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IMPLICATIONS OF ECONOMIC PARTNERSHIP AGREEMENTS ON AGRICULTURE: THE CASE OF KENYA'S HORTICULTURAL SUB-SECTOR

BY

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A Master's degree Dissertation presented in partial Fulfilment for the Award of Master of Management in Public Policy

At

University of Witwatersrand, Wits School of Governance (WSG)

2016

DECLARATION

I, Agnes Njoki Njua, declare that this research report is my own unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in the field of Public Policy (MMPP) at the University of Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at this or any other university.

DEDICATION

There are a number of people without whom this dissertation would not have been possible and to whom I am eternally grateful. First off to my entire family in Nairobi, Oslo and Arlington for their constant encouragement, prayers and unfailing support. To my dear sister and her family in Johannesburg, Justina, David, Brian and Alan, for opening up their home to both Arianna and me, taking the time to help us settle there and for your untiring assistance in all ways. To Wambugu for being there all the way. And finally to my daughter Arianna, sorry for all the shuttling between Oslo and Johannesburg. Truly hope you enjoyed the journey as much as I did.

Thank you all!

ACKNOWLEDGEMENTS

I would like to express my gratitude to my supervisor Professor Vusi Gumede for challenging me and guiding my research. To the 2014 MMPP class, it was a great pleasure studying and working with all of you and making me come to love my stay in Johannesburg. I would like to thank my friends in Oslo and Nairobi for cheering me on and not giving up on me. And finally, I would like to thank all those who took their time to meet with me and share their knowledge and experiences through interviews and field trips.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACP	Africa, Caribbean and Pacific
ASAL	Arid and Semi-arid Lands
ASDS	Agricultural Sector Development Strategy
AU	African Union
CAADP	Comprehensive Africa Agriculture Development Program
CAP	Common Agricultural Policy
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
DFQF	Duty Free Quota Free
EAC	East African Community
EBA	Everything But Arms
EC	European Community
EDF	European Development Fund
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
ESA	Eastern and Southern Africa
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTA	Free Trade Area
GATS	General Agreement in Trade and Services
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
Global GAP	Global Good Agricultural Practices
GNP	Gross National Product
GSP	General Scheme of Preference
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
LDC	Least Developed Country
MDG	Millennium Development Goal

MFN	Most Favoured Nation
MRL	Minimum Residue Level
MTEP	Medium Term Expenditure Plan
MTIP	Medium Term Investment Plan
NCCRS	National Climate Change Response
NEPAD	New Partnership for Africa's Development
NTP	National Trade Policy
PTA	Preferential Trade Agreement
R&D	Research & Development
RIA	Regional Integration Agreement
ROO	Rules of Origin
SADC	Southern African Development Community
SAP	Structural Adjustment Programmes
SPS	Sanitary and Phytosanitary Measure
SRA	Strategy for Revitalising Agriculture
TRIMS	Trade Related Investment Measures
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organisation

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ABSTRACT

As a result of the dependency created during the colonial period and later through preferential trade initiatives, Europe has been and continues to be Kenya's major trading partner. The current trade relationship between Kenya and Europe was recently formalised after the signing of the Economic Partnership Agreements (EPAs), a reciprocal and comprehensive free trade agreement that is legal under Article XXIV of General Agreement on Tariff and Trade (GATT). The agreement has caused great debate on whether it is truly beneficial to Kenya in light of the asymmetrical levels of development, with many questioning what role the agreement will play towards sustainable growth and development and specifically in the horticultural sub-sector. Sharing the pitfalls of both the Lomé Convention and Cotonou Agreement that failed to deliver the expected development there is reason to believe that few gains will be made by signing the EPAs as they are today.

The horticultural sub-sector is a major provider of employment, especially in the rural areas, and is the second largest foreign exchange earner for Kenya. Facing increasing domestic and international demand, coupled with continued and enhanced market access to Europe, participation in the highly profitable sub-sector has the potential of transforming rural agriculture by presenting an opportunity for small-scale farmers to increase their income and reduce poverty.

As a non-Least Developed Country (LDC) country, the loss of trade preference for Kenya could severely undermine export competitiveness and damage the horticultural sub-sector which is heavily dependent on exports to the European Union (EU). The main objectives of the Kenyan government for signing the EPAs include sustaining the current market preferences, avoiding macroeconomic instability and the disruption of economic activities in the agricultural sector.

The study found that, given Kenya's substantial dependency on the horticultural sub-sector and the limited trade schemes options available to engage in trade with the EU, the government had no option but to sign the EPAs. The failure to diversify the economy, inadequate public institutions, insufficient human and financial capacity, declining public investments in agriculture and limited intra-African trade and the failure to seek other market destinations are some of the reasons why the government entered into the agreement.

The Kenyan government needs to aggressively increase investments in the agricultural sector in order to enable transformation and promote diversification through value addition. Manufacturing should be prioritised as this will enable the economy to become less exposed to commodity price fluctuations. The government should seek to develop and increase intra-Africa trade as well as explore other market options in Asia, North America and South America in efforts to lessen Kenya's dependency on Europe.
Further, Kenya and other African Caribbean and Pacific (ACP) countries should, instead of signing a Free Trade Agreement (FTA) such as an EPA, collectively call for an improved EU General Scheme of Preference (GSP) tailored for both LDC and non-LDC countries that would provide real cooperation and development.

1 CHAPTER ONE: INTRODUCTION

1.1 Introduction

Prior to signing an interim Economic Partnership Agreement (EPA) with the European Union (EU) in December 2007, Kenya's raw commodity exports to the EU markets entered duty free and quota free due to the two previous non-reciprocal preferential market access trade agreements (Njua, 2014). The initial the trade agreement with the EU was under the Lomé Conventions (1975-2000), then later the Cotonou Agreement (2000-2007) (National Trade Policy, 2010). Reisen (2009) states that full EPAs are not only reciprocal but also have targets of 80% of imports from the EU into Kenya. The EPA between Kenya and the EU is only on trade in goods. Developed by the European Commission (EC), some of the main goals for establishing EPAs were to facilitate the regional integration of the African, Caribbean and Pacific (ACP) countries and their inclusion in the process of globalisation (Reisen, 2009). Another goal of the EPAs is to have zero tariffs between the trading partners by 2035 (Reisen, 2009). Hovius and Oettli (2011) further state that other objectives of this trade agreement include the eradication of poverty through trade, ensuring trade policy improvement, increased investment and competitiveness, fostering of trade in goods and lastly, the creation of larger markets.

Kenya's economy is highly commodity dependent, with the agricultural sector accounting for 26% of GDP, 65% of total exports and more than 70% of informal employment in the rural areas (Njua, 2014). Trade with the EU is critical as it contributes immensely towards the economy of Kenya. This contribution takes the form of job creation especially in the agricultural sector, which in turn has several multiplier effects such as reducing poverty levels, increasing employment, encouraging small scale informal entrepreneurship and lowering inequality especially in the rural areas (MTEP, Agriculture & Rural development sector, 2010). The horticultural sub-sector, whose products include flowers, fruits and vegetables, was the biggest foreign exchange earner in 2013, generating over a 1 billion USD as a result of exports mainly to Europe (FPEAK, 2015).

As a non-Least Developed Country (LDC) country, the loss of preference for Kenya would severely restrict Kenya's export competitiveness and have long-term negative effects on the horticultural sub-sector that exports mainly to the EU. In its current form, the EPA is

particularly favourable only to the agricultural sector. This dependency on one sector exposes the Kenyan economy to excessive fluctuations in the highly volatile world commodity markets and prices. These fluctuations generate economic uncertainty, reduce the purchasing power of consumers, majority of whom are low income earners and affects the local farmers' income. In light of these facts, the government should have considered other trade agreement options with the EU. Alternatively, the government should have negotiated better terms of trade that would seek to mitigate the dire consequences of having an entire economy dependent on the ups and downs of agricultural trade. Morrisay and Zgovu (2009) further stipulate that the EPAs have failed to provide the expected remarkable benefits as the trade agreements are not only restrictive, but also give little incentive for primary product diversification. Some of the government's reasons on seeking to renew the EPAs with the EU include sustaining the duty free market preferences, ensuring macroeconomic stability and the smooth running of economic activities in the agricultural sector (National Trade Policy 2010).

The reason the study is important is because it investigates the implications of the EPAs on the export of raw commodities in the horticultural sub-sector and the subsequent consequences of over- dependence on EU markets. The study also reveals how the lack of value addition and product diversification has severely restricted the development of the agricultural sector. Taking into consideration the vastly varied levels of development between Kenya and the EU, the government should seek to negotiate better terms of trade with development, diversification, technical assistance and technology exchange playing a central role. This is in order to foster activities that will lead to sustainable development and encourage economic growth in all sectors.

1.2 Field of Study – Policy Analysis

De Coning (2006) defined policy as a declaration and implementation of intent. Gumede (2011) further defined public policy as "all formal and publicly known decisions of government that come out through pre-determined channels in a particular administration" (p.166). Public policy has the potential to dramatically improve people's lives and also achieve multiple social, economic and political objectives (Morse & Struyk, 2006). Carlson (2011) adds that analysing policy involves "defining the problem being addressed, identifying the goals or values to the problem, offering policy alternatives and their impacts and making recommendations based on explicit assessments among goals offered by the alternatives"

(p.14). The research analysed the current trade policy in Kenya with the EU in efforts to establish whether the trade agreement has the potential to improve the quality of life in Kenya through the attainment of social, economic and political objectives. The research also assessed trade policy alternatives and made recommendations based on documentary analysis, field trips and interviews.

1.3 Problem Statement

The Government of Kenya is in the process of ratifying a new EPA with the EU to replace the previous interim agreement which expired on the 30th of September 2014. Under the interim EPA horticultural products from Kenya entered the EU markets duty free and quota free, making the horticultural sub-sector the biggest foreign exchange earner, generating USD 1 billion (FPEAK, 2015). In addition to recording growth rates of 15% per annum, over 4 million people are directly employed in the sub-sector (FPEAK, 2015). Judging on how exceedingly well the horticultural sub-sector grew under the interim EPA, there is no doubt that the new trade agreement would immensely benefit the agricultural sector. Proponents of trade liberalisation argue that an increase in international trade would lead to rapid economic growth and in the process reduce the levels of poverty and inequality.

However, in spite of the immense benefit for the horticultural sub-sector, the current trade liberalisation policy that allows Kenya to enter into such agreements, has among other things, reduced protection to domestic industry, worsened the balance of trade and led to revenue losses due to the removal of tariffs (Njua, 2014). The reduction of tariffs would lead to imposition of higher taxes domestically to cater for the revenue shortfall. Welfare loss is likely to be experienced too as increased competition from EU imports will lead to Kenya losing its advantage in the regional market share (Morrissey & Zgovu, 2009). Further the costs associated with the implementation of EPAs are likely to erode any gains that would have been made (Weisbrot & Baker, 2003). Trade liberalisation was also not the preferred trade policy implemented by relatively advanced developing countries in Asia as there was substantial state intervention in their economies in the form of subsidies, infant industry protection and restrictions on capital flows (Weisbrot & Baker, 2003).

As a result of previous studies in trade policy not having examined the implications of the EPAs, it is not clear how or if the bilateral agreement with the EU has led to sustainable and transformational growth in the horticultural sub-sector in Kenya. It is therefore important to analyse the views of key stakeholders on whether the EPAs could lead to sustainable growth

and development for the entire economy. The study offers an opportunity to venture into an area that has not been sufficiently researched.

1.4 Research Objectives

The purpose of the research was to critically examine the effects of EPA-driven international trade with Europe on the agricultural sector and specifically the horticultural sub-sector in Kenya, since the signing of the first interim agreements in 2007 to 2014. Second is to address the advantages and disadvantages of entering into such an agreement, and most importantly establish whether the agreement will have spillover effects on other sectors of the economy which will lead to sustainable growth, development and diversification of other sectors and move Kenya from a commodities-based economy to an industrialised one.

1.5 Research Questions

1.5.1 Primary research question.

- What role has Kenya's trade policy with the EU through the EPAs played towards sustainable growth in the horticultural sub-sector?

