-PTA Trade**

Kenya's intra-PTA trade is nevertheless not without impediments. Firstly, if Kenya is to use the PTA clearing house for intra-PTA trade, she is likely to incur massive losses if her currency is balanced against the over-valued currencies of some PTA member states. Nevertheless, such a problem is supposed to be kept in check by the Clearing and Payments Arrangement (CPA) of the clearing house. The trouble with the CPA however is that, most enterprises in Kenya doubt its efficacy. In fact many of the commercial banks in Kenya have been reluctant about opening reciprocal accounts with other commercial banks in the PTA clearing house. They have argued that they are comfortable with the current clearing arrangements they are using.

Very few of the enterprises in Kenya are using the CPA except in certain limited transactions. The problem these enterprises cite as prohibiting their use of this arrangement has to do with the Letters of Credit (LCs). They argue that PTA LCs are yet to gain credibility before enterprises can revert from their rather authentic payments arrangements, to them. The problem with PTA LCs according to them is in their delay, sometimes taking as long as a month, something that has
far reaching implications. It is in this light that some businessmen in Kenya have insisted that LC's be settled not in UAPTA's, but in convertible currency.

Secondly, like all PTA members states, Kenya's efforts at expanding her intra-PTA trade are constrained by a poor transport and communications network linking members of the scheme. Although Kenya's infrastructure is more advanced compared to that of the other PTA member states, communication links between her and the other PTA markets either by rail, road or air are problematic so that a swift flow of goods is not quite possible. Hence, as we have already demonstrated, Kenya's intra-PTA trade is concentrated on her neighbours.

Lastly, a general lack of information on all tradable commodities in the PTA is also an impediment to Kenya's intra-PTA trade. A wide array of the enterprises we had discussions with were more or less in the dark about the demand and supply situation in the PTA. In fact, some company executives were not even sure whether or not the commodities they produced were in the Common List (CL), not to mention that most did not even know what concession the PTA Treaty had granted the products they produce. Although most of them understood well the operations of the PTA clearing house, very few could comprehend the benefits commensurate therein. Most respondents dismissed it on
the basis that they were comfortable with their current clearing arrangements.

2.5 SUMMARY AND CONCLUSION

This chapter provides a background survey for a better understanding of the question under investigation and serves as a constant point of reference for the following chapters in this analysis.

In the chapter, we have advanced the argument that the question of costs and benefits commensurate with international trade as a source of political conflict between states, dates back to the days of classical political economy as demonstrated by the writings of Adam Smith, David Ricardo, Friedrech List et al. The same question, now phrased as one between a positive balance of trade versus gains from international specialization has become a centre of controversy in the economic co-operation efforts in Africa. But the issue at stake here is not whether international trade is beneficial to the domestic economy, or not, but rather how such benefits that accrue from international trade are distributed to the domestic economies.
Using specific examples from all over Africa, we have demonstrated that for the most part benefits from economic co-operation schemes accrue differently to the members of such schemes, this subsequently leading to political conflict. We have actually singled out this tendency as central to the demise of the EAC.

Further, we have outlined the general features of intra-PTA trade. We have pointed out that intra-PTA trade is mainly concentrated in the northern part of PTA and more specifically among the former members of the now defunct EAC viz Kenya, Uganda and Tanzania. These three PTA economies account for over 50% of total intra-PTA trade with Kenya's percentage share standing at 28.3% or 1/3rd of total intra-PTA trade, as the highest.

We have also observed that trade in PTA is dominated by small bilateral flows whose direction and intensity is for most part determined by geographical proximity between the trading partners. For instance, Djibouti's bilateral flows are more specifically directed towards her immediate neighbours, with no trade at all existing between her and the southern PTA economies. On the other hand, while Kenya's trade extends beyond her neighbourhood, her bilateral flows with say Uganda are more intense than with Malawi's. In fact, Malawi's trade with Zimbabwe, a neighbour, is
about 16 times that with Kenya due to geographical proximity.

The direction and intensity of bilateral trade flows as a function of geographical proximity are important to this analysis for several reasons. First and foremost all the protagonists of the implementation of the PTA 'Rules of Origin' share a common border with Kenya which denotes trade intensity between them and Kenya. Secondly, this trade flow between Kenya and her neighbours is imbalanced given Kenya's advanced manufacturing sector, and such imbalance would probably worsen, should that trade be fully liberalized. It is this intensity in trade between Kenya and her neighbours and the imbalanced nature it assumes, that can be said to facilitate that struggle between Kenya and her neighbours for scarce positions in the PTA's reward structure.

Towards the end of this chapter, we have demonstrated the existence of trade intensity in the trade flows between Kenya and her neighbours. We have observed in the earlier parts of the chapter that Uganda is Kenya's third important trading partner next to West Germany and Britain. We have in the latter parts of this chapter, shown that up to one-half of Kenya's total intra-PTA exports go to Uganda alone and Kenya provides between 40% - 50% of Uganda's total world imports.
As for Tanzania, except for the time when the Kenya-Tanzania border was closed (1979-1985), her trade with Kenya has been on the increase especially after 1985. We have in fact shown that Kenya's exports to Tanzania in 1985 and 1987 are more than the exports to the same during the days of the EAC combined.

Our intention here, as elsewhere, is to show that the more intense the trade between two economies is, the more conflictual it is likely to be especially if such trade is 'unequal'. This has been demonstrated by the African experience, and the PTA will not be an exception.

Lastly, we have observed that Kenya's intra-PTA trade is faced by a number of impediments. First and foremost, due to the over-valued nature of the currencies of some PTA states, Kenya might run some loses in the PTA clearing house given that her currency is more stable than the other national currencies of the region. Secondly, poor communication network in PTA has been a major impediment to Kenya's efforts at expanding her trade beyond her neighbourhood. The third and last problem Kenya is facing in intra-PTA trade has to do with a general lack of information of all commodities tradable in the PTA.
CHAPTER THREE

THE PTA STATES IN POWER PERSPECTIVE

3.0 INTRODUCTION

Our attention in this chapter turns to the power patterns of PTA member states. The aim in this chapter is to establish the extent to which power asymmetry in the PTA is responsible for the political conflict over the PTA Protocol on the 'Rules of Origin'. Our attempt here is to establish who the 'powerful' PTA states are so as to ascertain to whom benefits commensurate with PTA trade will accrue. We have based our analysis on Fredrick Hartman's power indicators which include the demographic, geographic and economic elements of power, and attempted a 'power measurement' especially in intra-PTA trade.

In the first section of this chapter we have attempted to juxtapose PTA states' power capacities with an aim of establishing whether or not there exists an asymmetry in the power endowment of especially the PTA member states in conflict. The second section singles out Kenya as a power in especially intra-PTA trade. The purpose here is to show that Kenya occupies a position of preponderance in PTA in a confluence of power indicators. We have further attempted to show
the implication of this position on Kenya's intra-PTA trade relations especially in the northern part of PTA and how this has subsequently led to political conflict over the PTA 'Rules of Origin'.

The last section of this chapter focuses on power asymmetry in the PTA and how this asymmetry has led to political conflict in the Protocol under study.

3.1.0 ASYMMETRY IN THE POWER PATTERNS OF PTA STATES

One of the most formidable challenge currently facing PTA has to do with the problem of bringing together economies with very different levels of development and resource endowment. Hence, each of these economies has its own conceptualization of the possible benefits to be derived from intra-PTA trade which must correspond directly with its level of development. Since the levels of economic development among the PTA member states differ widely, it follows that there also exists a wide array of conceptualizations of benefits commensurate with intra-PTA trade. In fact, these conceptualizations are probably as many as there are different levels of economic development in the PTA.

But while a PTA state is capable of perceiving certain possible benefits from intra-PTA trade, its capacity to realize such benefits will depend on the
power at its disposal. This is what we referred to as '... interest defined in terms of power' in chapter one. Since there are different power capacities in the PTA sub-region, it would be safe to assume that the ability to pursue national interests in the scheme differs, with some PTA member states able to achieve their interests more successfully than others given the amount of power at their disposal. The derogation of the PTA 'Rule of Origin' in 1986 and the expansion of the Common List (CL) are good cases in point. In spite of the opposition mounted by most PTA states over the derogation, Kenya and Zimbabwe, which are also the dominant PTA economies, managed to have their way. This led Mauritius to give a notice of intent to withdraw from the regional arrangement arguing that the PTA '... served the interest of powerful states' (PTA News: August 1986, p. 6).

But against what criteria can we dub a PTA state 'powerful'? We have already observed that in the first place, power as a concept has a plethora of definitions. This definitional elusiveness of power as a concept has made it difficult to measure or even assess the power of any given PTA state in a systematic or even reliable manner. Yet if the actual conceptualization and measurement of power is difficult, it is not as such impossible (K. Deutch: 1968, pp. 22-23).
For the purposes of this study, a PTA state shall be said to be powerful if it has a preponderance over other PTA states in a confluence of the following elements of power viz the geographic, demographic and economic elements (see Hartman: 1967). Several reasons account for our choice of these three elements of power. First and foremost, the geographical and demographic elements of power are crucial to the PTA because they define both resource endowment and the 'national market' size of a given PTA state. The geographical element is also important as a power indicator with respect to acquisition of imports and exports, and accessibility to outlets such as ports, among others. Secondly, the economic element of power in the PTA does not only give us the general economic picture of the sub-region, but further gives us the direction and intensity of intra-PTA trade and more specifically, who controls it. It must however be noted that these elements of power as discussed in this study will be considered important or crucial only if they have a bearing on intra-PTA trade. This is so because our concern here is to study power relations between Kenya and the rest of PTA states with regard to intra-PTA trade.
3.1.1 The Geographical Element of Power in the PTA

Our discussion now focuses on the geographical element of power and how this is a measure of power in intra-PTA trade. Data available in table 3.1 indicates that the PTA occupies a total land area of 5 million square kilometers and has a population size of about 151 million people. Of the PTA's total land area, Ethiopia alone covers one-quarter of the same, while Kenya, Tanzania, Zambia and Somalia, all cover a land area of over 500,000 square kilometers each. Interestingly, the remaining nine PTA states occupy a land area whose square kilometers all put together, equals Ethiopia's total land area alone.

The foregoing already demonstrates asymmetry in the total land area occupied by each PTA state. Surprisingly, this asymmetry is also to be found among the small PTA economies. Hence, Somalia is about five times Malawi, which is in turn four times the size of Burundi, and Burundi roughly twelve times the total size of the Comoros.

As data from table 3.1 shows, Kenya is indeed one of the largest PTA states in area, and asymmetry between her and the other PTA economies is evident in this table. For instance, the area covered by Kenya's
<table>
<thead>
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<th>COUNTRY</th>
<th>POP SIZE</th>
<th>SIZE IH</th>
<th>POP AT</th>
<th>GNP AT</th>
<th>GNP PER</th>
<th>ANNUAL</th>
<th>GDP AT</th>
<th>MANUFACTURING</th>
<th>VALUE ADDED</th>
<th>AS % OF TOTAL GDP</th>
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<tbody>
<tr>
<td>RURUNDI</td>
<td>4,834</td>
<td>27,834</td>
<td>1160</td>
<td>250</td>
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<td>1090</td>
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<td>N/A</td>
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<td>5.0</td>
<td>N/A</td>
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<tr>
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<td>405</td>
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<td>N/A</td>
<td>N/A</td>
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<td>1,223,600</td>
<td>4700.19</td>
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<tr>
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<td>491.7</td>
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<td>6.8</td>
<td>24.5</td>
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<td>26,338</td>
<td>1537.0</td>
<td>266.7</td>
<td>1.5</td>
<td>1560.3</td>
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<td>523</td>
<td>139.5</td>
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<td>5211.6</td>
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<td>2847</td>
<td>503</td>
<td>-1.7</td>
<td>2669.5</td>
<td>648.8</td>
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<td>390,759</td>
<td>5671</td>
<td>771.7</td>
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<td>5341</td>
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<td></td>
</tr>
</tbody>
</table>


Africa South of the Sahara, 1988

N/A = Figures not available
Eastern Province alone, 155,750 sq kms (Statistical Abstract: 1988, p. 2) is far bigger than that covered by five PTA states all combined viz. Rwanda, Burundi, Djibouti, the Comoros and Lesotho, 109,963 sq. kms. Put yet another way: Marsabit District in Kenya (78,078 sq kms) (Statistical Abstract: 1988, p. 2) is almost forty times the size of the Comoros (2,236 sq. kms), almost four times the size of Swaziland, (17,363 sq kms) and three times the sizes of Rwanda (26,338 sq kms) or Burundi (27,834 sq kms).

For most of the small PTA states, apart from being small, a good number of them are also land-locked, which in effect means that their trade flows are largely determined by transit routes. For instance, the trade flows of both Rwanda and Burundi are to a great extent determined by conditions existing in Kenya and Uganda. In fact, it can be argued that the trade flows of both Rwanda and Burundi have been largely interfered with by the political unrest in Uganda.

It is however worth noting that a large geographical area is only a good measure of power in the PTA if such an area is well-endowed with resources and such resources are exploited. In the PTA, the vast economies are unfortunately also among the least endowed, and where resources are available, such are not well exploited. In Ethiopia for instance, although
she occupies up to one-quarter of total PTA land area, only 16% of it or 15.7 million ha. is cultivated. Of the 16%, 93% is under peasant production most of which is subsistence (Africa South of Sahara: 1984-85, p. 364). Tanzania is another case in point. Large as she is in square kilometers, only about 50% of her 0.9 million square kilometers is cultivated, while only 2% of it is irrigated, (Africa South of Sahara: 1984-85, p. 868).

It is therefore not a wonder that such PTA states like Zimbabwe or Swaziland have more dynamic economies than the massive PTA countries like Ethiopia or Tanzania. In fact, the data in table 3.1 indicates that the GNP per capita of Swaziland is about seven times that of Ethiopia although Ethiopia is seventy times the size of Swaziland.

We should mention here that, with respect to geography, Kenya and Zimbabwe are not as big as Ethiopia, Tanzania and Somalia. Nevertheless, the huge geographical sizes of these PTA states do not have a bearing on intra-PTA trade and do not therefore make them 'powerful' in intra-PTA trade in view of our present purpose.
3.1.2 The Demographic Dimension of Power in the PTA

Turning now to the demographic element of power in the PTA, statistical evidence available in table 3.1 indicates that extreme asymmetry in the regional body exists. The table shows that a large part of the PTA population is to be found in the northern part of the scheme, with Ethiopia's population being the largest. In fact, Ethiopia's population size is about four times that of four southern PTA states combined viz; Swaziland, Lesotho, Malawi and the Comoros. In the northern part of PTA, Ethiopia's population size is about nine times Burundi's and one hundred times that of Djibouti.

To further illustrate the asymmetry in the demographic composition of the PTA in another way, we can say that, while out of every three people in PTA, one is Ethiopian, only one out of every one hundred people in the PTA is from Lesotho.

This asymmetry in population size can also be seen between small PTA member states. For instance, although Ethiopia's population is about twice Kenya's and Kenya's is about fourteen times that of Lesotho, Lesotho one of the smallest PTA states in population size, has a population that is more than three times that of Djibouti.
A look at Kenya's population size vis-à-vis the other PTA member states shows that although Ethiopia's population size is about twice Kenya's, the latter's population is many more times bigger than that of many PTA member states. In fact, table 3.1 indicates that Kenya ranks third next to Ethiopia and Tanzania in population size in the PTA. Asymmetry between Kenya's population size and that of most PTA member states is also evident from table 3.1. For instance, the population size of the North-Eastern Province of Kenya is far higher than that of four PTA member states combined, viz. Swaziland, Djibouti, the Comoros and Lesotho. Looking at an even smaller part of Kenya, the Kakamega District of Kenya has a population size that is much higher than that of two PTA states combined viz. Djibouti and the Comoros.

The implications of a small population size in the PTA can be serious. These range from massive trade imbalances to the possibilities of being turned into a 'captive market'. Nevertheless, a large population size is not in itself an automatic indicator of power in PTA. Before a PTA state can be said to be preponderant in especially intra-PTA trade using population as a criterion, a clear distinction must be made between a large population per se and a population with an effective demand. A huge population size does not necessarily denote the existence of a demand for
products traded in intra-PTA trade. In fact, a large 'famine stricken' national market can not be important to intra-PTA trade just because of its size.

Although both Tanzania and Ethiopia have large population sizes, one cannot dub them 'powerful' if such population sizes lack in effective demand. One has to further look into the quality of the population in question in terms of manpower. But most importantly, one has to look also at such a population with intra-PTA trade in mind. What for instance is the impact of say Ethiopian population on intra-PTA trade in terms of demand?

While both the demographic and geographic dimensions of power in PTA are useful indicators of power in intra-PTA trade, the economic dimension of power in PTA probably provides us with much more concrete evidence on asymmetry in the two parties in the conflict under study with regard to intra-PTA trade.

With regards to population size, we can argue that Kenya's population compares relatively well with that of both Ethiopia and Tanzania given the economic element discussed below. Nevertheless, the fact that both Ethiopia's and Tanzania's populations do not as yet have an impact on intra-PTA trade makes them almost obsolete for our present purposes (i.e: measurement of power in PTA trade).
3.1.3 The Economic Element of Power in the PTA

In this section our attention turns to the economic dimension of power in the PTA. We have used several measurements of 'power' in this section for various reasons. Gross national product (GNP) and GNP per capita for instance have been used here to show the asymmetry in the 'purchasing power' of different PTA 'national markets'. Other indicators like sectorial breakdown of gross domestic product (GDP) or the percentage share of PTA states in intra-PTA trade have been used to show how benefits from intra-PTA trade will accrue to certain PTA states and how this has subsequently led to political conflict in the scheme.

3.1.3(a) Levels of GNP and GNP Per Capita in PTA.

Table 3.1 gives some basic socio-economic indicators of PTA states. Data available in this table shows that Kenya has the largest GNP in the PTA sub-region averaging US$ 6 billion between 1981 and 1986. Compared with other PTA economies, Zimbabwe's GNP is similarly high. It actually in exceeds that of Ethiopia by US$ 1 billion, although Ethiopia is about four times Zimbabwe's population size and area in square kilometers.
While the level of GNP per se is a good indicator of national power, it is not sufficient when taken in isolation. The GNP per capita must also be taken into consideration. Table 3.1 indicates that the GNP per capita in PTA is highest in the southern PTA states compared to that in the northern PTA economies. For instance, the GNP per capita in Lesotho, Swaziland, Zambia, Zimbabwe and the Comoros is more than US$ 450. The highest among the northern PTA economies on the other hand is Kenya's at US $ 340. In the entire PTA sub-region, Ethiopia's GNP per capita is the lowest.

Probably what explains the high GNP per capita among southern PTA states are, inter alia the remittances that accrue to immigrant workers in South Africa. This is particularly true for Lesotho. About one-half of the total male labourforce in Lesotho is employed in South Africa either as domestic servants or in the gold mines. Hence, Lesotho depends heavily on transfers in form of remittances from South Africa. This is reflected in the fact that the country's GNP is approximately double the GDP. Between 1981 and 1986 for instance, table 3.1 shows that Lesotho's GNP stood at an annual average of US $ 665.4 million, while GDP was not even half of this at US $ 286.7 million. This means that up to 57% of total GNP was contributed by remittances. These remittances are important to
Lesotho because they not only finance large trade deficits, but also support up to 60% of families at home (Africa South of Sahara: 1984-85, p. 504).

It must be pointed out that, in spite of a high GNP per capita among the southern PTA states, the volume of intra-PTA trade in this part of the sub-region is rather low compared to that in the northern part of PTA. This is probably because of dependence on South Africa and the fact that these economies have traditionally not traded amongst themselves unlike in the northern part of PTA, inter alia.

Turning now to the two parties in the conflict under investigation, it is interesting to note that the GNP per capita of Ethiopia, Tanzania, Uganda and Somalia, the advocates of the implementation of the PTA 'Rules of Origin' are the lowest in the sub-region. Suffice it to mention that the GNP per capita of all these four PTA states combined, is almost equal to that of Zimbabwe alone. Among the northern PTA economies where incidentally all these four protagonists of the immediate implementation of the 'Rules of Origin' belong, Kenya's GNP per capita is highest. It is in fact three times Ethiopia's, the most vocal exponent of the PTA 'Rules of Origin'.
3.1.3(b)  
**Sectoral Breakdown of GDP in the PTA**

The sectoral breakdown of GDP in the PTA as shown by table 3.1 indicates that the manufacturing capacity of most PTA states is still low. The table, which takes into account only two sectors (agriculture and manufacturing) shows this as particularly true for the northern PTA economies, most of which belong to the party advocating the implementation of the 'Rules of Origin'.

Apart from Ethiopia whose manufacturing sector's contribution to total GDP is over 10%, the contributions of Tanzania's, Uganda's and Somalia's manufacturing sectors to total GDP are well below 8% with Uganda's contribution being the lowest at 5.5%. This table further shows that agriculture is the single major contributor to the total GDP of these economies. The agricultural sector's contribution to total GDP for these economies ranges from about 40% for Ethiopia to around 76% from Uganda.

Evidence from table 3.1 further shows that the sectoral breakdown of GDP for the vocal exponents of the dispensation of the PTA 'Rules of Origin' is fairly distributed compared to the breakdown of their
counterparts in PTA. For instance, the percentage contribution of the manufacturing sector to total GDP in these economies ranges from 13% for Kenya to 27% for Zimbabwe.

In chapter two we observed that due to the competitive nature of PTA economies most of which are basically agricultural, intra-PTA trade is largely confined to non-traditional goods mainly manufactured products. Hence, those economies in PTA whose manufacturing capacity is well-developed are likely to benefit most from intra-PTA trade as opposed to those that are basically agricultural. By implication, this suggests therefore that because of their well-developed manufacturing sectors, Kenya and Zimbabwe are bound to benefit most from the PTA once trade is liberalized.

At this juncture, two issues must however be made clear. Firstly, a high percentage contribution to total GDP by the manufacturing sector does not necessarily denote industrialization and hence trade dominance in the PTA. The nature of the manufacturing activities of a PTA state whose percentage contribution to total GDP is high, must be sorted out. For instance, although Malawi's manufacturing sector contributes up to 16% of total GDP as table 3.1 shows, the manufacturing activities in this economy include, the processing of tea and tobacco, storage plants, sawmills, cotton granaries, etc. The impact of such a
manufacturing sector on intra-regional trade cannot quite compare with that of Kenya which although contributes only 13% to total GDP, is export oriented and engaged in the production of more elaborate products such as, cement, petroleum products, ceramics etc., most of which go to PTA.

Secondly, we must not confuse the high percentage contribution of the manufacturing sectors of the southern PTA economies to total GDP, for industrialization. It must be noted that agriculture, which is the main contributor to total GDP, in particularly in the northern PTA economies, is not as such an important economic activity in the southern part of PTA. This is particularly so because of the mining activities in this part of PTA. Hence although the manufacturing capacity of such economies as Zambia is low, this may seem high as table 3.1 shows because manufacturing in Zambia, which includes mining activities, is the main economic activity with agriculture assuming an insignificant role.

Therefore, to be able to determine which manufacturing sector in the PTA is likely to have an impact on the intra-PTA trade, we must also look at the manufacturing value added (MVA).
Although the percentage contribution of the manufacturing sector to total GDP is not very high for Kenya, table 3.1 shows that Kenya's MVA is among the highest in PTA. The table, which gives an annual mean of between 1979 and 1983 indicates that the MVA of both Kenya and Zimbabwe combined constitute 53% of the total PTA's MVA.

Compared with that of the exponents of the immediate implementation of the PTA 'Rules of Origin', Zimbabwe's MVA alone exceeds that of Ethiopia, Uganda and Somalia all combined. Further, the combined MVA for both Kenya and Zimbabwe is more than three times that of Ethiopia, Uganda and Somalia put together. Taking it country by country, Kenya's MVA is eleven times Uganda's while Zimbabwe's is eleven times Somalia's and three times Ethiopia's.

Looking at the annual growth rate of the manufacturing sectors of Kenya and the protagonists of the PTA 'Rules of Origin' further confirms our foregoing assertions. While Kenya's manufacturing sector grew at an annual rate of 4.3%, between 1980 and 1987 that of Ethiopia grew at a considerably high rate of 3.8%, while that of Somalia had a negative growth rate of -0.5%, that of Uganda -0.9% and that of Tanzania -3.5% in the same period (G. Martin: 1989, table 1).
As already mentioned, the fact that Kenya's and Zimbabwe's manufacturing sectors contribute a substantial percentage to total GDP, and that they also have the highest MVA in the PTA suggests that, the two are also the dominant economies in intra-PTA non-preferential trade. But a look at the percentage shares of PTA member states in intra-PTA trade, which we now turn to, can probably attest to this.

3.1.3(c) PTA Member States' Share of Intra-PTA Trade.

Table 3.2 gives the percentage share of PTA economies in intra-PTA non-preferential trade. Evidence from this table indicates that Kenya's percentage share of intra-PTA non-preferential trade is the highest in PTA. In fact, as the table shows, between 1979-85, one-third of this trade represents trade with Kenya alone. This in effect means that out of every US $ 3 worth of trade in the PTA, US $ 1 represents trade with Kenya alone.

The table further indicates that Zimbabwe's percentage share of intra-PTA trade in the same period was similarly high at 9.06%. Zimbabwe in fact ranks third in PTA in this respect.
Kenya's and Zimbabwe's trade dominance in PTA is further compound by the diversity of their trade flows. This diversity extends from Djibouti to Swaziland for Kenya, and spreads from Zambia to Ethiopia for Zimbabwe.

Focusing our attention to the groups advocating the implementation of the 'Rules of Origin', table 3.2 shows Ethiopia's, Tanzania's and Somalia's percentage share of intra-PTA trade as rather low. In fact Kenya's percentage share of this trade is about ten times Somalia's, six times Tanzania's, about four times Ethiopia's and almost twice Uganda's. Put another way, Kenya's percentage share of this trade (28.3%) is almost twice that of Ethiopia, Somalia and Tanzania combined (15.4%).
<table>
<thead>
<tr>
<th>COUNTRY**</th>
<th>EXPORTS</th>
<th>IMPORTS</th>
<th>Calculated against total PTA trade TOTAL % SHARE</th>
<th>RANK (ON TOTAL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BURUNDI</td>
<td>N/A</td>
<td>N/A</td>
<td>2.63</td>
<td>10</td>
</tr>
<tr>
<td>DJIBOUTI</td>
<td>3.43</td>
<td>12.7</td>
<td>7.59</td>
<td>5</td>
</tr>
<tr>
<td>RWANDA</td>
<td>1.08</td>
<td>11.9</td>
<td>6.06</td>
<td>7</td>
</tr>
<tr>
<td>SOMALIA</td>
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<td>N/A</td>
<td>2.61</td>
<td>11</td>
</tr>
<tr>
<td>MAURITIUS</td>
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<td>N/A</td>
<td>2.10</td>
<td>12</td>
</tr>
<tr>
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<td>5.44</td>
<td>7.45</td>
<td>6</td>
</tr>
<tr>
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<td>5.15</td>
<td>6.24</td>
<td>5.34</td>
<td>8</td>
</tr>
<tr>
<td>UGANDA</td>
<td>1.55</td>
<td>32.1</td>
<td>15.7</td>
<td>2</td>
</tr>
<tr>
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<td>5.65</td>
<td>28.3</td>
<td>1</td>
</tr>
<tr>
<td>ZAMBIA</td>
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<td>9.42</td>
<td>8.37</td>
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<td>9.06</td>
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</tr>
<tr>
<td>MALAWI</td>
<td>5.77</td>
<td>8.33</td>
<td>4.8</td>
<td>9</td>
</tr>
</tbody>
</table>

Total* 100 100 100 12

* Due to round-up the percentage total is not exactly 100%.

** Figures for Lesotho, Swaziland and the Comoros not available.

SOURCE: Direction of Trade Statistical Year Book (IMF, 1986)
Uganda's percentage share of intra-PTA trade must however be singled out as unique. Although table 3.2 shows Uganda's percentage share of this trade as ranking second in the PTA, much of her trade in the PTA is composed of imports. For instance, between 1979 and 1985, up to 89% of Uganda's total intra-PTA trade comprised of imports from Kenya alone with about 4% of the same representing imports from other PTA economies. The same applies to Djibouti whose percentage share of intra-PTA trade as table 3.2 shows is 7.59%. Upto 77.4% of Djibouti's intra-PTA trade in this period consists of imports from both Kenya and Ethiopia. This shows the importance of intra-PTA trade to Djibouti and Uganda and further explains the reason why the percentage shares of the two PTA economies in intra-PTA trade is high.

The foregoing suggests the existence of trade imbalances in intra-PTA trade favouring certain PTA economies mainly Kenya. Table 2.2 in chapter two has already demonstrated this fact very clearly. It indicates that between 1979 and 1985, of total intra-PTA annual average trade US $ 946.39 million, US $ 234.32 million, which represents about 25% of the annual average total, is in form of trade surpluses
accrued to Kenya against the PTA sub-region. Put another way, out of every US$ 4 worth of trade in PTA, US$ 1 represents trade surplus to Kenya for the sub-region.

Our focus now turns to the parties in the conflict under investigation. While all the PTA member states opposed to the 'Rules of Origin' are net exporters, none except for Ethiopia among those for the implementation of the 'Rules of Origin' is a net exporter to the PTA. In fact, the total exports from three of the countries in this group viz., Uganda (US $ 7.01 m), Tanzania (US $ 23.3 m) and Ethiopia (US $46.4 m) in the period 1979-85 combined (US$ 76.71 m), are about one-third of Kenya's exports (US$ 242.5 m) alone to the PTA in the same period. It is interesting to further note that Kenya's exports to the PTA alone equals almost all exports from all the other PTA member states to the PTA combined.

This denotes trade imbalances. In fact, trade imbalances between Kenya and the group advocating the implementation of the 'Rule of Origin' is great. As data in table 2.2 in chapter two already shows, up to 15% of total intra-PTA trade represents a trade surplus accrued by Kenya against the three aforementioned PTA states in the group advocating the implementation of the 'Rules of Origin'.

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Table 3.3 further shows the existence of trade imbalances in the PTA region. For all PTA states, the table gives the average percentage of imports from PTA that were covered by exports between 1983 and 1985. These percentages vary widely and show that the Comoros, Rwanda, Uganda and Somalia export less than 10% of what they imported from PTA in this period. In other words, only 4% of Rwanda's imports from PTA for instance were covered by exports to the same.

Apart from Ethiopia whose imports from PTA were cancelled by her total exports as table 3.3. shows, all the other advocates of the implementation of the PTA 'Rules of Origin' did not export as much as they imported in PTA. Only 7% of what Uganda or Somalia imported from PTA were for instance covered by their exports to the same, while 41% what of Tanzania's imported from PTA were cancelled by exports to the same.

As for Kenya and Zimbabwe, 100% of their imports to PTA were covered by exports in this period. In fact, Kenya exports 6 shillings worth of products to the PTA for every one shilling worth of imports from the same.
TABLE 3.3: AVERAGE PERCENTAGE OF IMPORTS FROM PTA
COVERED BY EXPORTS TO PTA, 1983 - 1985

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>BURUNDI</td>
<td>33</td>
</tr>
<tr>
<td>COMOROS</td>
<td>6</td>
</tr>
<tr>
<td>DJIBOUTI</td>
<td>31</td>
</tr>
<tr>
<td>ETHIOPIA</td>
<td>100</td>
</tr>
<tr>
<td>KENYA</td>
<td>100</td>
</tr>
<tr>
<td>LESOTHO</td>
<td>0</td>
</tr>
<tr>
<td>MALAWI</td>
<td>89</td>
</tr>
<tr>
<td>RWANDA</td>
<td>4</td>
</tr>
<tr>
<td>SOMALIA</td>
<td>7</td>
</tr>
<tr>
<td>SWAZILAND</td>
<td>100</td>
</tr>
<tr>
<td>UGANDA</td>
<td>7</td>
</tr>
<tr>
<td>TANZANIA</td>
<td>41</td>
</tr>
<tr>
<td>ZAMBIA</td>
<td>74</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>100</td>
</tr>
</tbody>
</table>

To demonstrate further the extent to which Kenya will have a preponderance over the other PTA member states once trade is fully liberalized, we have decided to look first at the PTA clearing house and how its benefits will be distributed in the scheme; then at the tariff reduction schedule and how it affects member states differently.

3.1.3(d) The PTA Clearing House

In readiness for the operational phase of the PTA, a multilateral clearing facility or a clearing house was established by the PTA secretariat on February 1st 1984. A new monetary unit similar in concept to the International Monetary Fund's (IMF) Special Drawing Rights (SDR) was created. This monetary unit was called UAPTA (Unit of Account of the PTA), and is quoted on a daily basis against the currencies of the member states and is being used to record trade debits and credits among them.

Due to a scarcity of foreign exchange, it was envisaged that the use of the Clearing and Payments Agreement (CPA) of the PTA clearing house would facilitate intra-PTA transactions by encouraging the use of national currencies in intra-PTA trade. Hence, with transaction in intra-PTA trade passing through the
clearing house instead of the commercial banks in London, New York or Geneva, the use of foreign exchange, would reduce.

The function of the PTA clearing house is just to record all transactions among member states and balance them in UAPTAs every two months. Daily intra-PTA transactions are handled through the commercial banks of the sub region just like any other trade transactions except that instead of using convertible currency, intra-PTA transactions are denominated in the domestic currency of the exporter or in UAPTA. Hence, instead of invoicing in convertible currencies, exporters invoice in their national currencies and receive payments not from the commercial banks abroad, but from their own commercial banks. These commercial banks then receive credit at the clearing house for the amount of payment owing to the exporter. The credit is denominated in UAPTA at the daily rates quoted by the exporter's monetary authority.