1.5.2 Secondary research questions.

- Should the Kenyan government consider other trade options with the EU in light of the volatility of commodity prices and markets?
- Given that one of the key objectives of the EPAs is to promote regional integration, do the EPAs enhance regional cohesion in EAC?

1.6 Research Methodology

Harris et al., (2009) defined qualitative research as a naturalistic approach that seeks to understand phenomena in uncontrolled, context-specific settings. Garcia and Gluesing (2013) go on to add that not only are qualitative research methods best suited to examine unique characteristics of particular groups but also the constant shifts and dynamics in those contexts. Qualitative research is inductive, labour intensive and the data is collected and analysed with the intention of generating theory and hypotheses (Harris et al, 2009). The study used the qualitative research method and employed the critical theory paradigm. In addition, the study also used both semi-structured interviews and documentary analysis for

the data collection. The list of those interviewed and the questions are attached in the appendix.

1.7 Limitations of the Study

Fink (2003), states that a study limitation is the systematic bias that the researcher did not or could not control and that could inappropriately affect the research results. Fink (2003) adds that there are two major categories of limitations in research. The first is threats to internal validity, that is, does the research accurately measure what it intended to measure? (Fink, 2003). The second category comprises threats to external validity, that is, do the sample results accurately represent the results attainable if one assessed the entire target population? (Fink, 2003).

The identified limitations to my research are:-

- Kenya signed the agreement under the EAC. However the study will focus only on the effects in the horticultural sub-sector in Kenya.
- The findings are not generalisable to other African countries that have signed the EPAs as they are specific to the economic and political context in Kenya.
- The purposive sampling technique used was subject to researcher bias.
- Access to government records and officials was limited by the nature of the bureaucracy system and how government records are classified.

1.8 Ethical Considerations

At the heart of every research project is whether or not the research was conducted in an ethical manner. According to Broom (2006) the dignity, rights, safety and well-being of the participants must be taken into consideration. In addition to ensuring the integrity and quality of the research, the purpose, methods and intended uses of the research should be made clear to the participants (Broom, 2006). The risks involved should be clearly stated to the participants and the confidentiality of information and anonymity of the respondents guaranteed (Broom, 2006). It is imperative to declare any conflict of interests or partiality beforehand as a way of safeguarding the independence of the research (Broom, 2006). In this study, the confidentiality of all those who participated in the research was guaranteed prior to starting the interviews and their names were removed from the research study.

1.9 Overview of the Chapters

Chapter 1 was an introduction of the research topic, namely the implications of the EPAs on the horticultural sub-sector in Kenya. The chapter also stated the problem statement, covered the research objectives and presented the research questions. In addition, the chapter briefly addressed the research methodology used, the limitations of the study and, finally, the ethical considerations.

Chapter 2 is the literature review which discusses the main topics of my research; trade policy in Kenya, agriculture, politics of the EPAs and their implications on regional integration, the multilateral trading system, sustainable development and poverty. The chapter outlines the history of the major themes and lists the various changes in trade and agricultural policy that Kenya has adapted since independence. The chapter discusses the controversial issues of the EPAs and alternative preferential schemes for trade with the EU. Further, the chapter portrays how international trade remains adversarial to developing countries and concludes by stating the challenges faced by Kenya to combat poverty and promote sustainable development.

Chapter 3 expounds on the theoretical framework used in the report - the Ricardian theory of comparative advantage of international trade and the Heckscher-Ohlin theory of factor endowments. The theories of international trade address the issues of trade patterns between nations, gains and losses to the economy and the effects of trade policies on an economy. The main thrust of these theories is that since Kenya has relatively abundant land and labour, the country should continue to specialise in the production and export of primary agricultural commodities and labour-intensive goods. The theories propose that in order for Kenya to benefit from international trade the government must embark on a policy of free trade and liberalization. The chapter concludes by assessing whether or not Kenya has comparative advantage in the horticultural sub-sector.

Chapter 4 discusses the qualitative research methodology and the critical paradigm applied as it was important to critically look at all the reasons for Kenya’s signing of the EPAs. The chapter also discusses sampling and why purposive sampling was used in the study. It concludes by discussing data collection methods used and data analysis.

Chapter 5 discusses the research findings and interpretations. The main identified themes in this chapter are generated from the literature review, the semi-structured interviews and documentary analysis. The chapter highlights the continued challenges the government continues to face in the agricultural sector, inadequate infrastructure and limited value addition. The chapter further addresses the outcomes of the controversial clauses in the EPAs and concludes by stating what trade scheme Kenya should trade under with the EU.

Chapter 6 concludes the research report by summarising the topics and results presented. The chapter puts forth various recommendations, and what trade option Kenya should have opted for with the EU. The chapter further addresses the importance of continued investment in agriculture, infrastructure development, diversification of the economy and the fostering of the EAC. The chapter concludes by summarising the main themes brought up in the study and what options the Kenya government really had while entering into the EPAs with the EU.

2 CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Fink (2005) defines literature review as "a systematic, explicit, and reproducible method for identifying, evaluating, and synthesizing the existing body of completed and recorded work produced by researchers, scholars, and practitioners" (p.3). Literature review takes one of two forms: within-study analysis and between-study analysis. The former involves analysing the contents and components of a specific work, while the latter involves comparing and contrasting multiple components of information from two or more literature sources (Onwuegbuzie, Leech & Collins 2012). This chapter looks at existing literature on the issues of trade, agriculture, sustainable development and poverty in Kenya. Since Kenya is largely an agricultural country, international trade has a major impact on the economy, sustainable development and poverty.

2.2 Agriculture in Kenya

As the world food demand is set to double by 2050 due to an increase in population, the agricultural sector plays an ever-growing role, especially in developing countries. The need to develop capacities, produce higher yields to ensure food security and exports and also promote sustainable agriculture has become very important (Moon, 2011). According to the WTO (2014), trade in agriculture was three times the size of non-food products, totalling US$ 1,745 billion in 2013. Directly accountable for hunger and malnutrition in most LDCs, agriculture is a critical sector that needs to be protected in order to reduce poverty and drive economic change (Moon, 2011).

Agricultural systems in Africa are still characterised by low productivity and inefficiency as illustrated in the high discrepancy of production rates between the continent and the rest of the world (Nyariki, 2011). Indeed, fertiliser use in Africa is the lowest in the world with "sub-Saharan Africa using 8 kilograms of fertilizer per hectare compared to 80kgs for Latin America, 98 kgs for North America, 175 kgs for Western Europe and 202kgs for East Asia" (Ong'anya, Omuya, Ombaba & Arogo, 2012, p.330).

Located on the east coast of Africa, Kenya lies approximately between latitudes 5º north and 5º south and between longitudes 34º and 42º east, with the equator running right across the

country. Having a total area of 582,650 km of which 13,400 km is covered by water, only 17% of the total area is land, with high to medium agricultural potential supporting about 80% of the country's population. The remaining 20% of the population live in the other 84% of the total area that is arid and semi-arid land (ASAL), (MAFAP, 2013). Agriculture in Kenya is predominantly rain fed with rain following a bimodal pattern, the long rains occurring between March and May, and short rains occurring between October and December (MAFAP, 2013). The high rainfall areas, which cover 11% of the country, grow a full range of crops all year round but due to high population density and expansion of urban areas, the land units are smaller and increasingly declining (Agriculture MTIP, 2010). Semi-arid lands, covering 21% of the country are mostly used for grazing by the pastoralist communities, however in spite of pressure on land and natural resources, some of the communities are engaging in rain-fed and irrigated agriculture (Agriculture MTIP, 2010). Prone to increasing and more severe droughts, arid lands that cover 68% of the land area in the country experience the highest levels of food insecurity and poor water and sanitation services (Agriculture MTIP, 2010). The figure below shows the agricultural zones in Kenya.

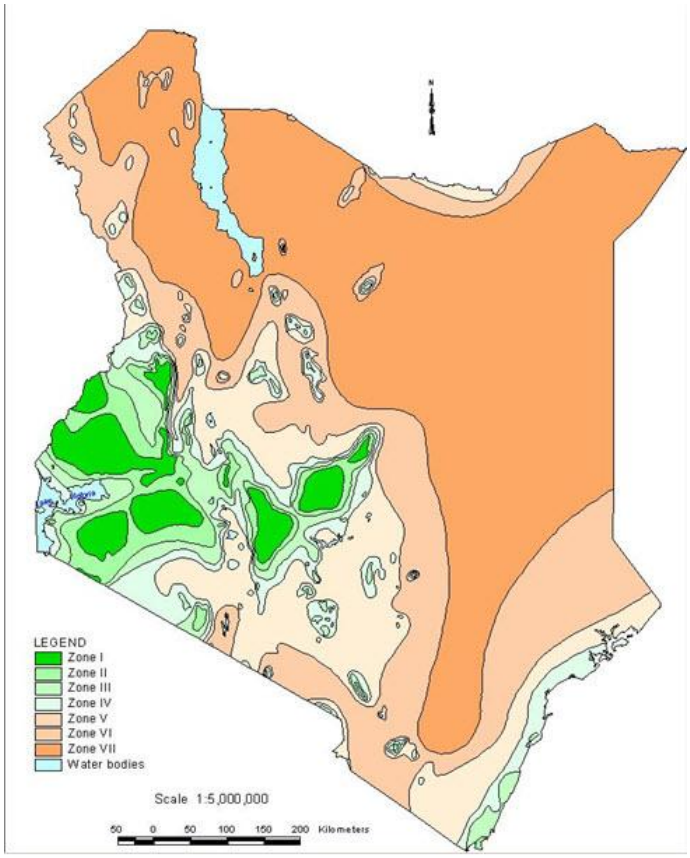


Figure 1: Kenya Map of Agricultural Zones

Source: http://archive.infonet-biovision.org/default/ct/690/agrozones

Kenya is highly reliant on agriculture for "food security, economic growth, and rural employment and foreign exchange earnings" (MAFAP, 2013, p.32). Owing to increasing weather variations as a result of climate change and limited high potential agricultural land, the government has to invest more in the horticultural sub-sector. The government will need to contribute more than the current 6.3% of GDP in the sector for it to be able to fulfil its commitment to the 2003 Maputo Declaration of allocating 10% of GDP to agriculture (MAFAP, 2013). Agriculture, the mainstay of Kenya's economy, contributes 26% of GDP directly and another 25% indirectly, 65% of Kenya's total exports and provides more than 18% of formal employment and 70% of informal employment, especially in the rural areas (MTEP, Agriculture & Rural development sector, 2010). In addition, it is estimated that 45% of government revenue is derived from agriculture, which also contributes over 75% of industrial raw materials (MTEP, Agriculture & Rural development sector, 2010). In the two decades after independence the sector averaged growth rates of 7% annually. This continual growth was due mainly to availability of land, use of technology, and government support of extension and research programmes (ASDS 2010-2020). The sector comprises six sub-sectors – industrial crops, food crops, horticulture, livestock, fisheries and forestry (ASDS 2010-2020). The figure below shows the agricultural output growth in Kenya from 2005 – 2011.