The importer on the other hand does not have to obtain convertible currency from his monetary authority to purchase goods abroad. For any purchases abroad, he pays his own bank in local currency and his bank then instructs the exporter's bank to pay the exporter in his own domestic currency. At the clearing house, the importer's bank incurs the corresponding debt in UAPTAs.
Subsequently, monetary authorities accumulate credits and debits at the clearing house and at the end of two month transaction, each monetary authority settles its balances in the clearing house in foreign exchange. The net debtor-states are then required to pay their balances in either US Dollars, Japanese Yen, Sterling Pound, Deutche Mark or French Franc in 15 days.

By settling net balances after 75 days (i.e. the two month transaction period in the clearing house plus the 15 day grace period in which members settle their balances), monetary authorities in PTA inevitably extend credit to each other through the clearing house (Hall: 1987, p. 29). This therefore implies the need for a net credit limit - the amount a member state can be owed - and a debit limit which is the amount a member state can owe another. In the PTA, the limit of each country's net credit position stands at 25% of the average value of its total annual intra-regional trade during the previous three years. The net debit limit stands at 20% of the same figure. This in effect means, the higher the intra-PTA trade of a given PTA state, the larger its net credit and debit limits in the PTA clearing house.
Several benefits accrue to the PTA Clearing and Payments Arrangements. Given the problem of foreign exchange scarcity, if an importing state maintains a general balance between imports and exports, it is bound to save on foreign exchange. This is so because intra-PTA trade transactions apart from net balances, are settled in local currencies. And in the event of an unfavourable balance, a net importer is bound to gain from this arrangement. The CPA extends to net importers "interest free" credit during the grace period they are given to settle the balances in their clearing house accounts. Hence, this "interest free" credit increases their liquidity, at least during this grace period.

Ideally, even the net exporter stands to gain from the CPA. By invoicing in his own domestic currency, he is protected from any fluctuations in exchange rates for instance. He also receives prompt payment once the importer has paid the invoice, even if the exporting state is slow in settling it's clearing house accounts (Hall: 1987, p. 24).

On the whole however, countries that are net exporters to the PTA are bound to gain more from the multilateral facility because of trade surpluses accrued from intra-PTA trade. This is true because only trade deficits are settled in convertible
currencies in the clearing house. And since these countries do not as such have any net trade deficits to settle due to multilateral cancellations, they spend very little or no foreign exchange on intra-PTA trade. For a country like Kenya, apart from settling trade deficits with Zimbabwe and Swaziland, she is expected to use an insignificant amount of foreign exchange on intra-PTA trade. In fact, given the huge trade surpluses owed to Kenya by the other PTA countries, in the event the clearing house becomes fully operational, Kenya might earn up to US$ 200 m. annually from intra-PTA trade, in the form of foreign exchange.

Apart from Ethiopia which is a net exporter to the PTA, all the other advocates of the immediate implementation of the PTA 'Rules of Origin' have to settle their deficits in the clearing house using foreign exchange. For a country like Uganda, whose deficits in intra-PTA trade is huge, substantial amounts of foreign exchange have to be spent in order to settle such deficits. Incidentally most of this foreign exchange would go to Kenya by virtue of being the key exporter to Uganda in the PTA.

Turning now to table 3.4 on the credit and debit limit of the PTA clearing house, it is clear that the dominant PTA member states in intra-PTA trade will stand to benefit more from the arrangement because percentage limits are determined by the volume of
intra-PTA trade channelled through the clearing house. Hence, by virtue of her trade dominance in the PTA, Kenya alone controls 1/3rd of the debit and credit limit allocations in the PTA clearing house. In other words, Kenya is entitled to up to 30.2% of the credit and debit facilities of the PTA clearing house. Apart from Uganda, the percentage share of the other advocates of the immediate implementation of the PTA 'Rules of Origin' is, as table 3.4 shows, rather low. Kenya's percentage share of this facility is about one and a half times that of Ethiopia, Somalia and Uganda combined.

In effect, this implies that as long as Kenya remains a dominant force in PTA's intra-PTA non-preferential trade, most benefits from the clearing house will accrue to her. These benefits will be in form of high percentages of the credit debit limits control in the house, and saving on foreign exchange.
### TABLE 3.4: PREFERENTIAL TRADE AREA: MULTILATERAL CLEARING

**FACILITY NET CREDIT AND DEBIT, FEBRUARY 1984**

(Values in UAPTA '000s)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>CREDIT LIMIT</th>
<th>DEBIT LIMIT</th>
<th>SHARE (in Percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BURUNDI</td>
<td>5.310</td>
<td>4.243</td>
<td>2.8%</td>
</tr>
<tr>
<td>COMOROS</td>
<td>1.110</td>
<td>0.883</td>
<td>0.6%</td>
</tr>
<tr>
<td>DJIBOUTI</td>
<td>13.963</td>
<td>11.170</td>
<td>7.4%</td>
</tr>
<tr>
<td>ETHIOPIA</td>
<td>9.635</td>
<td>7.708</td>
<td>5.1%</td>
</tr>
<tr>
<td>KENYA</td>
<td>57.183</td>
<td>45.746</td>
<td>30.2%</td>
</tr>
<tr>
<td>LESOTHO</td>
<td>0.268</td>
<td>0.214</td>
<td>0.1%</td>
</tr>
<tr>
<td>MALAWI</td>
<td>10.280</td>
<td>8.224</td>
<td>5.4%</td>
</tr>
<tr>
<td>RWANDA</td>
<td>11.193</td>
<td>8.954</td>
<td>5.9%</td>
</tr>
<tr>
<td>SOMALIA</td>
<td>4.455</td>
<td>3.564</td>
<td>2.4%</td>
</tr>
<tr>
<td>SWAZILAND</td>
<td>1.763</td>
<td>1.410</td>
<td>0.9%</td>
</tr>
<tr>
<td>UGANDA</td>
<td>28.255</td>
<td>22.604</td>
<td>14.9%</td>
</tr>
<tr>
<td>ZAMBIA</td>
<td>18.528</td>
<td>14.822</td>
<td>9.3%</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>23.370</td>
<td>18.696</td>
<td>12.3%</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>189.516</strong></td>
<td><strong>151.610</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>


* Tanzania was not yet a PTA member by 1984.
3.1.3(e) Tariff Reductions

In order to facilitate trade expansion in the PTA sub-region, the PTA Treaty provided that tariff for certain commodities in the Common List (CL) be reduced by certain percentages, reaching zero-tariff level for all commodities in 1992. Hence, initial tariff reductions in respect to the commodities in the CL were scheduled to take effect as from 1st July 1984 when the operational phase of the PTA was launched. This means that all PTA states by this date ought to have reduced their tariff rates by the percentage provided for in Article 4 of Annex I to the Treaty. These percentages range from 10% - 30% for luxury and food items, to 60% and 75% respectively for non-agricultural materials, intermediate goods, capital goods and consumer goods.

However, there were doubts about the tariff reduction schedule and the feasibility of reaching a zero intra-PTA tariff level by 1992 among PTA member states. This resulted in their laxity to publish the basic tariff reductions as required by the Treaty. Hence, in a briefing to the 6th meeting of the PTA Authority in December 1987 at Kampala, Mr. Bax Nomvete, the former Secretary-General of PTA, observed that by July 1984, only four countries had complied with the
tariff reduction schedule. Of the four, only two, Zambia and Zimbabwe, had complied to the full with the requirements. Kenya and Malawi had excluded from their rates 20 commodities in the amended CL (Bax Nomvete: 1987, p. 4).

Uganda published its reduced tariff rates six months after the targeted date, while Burundi, Ethiopia, Somalia and Rwanda delayed for at least one year before they published their reduced rates between June and October of 1985. Five others including Lesotho and Swaziland which are covered by a special Protocol, had not complied at all, by December 1987 (Bax Nomvete: 1987, p. 4).

This delay in publishing tariff reduction on the part of most PTA countries had before 1986 been attributed to a lack of consensus on the application of the equity holding provision of the 'Rules of Origin'. However, even after the 1986 Bujumbura Summit which derogated the 'Rules of Origin' a majority of the PTA states required to publish their tariff rates by 31st March 1987, had not done so by December 1988. Only Malawi and Zimbabwe have published these rates so far (Bax Nomvete: 1987, p. 5).
In July 1987, following several studies investigating difficulties in implementing the tariff reduction time-table, the PTA Council of Ministers decided to derogate the tariff reduction process and postpone the zero tariff targeted date from 1992 to the year 2000. Thus, from October 1988, member states were expected to reduce intra-PTA tariffs by 10% every two years up to 1996 for a total reduction of 50%. They should then institute a further 20% reduction in 1998 and a 30% reduction in October 2000. Only time will tell whether this schedule will be effected with lesser difficulties. However, it is worth noting that Ethiopia and Somalia have already requested for a delay in the tariff reduction zero-level date, to the years 2005 and 2014 respectively. (East African Report on Trade and Industries: December 1986, p. 7).

Several factors can be singled out as responsible for the laxity on the part of most PTA states, to reduce their tariffs on intra-PTA trade. For instance, tariffs are used to protect national producers, and although it may seem unethical to give protection to inefficient producers who have already outgrown their infancy, if a government deems such protection as important to its national interests, it will institute it for any length of time. This is particularly true for the small PTA states who fear that trade
liberalization might probably result in multinationals operating in the economies of especially Kenya and Zimbabwe crippling their emerging industries. Hence, if it is in the national interests of these small PTA economies to protect their small industries with tariffs, regardless of the PTA tariff reduction schedule, these PTA economies will do so.

But the difficulty in implementing the tariff reduction schedule arises from the fact that most PTA states use tariffs as a medium of taxation and hence, customs revenue comprises a very substantial percentage of total government revenue (see table 3.5).
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>1980</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>BURUNDI</td>
<td>40.34</td>
<td>31.7</td>
</tr>
<tr>
<td>COMOROS</td>
<td>N/A</td>
<td>66.36</td>
</tr>
<tr>
<td>DJIBOUTI</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>ETHIOPIA</td>
<td>35.56</td>
<td>N/A</td>
</tr>
<tr>
<td>KENYA</td>
<td>18.52</td>
<td>17.99</td>
</tr>
<tr>
<td>LESOTHO</td>
<td>N/A</td>
<td>67.81</td>
</tr>
<tr>
<td>MALAWI</td>
<td>21.69</td>
<td>21.46</td>
</tr>
<tr>
<td>RWANDA</td>
<td>42.39</td>
<td>N/A</td>
</tr>
<tr>
<td>SOMALIA</td>
<td>N/A</td>
<td>29.35</td>
</tr>
<tr>
<td>SWAZILAND</td>
<td>67.37</td>
<td>58.79</td>
</tr>
<tr>
<td>TANZANIA</td>
<td>17.64</td>
<td>21.8</td>
</tr>
<tr>
<td>UGANDA</td>
<td>44.25</td>
<td>69.64</td>
</tr>
<tr>
<td>ZAMBIA</td>
<td>2.31</td>
<td>22.32</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>4.40</td>
<td>15.51</td>
</tr>
</tbody>
</table>

N/A - Figures not available.

Since there is very little to tax from local resources in most PTA economies, their tax structure is such that tax on foreign trade, which is relatively easy to collect, dominates. Table 3.5 shows the dependence on tax on foreign trade as particularly high for six PTA countries viz., the Comoros, Rwanda, Lesotho, Burundi, Swaziland and Uganda. The percentage contribution of taxes on foreign trade to total government revenue for these six countries in 1980 and 1985 range on the continuum from Burundi's 40.34% for 1985 to a near 70% for Uganda in the same year. Figures for Malawi, Tanzania and Kenya are much lesser. They range from 17% to 22% for the two selected years. But figures from Zimbabwe and Zambia are lowest as indicated by the table.

Turning our attention now to the conflict under investigation, Kenya and the other vocal exponents of the dispensation of the PTA 'Rules of Origin' have a well diversified tax structure with tax on foreign trade accounting for less than 19% of their total government revenue as table 3.5 shows. This in effect means that trade liberalization in PTA for them would not have far reaching effects because customs revenue accounts for a relatively small percentage of total government revenue. Furthermore, it is easier for
these PTA economies to relax their tariffs in intra-PTA trade because the benefits that would accrue to them from trade liberalization in PTA would far surpass the losses they would incur from a reduction in tariffs.

This is so because, in Kenya for instance, intra-PTA trade accounts for only 9.02% of total world trade (see table 2.1). Hence, a loss in customs revenue on 9.02% would have no far reaching effects on Kenya especially because customs revenue in total raises only about 18% of total government revenue. In effect, this would imply losing less than 2% of total government revenue if Kenya were to reduce tariffs in PTA to a zero level*

This loss would certainly be compensated for by the many benefits Kenya would enjoy in PTA if zero tariff level was reached. This is particularly true given the volume of exports into the PTA by Kenya and the fact that about one-third of total intra-PTA trade represents trade with Kenya alone.

* This is how we arrived at 2%. Kenya raises about one-fifth (18%) of her total government revenue from foreign trade. About one-tenth (9%) of this trade represents PTA trade. Hence PTA trade raises less than 2% of total government revenue given that total foreign trade raises about 18% of the same
Apart from Tanzania, tax on foreign trade for all the advocates of the immediate implementation of the PTA 'Rules of Origin' accounts for a relatively substantial percentage of total government revenue. This stands at 35.56% for Ethiopia, 29.35% for Somalia and an average of 57% for Uganda as table 3.5 demonstrates. Incidentally, the industries of these economies are also among the least developed in PTA, at least compared to those in Kenya or Zimbabwe. This in effect implies that, apart from a loss in government revenue, once trade liberalization takes full effect, their economies would stand the dangers of being crippled, not to mention that due to their fragility, they would find it difficult to compete in PTA. This probably explains the laxity on their part to effect the tariff reduction schedule, which would have been easily effected were it that the benefits commensurate with trade liberalization would cover the costs incurred from the massive loss of government revenue after a zero-tariff level is reached.

3.2 KENYA AS A POWER IN INTRA-PTA TRADE

Using population, size in square kilometres, GNP, GNP per capital, GDP, sectoral breakdown of GDP, manufacturing value added etc., we have demonstrated in this chapter that power patterns in the PTA differ. Early in this chapter, we will recall our argument that
a PTA state will be said to be 'powerful' if it has a preponderance over the other PTA states in a number of elements of power. Although we have shown that Kenya occupies a position of preponderance in intra-PTA trade, in this section, we hope to demonstrate Kenya's dominance in a confluence of power indicators in the scheme for clarity.

From table 3.1, we have shown that the member states advocating the implementation of the PTA 'Rules of Origin' occupy the largest area in square kilometres in PTA and also comprise the largest population. This table shows that up to 61.4% of the total PTA population and 60.7% of the total PTA land area comprise Ethiopia, Somalia, Tanzania and Uganda.

Nevertheless, Kenya's population size and area in square kilometres compare very well with those of these PTA states. Her population size for instance ranks third in PTA while the area she covers is about 12% of total PTA area in square kilometers.

Apart from population size and area, Kenya's preponderance in PTA actually derives from the economic element of power already discussed in previous sections. Her GNP and GDP are for instance the highest among northern PTA states where the conflict under investigation is most pronounced. This indicates that
Kenya's levels of economic development vis-à-vis the constituency advocating the 'Rules of Origin', is higher.

We have asserted in both this chapter and chapter two that a well advanced manufacturing capacity is important to a PTA economy's position in intra-PTA trade because trade in the sub-region is basically in manufactured products. We have further advanced in this chapter the argument that Kenya's manufacturing capacities is one of the highest in the PTA while her MVA ranks second to Zimbabwe's only in PTA. This denotes a high level of industrial capacity and hence substantial exports to the PTA.

To support the foregoing, we have shown that up to 28.3% of total intra-PTA annual trade represents trade with Kenya alone. Kenya's intra-PTA trade is unique because of its geographical diversity and variety in commodity. It's composition also singles it out as unique because, unlike say Uganda's intra-PTA trade which basically comprises imports, Kenya's is predominantly made of exports. In fact, Kenya's exports to the PTA taken in isolation, surpass by far those of the other thirteen PTA countries put together. It is worth noting that this preponderance is in non-preferential intra-PTA trade and it would be more pronounced in the event trade is fully liberalized and
a zero-tariff level reached with all commodities traded in PTA given preferential treatment.

On the PTA clearing house, we have already observed that Kenya's percentage share of the credit and debit limit control stands at a high 30.2%. This contrasts sharply with the percentage shares of both Ethiopia and Somalia. Uganda's percentage share in this facility, which is the highest in her group in the conflict under investigation, is about half Kenya's. This implies that a substantial amount of benefits from the multilateral clearing facility would go to Kenya.

The foregoing notwithstanding, the preponderance of Kenya in PTA over the group advocating the 'Rules of Origin' can also be seen in the tariff reduction schedule. We have observed that Ethiopia, Uganda and Somalia raise a substantial amount of their government revenue from tax on foreign trade. This makes it difficult for them to liberalize trade in PTA and hence the push by Ethiopia and Somalia for zero-tariff level to move from the year 1992 to sometime after the year 2000.

Conversely, Kenya raises about 18% of its government revenue from tax on foreign trade. This augurs well for trade liberalization. After all, benefits from intra-PTA trade would be greater than the revenue accrued from tax on PTA trade, for them.
What then is the relationship between Kenya's dominant position in intra-PTA trade and the conflict under investigation?

3.3 ON ASYMMETRICAL POWER PATTERNS IN PTA AND POLITICAL CONFLICT OVER THE PTA 'RULES OF ORIGIN'

So far, it can be argued that power patterns in the PTA as demonstrated in the previous sections, define the group each PTA state belongs to in the conflict under investigation. It can be argued that the 'powerful' PTA states belong to the group advocating the dispensation of rule 2(1)a of the 'Rules of Origin' from the treaty. On the other hand, the less 'powerful' PTA states can be said to belong to the group advocating the implementation of the rule 2(1)a to PTA trade.

Because most of the 'powerful' PTA states are so largely because of the foreign firms operating in their economies, they stand opposed to rule 2(1)a which seeks to limit the participation of foreign firms in intra-PTA preferential trade.

In so doing therefore, they can be said to be protecting their substantial share of benefits from trade in PTA, otherwise jeopardized by the application of rule 2(1)a to PTA trade. They can also be said to
be ensuring that once trade in PTA is liberalized, they would carve out a position of preponderance in its reward structure. Kenya is such a case in point.

If the Protocol applies to PTA preferential trade, only about 25% of Kenya's trade would receive preferential treatment. This would mean reducing her from a position of preponderance in PTA's non-preferential trade, to a lesser position in the schemes preferential trade. This, according to our theoretical proposition is not consistent with Kenya's national interest. Hence, Kenya will lobby for the dispensation of rule 2(1) to ensure that most firms in her economy benefit from the PTA arrangement, but implicitly, to also ensure that she keeps her dominant position in PTA trade.

On the other hand, the less 'powerful' PTA states recommend the implementation of rule 2(1)a for very good reasons. To them, if rule 2(1)a does not apply to PTA trade, the scheme will not benefit them meaningfully because foreign firms in Kenya would monopolize trade in the scheme.

It must be made clear that, compared with Kenya, Uganda, Tanzania, Ethiopia and Sudan are less 'powerful' with regards to PTA non-preferential trade. The concern of these four PTA states therefore is, if rule 2(1)a does not apply to PTA trade, Kenya's
dominant role in the scheme would reduce them into mere consumers of Kenyan goods. Looked at from a Realist view point, Kenya's position of preponderance would be augmented at the expense of their positions in the scheme's reward structure.

Given that Kenya's dominant role in this scheme would only come about if foreign firms are allowed to participate in PTA preferential trade, the four PTA states would want to minimize this dominant role by limiting the participation of foreign firms in PTA trade through the application of rule 2(1)a. In this way, their rather insignificant positions in the scheme's reward structure as consumers of Kenyan goods would improve. Added to this, by limiting the foreign firms operating in Kenya from participating in PTA preferential trade, the cost of liberalization measured against the benefits of PTA trade, would be bearable for these PTA economies. On the whole therefore, the four PTA states will lobby for the implementation of rule 2(1)a to ensure they are 'well-placed' in the PTA trade's reward structure.

Added to the foregoing, it should be further observed that Tanzania's firm position on the 'Rules of Origin' can be explained by the fact that the PTA was launched at a time when she had not fully recovered from the repercussions of the demise of the defunct EAC. She would not be guaranteed that a possible
replay of the EAC could not be reproduced in the PTA, particularly if the foreign firms were allowed to participate in intra-PTA trade. Since efforts to institute an adequate mechanism to redress the maldistribution of benefits in the EAC aborted, Tanzania would not be assured that such efforts would materialize in PTA. To her, excluding foreign firms from intra-PTA preferential trade would be the only mechanism that would preclude the occurrence of extreme trade imbalances. The 'Rules of Origin' would therefore be useful in this exercise.

Hence, the relationship between the political conflict under study and power asymmetry among the member states in conflict comes about in this way: as asserted in chapter one, the conflict under study is a conflict over scarce positions in a reward structure. These positions can also be said to be positions of power so that the 'powerful' occupy positions of preponderance. The extent to which a PTA state can be said to be 'powerful' in our case here, is largely determined by the role of foreign investment in the economy of such a state. Hence, if the role of foreign investment is significant in a PTA state, then such a state becomes 'powerful'. Further, the more 'powerful' a state is in intra-PTA trade, the more likely it is for it to occupy a position of preponderance in the scheme's reward structure.
Among the PTA member states in conflict, the role of foreign investments is most pronounced in Kenya. In effect, this implies that Kenya's position in intra-PTA non-preferential trade is dominant or a 'powerful' one. When trade is fully liberalized in the scheme, Kenya's position in its reward structure would by implications also be a 'powerful' position.

Hence, Kenya the 'powerful' among the states in conflict occupies the position of preponderance while Uganda, Tanzania, Ethiopia and Somalia the lesser 'powerful' occupy insignificant positions in the scheme's reward structure. Since positions of 'power' are coveted by states given that states for most part 'seek power', the four PTA states get involved in a struggle for scarce powerful positions in the scheme's reward structure. This struggle is what we have called political conflict.

This conflict has found expression in the heckling over rule 2(1)a of the 'Rules of Origin'. Hence, on the surface, it presents itself as a conflict over the application of a rule in a Protocol, but in the background, it is a conflict over power positions in the scheme's reward structure.
This chapter has been an attempt to place all the PTA states in power perspective using three elements of power viz, the geographic, demographic and economic elements as our criteria. Our primary objective in this chapter has been to show the power asymmetry prevalent among PTA states and especially between the two groups in the conflict under investigation. We have used our theoretical proposition that conflict becomes the most visible trait of an interaction between two or more entities possessing different power capacities, to assert that the power asymmetry in PTA is responsible to a great extent for the political conflict in the regional scheme.

The first part of this chapter has juxtaposed the power capabilities of PTA states focusing primarily on the states in conflict over the 'Rules of Origin'. This part reveals that at least two of the PTA states championing the implementation of the PTA 'Rules of Origin', Ethiopia and Tanzania, are the largest in PTA in terms of surface area and population. It is however noted that both these properties of power are rendered ineffective with regard to these two PTA states because they do not have a direct bearing on intra-PTA trade.
We have asserted that either of the two would have a bearing on intra-PTA trade as long as the population has an effective demand and the surface area is well-endowed with resources. Unfortunately both Ethiopia's and Tanzania's populations and surface area are found wanting in this respect. The two countries' populations lack in effective demand as exemplified by their low GNP per capita, while their vast areas in square kilometres with certain resources, they have not as such exploited these resources.

On the other hand, Kenya's population size ranks third in PTA comprising 15% of total population while her size in square kilometres ranks fourth next to Ethiopia, Tanzania, and Somalia in order of sequence. Nevertheless, it is the economic dimension of power which, when added to both the demographic and geographic elements, has elevated Kenya to a position of preponderance in intra-PTA trade.

We have observed that Kenya has the highest GNP and GDP in the whole of PTA sub-region while her GNP per capita is highest in the northern part of PTA where all the protagonists of the implementation of the PTA 'Rules of Origin' are resident. Concerning the sectoral breakdown of GDP, we have observed that Kenya's industrial capacity is one of the highest in
PTA as shown by her manufacturing sector's percentage contribution to total GDP. Her MVA is second only to Zimbabwe's in the entire region which further attests to her well advanced industrial capacity relative to other PTA states. We have advanced the argument that, given this advantage, and the fact that intra-PTA trade is basically in manufactured products, Kenya and Zimbabwe have dominated intra-PTA trade.

Kenya's dominance in intra-PTA trade can be seen in her percentage share of the trade which stands at about 30% (28.3% between 1979 and 1985) and her percentage share of the debit and credit limit facilities of the PTA clearing house 30.2% of which is controlled by Kenya alone. The benefits commensurate with this facility aside, we have also argued that up to 25% of total intra-PTA trade between 1979-85 represents trade surpluses accrued to Kenya against the entire PTA sub-regions.

By contrast, although the GNP and GDP of the protagonists of the immediate implementation of the 'Rules of Origin' are relatively high, the GNP per capita of economies in this group as compared to Kenya's is rather low. Moreover, the percentage growth of GNP per capita in this group is similarly low compared to that of Kenya. It is in fact among the
lowest in all of PTA. For instance, while Kenya's percentage growth in GNP per capita is 1.9%, Uganda's stands at only -2.6%.

As per the sectoral breakdown of total GDP, we have observed that this group is predominantly agricultural, while the percentage contribution to total GDP by the manufacturing sector is significantly low for most of its economies except for Ethiopia's. Turning to the percentage share of total intra-PTA trade, Kenya's share alone is almost equal to that of the entire group's combined. And even then, what bulks this group's percentage share of this trade is import trade and not export trade which means that most of its economies are net importers. This can be attested to by the fact that up to 15% of total intra-PTA trade between 1979 and 1985 represents a trade surplus accrued by Kenya with these economies.

In the second part of this chapter, we have attempted to show Kenya's dominance in a confluence of the three dimensions of power used in this chapter. But it is in the third part of this chapter that we have shown the relationship between power asymmetry in the PTA and the conflict under investigation.
We have argued that the more 'powerful' a PTA state is, the more benefits commensurate with intra-PTA trade will accrue to it. This is so because power here has been measured by using such indication as the manufacturing capacity of a PTA state, its share of intra-PTA non-preferential trade etc. all of which determine who gets what share of benefits from PTA.

Hence, the argument made here is that, these PTA states are 'powerful' because of the foreign firms operating in them. To limit their dominance in PTA, and hence add to the benefits that go to the 'less powerful' states, the 'less powerful' PTA states have pushed for the restriction of foreign firms from participation in intra-PTA trade. The 'Rules of Origin' and more specifically rule 2(1)a becomes a useful 'tool' for them in this exercise.

But since few governments would want to lose substantial benefits from such an arrangement as the PTA, Kenya has had to contest the application of rule 2(1)a to PTA trade.

It is this argument for and against the application of rule 2(1)a so as to limit the dominance of Kenya and Zimbabwe in intra-PTA trade (also seen as a struggle for scarce position in intra-PTA trade's reward structure) that we have called political conflict.
CHAPTER FOUR

THE POLITICS OF FOREIGN INVESTMENT IN THE PTA

4.0 INTRODUCTION.

Our attention in this chapter turns to the role of foreign investments among PTA member states. We hope to show that asymmetry in the levels of foreign investments among PTA member states largely accounts for the political conflict over the PTA 'Rules of Origin'.

In the first and second sections of this chapter, we have first and foremost looked at the role of foreign investments in Kenya and secondly put it in contrast with that among the advocates of immediate implementation of the PTA 'Rules of Origin'.

The third two sections of this chapter demonstrate with statistical evidence the different patterns of foreign investments in the PTA and more specifically among the warring parties in the conflict under investigation. In our last section, we have attempted to show the relationship between this asymmetry in levels of foreign investments and the political conflict over the PTA 'Rule of Origin'.

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4.1 THE ROLE OF DIRECT FOREIGN INVESTMENTS IN KENYA

The Kenya Government has almost invariably continued to encourage foreign investments since political independence in 1963. Afraid that after independence there would be a high outflow of foreign investments from the country, parliament for instance passed the Foreign Investment Protection Act (FIPA) in December 1964. Under this act, the government issues a Certificate of Approved Enterprises to foreign nationals who invest foreign assets or reinvest their profits in Kenya. A holder of such a certificate is entitled to the repatriation guarantees which permit the transfer of profits after taxation, and the principal and interest of foreign loans borrowed by an approved enterprise, among others, out of the country in convertible currency.

This policy was later followed by the adoption of Sessional Paper Number 10 of 1965 - 'African Socialism and its Application to Planning in Kenya' - a paper that has ostensibly become Kenya's economic blueprint to the present day. In this paper, it was stated that '.... foreign investment is likely to be a growing sector rather than a shrinking one' (1965, p. 14). The paper further stated that nationalization with payment of full and fair compensation will only be considered if:-

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'(a) .....the assets in private hands threaten the security or undermine the integrity of the nation.
(b) ..... production resources are being wasted.
(c) ..... the operation of an industry by private concerns has serious detrimental effects on the public interests.
(d) ..... other less costly means of control are not available or are not effective' (p. 27).

To date there have been minimal cases of nationalization of foreign investments in Kenya and the government has continued to assure foreign investors that such a policy is not about to apply in the country unless under conditions stated in the Sessional Paper Number 10 of 1965 as mentioned above.

As far back as September 1964, President Jomo Kenyatta gave such an assurance when he observed that '..... we consider that nationalization will not serve to advance the cause of socialism (E.A.P.H: 1968, p. 229)' an assurance that a former Minister for Commerce and Industry Honourable Peter Okondo was to reinstate twenty-two years later in 1986. According to Mr. Okondo, '..... we don't (sic) envisage nationalization whatsoever, not at all. We envisage liberalization' (The Standard: February 18th 1986, p. 18).
In spite of this government policy on nationalization however, few cases of government 'take-overs' of foreign firms in Kenya can be cited. In 1964 for instance, the government nationalized the Kenya Broadcasting Corporation which was to later be known as the Voice of Kenya (VOK). In 1970, the government further announced that it was purchasing 51% control of East African Power and Lighting Company Limited. In 1971 the government purchased a 50% shareholding interest in the oil refinery at Mombasa as part of a policy to introduce direct public involvement in strategic industries (see Economic Survey: 1971, p. 114).

Towards the end of the 1970s the government further purchased 60% of the shares of the 78 branches of the National Grindlays Bank Limited which was later known as the Kenya Commercial Bank (J. Carlsen: 1973, p. 9). It should be noted however that, in all these government 'take-overs' the owners were as available data indicates.

The importance of foreign investment in Kenya can further be seen in the National Development Plans since independence. In the first National Development Plan (1966 - 1970), it was projected that up to two-thirds of central Government investment would be financed by foreign capital inflow. But a substantial amount of this capital inflow was expected to be in the form of
direct foreign investments (see p. 123 of the plan).
In the second Development Plan, (1970 - 1974), it was estimated that about one-half of the financing of the plan '... will fall on the private sector' and 'an important share of the private capital should ... be available inside the country in form of profits earned by foreign owned companies' (p. 162).

In the second decade of independence, the role of foreign investment in Kenya still featured quite prominently in the Development Plans. In the third Development Plan (1974 - 1978), for instance it was projected that 'the joint ventures in which government has participated with foreign investors will be continued ...... foreign investment will be welcomed. Investment in industries with an export potential will be given priority' (p. 282).

In the fourth Development Plan, (1979-1983) it was projected that approximately K£317 million was needed for investment in industry. To be able to acquire this money, the Government was to encourage both domestic and foreign capital. Hence, '...... Government will continue to maintain its open door policy to foreign capital. On foreign capital, the Government reiterated that investment will be encouraged particularly in priority industries and in ventures which require large amount of money' (p. 335).
In the third decade of independence, foreign investment continues to occupy a favourable place as part of Kenya's development process. The fifth National Development Plan (1984 - 1988) for instance pledges that 'since independence, the government has welcomed and encouraged private foreign investment and will continue to do so' (p. 53). This assurance of continued government support to foreign investment in Kenya is further enhanced to in the 6th Development Plan (1989 - 1993). In this plan, it is stated that 'during the plan period, government will take measures to enhance the level of private foreign investments especially foreign equity capital which may take the form of joint venture with the local private sector. Some of these measures have already been put in place' (p. 64).

Today, Kenya supports over 700 large companies of which 200 are multinationals from United Kingdoms, United States of America and West Germany. The total registered foreign investments of these multinationals has been estimated at over US$ 1 billion. (Kenya Times: June 24, 1989 p. 9). As a deliberate government policy, these investments are protected under FIPA as already mentioned, although Kenya is also a member of several other international bodies aimed at foreign investment protection.
By signing the Convention on Investment Dispute in 1966, Kenya became a member of the International Centre for Settling Investment Dispute (ICSID). In the event of any disagreements between investors and the host country, investors may refer any dispute for arbitration under the procedures of ICSID. So far, no dispute has been referred to this body in Kenya.

Kenya is also a member of the Multinational Investment Guarantee Agency (MIGA) created by the World Bank to encourage the flow of investment among its signatory countries by issuing guarantees against non-commercial risks. Kenya became a member of MIGA at a cost of SDR 1.7 million (The Standard: October 13, 1987, p. 10).

Added to its membership in these international agencies, Kenya established the Investments Promotion Center (IPC) in November of 1982 to create an enabling environment for investments. As the managing director of this centre Mr. John Kimeria noted '... it should be recognised that the business of attracting international investment is very competitive .... it is because of this that the Government established the IPC to facilitate faster inflow of investments by speeding up approval process and by directly soliciting foreign investments' (Sunday Nation: May 21st, 1989, p. 12).
As Mr. Kimeria further observed, "... Kenya has also realized that we need to aggressively promote investment and we are now moving full throttle in this direction" (Sunday Nation, May 21st 1989). In this connection, the IPC has come up with a number of incentives to attract investors. One such an incentive worth mentioning is the 'one-step' approval process aimed at cutting down on red tape. This process seeks to curtail the long delays of routing and re-routing new investments applications. The IPC has introduced an 'Investment Proposal Form' to obtain all the required information in 'one-step' process.