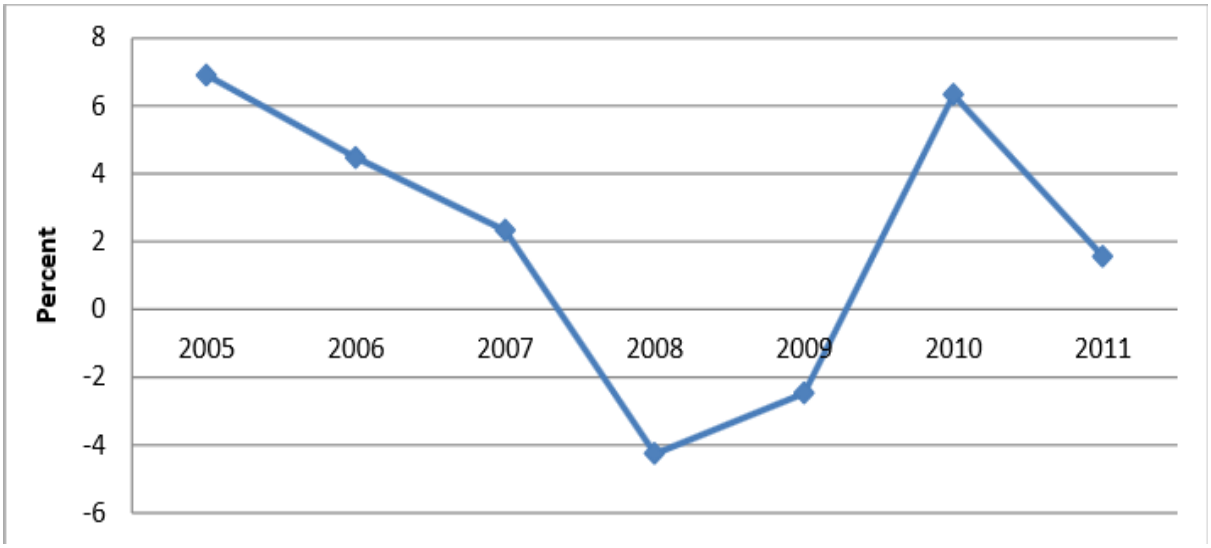


Figure 2: Kenya Agricultural Output Growth 2005-2011

Source: http://www.fao.org/3/a-at553e.pdf

Growth in agriculture, a prerequisite for development, especially in the rural areas has to be achieved through an "increase in total employment capacity and an increase in the efficiency of production: that is the added value of production per unit of labour" (Ong'anya et al., 2012, p.324). Due to the volatile nature of the agricultural sector, governments across the world have always seen fit to intervene and regulate the sector through policies in efforts to "stabilise and increase farm incomes; guarantee food security; improve balance of payments; support the development of other sectors of the economy and to increase agricultural output" (Hoekman & Kostecki, 2001, p.210).

Initially experiencing rapid growth in the first decade after independence due to the introduction and adoption of new technologies, the agricultural sector contributed to increased food production and economic growth. However, the rapid growth soon changed as government objectives shifted towards increased production in less productive areas, which resulted in the decline of the sector (Nyariki, 2011). The sector was further damaged when the government adopted the strategy of industrialisation, privatisation and deregulation imposed by the Bretton Woods institutions and donor countries to the detriment of agricultural development (Moon, 2011). The development of agriculture in Kenya has undergone various policies, plans and strategies over the years. Under the colonial government, the Swynnerton Plan of 1954 not only introduced native participation in cash-crop production but also led to the reform of traditional land tenure system by introducing issuance of title deeds, which created security of tenure and the ability to obtain credit (Agriculture Policy, 2015). After gaining independence, the Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning was then adopted. The sessional paper outlined efforts to "promote rapid economic growth through public sector programmes, encouragement of both smallholder and large-scale farming and the pursuit of accelerated growth of private sector investment" (Agriculture Policy, 2015, p.4).

With the introduction of Structural Adjustments Programmes (SAPs) in the 1980s, which were articulated in the Sessional Paper No. 4 of 1980 on Economic Prospects and Policies and later elaborated in Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth, the agricultural sector underwent major restructuring that included institutional reforms, product price liberalisation and privatisation of services (Agriculture Policy, 2015). In efforts to revitalise and further develop the sector over a ten-year period starting in 2004, the Strategy for Revitalizing Agriculture (SRA) was launched. This has now

been succeeded by the Agricultural Sector Development Strategy (ASDS 2010 to 2020) and Kenya Comprehensive Africa Agriculture Development Program (CAADP), which will not only define the characteristics, challenges and opportunities, but also various interventions necessary to accelerate development and growth in the sector and potentially drive national economic growth (Agriculture Policy, 2015). In addition to setting a growth rate of 7% in the sector and assuming favourable external factors promoting development, the ASDS targets to increase the contribution of agriculture to GDP by more than Kshs 80 billion. ASDS further seeks to reform and streamline agricultural services and ensure the eventual transition of the services provided by the government to be taken over by private firms. The government preference of private firms taking over the services are motivated by the ability of the private sector to better produce and process the products and market them in international markets (ASDS MTIP 2010-2015). If met, the increased growth in this sector would drive the growth in "non-agricultural sectors through raising the demand for non-agricultural goods, lowering input prices, fostering upstream processing and generating strong economy wide growth linkage effects"(ASDS MTIP 2010-2015, p.18).

2.2.1 Food insecurity and climate change

In the first quarter of 2009 the number of chronically hungry people in the world was estimated to be about 1 billion: around 642 million in Asia and the Pacific; 265 million in sub-Saharan Africa; 53 million in Latin America and the Caribbean; and 42 million in the Middle East and North Africa (Amaral & Peduto, 2010). Sub-Saharan Africa remains the world's most food-insecure region largely because approximately 85% of agriculture is rain fed and accounts for 35% of the region's GNP, 40% of exports and 70% of employment (Ogujiuba, 2012).

Food security is defined as access by all people at all times to sufficient food for an active healthy life (Maxwell, 1999). According to the UNICEF parameter, a household is said to have achieved nutritional security when it has secure access to food coupled with a sanitary environment, adequate health services and knowledgeable care to ensure a healthy life for all household members (Ogujiuba, 2012). One of the root causes of food insecurity in developing countries is the inability of people to gain access to food due to poverty. Where households produce their own food, cash and transport constraints limit people's ability to purchase farm inputs and market their produce (NEPAD Report, 2009). Factors that have led

to food insecurity include climate change, environmental degradation, national policies that do not contribute to and promote agricultural development, inequitable access to food, and limited access to markets for trading purposes. Other causes of food insecurity include poverty, war and civil conflicts and market protection (Amaral & Peduto, 2010).

In Kenya food accounts for roughly one-half to two-thirds of total monthly expenditure in poor households therefore, higher food prices reduce the purchasing power and shift consumption to cheaper alternatives or the foregoing of meals for some members of the family (Mason et al, 2011). In spite of food insecurity falling by 12% between 2002 and 2007, subsequent drought, failed cropping seasons and the post-election violence in 2008 saw the number of Kenyans requiring food assistance go from 650,000 in late 2007 to almost 4 million in 2010 (Agriculture MTIP, 2010). In addition to having a structural deficit in the production of key staple foods, the food insecurity for millions of net buyers was heightened as a result of shortfalls in domestic production (Agriculture MTIP, 2010).
It is the responsibility of the Government of Kenya to ensure food security to all its citizens, as is mandated by Article 43 of the Kenya Constitution, which states that every person has the right to be free from hunger and to have adequate food. The Kenya government is signatory to various international agreements to fight hunger and poverty. These international agreements are CAADP, Millennium Development Goals (MDGs) and the Maputo Declaration. CAADP's vision is for the restoration of agricultural growth, food security and rural development in Africa (NEPAD Report, 2009). One of the United Nations (UN) MDGs is to push for zero hunger and greater food security and sustainable food systems (UN.org). The Maputo Declaration also commits the government to spending at least 10% of its annual budget on the agricultural sector.

One of the health-related issues compounding food insecurity is the problem of malnutrition, commonly characterised by stunting. Malnutrition has the potential of extending to micronutrient malnutrition, which often co-exists in resource-poor settings where there is inadequate access to food, sanitation and safe water, and a lack of knowledge about safe food handling and feeding practices. Stunting rates in Africa declined by less than four percentage points between 1980 and 2000. However, due to population growth, the number of stunted children actually increased by more than 12 million and both relative and absolute numbers of underweight children in Africa increased over the same period (NEPAD Report, 2009). A food-secure nation leads to a developed and prosperous nation and because Kenya has an

agricultural economy, reform and investment in the sector are inevitably linked to food security and poverty reduction. It is the responsibility of governments to adopt social-protection measures that address vulnerability and inequality that enable the vulnerable in the society to overcome the effects of shock that lead to food insecurity (Gumede, 2011).
The figure below illustrates the levels of the food security situation in Kenya in 2015.



Figure 3: Kenya Food Security Classification Map

Source: http://www.ipcinfo.org/ipcinfo-countries/ipcinfo-eastern-middle-africa/Kenya

That climate change has adversely affected the agricultural sector in Kenya is unmistakable. The country has seen rising temperatures while rainfall has become irregular and unpredictable and, when it does rain, it is more intense, sometimes causing considerable damage to food crops. The changing weather patterns have had a severe impact on socio-economic sectors, ranging from agriculture to energy, as climate change not only affects the amount of food grown and harvested but increasing drought conditions also affect the production of electricity in the country. A reduction in crop production leads to rising food

prices, further compounding food insecurity issues. Environmental degradation and poor agricultural practices have further compounded the effects of climate change. As a result of deforestation and land degradation, forest cover has fallen from 12% in the 1960s to less than 2% at present, affecting the water catchment areas that are the main sources of water for consumption in both rural and urban areas (NCCRS, 2010). Being the most weather dependent sector in Kenya, agriculture will bear the brunt of climate change. With the globalisation of agricultural trade, the impact of climate change on food production will affect both importing and exporting countries, the former being concerned about food security and the latter on farming income (Lee, 2009). Lee (2009) further states that climate change negatively affects poor countries such as Kenya as a result of reduction in precipitation, intensified pest problems and insufficient irrigation infrastructure.

2.2.2 Horticultural sub-sector in Kenya

According to Dolan (2001), the global restructuring of agriculture in Western nations has resulted in increased specialised food systems in African countries. Horticulture in Kenya is the fastest growing sub-sector in the agricultural sector, replacing coffee as the second major source of foreign exchange. The origins of horticulture for export in Kenya date back to 1901 when the first East African Agricultural and Horticultural Society was founded by the colonial white settlers (Minot & Ngigi, 2004). The colonial government was, as early as 1911, experimenting with tropical fruits and, by 1930s, had constructed four factories for the production of passion fruit juice for export to South Africa and Australia (Minot & Ngigi, 2004). Small-holder participation for supplying raw produce to the processing plant and Kenyan native participation in cash-crop production was established in 1954 under the Swynnerton Plan. The plan also sought to provide government-backed technical assistance, improve infrastructure and work on the consolidation of land and tenure especially in the Central Province (Thurston, 1987).

Horticultural products at independence accounted for 0.3% of exports but by 1991 horticultural exports had grown by approximately 12 times in tonnage and 40 times in terms of value (McCulloch & Ota, 2002). From the late 1990s Kenya was exporting 75 horticultural products both as raw products and pre-packed and prepared vegetables (McCulloch & Ota, 2002). In 2013, the global production of fruits and vegetables reached 1.74 billion tons - a reflection of ever increasing world trade in the horticultural sub-sector. The EU, North

America and Asia dominate trade in the sector; however, middle-income countries in Latin America and developing countries in Africa are increasingly making their mark. For example, Mexico is the world's leading exporter of tomatoes and 25% of the world's green beans are supplied by Kenya (Diop & Jaffee, 2005).

Initially dominated by Kenyan Asians, horticulture exporters now consist of large exporters with substantial financial backing of mainly Kenyan Europeans, expatriates and few African owned companies (McCulloch & Ota, 2002). Today the horticultural sub-sector which includes fruits, vegetables and flowers, has not only increased rural income and reduced poverty (Muendo & Tschirley, 2004), with over 4 million people directly employed, but also sustained impressive growth rates of 15% per year. Export volumes have increased from 100, 000 tonnes in 1997 to 350, 000 tonnes in 2013, with the EU being the main destination for the bulk of exports (Achuka, 2015).

Facing increasing domestic and international demand, including better market access, horticulture production can be highly profitable and a means of both commercialising and transforming rural agriculture. Horticulture in Kenya is carried out by both large commercial farms and small-scale farmers who mostly supply the domestic market but are increasingly supplementing export production shortfalls from the larger farms. Participation in this sector especially for the small-scale farmers presents a great opportunity for them to grow and help in the alleviation of poverty. Improvements in the food-processing industry (including transportation, packaging and storage) have sharply increased value addition and fetched higher prices for the produce. Weinberger and Lumpkin (2007) define "diversification as an adjustment of farm enterprise patterns to increase farm incomes and reduce income vulnerability" (p.5). Being more labour intensive than traditional agriculture, shifting to horticulture requires additional labour hence offering more employment opportunities and income for poor households (Weinberger & Lumpkin, 2007). Demand for labour is also crucial during harvesting and eventual sorting, grading and packing in the various warehouses before shipping out of the country. The success in this sub-sector can be partly attributed to agro-climatic conditions, Kenya's location on the equator which enables year round production, highly intensive production and use of low-skilled labour, thus keeping Kenya's comparative advantage in availability of land and the production of labour intensive goods (McCulloch & Ota, 2002).