The Kenya Government has further sought to attract foreign investors by using fiscal incentives. The main fiscal incentive to foreign investment in Kenya has been the policy of import substitution industrialization. This is done through the use of import licensing which could sometimes mean a total ban on imports. In certain cases, this protection is compounded by a further government guarantee that no competitive company would be allowed to start production in a certain number of years.

The Government has also offered incentives by providing part of the capital for new industrial enterprises through such of the parastatal organizations like the Industrial and Commercial
Development Corporation (ICDC) or the Development Finance Company of Kenya (DFCK). This kind of arrangement, is a favoured one by most foreign investors because it not only provides them with what has been called 'political insurance', but also gives them access to important local knowledge and resources.

That the important role played by foreign investments in Kenya is a deliberate Government policy can further be seen in the constant reassurance by Government ministers and senior civil servants foreign investors investing in Kenya continue to receive both in Kenya and abroad.

In 1980, the then Vice President and Minister for Finance Honourable Mwai Kibaki observed that '...Kenya would continue to be a haven for foreign investments' (Weekly Review, March 28, 1980, p. 23). In 1984, Mr. Kibaki revisited his assurance to foreign investors when he stated that 'Kenya will continue to co-operate with multinationals to speed up the country's development'. He further observed that this is '.... a decision Kenya made in 1965' (The Daily Nation, March 24th 1984, p. 9). Commenting on Mr. Kibaki's observation, The Daily Nation was to write in an editorial that '...... the decision was a wise one. It is wiser still to continue encouraging this co-operation' (March 26th 1984, p. 6).
Mr. Kibaki further asserted that 'Kenya had learnt that positive co-operation with such corporations .... yielded good results for the Third World country involved' and that '..... the country will not be deterred in its efforts by arguments as to the role MNC could play in a Third World economy .......(The Daily Nation: March 24th 1984, p.9).

A former Minister for Commerce and Industry Honourable Andrew Omanga was also quoted by the local press as saying that 'The government appreciates the role of transnationals and will continue to provide, if not improve, upon the facilities being provided to foreign investors' (The Daily Nation: October 24th 1984, p.9).

In international fora, a similar assurance to foreign investors was given by Mr. Wafula Wabuge, Kenya's former Ambassador to the United States in an address to members of the Lions Club of Hollywood in Los Angeles. In a talk on business investment in Kenya, he emphasized the role of foreign investment in any developing country and demonstrated Kenya's increased attraction of foreign investment with statistical evidence. He observed that Kenya attracted foreign investments worth Ksh.117 million in 1981 compared to Ksh.30.9 million in 1970. He further

In an address to the Federation of British Industry in London, the former governor of the Central Bank of Kenya Mr. Philip Ndegwa also stressed on the need for continued foreign investment in Kenya (The Daily Nation: June 20th 1984, p. 10).

It is worth noting at this juncture that the encouragement of the foreign investors in Kenya is also done with the regional market in mind. In an address to a multinational operating in Kenya, a former Minister for Commerce and Industry Honourable Andrew Omanga urged '...... the company to be able to penetrate markets in the immediate neighbouring countries and other members of the PTA' (The Daily Nation: October 24th 1984, p. 9).

Opening a subsidiary of the giant paper company Tetra Pak in Kenya, the then Vice President and Minister for Home Affairs Mr. Mwai Kibaki observed that this corporation's involvement in Kenya would not only enable Kenya meet '...... the local demand, but to also export to neighbouring countries' (The Daily Nation: March 24th 1984, p. 9).
As demonstrated in the foregoing, the role of foreign investment in Kenya is almost a *sine qua non* in her economy's development process. This has not only been made unequivocally clear in all the National Development Plans since independence, but has been stated clearly in Government Sessional Papers and reinforced by key Cabinet Ministers and Government officials.

Nevertheless, while the foregoing is the official stand of the Kenya Government, one question we must ask is whether these incentives create a viable enabling environment for investments not nominally, but in practice.

It must be noted that irrespective of attractive incentives to foreign investors, the investment environment in Kenya is far from being perfect. It has been riddled with several problems.

Firstly, investors in Kenya have had to sometimes wrestle with the problem of interference from the political set-up in their operations. A case is for instance cited of Bata Shoe Company and the Limuru Town Council over a levy of 15 cents imposed on every pair of shoe by the council in 1987 (*Daily Nation*, April 9, 1980, p. 11). Although the multinational had made it a point to comply with the requirement by last year, it declined to pay the levy. In the ensuing conflict
between the firm and the council, Bata threatened to pull out of Limuru and start operations elsewhere.

This type of conflict does not augur well with the Government attempt to create an enabling environment for foreign investors.

Secondly, and closely related to the question of political interference, is the issue of relationship between local and foreign capital. As Martin Godfrey and Steve Longdon (1986) have argued, the relationship between the state and foreign capital in Kenya is a 'symbiotic one'. It is one in which the state works very hard to integrate local and foreign capital. Nicola Swainson (1980) has further argued that this is in line with the fact that in a capitalist system like Kenya's, the domestic bourgeoisie is heavily dependent on state support in its attempt at capital accumulation. In fact, in the event of foreign competition, the state will support the local entrepreneur by the provision of tariffs, incentives, subsidies among other things.

This process of integrating local and foreign capital with the state out to protect the local entrepreneur has in some instances become open to abuse by politicians in powerful positions, either to blackmail some foreign firms or to undermine activities of some others.
A third impediment to the investment environment in Kenya has to do with levels of Government taxes and fees on investments. Most multinationals have argued that the rate of corporate tax and import tariffs in Kenya are very high and badly erode their profit margins. This has led to a situation where most of these firms have to either bribe their way out or smuggle in order to operate within reasonable profit margins.

Lastly, in spite of Government efforts at ensuring that bureaucratic delays are reduced in order to encourage investors in Kenya, red-tape bureaucracy remains a major impediment to the growth of foreign investments in the country. Such delays in customs clearance system, the processing of tariff duty remissions, acquisition of foreign exchange to mention a few, are cases in point.

Even with these difficulties however, the Kenya Government has been able to attract substantial foreign investments as we shall show later in this chapter.

To be able to understand the conflict under investigation best, we also need to look at the role of foreign investments among the PTA member states advocating for the PTA 'Rules of Origin'. Such an effort will reinforce the picture we want to portray in
section 4.3 on the different patterns of foreign investment in the PTA and also create a more convincing premise for our argument in this chapter that the different patterns of foreign investments in the PTA also account for the conflict under investigation.

4.2 THE ROLE OF FOREIGN INVESTMENTS AMONG THE ADVOCATES OF THE PTA 'RULES OF ORIGIN'

The role of foreign investments among the advocates of the immediate implementation of the PTA 'Rule of Origin' has been rather insignificant. This could be as a result of prevailing domestic conditions or deliberate government policies on investments.

In Uganda, foreign investment can be said to have played a very significant role in the country's development process at independence especially in the manufacturing and banking sectors, a role that seemed to decline significantly from the mid 70s. Hence, at independence for instance, three British banks, Barclays, Grindlays and Standard continued to control over 80% of all commercial deposits in the country (M. Mamdani: 1983, p. 24).

In 1970, however, the government came up with a policy of 'nationalization' demanding a partnership between the state and foreign firms with 60% of total assets being controlled by the state and the remaining
40% by the foreign investors (Mamdani: 1983, p. 30).

Although this formular was later reduced to a 40% - 60% partnership, its implementation was impeded by the January 1971 military coup that ushered General Idi Amin to power.

During Idi Amin's reign, international economic relations with foreign investors become very irregular, most of the time conducted through the Kenya connection. Hence, the level of foreign investments sunk to an all time low, a trend that Amin's regime tried to reverse through the Action Programme for Rehabilitation (1977/78 - 1979/80) and the Foreign Investment Decree of 1977.

Under this reform programme, the government wanted to foster the confidence and trust of foreigners in Uganda, avail full consultation and liaison with all relevant authorities in order to raise the level of industrial production back to the 1972 level (Mamdani: 1983., p. 104). But the Amin regime was to discover that the problem was not necessarily that of lack of incentives for the foreign investors, as it was a political problem of restoring stability to Uganda thus providing an enabling environment for foreign investments.
To date, the level of foreign investments in Uganda as we shall indicate in the coming sections is still very low given that Uganda is still working for the restoration of a political order. Hence, the role of foreign investments especially in her export trade has declined significantly.

The case of Ethiopia should be looked at very differently given that, of the northern PTA states, she remained uncolonized for along period of time. This historical condition implied that foreign economic influence and hence the role of foreign investments in Ethiopia, remained insignificant for a very long period of time.

Towards the middle of the twentieth century however, Ethiopia chose to follow a 'wider path' to development by using foreign capital and western technology. This move saw a substantial influx of foreign investments into Ethiopia although it has been argued (see for instance I. Bondestam: 1975) that this influx of foreign capital was also accompanied by a keen strategic interest in the geographical position of Ethiopia in the horn of Africa, especially for the Americans.

Nevertheless, this increased of foreign capital inflow into Ethiopia did not assume a significant role in the development process, in fact, its role remained
very limited compared to that of foreign capital in other Third World economies. Bondestam (1975) has attributed this limited role to the fact that a substantial number of Ethiopians live in the rural agricultural areas while up to two-thirds of Ethiopia's total population by 1975 lived outside the money economy, which means their purchasing power was near zero (p. 129).

This in effect implies that the effective demand for manufactured products mainly produced by foreign enterprises, is rather low and therefore the role of foreign firms in Ethiopia is largely inhibited. But added to this lack of effective demand, the limited role played by foreign investments in Ethiopia was probably compounded by the wave of orthodox socialism that swept the country after the 1975 military take over. The 'socialist' orientation of the military regime of M. Mengistu ensured the nationalization of a number of multinationals among them banks and insurance firms by January 1985.

To date, foreign enterprises remain marginalised in the development process of Ethiopia, and in the economy's export trade in particular.

In Tanzania, the foundations of present policies on private foreign investments were laid in the Arusha Declaration which was issued by Tanzania's ruling
party, Tanzanian African National Union (TANU), in January 1967. Under this declaration, Tanzania called for socialism and self-reliance and declared her intentions to have effective control of the commanding heights in her economy.

Defending this move, President Julius Nyerere was to declare that '...... the real choice is between foreign private ownership on the one hand and the local collective ownership on the other ...... private investments means overwhelming foreign private investment. A capitalistic economy means a foreign dominated economy ...... the only way out in which national control of the economy can be achieved is through the economic institutions of socialism' (Nyerere: 1968, p. 264).

Hence, following this 'socialist path', Tanzania began nationalizing a substantial part of foreign owned banks, trading companies, industrial companies among others. Although at first only part of the shares were taken over, the remaining shares have been subsequently nationalized.

From mid - 1980s, however, this policy of Government control over key economic activities through parastatal bodies, began to change. Nevertheless, levels of foreign investments in the Tanzanian economy have not increased significantly as a result.
Like in Ethiopia, the case of foreign investments in Somalia should also be looked at as unique. Somalia, once a colony of Italy then entrusted to Britain for trusteeship by the United Nations after the Second World War, did not have a consistent colonial policy, which means that none of the two colonial powers had entrenched economic interests in the colony. It can in fact be argued that, like in Ethiopia, the geo-political significance of Somalia to both the east and the west has more to do with foreign capital inflow into this Eastern African country than do pure economic interests.

Hence, as we shall demonstrate in the next section levels of foreign investments in Somalia are considerably low. But it should be noted here that the insignificant role played by foreign investments in Somalia is not only a result of colonial history, but the military regimes in Somalia have not been in favour of foreign investments as such. The current regime has in fact even attempted a policy of nationalization like in Tanzania, Uganda and Ethiopia.

From the foregoing, it is clear that foreign investments play a rather insignificant role in the economies advocating the immediate implementation of the PTA 'Rules Origin'. And this is particularly true if compared with Kenya. But it is worth noting at this
juncture that probably what makes levels of foreign investments high in Kenya vis-à-vis her neighbours is the deliberate colonial policy of making her a 'satellite' economy in Eastern Africa. Hence, the colonial government invested heavily in Kenya with the intention of making it the supply point for the markets in the region.

To further qualify this asymmetry in levels of foreign investments and hence the significance of foreign firms in Kenya vis-à-vis the other PTA economies in conflict, our attention turns to statistical evidence in the next section.

4.3 DIFFERENT PATTERNS OF FOREIGN INVESTMENTS AMONG PTA MEMBERSTATES

Our attention in this section turns to the patterns of foreign investments in the PTA. Apart from showing that levels of foreign investments across the PTA sub-region differ widely, we also hope to show that levels of foreign investments are higher among those PTA economies opposed to the 'Rule of Origin' compared to the same among those member states for the implementation of the rules.
Tables 4.1 and 4.2 are compiled from the results of two surveys conducted by the PTA secretariat aimed at ascertaining the extent to which rule 2(1)a of the PTA 'Rule of Origin' is restrictive to intra-PTA preferential trade. Data on enterprises was collected from all PTA countries except Tanzania.

Figures from table 4.1 indicate that out of the 157 enterprises sampled in Ethiopia in the first study, none was foreign owned. Evidence from table 4.2 further demonstrates the insignificance of foreign investment in Ethiopia. Only 15% of the total number of enterprises sampled in the second study were foreign owned, which means that up to 85% of enterprises sampled in Ethiopia qualify for preferential trade under the equity provision of rule 2(1)a.

Levels of foreign investments are similarly low in both Uganda and Somalia. Table 4.1 indicates that only 9% of the 380 enterprises sampled in Uganda were foreign owned. On the other hand, none of the 72 enterprises sampled in Somalia in table 4.2, were foreign owned. All the 72 enterprises are at least 51% locally owned.
### TABLE 4.1: EQUITY PERCENTAGE COMPOSITION OF ENTERPRISES IN PTA SUB-REGION

<table>
<thead>
<tr>
<th>NAME OF COUNTRY</th>
<th>TOTAL NUMBER OF COMPANIES</th>
<th>TOTAL NUMBER OF COMPANIES THAT ARE LOCALLY OWNED*</th>
<th>TOTAL NUMBER OF COMPANIES THAT ARE FOREIGN OWNED*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NO.</td>
<td>%</td>
<td>NO.</td>
</tr>
<tr>
<td>BURUNDI</td>
<td>53</td>
<td>58</td>
<td>22</td>
</tr>
<tr>
<td>COMOROS</td>
<td>3</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>DJIBOUTI</td>
<td>3</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>ETHIOPIA</td>
<td>157</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>KENYA</td>
<td>175</td>
<td>72</td>
<td>49</td>
</tr>
<tr>
<td>LESOTHO</td>
<td>29</td>
<td>38</td>
<td>13</td>
</tr>
<tr>
<td>MALAWI</td>
<td>67</td>
<td>30</td>
<td>44**</td>
</tr>
<tr>
<td>RWANDA</td>
<td>48</td>
<td>52</td>
<td>23</td>
</tr>
<tr>
<td>SOMALIA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SWAZILAND</td>
<td>42</td>
<td>19</td>
<td>34</td>
</tr>
<tr>
<td>UGANDA</td>
<td>380</td>
<td>91</td>
<td>34</td>
</tr>
<tr>
<td>ZAMBIA</td>
<td>55</td>
<td>65</td>
<td>19</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>379</td>
<td>66.5</td>
<td>127</td>
</tr>
</tbody>
</table>

Source: Compiled from PTA STUDY ON RULE 2(1)a OF THE PROTOCOL ON THE 'RULES OF ORIGIN' OF THE PTA TREATY, (APRIL 1985, PTA/CT/GEN/1, ANNEX V).

* RULE 2(1)a is the criterion for determining the local or foreign ownership. i.e. 51% local equity level.

** (Sic) the additions for Rwanda from the study are not quite exact.
<table>
<thead>
<tr>
<th>NAME OF COUNTRY</th>
<th>TOTAL NUMBER OF COMPANIES</th>
<th>TOTAL NUMBER OF COMPANIES THAT ARE LOCALLY OWNED*</th>
<th>TOTAL NUMBER OF COMPANIES THAT ARE FOREIGN OWNED*</th>
</tr>
</thead>
<tbody>
<tr>
<td>BURUNDI</td>
<td>38</td>
<td>25</td>
<td>13</td>
</tr>
<tr>
<td>COMOROS</td>
<td>6</td>
<td>6</td>
<td>--</td>
</tr>
<tr>
<td>DJIBOUTI</td>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>ETHIOPIA</td>
<td>91</td>
<td>77</td>
<td>14</td>
</tr>
<tr>
<td>KENYA</td>
<td>182</td>
<td>125</td>
<td>57</td>
</tr>
<tr>
<td>LESOTHO</td>
<td>26</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>MALAWI</td>
<td>75</td>
<td>18</td>
<td>57</td>
</tr>
<tr>
<td>RWANDA</td>
<td>35</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>SOMALIA</td>
<td>72</td>
<td>72</td>
<td>--</td>
</tr>
<tr>
<td>SWAZILAND</td>
<td>26</td>
<td>4</td>
<td>22</td>
</tr>
<tr>
<td>UGANDA</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>ZAMBIA</td>
<td>65</td>
<td>36</td>
<td>29</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td>270</td>
<td>168</td>
<td>102</td>
</tr>
</tbody>
</table>

Source: Compiled from PTA STUDY ON RULE 2(1)a OF THE PROTOCOL ON THE 'RULES OF ORIGIN' OF THE PTA TREATY, (OCTOBER 1985, PTA/CT/GEN/3, ANNEX III).

* RULE 2(1)a is the criterion for determining the local or foreign ownership, i.e. 51% local equity level.

** (Sic) the additions for Lesotho are not quite exact in the report.
The case is different for Kenya, Zimbabwe and Malawi. In fact, the level of foreign investments in Malawi is one of the highest in the sub-region, second to Swaziland. Table 4.1 indicates that 66% of the total number of enterprises sampled in the first study for Malawi were foreign. Put another way, out of every 3 enterprises sampled in Malawi in the first study, 2 were foreign owned. Evidence from table 4.2 which is based on the second study shows that 76% of the 75 enterprises sampled in this study for Malawi, were foreign owned. On average, we can deduce from these two studies that up to 71% on average of enterprises in Malawi are foreign owned, if our sample is representative. Put another way, out of every ten enterprises in Malawi, seven are foreign owned.

Figures available in tables 4.1 and 4.2 indicate that most enterprises sampled in both Kenya and Zimbabwe are locally owned. Out of the 175 enterprises studied in Kenya as per table 4.1, 126 were locally owned while data from table 4.2 shows that 125 out of 182 enterprises sampled in the second study, were locally owned. This case is also true for Zimbabwe. Out of the total number of enterprises sampled in the first study, 66.5% were local while 33.5% were foreign (see table 4.1). Results from the second study (table 4.2) show that only 38% of all the enterprises sampled
in Zimbabwe were foreign owned, the remaining 62% were local.

What however makes foreign investments crucial to these two PTA economies is the fact that foreign enterprises are the most dynamic exporters to the PTA in the two cases. For instance, up to about three-quarters of Kenya's intra-PTA exports come from foreign firms which represent only about 30% of the sample on average in the two studies. Put another way, although only one out of every three enterprises in Kenya involved in export trade is foreign, out of every four products exported to the PTA by Kenya, three of these come from foreign owned firms.

The case is similar in Zimbabwe where although foreign firms involved in export trade are fewer compared to local firms, exports by the foreign firms are much more than those by local firms. As table 4.3 indicates, of the 135 enterprises in Zimbabwe that did not qualify under rule 2(1)a because they are either foreign owned or managed (or both), 127 are in the manufacturing while 73 produce for export (PTA/CT/GEN/3: October 1985, p. 50). Since as we observed in chapter two, the PTA market is dominated by manufactured products, these foreign enterprises have been able to penetrate the PTA market with much ease given their bias in manufacturing.
Table 4.3: **EQUITY AND MANAGEMENT PERCENTAGE COMPOSITION OF ENTERPRISES IN PTA SUB-REGION**  
(FIRST STUDY)

<table>
<thead>
<tr>
<th></th>
<th>NO. OF COMPANIES</th>
<th>COMPANIES WHICH QUALIFY UNDER RULE 2(1)a</th>
<th>TOTAL NO. OF COMPANIES WHICH DO NOT QUALIFY UNDER RULE 2(1)a</th>
<th>DO NOT QUALIFY FOR BOTH EQUITY AND MANAGEMENT</th>
<th>DO NOT QUALIFY BECAUSE OF EQUITY ALONE</th>
<th>DO NOT QUALIFY BECAUSE OF MANAGEMENT ALONE</th>
</tr>
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<tr>
<td></td>
<td>NO.</td>
<td>%</td>
<td>NO.</td>
<td>%</td>
<td>NO.</td>
<td>%</td>
</tr>
<tr>
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<td>53</td>
<td>28</td>
<td>53</td>
<td>25</td>
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<td>22</td>
</tr>
<tr>
<td>COMOROS</td>
<td>3</td>
<td>1</td>
<td>33</td>
<td>2</td>
<td>67</td>
<td>--</td>
</tr>
<tr>
<td>DJIBOUTI</td>
<td>3</td>
<td>2</td>
<td>66.7</td>
<td>1</td>
<td>33</td>
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</tr>
<tr>
<td>ETHIOPIA</td>
<td>157</td>
<td>59</td>
<td>100</td>
<td>71</td>
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<tr>
<td>KENYA</td>
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<td>38</td>
<td>11</td>
<td>18</td>
<td>62</td>
<td>18</td>
</tr>
<tr>
<td>LESOTHO</td>
<td>67</td>
<td>23</td>
<td>49</td>
<td>77</td>
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<td>41</td>
</tr>
<tr>
<td>MALAWI</td>
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<td>23</td>
<td>48</td>
<td>23</td>
<td>48</td>
</tr>
<tr>
<td>RWANDA</td>
<td>42</td>
<td>12</td>
<td>37</td>
<td>88</td>
<td>31</td>
<td>74</td>
</tr>
<tr>
<td>SOMALIA</td>
<td>380</td>
<td>90</td>
<td>39</td>
<td>10</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>SWAZILAND</td>
<td>55</td>
<td>44</td>
<td>31</td>
<td>56</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td>ZAMBIA</td>
<td>379</td>
<td>64</td>
<td>135</td>
<td>36</td>
<td>27</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Adopted from the PTA STUDY ON RULE 2(1)a OF THE PROTOCOL ON THE RULES OF ORIGIN OF THE PTA TREATY, (APRIL 1985, PTA/CT/GEN/1, ANNEX V).
Our data further shows that the levels of foreign investments in Lesotho and Swaziland are also high. Data available in table 4.1 for instance shows that 34 out of the 42 enterprises sampled in Swaziland were foreign while of the 26 sampled in Lesotho in the second study (see table 4.2) only 8 were local.

Basing our judgement on the results of the two studies, and assuming that the samples in both are representative of the investment structures of the two PTA states, we can assert that on average, up to 83% on the average of the total investments in Swaziland, and 65% of the same in Lesotho, are foreign owned. This structure of foreign investment cannot at all compare with that of either Ethiopia or Somalia where most investments are local - actually ranging from 92.5% on average for Ethiopia to 100% for Somalia of total investments.

The cases of Djibouti and the Comoros must be taken as exceptions. Djibouti, a predominantly service economy, has just began process of industrialization. Hence neither foreign nor local enterprises have established themselves in the economy. In fact, where such enterprises exist, they produce basically for the local market and not for export. As figures in table 4.2 indicate, only one out of the five enterprises sampled in Djibout was foreign, while one, of the
three sampled in the first study as table 4.3 indicates, failed to qualify under rule 2(1)a. But this one enterprise failed to qualify for preferential treatment in PTA not because of the local equity provision, but because the management was foreign. The foregoing points out to the fact that levels of foreign investments in Djibouti are almost non-existent.

In the Comoros, most production enterprises are small-sized, on the border-line between industry and handicraft. Very little or no production for export exists in this minute PTA economy, while the level of investments both local and foreign is insignificant. It is no wonder therefore that of all the enterprises sampled in both the aforementioned studies in the Comoros, those which failed to qualify under rule 2(1)a, did so because the management was foreign and not because they were foreign owned (see tables 4.3 and 4.4). In fact as tables 4.1 and 4.2 shows, all enterprises sampled in these two studies for the Comoros were local.

Evidence from the foregoing and indeed from tables 4.1 and 4.2 as well, indicate that apart from Malawi, Swaziland and Lesotho, levels of foreign investments in all the other PTA states are below 50%. But even in these other PTA states, levels of local and hence foreign ownership of enterprises differ widely. And
this is particularly true for the two parties in the conflict under investigation. Thus, while the levels of foreign investments in the constituency advocating the PTA 'Rules of Origin' is low, the same is relatively high for the advocates of the dispensation on the PTA 'Rule of Origin'.

If our sample is representative, we can rightly argue that on average, only between a low 0% to 9% of investments in Ethiopia, Somalia and Uganda, the member states advocating the immediate implementation of the PTA 'Rule of Origin', are foreign owned. 91% - 100% of enterprise in their economies are locally owned. On the other hand, of the enterprises in the economies of the protagonists of the dispensation of the PTA 'Rule of Origin' which include Kenya, Zimbabwe and to a little extent Zambia, about 28% to 45% are foreign owned.

But what is the relationship between different levels of foreign investments and the political conflict over rule 2(1)a of the PTA Treaty? The next section goes into this in greater detail.
Table 4.4: EQUITY AND MANAGEMENT PERCENTAGE COMPOSITION OF ENTERPRISES IN PTA SUB-REGION (SECOND STUDY)

<table>
<thead>
<tr>
<th>NO. OF COMPANIES</th>
<th>COMPANIES WHICH QUALIFY UNDER RULE 2(1)a</th>
<th>TOTAL NO. OF COMPANIES WHICH DO NOT QUALIFY UNDER RULE 2(1)a</th>
<th>DO NOT QUALIFY FOR BOTH EQUITY AND MANAGEMENT</th>
<th>DO NOT QUALIFY BECAUSE OF EQUITY ALONE</th>
<th>DO NOT QUALIFY BECAUSE OF MANAGEMENT ALONE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>38</td>
<td>24 63</td>
<td>14 37</td>
<td>13 34</td>
<td>--</td>
</tr>
<tr>
<td>Comoros</td>
<td>6</td>
<td>4 67</td>
<td>2 33</td>
<td>--</td>
<td>2 33</td>
</tr>
<tr>
<td>Djibouti</td>
<td>5</td>
<td>4 80</td>
<td>1 20</td>
<td>1 20</td>
<td>--</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>91</td>
<td>77 85</td>
<td>14 15</td>
<td>14 15</td>
<td>--</td>
</tr>
<tr>
<td>Kenya</td>
<td>182</td>
<td>107 59</td>
<td>75 41</td>
<td>12 7</td>
<td>45 25</td>
</tr>
<tr>
<td>Lesotho</td>
<td>26</td>
<td>8 31</td>
<td>18 69</td>
<td>--</td>
<td>13 50</td>
</tr>
<tr>
<td>Malawi</td>
<td>75</td>
<td>18 24</td>
<td>57 76</td>
<td>36 48</td>
<td>21 28</td>
</tr>
<tr>
<td>Rwanda</td>
<td>35</td>
<td>16 46</td>
<td>19 54</td>
<td>17 49</td>
<td>2 11</td>
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<tr>
<td>Somalia</td>
<td>72</td>
<td>72 100</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Swaziland</td>
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<td>3 12</td>
<td>23 88</td>
<td>22 85</td>
<td>1 4</td>
</tr>
<tr>
<td>Zambia</td>
<td>65</td>
<td>30 46</td>
<td>35 54</td>
<td>22 34</td>
<td>7 11</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>270</td>
<td>168 62</td>
<td>102 38</td>
<td>12 5</td>
<td>90 33</td>
</tr>
</tbody>
</table>

Source: Adopted from the REPORT OF THE SECOND STUDY ON RULE 2(1)a OF THE PROTOCOL ON 'RULES OF ORIGIN' OF THE PTA TREATY, OCTOBER 1985, PTA/CT/GEN/3, ANNEX III).

* Percentage figures are all rounded up to the nearest whole and thus not necessarily adding to 100%
4.4 POLITICAL CONFLICT OVER FOREIGN INVESTMENTS IN THE PTA

The controversy over the participation of foreign firms in intra-PTA preferential trade is as old as the scheme itself. As we have already observed in chapter one, this controversy dominated discussions in 7 of the 8 INT meetings negotiating the PTA Treaty and seems to tend towards a quagmire ever since. The issues surrounding this question are numerous and derive basically from some fundamental aspects of the economic structures of the PTA sub-region as discussed below.

Lack of sufficient domestic capital has grossly inhibited domestic investments especially in the manufacturing sector of the sub-region where economies of scale are important. Subsequently, local firms' participation in intra-PTA trade has been greatly reduced.

Our survey illustrates this with particular reference to the petroleum industry, which as indicated in chapter two represents a fairly sizeable amount of Kenya's total intra-PTA exports. While foreign firms exporting petroleum products to PTA from Kenya control up to 85% of the total market share, only 15% of this is controlled by local companies including Kobil, a recent entrant.
Unlike local entrepreneurs, foreign investors have managed to penetrate and dominate the sub-region's manufacturing sector with much ease, producing mainly for export. This is probably because of the availability of financial resources, entrepreneurial ability and an enjoyment of diverse economies of scale. Given our assertion in previous chapters that intra-PTA exports are predominantly in manufactured and semi-manufactured products, this does tell us something about the preponderance of foreign firms in PTA export trade. That is, given that most exports in PTA are in form of manufactured products, and the multinationals dominate the sub-region's manufacturing sector, it almost follows that they are bound to dominate intra-PTA export trade vis-à-vis the local firms.

With the foregoing in mind, let us now turn our attention to the contending parties in the conflict under investigation. We have already observed that this conflict is most pronounced in the northern part of PTA where intra-PTA trade is highest. One thing one would not fail to notice in this part of PTA is the evidently low levels of foreign investments in these economies vis-à-vis Kenya. For instance, of the total investments in Somalia, Uganda and Ethiopia as pointed out in the previous section, none or 0% in Somalia was foreign owned, while on average, only 9% and up to 7.5% for Uganda and Ethiopia respectively were foreign.
Most of the investments in these PTA economies are local and produce mainly for the domestic market.

To the contrary, the level of foreign investments in Kenya is the highest in this part of PTA accounting on average for up to 30% of total investments sampled in the two studies. Given our assertion that the higher the level of foreign investment the more likely it is for a PTA economy to carve out a position of preponderance in intra-PTA trade, Kenya is bound to dominate intra-regional trade in this part of PTA. This in fact explains to a certain extent why Kenya's percentage share of total intra-PTA trade stood at a high 28.3% and her trade surpluses against the sub-region at 25% of total intra-PTA trade between 1979 - 1985. What further compounds this dominance is the fact that over two-thirds of total PTA trade is among Eastern African Countries.

Hence, if the patterns of foreign investments in the PTA are asymmetrical, distribution of benefits from intra-PTA trade will accrue differently to member states. Those with high levels of foreign investments and a well developed manufacturing sector are bound to benefit more especially from intra-PTA export trade. These member states are bound to benefit even more when the trade liberalization schedule takes full effect given that Annex I, Article 4 of the PTA Treaty allows
for greater concessions on capital goods, manufactured
goods and intermediate goods most of which are produced
by multinationals in the sub-region. The foregoing
will also denote favourable terms of trade and
substantial trade surpluses like those enjoyed by Kenya
in the non-preferential trade in PTA.

On the other hand, economies that are
predominantly local will realize very minimal benefits
commensurate with intra-PTA trade. This is so because
most local industries are not in the manufacturing
sector and those in the sector produce basically for
the domestic market and not for export. Furthermore,
even with preferential treatment, once trade is fully
liberalized and the 'Rules of Origin' are fully
operational, exports from local firms might not augur
very well in competition with those from multinationals
in price and quality given the diverse economies of
scale enjoyed by the latter.

The 'Rules of Origin were adopted not only as an
attempt at ensuring that benefits from PTA
trade go to nationals, but also at ensuring that
benefits commensurate with preferential trade are
equitably distributed in the sub-region. Hence,
granted that benefits from non-preferential intra-PTA
trade go to Kenya in the northern part of PTA as
already demonstrated, and that this is largely due to
the foreign firms operating in her economy, limiting
the participation of foreign firms in preferential intra-PTA trade, would ensure a much more equitable distribution of benefits once PTA has fully taken off.

Nevertheless, given that the national interests of all economies in the PTA are at play in the conflict over the 'Rules of Origin', economies with a substantial level of foreign investments such as that of Kenya, are bound to view the rules as restrictive to their trade interests in PTA. On the other hand, to those PTA economies whose levels of foreign investments is low like the case is for the four protagonists of the 'Rules of Origin', the application of the rules to PTA trade would ensure an equitable distribution of gains from the scheme.

At this juncture, we must go back to our theoretical propositions, that for the most part, states seek power, and that in the international arena, they are mostly guided by national self-love. We will also recall our definition of political conflict as a struggle for 'scarce positions' in a given reward structure. Having this in mind, we can argue that since those PTA sates (especially Kenya) with a high level of foreign investments are also likely to assume
a preponderant role in intra-PTA preferential trade, these states will struggle to keep this positions of advantage. This is why Kenya is for instance opposed to the 'Rules of Origin' since they threaten her position in intra-PTA trade's reward structure.

On the other hand, those PTA member states with a low level of foreign investments are aware of the fact that since foreign firms have dominated the manufacturing sector in the sub-region and that intra-PTA trade is basically in manufactured products, their position in intra-PTA trade's reward structure would be insignificant. Hence, the only way out for them is to push for the limitation of foreign firms in intra-PTA preferential trade as this would reduce the dominance of especially Kenya in intra-PTA trade and by implication, augment their positions in the same.

What we have therefore is a state in which very scarce positions exist in intra-PTA trade's reward structure and the role of foreign firms in intra-PTA trade is bound to determine who gets what position in this reward structure. Hence, a struggle ensues between Kenya, and her neighbours over what role the foreign firms in the sub-region should play in intra-PTA trade. Guided by their different national
interests, and the fact that each of the warring parties would want to occupy a preponderant position in this reward structure, a disagreement ensues over the application rule 2(1)a to intra-PTA preferential trade. And it is this disagreement that we have called political conflict.