2.2.3 Small-scale farmers and contract farming

Proposed as pro-poor strategy due to the high labour requirements and commercialisation of small-scale farms, the expansion of horticulture agri-business offers many economic opportunities (Ulrich, 2014). In addition to offering learning opportunities, agricultural skills upgrade and the safe use of chemicals, the sector has through the construction of greenhouses, boreholes and irrigation systems transferred technology to not only those actively involved in horticulture but also to the wider community (Ulrich, 2014). Encouraged by the World Bank as a way of promoting the commercialisation of small-scale farms, contract farming between large agro-export firms and small-holders has been recommended as a way of exposing the small-scale farmers to the lucrative export market (Mannon, 2005). Introduced in the 1980s, contract farming has risen rapidly as a result of agricultural diversification into "high value, labour intensive commodities" (Echanove & Steffen, 2005, p.168). Binding the producer to the exporting firm, these contracts offer the farmers a reliable buyer for their produce, technical training and sometimes financial assistance. On the other hand the contracts reduce production risks for export firms while offering them the flexibility to meet the changing consumer demands (Mannon, 2005).

Participating households are among the relatively well off, earning up to five times more than those not growing horticultural products. In addition to stimulating the rural economy, commercialisation has contributed to the growth and development process and increased agricultural productivity (Weinberger & Lumpkin, 2007). The continued participation is determined by the small holder farms' "capacity to adapt to the increasing requirements of traceability, quality management and compliance with emerging international food safety standards" (Ulrich, 2014, p.344). Nelson and Tallontire (2014) add that "standard systems have diverse emphasis, methods of monitoring compliance and use of certificate or labels" (p.482). Although such standards and certification are not new, the proliferation, range and scope tends to marginalise small-scale farmers due to the high cost involved, however, most are able to overcome the costs by forming cooperatives or self-help groups (Ulrich, 2014).

The horticultural sub-sector does, however, face several challenges - including high cost of farm inputs, lack of easy credit to small-scale farmers, low scales of production thus an inability to meet demands, poor infrastructure, which in turn raises cost of transporting the produce. Poor storage facilities and emerging competition from other developing countries are other challenges facing the horticultural sub-sector in Kenya (AFDB, 2004). In addition

to production and marketing difficulties, the perishable and delicate nature of the products makes careful handling essential from harvest to shelves in overseas retailers. Failure to handle the products carefully leads to product rejection which the farmer does not get compensated for (McCulloch & Ota, 2002).

As a result of stringent consumer demands for quality and safer production, the EU has also imposed very high phytosanitary restrictions requiring not more than 2% of pesticide use on agricultural produce (Unnevehr, 2014). Failure to meet the phytosanitary requirements also leads to the rejection of products (Unnevehr, 2014). In addition, the EU also requires that all farmers must be certified both by the Kenya government and international certification bodies in order to qualify to produce food products for the export market. These demands are perceived to be forms of non-tariff barriers and protectionism that place significant financial burdens on farmers and exporters in Kenya. In addition these strict demands have led to the exclusion of small-scale farmers in Kenya from the lucrative exports markets in the EU (Henson et al, 2011).

Through the integration of poor producers in global markets, the rural agricultural economy is transforming towards industrialised and vertically integrated governance structures that provide both opportunities and challenges for the small-scale farmers (Zylberberg, 2013). Engaging the poor farmers in the international markets means better prices for their produce, which would go a long way in reducing poverty in the rural areas.

2.2.4 Agriculture in Europe

In contrast to the various agricultural policies implemented in Kenya, agriculture in Europe is governed under once central policy that encompasses all the countries that are members of the European Union. The Common Agricultural Policy (CAP) came about during a period of food scarcity after the Second World War. CAP came about as a result of the Spaak report of 1956 that recommended different treatment for agriculture because of human reliance for food, social stability especially in the rural areas, natural and climatic factors that affected farming more than other economic activities (O'Neill, 2002). Articles 38-47 of the 1957 Treaty of Rome set out the requirement for a common policy and with it, the fundamental objectives of establishing a standard of living for the farmers and market stabilisation (Greer & Hind, 2012). The CAP was formally initiated in 1962 and outlined a number measures in support of farmers. These measures included guaranteed purchase price of agricultural output

from farmers, strict control of imports, and the protection of EU markets from international competition by imposing levies on imports that had low prices (Hoekman & Kostecki, 2001). Agriculture in Europe was protected through the following instruments- import tariffs, export subsidies and direct subsidies, which in addition to raising consumer prices, stabilised farmer prices relative to world prices (Borrell & Hubbard, 2008). Further, agriculture in Europe has two distinctive influences, firstly the farmers who have special interests and needs and secondly, due to the vital contribution the sector makes in terms of food security and sustainability, "farming merits distinctive preferential policies" enshrined in the notion of agricultural exceptionalism (Greer & Hind, 2012, p.332).

Highly compartmentalised and complex, the agricultural policy making process in the EU involves all member states, agricultural ministers from each member state, the European Parliament, the European Commission through the Directorate for Agriculture and Rural Development, the Agricultural Council and the Special Committee on Agriculture (Greer & Hind, 2012). Farmers in the EU receive support through two separate funds – the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. The European Agricultural Guarantee Fund finances direct payments to farmers and takes measures to regulate agricultural markets such as intervention and export refunds (EU CAP, 2013). Meanwhile the European Agricultural Fund for Rural Development finances the rural development programmes of the member States. This support to farmers represents 38% of the EU budget, which for the period 2014-2020, is equivalent to 362 billion Euros or 50 billion Euros per year (EU CAP, 2013).

Agricultural product exports account for 7% of value of total goods in the EU and having switched from being a net importer of agricultural products to a net exporter in 2010, the EU agricultural trade surplus reached 18.5 billion Euros in 2013 (Monitoring Agri-trade Policy, 2014). The EU is currently the highest importer of agricultural products from the LDCs in the world at 2.8%, with half the imports being final products, 30% commodities and intermediate products for the rest, in total accounting for approximately 2.8 billion Euros in trade volumes (Monitoring Agri-trade Policy, 2014).

2.3 Trade Policy in Kenya

Hoekman and Kostecki (2001) maintain that the creation of trade policy by a government is motivated by the four factors – first, the revenue generated through taxing of trade; secondly, the mercantilist belief that imports are bad and hence the need for them to be restricted

through tariffs and quotas, while on the other hand, exports are good as they bring in foreign exchange (Hoekman & Kostecki, 2001). The third factor that motivates the creation of trade policy is the use of trade barriers as instruments for agricultural and industrial development especially for the protection of infant industries (Hoekman & Kostecki, 2001). Finally, trade policy is used as an instrument of income redistribution through the imposition of barriers to trade to some segments of society gain at the expense of others (Hoekman & Kostecki, 2001). Through protectionism, interest groups supporting certain political parties are compensated in relatively non-transparent ways (Hoekman & Kostecki, 2001).

After gaining independence, Kenya, like most of the other developing countries, embarked on import substitution policy up until the late 1970s. The essence of the import substitution policy consisted of establishing domestic production facilities to manufacture goods previously imported. To understand Kenya's trade policy one must go back to Sessional Paper Number 10 of 1965 on African Socialism and its Application to Planning in Kenya. Key among its objectives was ensuring rapid economic development and progress for all Kenyans. A major emphasis was promotion and protection of domestic industries. It was this policy that was a key influence on the development of the country's trade regime over the first decade of independence. In the mid-1980s the demand from the Bretton Woods Institutions to implement Structural Adjustments Programmes (SAPs) lead to the introduction of Sessional Paper-No.1 of 1986 on Economic Management for Renewed Growth. This time emphasis was on the change from reliance on import substitution and protectionism towards a policy that led to industries being encouraged to manufacture for export with reform programmes aimed at improving efficiency, stimulating private investment and increasing the sector's foreign exchange earnings. The introduction of SAPs also meant economic liberalisation, which brought to an end the central role of the public sector institutions that had hitherto managed and coordinated trade distribution networks and related trade facilitation and promotion activities (National Trade Policy, 2010).

The case for free trade is based on the theory of comparative advantage. According to the theory of comparative advantage, countries trading and specialising on certain products use their resources more efficiently and offer consumers cheaper goods (Chingarande, Mzumara & Karambakuwa, 2013). The three main characteristics of the classical theory of universal free international trade are: "a focus on allocative functions of the markets to the exclusion of their creative functions as instruments of economic change; expansion of international trade

as against the development of 'productive power'; and maximizing the welfare of the world economy as a whole" (Shaffaedin, 2010, p.177). Shafaeddin (2005) defines trade liberalisation as "any act that would make the trade regime more neutral or nearer to a trade system free of government intervention" (p.3). Hoekman and Kostecki (2001) add that not only does trade liberalisation bring about "the reallocation of resources towards those activities in which the country has comparative advantage, but also expands the consumption opportunities of countries, as more efficient production generates greater income and increased opportunities to buy goods and services from other countries" (p.28). Trade liberalisation through SAPs policy reforms imposed by the so- called "Washington Consensus" from the 80s included: "fiscal discipline, public expenditure priorities, tax reform, financial liberalisation, exchange rate policy and Foreign Direct Investment (FDI), privatisation, deregulation and property rights" (Marangos, 2009, p.198). The period between 1980 and 1990 became known as the "lost decade" with the introduction of SAPs. First signed in Kenya in the 80s on condition that the government adopt more liberal trade and interest rate regimes geared towards a more outward-oriented industrial policy (Gertz, 2008), the SAPs were a set of international development policies that were based on the premise of "economic development not being a function of natural resource endowment or physical or human capital but rather the result of the set of economic policies implemented" (Marangos, 2009, p.198). Part of the consensus was universal and uniform trade liberalisation, which implied that not only would all developing countries follow the same trade policy regime irrespective of their industrial and development capacities but also that all sectors were to be subject to the same tariff rates – preferably at low or zero rate (Shafaeddin, 2005). However, in retrospect, the International Monetary Fund (IMF) and World Bank policies of SAPs have been highly criticised for not only "negatively affecting the economic prospects of developing countries with little technological development and leading to the deterioration of infrastructure due to lack of government funding but also increasing inequality and undermining democracy while simultaneously encouraging corruption and an individualistic society" (Read & Patton, 2009, p.569). The implementation of these programmes led to economic decline and stagnation, with high imports leading to de-industrialisation, as locally manufactured products could no longer compete in price and quality with imported goods. The economic decline led to closures and layoffs in factories, deepening the levels of poverty and increased unemployment in Kenya (Mohan, 2009).

The Government of Kenya starting from the late 80s introduced a number of export promotion platforms to help boost trade. One of the first export promotion platforms to be introduced was the manufacturing-under-bond (MUB) programme that permitted manufacturers producing for export duty free import of factory plant, equipment and raw materials (Gertz, 2008). The next export promotion platform was the Export Processing Zones (EPZs). The EPZs provided incentives for manufacturers for export that included "corporate tax holidays, waivers for import tariffs and exemption from numerous business regulations" (Gertz, 2008, p.4). Imports increased steadily and the export sector expanded as a result of the implementation of the liberalisation programmes. According to Barboza and Trejos (2010) increased trade and exports play a favourable role on economic growth. Trade further enables other transmission mechanisms such as technology transfer, economies of scale and the development of research and development (Barboza & Trejos, 2010). Other arguments advocating trade liberalisation include increasing market access, exposing the markets to new ideas, enhancing international competition, improving efficiency in domestic markets and reducing prices for domestic consumers (Read & Patton, 2009). On the other hand, Hossain (2011) counters that while there have been perceived opportunities for development and growth for developing countries, LDCs are yet to benefit from trade liberalisation. Agricultural exports by LDCs as a percentage of world agricultural export has steadily declined from 3.2 % in 1970-1979 to 0.9 % in 2000-2004 (Hossain, 2011).