4.5 SUMMARY AND CONCLUSIONS

Our concern in this chapter has been to show the relationship between levels of foreign investments among PTA member states and the political conflict over the PTA 'Rules of Origin'.

We have demonstrated that the role of foreign investments especially among the two parties in conflict over the Protocol under study differ widely. Hence, Session Paper Number 10 of 1965 in Kenya, all the six different National Development Plans, and numerous statements from Government officials and politicians have clearly stated that foreign investments will continue to play an important role in Kenya's development process. The case is however different for Ethiopia, Somalia Uganda and Tanzania especially, the advocates of the 'Rules of Origin'. To Tanzania, for instance, the foundations of her policy
toward foreign investments and the nationalization of the same, was stipulated in the Arusha Declaration of 1967, a policy that Tanzania has pursued until recently. We have further observed that all these four PTA states have at one time or another, attempted a policy of nationalization of foreign investments.

Hence, the levels of foreign investments in these PTA member states have been low. We have shown from our sample that about 0% of total investments in Somalia, 9% in Uganda, and around 7.5% on average in Ethiopia, are foreign owned. In contrast to this, we have demonstrated that a high 30% of total investments in Kenya from our sample is foreign owned. We have further observed that this 30% of investments in Kenya produce up to about three-quarters of her total intra-PTA exports most of which go to these four economies.

Taking our argument a bit further, we have observed that intra-PTA trade is dominated by manufacture products most of which are produced by foreign firms. Hence, those PTA states with a high level of foreign investments are likely to dominate intra-PTA trade by virtue of the foregoing observation.
To ensure against the dominance of Kenya in the PTA, the four mentioned PTA states have had to push for the application of rule 2(1)a that limits foreign firms from participating in intra-PTA preferential trade. But given the national interest orientation to international politics, and the fact that Kenya would want to keep her position of preponderance in PTA, she has had to remain opposed to the application of this Protocol under study. In the last analysis, conflict over the application of this rule ensues.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND POLICY RECOMMENDATIONS

5.0 INTRODUCTION

The central purpose of this study was to discuss the causal factors responsible for the political conflict over the PTA Protocol on the 'Rule of Origin'. We have advanced in chapter one the argument that this conflict has two salient parties to it, both engaged in a struggle for scarce positions in PTA's preferential trade reward structure. On the one hand, we have Kenya and Zimbabwe arguing for the dispensation of this Protocol from the PTA Treaty, while on the other hand, we have Ethiopia, Somalia, Uganda and Tanzania advocating its immediate implementation to PTA preferential trade.

In a bid to ascertain what the factors accounting for this conflict are, we generated two hypotheses. Firstly, we advanced that power asymmetry among the members of the scheme can be said to be responsible for the political conflict over the 'Rules of Origin' and in particular rule 2(1)a which seeks to limit the participation of foreign firms in PTA. Secondly, we observed that different patterns of foreign investments in the PTA are also responsible for the political conflict under study.
The Realist approach to the study of international politics was adopted here, as a conceptual framework. Our argument is that nations are for the most part guided by their national interests in their constant interactions in the international arena.

Before presenting our findings in a coherent form in section 5.2, a summary of our arguments is attempted in the following section.

5.1 SUMMARY

5.1.1 Intra-PTA Non- Preferential Trade

In chapter two of this study, we have argued (using table 2.2) that both the direction and intensity of intra-PTA trade for any PTA member states is largely determined by geographical proximity. This is probably because of poor transportation networks in most PTA states. Hence, as we have demonstrated, although Kenya trades with Malawi a Southern PTA state, Malawi's trade with Zimbabwe a neighbour, is about sixteen times greater than her trade with Kenya. Using another example from the northern part of PTA, we have observed that Djibouti's trade within PTA is virtually confined to only two countries in the scheme, Ethiopia and Kenya, which are also in the neighbourhood.
In chapter two, we went further and observed that intra-PTA trade is concentrated more in the northern part of PTA. This is probably because unlike in the southern part of PTA, countries of this part of the region have traditionally traded among themselves over the years. Hence, it is no wonder that about 76% of total intra-PTA trade is among the northern PTA economies alone.

We have also argued that due to the competitive nature of most PTA economies with most of them producing traditional products which mainly go to the West, intra-PTA trade is largely in manufactured and semi-manufactured products. This, by implication suggests that, if intra-PTA trade is in manufactured products, those PTA economies with a well developed manufacturing sector will benefit most from trade liberalization in the scheme especially if the manufacturing sector produces for exports. This is particularly so given that the PTA Treaty has given a special concession to manufactured and semi-manufactured products traded in the scheme.

It is worth noting at this juncture that Kenya's manufacturing sector as shown in chapter three is the most advanced in the northern part of the PTA accounting for about 13% of total GDP. This for the other northern PTA states accounts for below 7% of
total GDP except for Ethiopia's. We have also noted that Kenya's exports to the PTA are much greater than those of all the other PTA states combined, and that most of these exports are by foreign firms which are mainly in the manufacturing sector.

In chapter two, we have further established that all the protagonists of the PTA 'Rules of Origin' are Kenya's immediate neighbours sharing a border with her. In fact, except for the Sudan which borders Kenya on the north western side, all the other countries bordering Kenya belong to the party advocating the implementation of the 'Rules of Origin' in the PTA. Ethiopia borders Kenya on the North, while Uganda is on the West, Somalia on the East and Tanzania on the South West. This fact lead us to the following deductions:

a) If trade intensity between any two PTA member states is largely a function of geographical proximity, then trade between the protagonists of the implementation of the Protocol on the 'Rules of Origin', and Kenya can be said to be intense. (Intensity here is seen vis-a-vis the other PTA states especially those in the Southern part of the scheme).
b) If trade in the PTA is basically on manufactured products, and the more advanced a PTA state's manufacturing sector the more it's likely to dominate intra-PTA trade, then Kenya will by virtue of her manufacturing sector being the most advanced among the northern part of PTA, dominate the benefits commensurate with preferential trade in the scheme. This is particularly true given that up to 76% of intra-PTA trade is concentrated in the northern part of the scheme. (see table 2.2).

The above mentioned deductions have already been supported empirically. For instance, from table 2.2, we have shown that Kenya's trade with Tanzania and Uganda accounted for up to 50% of her total intra-PTA trade between 1979 and 1985, although this figure would have been higher if the Kenya-Tanzania border was not closed after the demise of the EAC. About Kenya dominating intra-PTA trade in the northern part of PTA, we have already observed that Kenya runs trade surpluses with all the protagonists of the PTA 'Rules of Origin'. We have in fact observed that Kenya's trade surplus with this party between 1979 and 1985 represents up to 15% of total PTA trade among
member states in the same period. This in effect implies that there exists trade imbalances between Kenya and the advocates of the implementation of the PTA 'Rule of Origin,' an imbalance that favours Kenya.

5.1.2 On Power Asymmetry in PTA

The arguments in chapter three of this analysis proceed from the theoretical proposition that conflict is the most visible aspect of an interaction between any nations whose power is asymmetrical. That is, if political conflict is the struggle for scarce positions in a given reward structure, such a struggle becomes even more pronounced if there exists asymmetry in the power patterns of the interacting member states. This particularly so in a regional economic scheme like the PTA where a given reward structure in the form of benefits commensurate with economic co-operation, exists.

With this theoretical premise in mind, we have demonstrated in this chapter, the existence of power asymmetry between Kenya and the protagonists of the immediate implementation of the PTA 'Rules of Origin' using three power indicators. It must be mentioned however that, although we have used the geographic and demographic indicators of power to show this asymmetry, we found the economic indicator of power a more useful measurement in this exercise.
Hence, using the 'economic dimension' of power in particular, we have demonstrated the preponderance of Kenya vis-a-vis the protagonists of the implementation of the PTA 'Rules of Origin'. We have for instance shown that Kenya's GDP is the highest in the northern part of PTA. In 1986, it was about four times Somalia's, about twice Uganda's and in excess of Ethiopia's by US$ 1 billion. Kenya's GNP per capita is also rated highest among the conflicting states over the Protocol under study. It is almost three times Ethiopia's and slightly less than those of Uganda and Somalia combined. We have also observed that, compared to the protagonists of the PTA 'Rules of Origin', Kenya's annual growth rate of GNP per capita is the highest. In 1986, this stood at 1.9% for Kenya compared to Ethiopia's 0.0%, Somalia's -0.3%, Tanzania's -0.3% or Uganda's -2.6%.

The GNP, GNP per capita and GDP are useful measurements of power in this study because they give a general picture of a given PTA state's 'national market', its 'purchasing power' and hence its effectiveness in intra-PTA preferential trade*.

* It should be noted that a specific picture of the 'national markets' of PTA states should take into account many more factors. But for our present purposes, the above mentioned ones suffice.
We have also attempted a comparison between Kenya's manufacturing sector and those of the protagonists of the PTA 'Rules of Origin'. This is important because, as already mentioned, intra-PTA trade is basically on manufactured products and the PTA economy with a well advanced manufacturing sector is likely to dominate preferential trade in the scheme.

We have observed that Kenya's manufacturing sector is the largest among these five PTA states accounting for 13% of total GDP in 1986 compared to 6% of the same for Somalia, 7.3% for Tanzania, 5.5% for Uganda or 10.9% for Ethiopia.

On the MVA, Kenya's is the highest compared with those of the protagonists of the PTA 'Rules of Origin'. Between 1979 and 1983, this averaged at US$811.4 million for Kenya compared with US$71.6 million for Uganda, US$393 million for Tanzania, US$126.3 million for Somalia or US$494.4 million for Ethiopia. Put another way, Kenya's MVA in this period was close to twice that of Tanzania, six times that of Somalia and over eleven times that of Uganda.
But while Kenya's MVA could be higher only for this period of time, what probably confirms the fact that Kenya's manufacturing sector is more advanced compared to that of the protagonists of the PTA 'Rules of Origin' is the average annual growth rate of its manufacturing sector. Statistical evidence indicates that, while the average annual growth rate of Kenya's manufacturing sector between 1980 and 1989 stood at 4.3%, that of Uganda stood at -0.9%, Somalia's -0.9%, Tanzania's -3.5% and Ethiopia's 3.8% (G. Martin: 1989, table I).

Compared to the protagonists of the implementation of the PTA 'Rules of Origin', we have observed that the percentage shares of intra-PTA trade for Ethiopia, Somalia and Tanzania combined (15.4%) equal to about one-half of Kenya's percentage share of the same taken in isolation (28.3%). This does not only denote trade dominance on the part of Kenya, but also implies an existence of trade imbalance between Kenya and this party advocating the implementation of the 'Rules of Origin'.

The 'rewards' commensurate with intra-PTA trade that will accrue to Kenya will not only be in the form of better terms of trade or massive trade surpluses against the member states of the scheme, but this will also include the benefits derived from certain PTA
institutions. We have for instance advanced that Kenya's benefits from the use of the PTA clearing house will by far surpass those of the other PTA states. In fact, by 1984, Kenya controlled up to one-third of the credit and debit facilities of this clearing house.

Compared with the protagonists of the implementation of the PTA 'Rules of Origin', Kenya's percentage share of this facility credit and debit limits (30.2%) is about six times that of Ethiopia (5.1%), about twelve times that of Somalia (2.4%) and twice that of Uganda (14.9%).

Hence, what we see here is an unequal distribution of positions in intra-PTA trade's reward structure, favouring Kenya. And since political conflict as defined by this study is a struggle for scarce positions in a given reward structure, the disadvantaged PTA member states, are bound to launch a struggle for better positions in the scheme's reward structure. This is particularly true given our theoretical proposition that nations are for most part guided by their national self-interest. This struggle finds its expression in the conflict over the PTA 'Rules of Origin' as we shall elaborate in our conclusions.
5.1.3 On Patterns of Foreign Investments in PTA

Given the low levels of domestic investments among African countries, probably due to lack of both capital and technology, it has become increasingly difficult to develop self-sustaining economies through the strategy of self-reliance. One option available to African governments as a way out of this draw-back has been the invitation of direct foreign investments which have been seen by some African governments as 'catalysts' of the development process in Africa. Nevertheless, the problem with using direct foreign investments as a vehicle for achieving high levels of economic development in Africa as African governments have discovered is that, this runs counter to the strategy of self-reliance upheld by most African governments as a blueprint for their economy's development.

As a response to this dilemma therefore, most African governments have advocated regional economic co-operation. Regional economic co-operation, as has been observed by Philip Ndegwa (1968), Aaron Segal (1967) and Ralph I. Onwuka (1985), is not only a necessary condition to lessen the high levels of dependence on the markets of the former colonial powers, but is also critical as a collective effort, to minimize the role of foreign investments in African economies.
The PTA 'Rules of Origin' were adopted within the framework of this thinking. This Protocol was adopted to ensure that intra-PTA preferential trade '..... does not merely result in the smooth flow of foreign goods' (PTA study on Rule 2(1)a: April 1985, p. 5). It was envisaged that this Protocol would ensure against the eruption of a "war of incentives" with member states competing with each other for foreign investors to operate in their countries so as to serve the economies of the sub-region once trade is liberalized. The Protocol was also seen to offer a resolution to the perennial question of the costs and benefits of economic co-operation froughting most co-operation schemes.

But while these objectives of the PTA 'Rules of Origin', are acceptable to all PTA member states, they are not altogether consistent with the domestic policies of most PTA states on foreign investments. As we have argued in chapter four, the fact that different policies on and levels of foreign investments exist among PTA member states, has not only made it difficult to implement the 'Rules of Origin' but has also resulted in political conflict among member states over the Protocol. And this is particularly true in the northern part of PTA.
We have argued that government policies on foreign investments between Kenya and the protagonists of the PTA "Rules of Origin" differ widely. While Kenya's Government policy is to encourage foreign investors to serve not only the domestic demand but also the regional market (as the six National Development Plans, Sessional Papers and public pronouncements of key leaders in Kenya show) the reverse is true for Ethiopia, Tanzania, Uganda and Somalia. In these economies, foreign investments are not as such encouraged and hence levels of foreign investments are very low, at least compared to the same in Kenya. We have demonstrated this using statistical evidence.

We have argued for instance that while on average up to 30% of the investments in Kenya as indicated in chapter four are foreign owned, only an average of 9% of the same is foreign owned for Uganda, 7.5% for Ethiopia and 0% for Somalia.

We have observed that a substantial percentage of Kenya's intra-PTA exports come from foreign firms which in effect means that most exports to the protagonists of the PTA 'Rules of Origin' that come from Kenya are from foreign firms. Hence to ensure that benefits from intra-PTA preferential trade do not go to Kenya alone, these four PTA states have had to insist on limiting foreign firms from participating in PTA trade.
through the implementation of the 'Rules of Origin'.
Given that in international politics every state is out
to protect it's national interest, Kenya has had to
contest the position of these four PTA states, and
hence conflict ensues.

5.2 CONCLUSIONS

In chapter one, we have demonstrated the existence
of political conflict in the PTA over the Protocol on
the 'Rules of Origin' of the PTA Treaty. We have in
this same chapter defined who the two major parties to
this conflict are.

Later in this analysis, we have established that
this conflict is primarily a function of two factors
namely:-

(a) Power asymmetry between the two
constituencies in conflict on especially
those elements of power with a direct
bearing on intra-PTA preferential trade.

(b) Different patterns of foreign
investments among the warring parties in
the conflict under study.

We have also established that, at a general level,
the conflict under investigation is also a conflict
over the benefits commensurate with intra-PTA trade.
The basis of this conclusion is in historical data. In chapter two, of this analysis, we have advanced that trade intensity between any two PTA member states is to a great extent a function of geographical proximity and complementarity of products between them. Using this proposition, we have established that the protagonists of the PTA 'Rules of Origin' not only share a common border with Kenya but trade between Kenya and them is much more intense compared to Kenya's trade with the other members of PTA. But of adverse consequences in the trade between these two parties is the fact that it is largely imbalanced with sizable trade surpluses accruing to Kenya.

As already argued in the first section of chapter two of this study using historical data, political conflict in international trade from the classical political economy to date has largely derived from a maldistribution of benefits from trade to the domestic economy. The PTA is not an exception and the issue of trade imbalances favouring Kenya in the northern part of PTA is itself a source of political conflict in the scheme.

We will recall our definition of political conflict as a struggle for 'scarce positions' in a given reward structure. In the PTA, political conflict has been seen as a struggle to ensure that positions in the scheme's reward structure, are equitably
distributed. That is, if benefits commensurate with trade liberalization in the PTA form the 'reward structure' of the scheme, the struggle to ensure that no PTA state assumes a position of preponderance in the distribution of these benefits, is what we have called political conflict.

But what is the relationship between this struggle for scarce positions in intra-PTA trade's reward structure and the PTA Protocol on the 'Rules of Origin'? Further, is there a relationship between the PTA 'Rules of Origin' and the thorny question of the distribution of benefits or 'rewards' commensurate with intra-PTA preferential trade? To demonstrate the existence of the aforementioned relationships, we probably have to go back to the two hypotheses generated in chapter one of this analysis.

In chapter one, we hypothesized that, if there exists an asymmetry in power patterns of the PTA member states in conflict especially with regard to intra-PTA non-preferential trade, then political conflict over the PTA 'Rules of Origin' ensues. We have established that there exists a power asymmetry among the PTA member states in conflict on especially those elements of power with a bearing on intra-PTA preferential trade. We have also established that in intra-PTA non-preferential trade, Kenya occupies a position of
preponderance and gets substantial surpluses from trade with the other PTA member states especially those in the group advocating the immediate implementation of the PTA 'Rules of Origin'. Once trade is liberalized in the PTA, if Kenya continues to occupy her position of preponderance in intra-PTA non-preferential trade, most benefits from the PTA's preferential arrangement will by implication go to Kenya. If our theoretical proposition that states are for the most part guided by their national interest is true, then the protagonists of the PTA 'Rules of Origin' especially Uganda and Tanzania, who fear a possible replay of the EAC in PTA, will ensure against Kenya carving out a dominant position in the PTA.

But to ensure that benefits from trade liberalization in PTA do not gravitate towards Kenya alone, it must be established first and foremost what makes Kenya a dominant economy in PTA. The question why Kenya's exports to the PTA surpass by far the exports of all the other PTA economies put together must be answered!

All other things being equal, it can be argued that the role of foreign investments especially in Kenya's manufacturing sector contributes largely to her dominance in intra-PTA non-preferential trade. Put another way, while over 50% of total exports to the PTA
come from Kenya, up to three-quarters of these exports are by foreign firms operating in Kenya. By implication therefore, this suggests that a substantial percentage of exports to the PTA are by foreign firms operating in Kenya. Hence, Kenya's dominant position in PTA is basically because of the foreign firms operating in her economy.

To reduce Kenya's dominance in intra-PTA trade, therefore, the protagonists of the PTA 'Rules of Origin' who are also her neighbours, advocate vehemently the restriction of foreign firms from participating in PTA. What we gathered from discussions with three officials of the Kenya Government and the technical officer of the Kenya Chamber of Commerce and Industry is that, by pushing for the adoption of the PTA 'Rules of Origin' especially rule 2(1)a, the protagonists of the PTA 'Rules of Origin' wanted to achieve basically two objectives:

(a) To ensure that trade liberalization in the PTA and the benefits commensurate therewith does not result in a mere flow of foreign goods from few PTA states into the other member states of the scheme. In this way, the benefits realized by the scheme would go to the nationals of its member states.
To ensure that Kenya's dominant position in intra-PTA trade is reduced by restricting the participation of foreign firms in the PTA. In this way, these four PTA states will not only ensure against the possibility of being turned into 'captive markets' by Kenya once trade liberalization is in full effect, but will also assume a better position in the scheme's reward structure with Kenya's position reduced. That is, benefits from trade would accrue to them more equitably than if foreign firms operating in Kenya were allowed to participate in intra-PTA's preferential trade.

But while the adoption of especially rule 2(1)a of the PTA 'Rules of Origin' suits the domestic advantage of the advocates of the rules, we have already observed that this runs counter to Kenya's national interest because of the role foreign firms play in Kenya's export trade. To verify the significance of foreign investments in Kenya's intra-PTA trade, we chose to look at the patterns of foreign investments in Kenya vis-à-vis the other party in conflict to ascertain whether a difference in patterns of foreign investment between the warring parties is a possible cause of political conflict.
Thus, in our second hypothesis, we advanced that, the higher the levels of foreign investments in a PTA state especially those in the conflict under investigation, the more likely it is for such a state to accede to the PTA 'Rules of Origin'. On the other hand, the lower the levels of foreign investments in a PTA member state, the more likely it is for it to give in to the PTA 'Rules of Origin'. This hypothesis has been confirmed with regard to the two parties in conflict over the PTA 'Rules of Origin.

We have established as indicated in chapter four, that the level of foreign investments in Kenya, an advocate of the dispensation of the PTA 'Rules of Origin' is much higher compared to those of either Uganda, Tanzania, Ethiopia or Somalia, the protagonists of the implementation of the rules.

Following some discussions with Government officials, we have established that Kenya is not ready to forego up to three-quarters of her intra-PTA exports from receiving preferential treatment because of the application of rule 2(1)a of the Protocol under study. According to these Government officials, the Kenya Government is out to ensure that a substantial percentage of products originating from foreign firms in her economy are included in the Common List, and get
preferential treatment in the PTA. In fact, it is in the light of this effort that Kenya pushed almost tirelessly for the expansion of the Common List and the derogation of the PTA 'Rules of Origin' for five years in the Bunjumbura PTA Summit of 1986.

On the other hand, the position of the advocates of the implementation of the PTA 'Rules of Origin' on the Protocol under study is not only derived from the fact that levels of foreign investments in their economies is low, but also from the fact that, even the few foreign firms operating in their economies given a chance, cannot compete effectively in intra-PTA trade. This is partly because they produce for the domestic market and Kenya has been chosen by most foreign firms as a base for export trade, supplying the markets of these economies with goods.

To ensure against such an "unequal" relationship in trade between them and Kenya, and knowing too well that Kenya's dominant position in PTA is largely due to foreign firms operating in her economy, these PTA member states opt to restrict the role of foreign firms in PTA preferential trade. And the PTA 'Rules of Origin', specifically rule 2(1)a, provide such a restriction.
5.3 POLICY RECOMMENDATIONS

We may not consider our task justifiably ended until we have attempted to offer a number of possible recommendations to contain or ease the political conflict under study. But before we do this, the following two observations will be made as a preamble to the recommendations.

Firstly, given the national interests at play in both the parties in conflict over the Protocol under study, in our prescriptions we have adopted a position which is more or less a mid-point between the national interests of the two parties in conflict. We want to argue that although the national interest on the part of the state is the axis around which the foreign policy formulation rotates, sacrifice on the part of the nation to ensure that the PTA survives as a going concern, is not necessarily inconsistent with the national interest of a given PTA member state. After all, if the survival and ultimate success of the PTA are not in the national interest per se of the PTA member states, they would not have joined the regional body in the first place.

Secondly, we want to note that our recommendations do not seek to eradicate the political conflict over the Protocol on the 'Rules of Origin. Our attempt here
is to provide certain ways that would ensure a rather fair distribution of positions in PTA's trade reward structure, hence ease the political conflict under study. This is so because positions in PTA's trade reward structure can not necessarily be distributed equally among member states. That is, certain countries would have to occupy more superior positions than others in the reward structure. Hence, political conflict can only be reduced but not completely phased out.

Before we delve into the specific recommendations, we must pose and ask the question: If this political conflict is not contained, what are its possible implications on the intra-PTA trade in the northern part of PTA in particular and the regional scheme at large?

One of the results as already argued will be an unequal distribution of benefits from co-operation which unless corrected will tend to gravitate towards what has sometimes been called the 'Matthew' effect*.

* See Robert K. Merton, 'The Matthew Effect in Science' Science 159 (January 1968) pp. 56 - 63. The idea of the 'Matthew effect' is based on the biblical notion in Mathews 13:12 - 'for whomever hath, to him shall be given..., but whomever hath not, from him shall be taken away everything (KJV).
To Kenya, the 'matthew' effect especially when it affects Uganda and Tanzania the former EAC member states, would pose some far-reaching problems. Given the political acrimony that characterized the demise of the EAC, a possible replay of the EAC in this part of the sub-region would almost automatically result in a state of 'premature politicization' of the scheme. By 'premature politicization' we mean '...... the development of damaging political disputes within regional groupings before significant gains from co-operation are realized' (Ravenhill: 1985, p. 208). Such a possibility is high especially given the fact that Tanzania had delayed joining the PTA because she had wanted to first finish with the question of distribution of assets from the defunct EAC.

Another possible result from an unequal distribution of benefits from PTA trade, especially where no adequate corrective measures are taken, would be the introduction of non-tariff barriers to protect industries as tariffs get reduced. This is most likely in the northern part of PTA where Kenya is the dominant economy. Although the PTA Treaty envisages an elimination of both tariffs and non-tariff barriers, where the infant industries of certain economies are threatened, these economies will do anything to protect such industries even if it means the introduction of non-tariff barriers. The defunct EAC presents such a case in point.
Hence, in a bid to avoid such occurrences and many others that might result, we have made an attempt at four prescriptions that can be useful in containing the conflict over the 'Rules of Origin'. These are as follows:

5.3.1 The Adoption of the Three-Tier System

Keeping in mind the fact that each PTA member state has to make some sacrifices for the survival of the scheme, and ensuring at the same time that both parties in conflict benefit meaningfully from preferential trade, PTA should adopt the Three-Tier System with a sliding scale adopted at the Bunjumbura Summit of 1986, on a permanent basis. Under this system, those firms with a 50% and above local ownership would receive 100% of the tariff reduction rate, while those firms with between 49 - 50% local equity level would receive a 60% of the tariff reduction rate and those with between 30 - 40% local equity level to receive 30% of the tariff reduction rate.

Thus, if a certain product is supposed to receive a 40% tariff reduction in intra-PTA trade, an exporter with only 49% - 50% local equity holding will obtain a 24% tariff reduction on that product (i.e: 40% x .6) while an exporter whose local equity participation ranging from between 30% - 40% would receive only 12%
of the tariff reduction on the product (i.e: 40% x .3). The only added information in such an arrangement would be a certificate showing the exporting firm's level of local ownership instead of the current certificate that shows that the firm is majority locally owned.

This kind of arrangement adopted on a permanent basis until such a time that the PTA Authority will render it obsolete provides a point of concurrence for the warring parties over the 'Rules of Origin'. For Kenya, although not all of her exports from the foreign firms would receive preferential treatment in PTA, at least a sizeable volume of such exports, otherwise denied preferential treatment under the Protocol, would enjoy the benefits of trade liberalization. The volume of exports denied preferential treatment for Kenya would equal a part of the many sacrifices Kenya has to make for PTA to survive as a going concern. After all, such an arrangement would also provide Kenya with the incentive to raise the local equity holding in especially her manufacturing sector.

On the other hand, for the protagonists of the PTA 'Rules of Origin', this arrangements would reduce the dominance of Kenya in intra-PTA trade, and hence augur well for them. Of course the percentage of exports from foreign firms in Kenya that would get preferential
treatment in the PTA would represent the sacrifice these PTA economies would have to make for the PTA, given that they are opposed to any exports from foreign firms getting preferential treatment in PTA.

The disadvantage of such an arrangement however is that, it would slow down the process of trade liberalization in the PTA thus pre-empting the year 2000 zero-tariff level target, and the common market envisaged by the Lagos Plan of Action for the same year. Nevertheless, given the trend the PTA had assumed before the derogation of the 'Rules of Origin' in 1986, one cannot be sure that if the rules apply to PTA trade these two targets would be met anyway!

Several questions that come to mind about these targets and the PTA at large are, given our assertion in chapter three that the tariff reduction process in the scheme is far from being impressive, will it ever go beyond an elaborate statement of intent? Or will the hard choices required of member states in the scheme as it becomes of age expose the fragility of their commitment to it's survival?

5.3.2 Bi-Lateral Trade Arrangements

To reduce the problem of trade imbalances in the PTA and hence the issue of benefits gravitating mainly to Kenya, a Bi-Lateral Trade Arrangement mostly based on geographical proximity and complementarity of products, would be adopted.
Under this arrangement, trade between two PTA member states would be conducted on a bilateral quid pro quo basis under which the partner incurring trade deficits agrees to extend preferential treatment to the other partner only to a total value of goods equal to that of its exports to that member state. In this way, any imports in excess of the value of the total exports by the PTA member state incurring trade deficits to the more advanced member state, would not receive preferential treatment. Such an arrangement would minimize the thorny question of unequal distribution of benefits from PTA trade and the issue of limiting foreign firms from participating in intra-PTA preferential trade.

The main disadvantage with this kind of an arrangement however, is that it would limit the scope of intra-PTA preferential trade adversely. Nevertheless, this scope of trade can be raised if the two member states in a bi-lateral agreement are allowed the discretion of giving preferential treatment to more than the required volumes of trade discussed above.

Such trade transactions would be made using local currencies to conserve the scarcely available foreign exchange. The importance of using local currencies here would be that, if a country is for instance
allowed to possess the currency of a neighbouring state, this would be expected to encourage purchases from that state by this given country.

A bi-lateral trade arrangement close to this has recorded enormous trade transactions between Tanzania and Mozambique. If such arrangements are adopted across the scheme on the basis of product complementarity or geographical proximity, then linked up in a regional relationship through the PTA secretariat, the struggle for scarce positions in the scheme's 'reward structure' would be minimized.

5.3.3 A Functional Approach to Integration

To supplement the bi-lateral trade arrangements, the PTA should probably also adopt, though at a smaller scale, a functional step-by-step approach to cooperation. Such an approach has been advocated by Mazzeo (1984), Ravenhill (1979 and 1985) and Hazlewood (1985) for regional integration efforts in Africa, in their separate analysis of the defunct EAC. This approach has also met a considerable amount of success in SADCC.

The argument here is that, for co-operation to occur with a reasonable degree of success, certain important pre-requisites lacking in regional schemes in Africa, have to be created. Such important pre-requisites to co-operation especially in trade would
only be created through a step-by-step approach to co-
operation, forfeiting an initial grand design for inte-
gration. This would "... open up chances for visi-
table results in realizing projects and prevents or
reduces the unavoidable disappointments ....... in the
politically difficult negotiations in distributing
costs, prior to the time when first gains from co-
operation and integration have even been realized'
(Zehender: 1988, p. 53). Hence, in the PTA, such an
approach would entail an agreement on realistic,
attainable goals in certain mutual functions.

With emphasis on this approach, the issue of in-
volvement of foreign firms in PTA would not arise.
The effects of this approach would be greater if
adopted concomitantly with the bi-lateral trade
agreements because this would ensure against a possible
duplication of efforts between the PTA and SADCC.

This approach would also minimize the effects of
the laissez faire nature of the PTA and it's leakage of
substantial portions of the benefits from regional co-
operation to foreign capital. That is, with the
emphasis now turned to co-operation in certain
functions in the PTA, the question of distribution of
benefits between the scheme and the foreign firms
operating in the sub-region would be side-lined.
Hence, the issues surrounding rule 2(1)a would be
minimized.
Closely related to the functional approach, the PTA should seek to create co-operation in certain joint projects. This would include joint projects in the areas of transport, food security, research, education, technical training and energy. But where applicable, '... joint use rather than the joint ownership of .... facilities should be encouraged' (Mazzeo: 1985, p. 164.)

In this respect, instead of creating regional jointly owned and administered institutions, national institutions with a regional vocation would be created. In this way, inter-country specialization would ensue. This would also ensure against '... a whole array of problems linked with the question of joint ownership' (Mazzeo: 1984, p. 164.

5.3.4 Political Will

For the PTA to ever crystallize into a viable trade arrangement, the deliberate political will of the member states has to be stated unequivocally. This becomes even more important given that, as Anglin (1983) has argued, the PTA emerged as a creation from above served to the sub-region's leaders on a plate by the ECA. This explains the political apartheid on the part of some PTA leaders towards the scheme as made manifest by their countries' commitment to the
implementation of the provisions of the PTA Treaty and their contribution to the daily running of the PTA.

Although it can be argued that, given the size of the PTA Authority, lack of commitment by one member state will not necessarily grind the PTA to a halt as it did with the small EAC Authority, the sheer size of the PTA Authority can itself pose a problem. This is so because sheer numbers could result in lack of individual involvement on the part of a particular leader. Otherwise, with the political involvement of every PTA member state, the level of political conflict in the scheme would subside significantly.

5.4 Issues for Further Research

Given the nature of this study, we could not cover a wide array of issues related to the study. These issues are worth researching into all the same, and include:

a) The wider issue of cost and benefits of economic co-operation in the PTA. The issues here are, given the asymmetry in levels of development and resource endowment in the PTA, what are the possibilities of ensuring against a re-play of the thorny question of maldistribution of benefits in the scheme? This should be studied with a close reference
to the PTA Treaty's Protocol on the distribution of costs and benefits across the scheme.

b) A study of the value added clause of the PTA 'Rules of Origin' would also provide a very viable area of research especially to the student of economics.

c) A broader survey of the role of direct foreign investments in the PTA's export trade is another area that calls for further research. One would want to update the PTA secretariat's data on the survey they conducted in 1985 on patterns of foreign investments in the PTA. The aim here would be to capture the effects of Structural Adjustment Programmes (SAP's) on foreign investments in the scheme. This would be tied to the effects of SAPs on the PTA objective of reducing its member states' dependence on the west in the areas of investments and trade.

d) Lastly, a survey on the impact of the PTA clearing house on intra-PTA trade would be very timely. In Kenya, a survey that would guide the business community and policy makers on the role the clearing house would
play in Kenya's intra-PTA trade would be worthwhile. This is so because if the clearing house crystalizes into a serious monetary institution, it would benefit Kenya's business community most in the entire PTA. But this is only if Kenya keeps its position as a dominant PTA economy.
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