Kenya's imports grew from an average of 6.1% to 22.5% between the periods 1998-2002 and 2003-2007 respectively (National Trade Policy, 2010). Over the same periods exports grew from an average of 6.6% to 10% (National Trade Policy, 2010). The high growth in imports relative to exports resulted in the widening of overall trade imbalance from an average of Kshs.45 billion to Kshs.87 billion between the period 1998-2002 and 2003-2007 respectively (National Trade Policy, 2010). This high trade imbalance was directly attributed to the continued trade liberalisation in Kenya that significantly reduced tariff levels, eliminated price controls and licensing requirements (National Trade Policy, 2010).

One of the main factors ensuring that trade boosts economic growth rates is institutional quality (Borrmann, Busse & Neuhaus, 2005). Eggertsson (2013) defines institutions as "effective rules of a social game (laws, regulations and norms) whose enforcement mechanisms create constraints and incentives that shape the behaviour of decision makers" (p.1). According to Fukuyama (2007), formal institutions matter as they change incentives,

mould preparedness and ideally solve collective action problems which further validates the findings that international trade stimulates growth on economies with better institutions (Borrmann et al., 2005). Read and Patton (2009) refute the claim that trade liberalisation reduces poverty as a lot of what is assumed, namely "the existence of functioning capital markets, strong financial and banking systems, appropriate institutional and technical capacity, efficient distribution networks, existence of property rights and the ability to implement and enforce regulatory framework" (p.570) are largely non-existent in most developing countries like Kenya.

Often argued that trade liberalisation will provide economic growth and development for developing countries, the share of LDC agricultural exports has consistently been on the decline (Hossain, 2011). Globalisation has pitted poor small-scale farmers in Africa with huge retailers in a move towards commercialised agriculture and "vertically integrated governance structures" to their disadvantage due to the high technological and capital requirements coupled with the "complexity of transactions, codifiability of information and capability of suppliers" (Zylberberg, 2013, p.6). While trade liberalisation increased total exports and imports and led to a more diversified export structure, Kenya's comparative advantage has not changed and the balance of trade has worsened (UNECA, 2015). Changes in policies are essential to not only have an efficient domestic trade policy that links to the international trade policy but also a strong economic policy that will enable Kenya to exploit the available trade opportunities, enhance capacity and investments in infrastructure while providing incentives to private sector (Arinaitwe, 2006). Due to limited capacity to add value, lack of diversification and low productivity, Kenya has failed to fully exploit the opportunities available in the international markets and, without an effective trade policy framework that is guided by institutions that are effectively coordinated and take into consideration the interests of various stakeholders, no substantial gains in trade will be ever made (KIPPRA, 2007).

Currently, according to the National Trade Policy (2010), the trade policy in Kenya is not only anchored on the principles and objectives of the WTO but also "committed to the gradual reduction of tariff and non-tariff barriers and progressive liberalisation of trade in services" (p.16). While Kenya has an open trade policy, Kenya's trade structure, however, remains concentrated in primary products and traditional markets. For instance, exports are composed of a few primary commodities, which include tea, coffee, cut flowers, and

vegetable products, accounting for over 50% of total exports (National Trade Policy, 2010). The continued focus on primary agricultural products has been due to limited capacity for value addition in the manufacturing sector and the relatively underdeveloped intermediate and capital goods industries. The trade direction is also limited to a few countries with COMESA and the EU accounting for over 60% of exports (National Trade Policy, 2010). A facilitation role by the state is necessary "to encourage the emergence of companies, industries and sectors that can make use of the country's comparative advantage, which means focusing on labour-intensive and resource-intensive types of production and services." (Lin & Chang, 2009, p.486).

There are, however, numerous challenges to trading in Kenya that include: a weak business regulatory framework; high cost of doing business; commodity price volatility; fragmented and informal trade sector; poor infrastructure and inadequate utilities such as water and energy (Kenya Vision 2030, 2008). Other challenges to trading are limited access to credit facilities, stringent technical requirements and rules of origin in the export markets; under funding of export related activities; non-tariffs barriers and limited product diversification (Kenya Vision 2030, 2008). In addition, Kenya faces the following capacity challenges to trade internationally – inadequate negotiating capacity; the inability to set the agenda and pace of negotiations; lack of capacity to fulfil trade agreement commitments without jeopardising development goals and failure to take advantage of trading opportunities due to poor infrastructure (Klomp & Haan, 2009). Klomp and Haan (2009) state that the type of regime in a particular country, either democratic or autocratic, influences economic growth, as an unstable political environment creates a volatile economy. These authors add that policy uncertainty or its variability also increases macroeconomic uncertainty, which in turn is reflected in economic growth variability (Klomp & Haan, 2009). The perpetual weakness of institutions in developing countries contribute significantly to economic instability and none of the standard macroeconomic problems appear to be the primary cause of poor economic performance as poor institutions can lead to bad macroeconomic outcomes through a variety of mediating channels (Acemoglu, 2003). With regard to Kenya, "all in all inefficiencies in government, lack of political good will and numerous vested interests led to shoddy, poor prioritizing, and reluctant implementation of the policies, leading to the near collapse of the economy" (Muthui, Kosimbei, Maingi, & Thuku, 2013, p.237).

The table below illustrates the various tariffs Kenya would be required to pay for export of agricultural products to the EU under the different preferential schemes.

Table 1 - Exports from Kenya to the EU 2007-2010

	Average Value of Exports to the EU (2007-2010)	EPA Tarrif	MFN Tarrif	GSP Tarrif
Roses and Carnations	264 mio €	0 %	12%	8.5%
French Beans	103 mio €	0%	10.4%	6.9%
Peas	39 mio €	0 %	8 %	4.5%
Avocadoes	18 mio €	0 %	5.1 %	1.6 %
Roasted Coffee	4 mio €	0 %	7.5%	2.6%
Coffee/Tea	247 mio €	0 %	0 - 3.2 %	0 %
Nile Perch (fresh/frozen)	18 mio €	0 %	9 %	5.5%
Tuna (Frozen Fillets)	3 mio €	0 %	18.5%	14.5%

Source: http://eeas.europa.eu/delegations/kenya/eu_kenya/trade_relation/index_en.htm

The effects of international trade on agriculture, particularly for developing countries remain challenging because of its importance to the rural population. As the structural adjustments programmes showed, trade liberalisation and removal of domestic policies for agricultural development are not only insufficient but are also not necessary as countries such as India and China who are now major exporters developed their agriculture in interventionist ways (Cotty, 2005). The removal of trade-distorting rules and unfair policies are necessary conditions for trade negotiations to be trusted from both the pro-trade liberalisation point of view and from protectionist countries (Cotty, 2005). Further, not only are free markets not

optimal as long as externalities exist, but also fail to consider economic goals such as food sovereignty (Cotty, 2005).

2.4 Politics of the Economic Partnership Agreements

Signed as a convention in 1963 with 18 newly independent states, the Yaoundé Convention that covered the period 1964-1969, was the first treaty signed between the European Commission (EC) and Africa. The second Yaoundé Convention (1971-1975) that went into effect on 1971 after being signed in 1969, initiated a much broader cooperation that led to the Lomé Convention of 1975 that included 71 ACP countries (Evrensel, 2009). Gibb (2000) provides a clear understanding of the three main factors that helped shape the Lomé Convention of 1975. The first was to include former British colonies; second was to maintain EC access to primary commodities from former colonial ACP countries (Gibb, 2000). Thirdly, the Lomé Convention enabled the EC to establish a single agreement with all its former colonies for the first time (Gibb, 2000). The Lomé Convention provided duty free preferential access based on a quota system for primary products from ACP countries and introduced tariff preferences intent on sustaining the revenue stability of ACP countries exporting agricultural and mining products (Evrensel, 2009). The Lomé Convention was subsequently reviewed four times before being replaced by the Cotonou Agreement (Evrensel, 2009). Some of the reasons put forward for this change being necessary were the lack of tangible results after 25 years under Lomé; a challenge from developing non-ACP countries of the discriminatory nature of the preferential trade policy in the WTO and finally, as a result of EU's increasing dependency on international markets, a reciprocal ACP-EU trade relation was essential especially for the EU to open up foreign markets (Nwobike, 2006).

First signed on 23 June 2000, the Cotonou Agreement was designed to be a partnership agreement between the EU and ACP countries (Bilal & Rampa, 2007). The Cotonou Agreement is based on five principles- comprehensive political dialogue, increased participation from EU and ACP, poverty reduction in ACP, trade and economic cooperation and, finally financial cooperation (Udombana, 2004). Under the agreement agricultural products from ACP to EU markets were granted an eight year interim non-reciprocal preferential access (Ntasano, 2010). A new development dimension was included in the agreement that also covered aid for trade, trade in goods, investment, competition and trade facilitation (Ntasano, 2010). Regional integration initiatives based on trade and economic cooperation were regarded as instrumental in the agreement due to the role they played in

integrating the ACP countries into global trade (Bilal & Rampa, 2007). The Cotonou Agreement laid the foundation for a modern free trade agreement that was legal under GATT, and one that set the framework for a new trade relationship known as the EPAs (Ntasano, 2010). Included in the agreement was the procedure and structure of EPA negotiations between EU and ACP states. Structured around two main phases, Phase I of the EPA negotiation entailed broad discussions on issues of common interests between the EU and ACP, while Phase II featured comprehensive negotiations at the regional level (Bilal & Rampa, 2007).

Envisaged as opportunities for strengthening regional integration, increasing investments and ensuring compatibility with the WTO, the EPAs are different from other free trade agreements as they seek to strengthen " the linkages between initiatives for economic, trade and development cooperation between EU and ACP countries" (Bilal & Rampa, 2007, p.17). On the other hand, EPAs have caused an uproar as to whether they are truly beneficial to the developing countries and have lately, as posited by Nkomo (2014), "been criticised for taking a neo-liberalist approach that seeks to sustain neo-colonialism and bring in new dimensions of imperialism" (p. 241). This neo-liberalist approach that calls for minimal state intervention in the economy through the reduction of the ability of member states to implement policies that they deem appropriate in their own countries is particularly evident in the Most Favoured Nation (MFN) clause and the 'stand-still' clause (Nkomo, 2014). The MFN states that any ACP country entering into a trade agreement and granting favourable treatment with a major trading economy must also accord the EC the same preferences (Hovius & Oettil, 2011). Schmieg (2014) affirms that the inclusion of this clause contravenes GATT/WTO rules that allow for South-South trade among developing countries. Further, the MFN clause prevents a country like Kenya from entering into trade agreements with major trading countries, constraining the possibility of obtaining gains from trade. In addition, the MFN clause contravenes the Enabling Clause whose principles allow for preferential agreements among developing countries (Schmieg, 2014).

The standstill clause prohibits the introduction of new customs duties and those already in existence cannot be increased, leading to the fear that due to the reciprocal nature of the agreement, this will lead to further loss of tariff revenue, essential for developing countries like Kenya (Nkomo, 2014). Another contentious issue that should have no bearing on trade relations is the inclusion of the Non-Execution Clause in the EPAs. This clause allows the EU

to withdraw trade preferences if it's ACP trading partners violate human rights, democracy and good governance principles (Schmieg, 2014).

EPAs between the EU and Africa tend to complicate regional trade as they mostly benefit European countries. In addition, the African Union (AU), which is currently negotiating some terms of the EPA agreements with the EU, has noted with concern some factors included in the agreement (AU – Trade & Industry, 2013). A few factors of concern are first the amendment to the EC Market Access Regulation 1528/2007 that withdraws AU member states from the benefits therein. Second the constant introduction of new issues in the EPA negotiations by the EU (AU – Trade & Industry, 2013). Lastly, the proliferation of EU regulations and legislations on non-tariff measures that serve as technical barriers to trade (AU – Trade & Industry, 2013).

Export taxes on raw materials constitute a substantial source of revenue for developing countries. In spite WTO rules allowing export taxes, the EU is demanding their complete removal in the agreement. Viewed as a restriction to policy space, this demand to abolish export taxes has been rejected by ACP countries. The ACP countries further counter that the WTO is the right place to negotiate export taxes, an issue that is similar to EU agriculture subsidies that are negotiated under the WTO framework and not in the EPAs (Schmieg, 2014).

Supply-side constraints due to the lack of productive and technological capacity have increased the trade barriers for a country like Kenya to effectively take advantage of the opportunities available in the EU markets (Borrmann et al, 2005). These technical barriers such as sanitary and phytosanitary measures (SPS) that require stringent adherence to rules relating to food safety as well as animal and plant health are beyond the capacity of most local industries and in some instances have been used as a protection measure for the farmers in Europe.

International trade is vital for economic growth, more so for developing countries, who now account for more than two thirds of WTO members. Out of a global list of 48 LDCs, 32 are in Africa. LDCs have, since 1971 been recognised by the United Nations and UNCTAD (2013) as countries that are extremely disadvantaged in their development due to structural, historical and geographical reasons. Of the five member states of the East African

Community (EAC), Burundi, Kenya, Rwanda, Tanzania and Uganda, only Kenya is not classified as an LDC. The EU has a separate trade agreement known as Everything But Arms (EBA) that offers all LDC countries duty free and quota free access to the markets in Europe. However, the EBA agreement contains a general safeguard clause that allows the EU to withdraw the most competitive products from the duty free quota free list. The general safeguard clause also permits the EU to exclude a country completely when it is removed from the LDC official list. Ultimately the EU retains all the influence under the EBA as the agreement is unilateral and not contractual and the LDCs do not hold an unlimited legal right to the agreement. Under these circumstances the EBA agreement is therefore more risky making the EPAs a somewhat safer option for the LDCs (Borrmann et al, 2005).

Another drawback to the EPAs is even though there will be increases in trade flows, regional integration would experience negative economic consequences as one of the effects of trade diversion would be the replacement of cheaper imports from non-member countries (Barboza & Trejos, 2010). Other issues that will impose major challenges following the implementation of EPAs include reduced fiscal revenues, the costs associated with de-industrialisation and the replacement of local products because of greater competition from EU exporters (Ntasano, 2010). These government subsidised exporters will offer better quality products and cheaper prices to consumers. Also, as Kenya's imports grow faster than its exports its balance of trade would worsen.

Typically used to prevent producers and exporters from taking advantage of preferences and to determine the nationality of a product (B. Kim & J. Kim, 2009), rules of origin are a detailed set of criteria that must be met for goods to qualify for preferential treatment (Jakob & Fiebiger, 2003). Rules of origin are used to differentiate between domestic products and foreign products which then determine whether the products will receive preferential treatment. Applied in certain circumstances as instruments of commercial policy, these rules of origin are used as safeguard measures to prevent anti-dumping and countervailing (Jakob & Fiebiger, 2003). Rules of origin are mostly used by customs authorities to determine country specific tariffs and import quotas. With increased globalisation the process of establishing the origin of a product has been rendered increasingly challenging as products are manufactured in different countries using both imported and locally sourced materials (B. Kim & J. Kim, 2009). Due to the nature and level of development for countries like Kenya, rules of origin limit the benefit of preferential access as it is difficult to justify enough local content once value is added on raw materials. This problem is further compounded as the

EPAs exclude cumulation with all ACP countries, which in turn undermines regional integration.

2.5 Alternative Trade Preferential Schemes

Due to diverging views on the content of EPAs, the Cotonou Agreement explicitly provided for alternative arrangements of EPAs in Article 37 (Bilal & Rampa, 2007). Article 37 distinguishes between LDC and non-LDC countries and calls for special treatment of LDCs (Bilal & Rampa, 2007). According to Bilal and Rampa (2007) alternatives to EPAs in the case of FTAs have to be compatible with GATT Article XXIV of WTO, while unilateral agreements must be compatible with the Enabling Clause.

The Generalised System of Preferences (GSP) is a scheme that is implemented by developed countries after it was recommended by UNCTAD for preferential treatment of LDCs. The EU GSP scheme that started in 1971 offered varying preferential treatment for eligible countries duty free access for most manufactured and semi-manufactured goods (Ludo, 2013). Initially revised every year, the GSP scheme restricted imports through quotas, ceilings, different products specifications and complex quantitative restrictions effectively transforming the scheme into an "incomprehensible and unstable policy instrument" (Ludo, 2013, p.81). Following Council Regulation No. 980/2005, the EC set up three different GSP schemes. These preferential schemes were GSP, GSP Plus and EBA (Ludo, 2013). Eligibility for each preferential scheme varies. For example, in order for a country to be considered for the GSP scheme they not only have to request but they must also ratify and implement "16 selected international core human and labour rights conventions and at least seven out of 11 selected conventions relating to the environment and to good governance principles" (Ludo, 2013, p.82). The conditions are even more stringent for the GSP Plus as countries seeking to trade under this scheme must have ratified and implemented all the 27 conventions (Ludo, 2013). Citing a lack of human and financial capacity and the relative weakness of their institutions, few if any of the developing countries have the ability to ratify and implement the necessary conventions in order to be eligible for any of the GSP schemes (EPAS EU-ACP: Facts and Key Issues, 2012). Granting of preferences to LDCs has not resulted in increased trade, with the countries trading under the EBA initiative representing only 0.4% of EU raw commodities imports (OECD, 2005). Trade preferences create dependency on commodities where countries have no comparative advantage but were granted huge preferences for the

products (Bureau et al, 2006). Further, preferences divert trade with the GSP scheme, diverting trade from developing countries (Bureau et al, 2006). Given the options that developing countries like Kenya are facing in order to enter into trade agreements with the EU, EPAs seem to be the only alternative. Such trade options set out by the EU are not only self-interested but continue to perpetuate poverty and low development levels in developing countries (Kohnert, 2008). There is need for real alternative trade agreements to be formulated by EU and ACP countries that either incorporates elements of reciprocity among the parties or alternative arrangements covering broader possibilities and removal of reciprocity (Bilal & Rampa, 2007). In addition, the alternative trade agreements should offer different arrangements for LDC and non-LDC as such countries have different developmental needs. These alternative trade schemes are essential in order to mitigate the effects of decades long" incoherent European external trade policy based on asymmetrical power relations inherited from colonial periods" (Kohnert, 2008, p.7).

The table below is an example of the tariffs that the Kenya horticultural sub-sector incurred after failing to meet the September 30th 2014 deadline to sign the EPA and was placed under the GSP scheme instead. Dubbed a "Christmas gift" from the EU to Kenya's farmers, the tariffs were eventually reverted on the 25th of December 2014 after Kenya finally signed the EPA and was back to exporting duty free quota free to the EU markets.

Table 2 – Tariffs incurred by horticultural sector under the GSP scheme

HS Code	Description	Normal EU tariff	Preferential EU GSP-tariff on Kenyan exports from 1 October 2014

06031100	Fresh roses	Jun 1 – Oct 31: 12% Nov 1 – May 31: 8.5%	Jun 1 – Oct 31: 8.5% Nov 1 – May 31: 5%
06031200	Carnations	Jun 1 – Oct 31: 12% Nov 1 – May 31: 8.5%	0%
06031980	Cut flowers (Other)	Jun 1 – Oct 31: 12% Nov 1 – May 31: 8.5%	Jun 1 – Oct 31: 8.5% Nov 1 – May 31: 5%
07041000	Broccoli	Dec 1 to Apr 14: 9.6% MIN 1.1 EUR/100kg Apr 15 to Nov 30: 13.6% MIN 1.6 EUR/100kg	Dec 1 to Apr 14: 6.1% Apr 15 to Nov 30: 10.1%
07081000	Peas	Sep 1 to May 31: 8% Jun 1 to Aug 31: 13.6%	Sep 1 to May 31: 4.5% Jun 1 to Aug 31: 10.1%
07082000	Beans	Oct 1 to Jun 30: 10.4% MIN 1.6 EUR/100kg Jul 1 to Sep 30: 13.6% MIN 1.6 EUR/100kg	Oct 1 to Jun 30: 6.9% Jul 1 to Sep 30: 10.1%
07093000	Aubergines	12.8%	9.3%
07096010	Sweet peppers	7.2%	3.7%
07104000	Sweetcorn	5.1% + 9.4 EUR/100kg/net eda	1.6% + 9.4 EUR/100kg/net eda
071090	Mixture of vegetables	14.4%	10.9%
08044000	Avocados	Jun 1 – Nov 30: 5.1% Dec 1 – May 31: 4%	Jun 1 – Nov 30: 1.6% Dec 1 – May 31: 0%
09012100	Roasted coffee	7.5%	2.6%
16041416	Tuna loins	24%	20.5%
20082011	Processed pineapples	25.60% + 2.5EUR/100kg	22.10% + 2.5EUR/100kg
20094911	Processed vegetables	33.60% +20.6EUR/100kg	30.10% +20.6EUR/100kg

Source: http://eeas.europa.eu/delegations/kenya/eu_kenya/trade_relation/index_en.htm

2.6 Implications of the EPAs on Regional Integration

Having been famously dubbed as the "hopeless continent" by the May 2000 Economist edition, the African continent has finally shed this image and is now considered the fastest growing continent in the world and as of March 2013 edition of the Economist has been christened "Africa Rising". With a combined land mass of United States, Europe, India, Japan and China, the African continent is the second largest in the world. The African continent is highly fragmented into numerous and diverse political jurisdictions comprising 54 countries, making it the continent with the largest number of international boundaries (Kimenyi & Kuhlmann, 2012).

The introduction of SAPs in Africa from the late 1970s introduced neoliberal policies, unequal terms of trade and political interference from the Bretton Woods Institutions that included the IMF, World Bank and GATT, which later became known as the WTO (Mohan, 2009). Some of the elements of the SAPs included the removal of tariff barriers to promote competition from imports; pushing of key commodities, mostly agricultural, for export; withdrawal of subsidies in efforts to remove market distortions; and financial liberalisation to allow for free movement of international capital (Mohan, 2009). The impact of these programmes were mostly devastating to the African economies, from loss of revenues, de-industrialisation due to rise in imports, increase in unemployment and rural poverty as a result of the removal of subsidies to farmers (Mohan, 2009). One of the ways in which the African countries could mitigate the effects of trade and economic imbalance with the North was through the formation of regional trading blocs. The formation of regional integration or blocs is formally sanctioned by the WTO. These regional blocs have proliferated and to date there are over 250 such agreements of which nearly 70% were formed after 1995 (Agu, 2009). The ultimate goal of such agreements which are acceptable exceptions to the principle of non-discrimination, are to improve welfare effects, promote trade liberalisation and compliment the multilateral trading system (Agu, 2009).

Hoekman and Kostecki (2001) state that according to Article XXIV of the GATT, FTAs and customs unions are permitted if: "trade barriers after integration do not rise on average (Article XXIV: 5); all tariffs and other regulations of commerce are removed on substantially all intra-regional exchanges of goods within a reasonable length of time (Article XXIV: 8)

and all newly formed FTAs are notified to the WTO council" (pp.352). Hoekman and Kostecki (2001) further contend that, in addition, Article V of the GATS on the issue of economic integration agreements imposes three conditions. These conditions are firstly "the agreements must have substantial sectoral coverage, in terms of the number of sectors, volume of trade affected and modes of supply; second RIAs must provide for the absence or elimination of substantially all measures violating national treatment in sectors where specific commitments were made on the GATS and third, RIAs may not result in higher trade barriers against third countries" (Hoekman & Kostecki, 2001, pp.355).

Described as a tool for industrial growth, development and investments, regional integration is of critical importance for African economies as it spurs growth, reduces regulatory barriers and effectively increasing intra-African trade (Kumar et al, 2014). Mansfield and Milner (1999) distinguish regionalisation as the "regional concentration of economic flows" while regionalism as a political process characterised by economic policy cooperation and coordination among countries is largely driven by the formation of PTAs. PTAs liberalise the economies of its members, discriminate against non-members and, due to their market power, improve terms of trade amongst members to rest of the world (Mansfield & Milner, 1999). Viner's study on the implications of regional trade arrangements points to various factors of regionalism perceived to be distortionary. Some of these factors include creating and diverting trade, conflicting domestic trade policies, induced changes in volumes of trade with members and non-members, and changes in terms of trade and national output (Agu, 2009). Over the years, there has been significant progress made by numerous African countries with regard to regional integration and there are to date 30 regional trade blocs. Vicard (2011) contends that countries are more likely to form a regional trade agreement for the following reasons – common colonial history, common border and language, and historical-cultural and institutional traits.

Defined as agreements whereby members accord preferential treatment to one another (Martyn, 2001), regional trade agreements are described by a number of different categories. At the most basic level is the PTA, which involves the lowering of trade barriers among members limited to a portion of actual trade flows (Martyn, 2001). According to the World Trade Report (2011), there were 300 PTAs in force in 2010; with 13 being the average number of PTAs a WTO member is party to. The FTAs, a notch higher than PTAs, are defined as a reciprocal arrangement whereby trade barriers (usually tariffs) between participating nations are abolished (Martyn, 2001). The next level of economic integration is

the Customs Union which requires agreement on a common external tariff and revenue distribution between member states (Vicard, 2011). Common markets and economic unions adopt further integration measures. These measures require political institutions to comprehensively agree on a broader set of issues such as the harmonization of national trade policies (Martyn, 2001), regulation and standards, and free movement of goods and factors (Vicard, 2011). Kenya is a member of three regional blocs Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC) and Intergovernmental Authority on Development (IGAD).

First established in 1967, the EAC comprised of Kenya, Tanzania and Uganda. The bloc, however, collapsed in 1977 citing political and personal differences between the then Presidents Nyerere of Tanzania and Idi Amin of Uganda, divergent economic policies between Kenya and Tanzania and finally issues of dominance and equity where Tanzania and Uganda felt that Kenya was the main beneficiary of the community (Stahl, 2005). Today, the EAC, comprises of Burundi, Kenya, Rwanda, Uganda and Tanzania, has a total surface area of 1,817.7 thousand square kilometres and as of June 2013, had an estimated population of 143.5 million (EAC Facts and Figures, 2014). With a combined GDP of USD 110 billion, the EAC is one of Africa´s fastest growing regions with a real GDP of 6.4% and intra-regional trade of USD 5.5 billion as of 2012 (Whitehead, 2014). However, since the re-establishment of the EAC in 2000 and in spite of the significant trade volumes, the industrial share of GDP over the period 2000-2011 has been mostly stagnant as trade in the region is mostly dominated by primary goods with very little value added. For this reason, the potential for higher economic growth and development is reduced (Kiiza & Pedersen, 2012). Established under Article 75 of the East African Treaty and signed in 2004 with the aim of deepening integration, the Customs Union Protocol set to eliminate internal tariffs by 2010 on “the principal of asymmetry and set a three-band Common External Tariff (CET)- 0% for raw materials, capital goods, agricultural inputs, certain medicines and certain medical equipment; 10% for intermediate goods and other essential industrial inputs; and 25% for finished products” (Vitale et al, 2013, p.4).

2.6.1 Constraints to trade and economic integration in the EAC

More than any other countries, LDCs are at greater risk of deeper poverty, extreme vulnerability to external shocks and have more than 75% of their population living in poverty

(UNCTAD, 2013). In addition to having the greater proportion of LDCs, a total of 15 countries in Africa are landlocked. The lack of territorial access to the sea, remoteness and isolation from world markets poses very specific developmental challenges to these countries (UN-OHRLLS, 2014). In order for trade to support structural transformation, appropriate international frameworks must be in place to enable LDCs overcome their structural shortcomings by providing a level playing field (Bridges Africa, 2013). Out of the five member states of the EAC, Kenya is the only one that is not categorised as an LDC country.

The EU GSP, established in 1971, is a scheme that offers eligible countries preferential or duty-free access for most manufactured and semi-manufactured products (Ludo, 2013). Following the enactment of Council Regulation No. 980/2005, three different GSP arrangements were put in place, GSP Plus, GSP and the EBA. Under the EBA initiative, the EU grants LDCs non-reciprocal duty-free and quota free access to their markets for all products. However this unilateral EBA initiative is insecure as not only is it non-binding but also grants the EU the right to withdraw countries from it and modify the initiative at any time (Ukpe, 2010). In addition, with the strict rules of origin, structural and supply shortcomings, most LDCs fail to meet the export requirements for industrial and agricultural products and are therefore incapable of utilising their duty-free quota (Ukpe, 2010).

Another challenge to achieving meaningful regional integration in the EAC region is an extremely poor network of infrastructure, which in turn raises the cost of doing trade. (Kimenyi & Kuhlmann, 2012). This situation is exacerbated for Burundi, Rwanda and Uganda, which are landlocked countries whose sea-borne trade depends on transit through other countries whose infrastructures are just as lacking. The poor state of infrastructure translates to not only the erosion of their competitive edge but also the spending of almost double of export earnings for payment of transport and more insurance than the average developing country (UN-OHRLLS, 2014). Poor infrastructure also diminishes the capacity to produce and supply goods, and prevents diversification from primary commodity exports to value-added manufacturing and processing. These challenges culminate in setting up developing countries to a so called “Faustian bargain” with the EU emerging as the main beneficiary in this arrangement as majority of all agricultural products exported to Europe are cheaper due to their raw form (Draper, Freytag & Doyaili, 2013). Major improvements in infrastructure are necessary as such improvements can help reduce travel time and vehicle operating costs.

Since all countries in the EAC are signatory to more than one regional agreement often with competing and conflicting procedures that then raise the cost of doing business, it is imperative for the member states to come together and streamline the rules and regulations (Amoako, 2012). Burundi, Kenya, Rwanda and Uganda are members of the COMESA, Tanzania is a member of the Southern Africa Development Community (SADC) and Uganda and Kenya are members of IGAD. These overlapping trade agreements have different sets of rules of origin that entail applying differing trade rules to different regional partners (World Bank, 2012). In addition, trade flows are hampered as a result of multiple sets of trade rules, which then give rise to inconsistencies in the rules and procedures, leading to market distortions and ineffective implementation (World Bank, 2012). However steps are being taken to rectify these overlapping and inconsistent rules and procedures under a new initiative known as the Tripartite Agreement that will bring together COMESA, EAC and SADC. This may prove to be an uphill task as EPAs across Africa have been signed under various regional blocs thus issues such as harmonisation of tariffs, exclusion lists and rules of origin become more complicated, effectively preventing strengthening of regional agreements (Ukpe, 2010). Intra-regional trade is still very low compared with trade between other regions. Intra-regional trade needs to be significantly increased in order to accelerate economic growth. Kumar et al (2014) posit that the removal of trade barriers may cause the few industries in less developed countries in the regional agreement to migrate to more advanced countries, leading to the disintegration of the trade agreement. Further tariff elimination in favour of the EU as opposed to other African countries undermines economic integration in the continent, reduces intra-African trade and creates inconsistencies as members obligated to the EU implement full EPAs (Ukpe, 2010).

Like most developing countries, the economies of EAC countries are highly commodity dependent, and these commodities are exported in their raw form to developed countries. In the EAC, for example, 72% of its main exports to its largest trading partner, the EU, are agricultural- coffee, tea, spices, flowers, fish and horticultural products (EAC, 2012). Up to 60% of the main imports from EU to the EAC are machinery, both mechanical and electrical, pharmaceuticals and vehicles (EAC, 2012). Under the EAC common external tariff, 65.4% of the value of imports from the EC is already at zero tariffs (EAC, 2012). Because countries in the EAC heavily rely on primary commodity exports whose prices are very volatile, the terms of trade fluctuations are higher as world markets determine the prices of exported goods,

while the EU sets its own export prices (Kiiza& Pedersen, 2012). The heavy reliance on primary commodity production results in, according to Zylberberg (2013) “immiserising growth," whereby output and employment increase as returns diminish along with terms of trade” (p.7). This type of growth effectively locks developing countries in low-value addition production cycle after entering into trading agreements with developed countries (Zylberberg 2013). Proponents of export-led growth state that “export expansion leads to better resource allocation, creates economies of scale and production efficiency through technological development, capital formation, and generates employment, increases the country's external earnings and attracts foreign investment” (Kiiza& Pedersen, 2012, p.166). However, there are no guarantees that increase in trade especially for primary commodities will lead to economic growth (Kiiza& Pedersen, 2012).

Trade facilitation is defined by the WTO as: “the simplification and harmonisation of international trade procedures where trade procedures are the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade” (Grainger, 2007, p.17). In spite of the fact that the EAC operates as a customs union and shares one common external tariff, customs procedures between the member states are still varied, causing significant delays at borders and hampering trade as the movement of goods is delayed. Required trade documents are numerous; inspections at various border posts are numerous and unpredictable, causing unnecessary delays. The lack of transparency and predictability leads to high losses for both government and business. It is therefore necessary for the customs administrations to expedite the harmonisation of customs procedures in all countries as this will not only lower the cost of goods but also increase investments and trade across the region.

As part of a customs union, all member states of the EAC must have a ‘common regime’ prior to signing and ratifying the EPAs, especially because apart from Kenya, all other member states are still considered to be LDCs and would still have preferential treatment with the EU under the EBA initiative while Kenya would have to negotiate under the other preferential schemes that incur higher tariffs (Stevens, 2006).

A further constraint to the advancement of EPAs in the EAC is multiple memberships of EAC members in other regional blocs. For example, an EU development framework jointly negotiated under ESA and EAC prior to 2007 cannot be renegotiated to cater for the separate

blocs (Saltnes, 2010). In spite of the lack in capacity to manage the funds, ESA is the only bloc allowed to distribute the funds and thus hampers the development aid for the EAC members (Saltnes, 2010).

For regional integration to be meaningful it must promote intra-regional trade, increase diversification through establishing linkages between production units, which leads to increased productivity and competitiveness in an ever larger regional market (Ukpe, 2010).

2.7 The Multilateral Trading System

International trade is vital for economic growth, more so for developing countries that now account for more than two thirds of WTO members (WTO, 2015). With most of the developing countries' economies being commodity based, developing countries can benefit from international trade based on the theory of comparative advantage from trade (Palley, 2008). However, with the increasing share of emerging economies in international trade, trade between developed and developing countries still remains adversarial, and the WTO portrayed as "serving the interests of developed countries and undermining the development prospects of poor countries" (Limao & Saggi, 2013, p.10). Spearheading the march towards full liberalisation are the IMF and World Bank who press for the "liberalisation of domestic capital accounts and privatization of the national economies in the Southern developing countries" while the WTO is tasked with the function of "eliminating all barriers to global free trade" (p.112). Nuruzzaman (2005) defines the neoliberal regime as "the binding rules and regulations designed to promote a global market economy and global free trade" (p.112).

Agriculture in Kenya is a critical sector that needs nurturing and protection in order to gain the capacity to promote industrialisation and economic growth. In light of the fact that most developed countries heavily protect their agricultural sector and industry, the multilateral liberalisation of this sector would perpetuate their economic advantages to the detriment of farmers in developing countries who cannot compete with the farmers in advanced countries who are heavily subsidised (Moon, 2011).

2.7.1 Uruguay Rounds 1986-1994

Hailed as one of the most successful multilateral trade negotiations whose final act led to the formation of the WTO, the Uruguay Round (1986-1994), in addition to bringing previously

protected topics such as agriculture to the table, also introduced trade in services, trade-related intellectual property rights and trade-related aspects of investment measures (Baldwin, 2009, p.518). In spite of the initial differences between the EU and US, all nontariff barriers converted to tariffs were reduced as well as farm and export subsidies (Baldwin, 2009, p.519). Agricultural policies, especially in the EU and US, provide subsidies to farmers that result in the excess production of commodities, with surpluses being exported to world markets. The surpluses not only cause price depression but also distort international trade (Green, 2000). However, despite the progress made in the reduction of subsidies, developing countries were, according to Baldwin (2009), not only “pressured into making more than token trade concessions such as reducing import duties on industrial products by up to a third, but were also expected to “conform to the various Uruguay Round agreements covering services, intellectual property, and nontariff measures.” (p.519)

Agricultural subsidies are a highly divisive issue and some of the reasons given for the continuation of subsidies include: firstly, the need for countries to have control of their own domestic production so as to ensure food security. Second, because of the fluctuating nature of the agricultural market and with farmers being most vulnerable, government intervention is necessary in order to minimise losses to farmers. Third, correcting market failures as a result of the multifunctional role of agriculture and lastly, the rent seeking behaviours of farm organisations and interest group politics that lobby for increased government protection (Moon, 2011).

Green (2000), states that the Uruguay Rounds added the following three areas related to support and protection: market access, domestic support and export competition. On the issue of market access all non-tariff barriers were converted to tariffs, a reduction of an average 36% for existing and new tariffs and finally a requirement for minimum access import opportunities where there had been less than 5% of domestic consumption (Green, 2000, p.821).

Domestic support saw countries agreeing to categorise, measure and limit subsidies under various categories. Those subsidies presumed to distort trade the most were reduced by 26% over a six year period and were classified in an "amber box". Non-trade distorting measures were exempted from reductions and were classified in a "green box”. Those subsidies related to production control programmes were classified under a "blue box” (Green, 2000). On the

surface there seemed to have been significant reduction in the total aggregate measure of support in the developed countries, with declines of support in the amber-box and blue- box subsidies going from € 50.1 billion to € 6.5 billion in the EU. However, these reductions were heavily compensated for by substantial increases in the green-box subsidies that the EU increased from € 9.2 billion to € 68 billion (Banga, 2014).

Finally the implementation of export competition that led to reduction of the volume of subsidised exports by 21% and value of export subsidies by 36% resulted in a “dirty tariffication" process. This is a process that “exaggerates prior protection levels as a means to justify high equivalent protection going forward and makes the lowest tariff cuts in the most sensitive products, which logically were the ones where foreign suppliers saw the most opportunities” (Green, 2000, p.824).

2.7.2 Singapore Issues – 1996

At a 1996 Ministerial meeting in Singapore, an agreement was reached to study certain issues in the WTO. These issues were investment, competition, transparency in government procurement and trade facilitation (Woolcock, 2003). With the backing of the EU these issues were to be included in the WTO agenda of the Doha Development Round but this move was vigorously opposed by the developing countries, which lead to the postponement of the issues initially to the Cancun WTO ministerial meeting in September 2003 (Woolcock, 2003). With the hope that investment would provide a boost to the world economy following the reduction of trade barriers under the Uruguay Round, there was a strong push from OECD countries and the US for stronger rules regulating world investment. However, these rules were met by strong resistance from the developing countries who insisted on clear investment provisions that would take their special development, trade and financial interests into account (Woolcock, 2003).

2.7.3 Trade Related Investment Measures (TRIMS)

Negotiated during the Uruguay Round, the Agreement on Trade Related Investment Measures (TRIMS) is applicable only to trade in goods. Aware that certain investment measures can have trade restrictive and distorting effects, the WTO included a clause in the agreement that states “no Member shall apply a measure that is prohibited by the provisions of GATT Article III (national treatment) or Article XI (quantitative restrictions)” (WTO.org).

Developing countries contend that the TRIMs agreement has a negative impact on employment and value addition as countries are prohibited from pursuing domestic content policies that were crucial to the development of today's industrialised countries (Woolcock, 2003). Among the other challenges experienced during the implementation of TRIMs were: the identification of TRIMs covered in the agreement and reporting to the WTO, insufficient transition period phasing out prohibited TRIMs and disputes due to lack of clarity between the GATT and TRIMs agreement (UNDP Trade, 2012).

2.7.4 Transparency and Competition

The promotion of competition policy by the EU through the WTO is an attempt to apply European-wide competition rules to the global markets and to specifically address the core principals of transparency and non-discrimination (Woolcock, 2003). Less than half of the member countries have competition laws, and the provisions on transparency in relation to competition require the publishing and implementation of national laws, which although useful in the long term, are extremely resource intensive and thus not a priority for most developing countries. Deemed a political rather than economic move and against the interests of developing nations, the EU is pushing for a WTO-based multilateral agreement that would force developing countries to introduce and enforce competition policies, a move seen to reinforce the notion of interference of national sovereignty by the WTO (Oxford Analytica Daily Brief, 2000). Non-discrimination policies if applied would not only restrict a nation from granting preferences to local companies but also in terms of competition law the authorities would be forced to show that they did not favour national producers, a process that would entail extensive and costly procedural safeguards (Woolcock, 2003).

2.7.5 Trade Facilitation

Grainger (2007) defines trade facilitation as "the simplification and harmonisation of international trade procedures' where trade procedures are the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade" (p.17). Aimed at reforming and eliminating transaction costs that impede the harmonisation and standardisation of trade procedures, trade facilitation is a significant agenda item (Grainger, 2007). Trade facilitation is a substantial undertaking that involves integration of various functions. Some of these functions are

document standards, standardising information to traders, co-ordinating activities across government departments, seeking solutions to traders concerns and keeping procedures simple and transparent (Grainger, 2007). The costs involved in the implementation of these measures for a country like Kenya are considerable. There is also the concern that putting these measures in place would hamper the collection of tax revenues which the government relies on (Woolcock, 2003).

2.7.6 The Doha Rounds

Dubbed the "Doha Development Agenda" since for the first time developing countries would not be side-lined, the Doha Round of trade negotiations that began with high hopes in 2001 were expected to advance multilateral agricultural trade liberalisation. The Doha Development Agenda was meant to reduce protection and subsidies of domestic agriculture and exports in developed countries with the hope that commodity exports from developing countries such as sugar, beef, fruits and vegetables would rise (Das, 2006). Such a shift would have had an immediate impact on increasing trade volumes and lowering commodity price volatility as a result of the trade expansion in agriculture (Das, 2006). To some extent, because of their Most Favoured Nation (MFN) status, developing countries benefited to as they were granted the same market access granted to others (Deardoff & Stern, 2009).

Today the Doha Rounds that started in 2001 are stalled, and with the EU and US not bound by any international obligations in relation to their agricultural subsidies, the other countries only have the WTO Dispute Settlement Body as an arbitrator when "policies between the third-party countries are violated". The Dispute Resolution Mechanism at the WTO plays a pivotal role in resolving international trade disputes such as protectionist practices of trading partners. According to Kim & Kim (2013) in order to prevent countries involved in trade agreements from non-cooperative and protectionist trade policies, credible enforcement measures have been put in place. These measures are the international community's efforts to mitigate the vicious circle between the worsening economic fundamentals and protectionist trade policies and to avoid a global trade war. However, due to the technical and legal complexity of the process, the high costs involved in the process and fear of reprisals such as suspension of foreign aid or sanctions act as major deterrents for developing nations like Kenya (SIDA Trade Brief, 2004). In addition to the process being lengthy, the "settlements themselves have little or no capacity to constrain policy decisions made by national

governments "(Bureau, Laborde & Orden, 2012, p.60). Farmers in the EU are protected from global competition through the following instruments: import tariffs, export subsidies and direct subsidies to imports and outputs. These protection measures raise the farmers' income by USD 70-80 billion a year with EU consumers bearing the burden of the costs (Borrell & Hubbard, 2008). Through subsidising farmers European agricultural produce not only distorts trade but also leads to the produce being sold at low prices that farmers in developing countries cannot compete with despite having comparative advantage in both labour and low cost production (Bureau et al, 2012).

The vast differences between developed and developing countries' interests also played a major role in the lack of consensus in the Doha Round. According to Cho (2010), not only did the EU, US and other developed countries consider the talks to be a liability but they also realised that the agenda was mostly centred on granting market access to developing countries. On the other hand, the position of the developing countries during the Doha Round was one of initially a way to address the long-standing issues of protection by developed countries, which the Uruguay Round did not resolve. For this reason there was a shift in opinion where now developed countries' position was perceived as "consistent quid pro quo demands as unconscionable derelictions of Doha's development mandate" (Cho, 2010, p.574). Due to the limited institutional capability, developing countries pushed for greater policy space on the issue of reducing tariffs (Cho, 2010).

2.7.7 The Brussels Effect

Being the largest single market economy in the world with over 500 million consumers and a GDP of USD 1.7 trillion, the EU is the largest importer of goods and services in the world. Due to this immense influence and power EU regulations on such things as food, environment, competition and privacy impact on people's lives across the globe through a process known as "unilateral regulatory globalization" (Bradford, 2012, p.3). According to Bradford (2012), the process of unilateral regulatory globalisation occurs when "a single state is able to externalize its laws and regulations outside its borders through market mechanisms, resulting in the globalization of standards" (p.3). Thus anyone intending to conduct business with the EU has no choice but to comply with the regulations in spite of the significant adjustment costs involved. One such effect is the regulation of food safety standards for foods exported to the EU through the Sanitary and Phytosanitary Standards.

The Sanitary and Phytosanitary Standards Agreement are standards and recommendations developed by WTO and FAO/WHO (Codex) for food safety. In as much as the agreement allows individual countries to have stricter measures than the international ones and take emergency measures to limit or ban imports, scientific justification is required if the measures are seen to create barriers to trade. Failure to comply with these standards by the exporters is significant as products are rejected, and the cost of the transport and destruction of the goods are also incurred by the exporter. These sanitary requirements have hindered the substantial tariff cuts from translating into major exports to the EU. Compliance with these standards that include quality control, testing and certification are costly and out of reach for most farmers in Kenya, as the government lacks sufficient resources to finance and enforce the sanitary and phytosanitary standards.

Intended to improve farm management practices and integrate small-scale farmers into global supply chains, private standard initiatives are a set of voluntary standards and codes focusing on food safety and quality benchmarked to Good Agricultural Practice (Global GAP) protocol (Tallontire et al, 2011). Created initially by European supermarket chains to foster consumer confidence in food safety, Global GAP is a private pre-farm gate standard that certifies the entire production process from seed to harvesting of the produce. Advantages to those certified are numerous as Global GAP opens up international markets to farmers. Another advantage is the strengthening of local regulatory systems and mechanisms that improve global supply chains. However, the cost and maintenance of the requirements are substantial and therefore out of reach for the small-scale farmers who would benefit the most from such a scheme (Tallontire et al, 2011). In Kenya, producers have developed their own localised version of the Global GAP benchmarked to the international standards. This version is called “Kenya GAP”. Through the localising of these standards and involving a number of stakeholders, they have not only improved farmer- and worker well-being but have also provided an opportunity for small-scale farmers to participate in the export market (Tallontire et al, 2011).

2.8 Sustainable Development and Vision 2030

After gaining independence in 1963, the first decade of the Kenyan economy was a period commonly referred to as the “Golden Years”. Unlike its neighbours, Kenya managed to avoid economic decline with the GDP from 1963 to 1973 growing at an annual average rate of

6.6%, driven mostly by high commodity prices that boosted the agricultural sector (Southall, 1999). The fortunes of the economy began to change, as with all others across the globe as a result of the oil price increases in 1973, which forced an international recession. This downturn severely affected commodity prices, famine and drought also hit the country and, with high population growth, the levels of poverty, unemployment and inequality grew sharply (Rono, 2002). At the start of the new millennium, the economy of Kenya was on the decline, infrastructure was falling apart, corruption was rampant, crime and insecurity levels were high, unemployment and poverty had reached record highs and there was general disillusionment amongst the people of Kenya. According to an OECD/AfDB 2002 report, the following several factors led to economic decline with real GDP growth rate reaching minus 0.5 % in 2000: poor economic management, public sector inefficiency, withdrawal of donor support and drought. Agricultural sector growth was minus 2.4 %, the industrial sector had declined by 1.5 %. Increased political unrest and insecurity in the country also led to the decline of the tourism and services sector.

Todaro (1989) states that development must be conceived of as a multidimensional process, involving major changes in social structures, popular attitudes and national institutions. Formal and informal institutional changes must accompany successful development efforts, transforming both the economic and social organisation so that the basic complex of values and motivations maybe more favourable for development (Meier & Baldwin, 1966).

Popularised by the Brundtland Commission, sustainable development is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Sustainable Development Report, 2012, p.7). At the heart of the sustainable development movement was ensuring environmental integrity for future generations by putting in place strong measures spurring both economic and social development (Sustainable Development Report, 2012). Having ratified various international agreements, treaties and conventions that are in harmony with Kenya's goals on sustainable development and the environment, the government was committed to putting in place institutions to address this issue (Sustainable Development Report, 2012).
Development and economic growth is at the heart of the current government's agenda and it is basing the national development plan to transition the country from a developing- to an industrial nation through Kenya Vision 2030, which was launched in 2008. The Kenya

Vision 2030 is a development blueprint whose aim is to transform Kenya into an industrialised middle-income country by the year 2030 (Kenya Vision 2030, 2007).

According to Mkandawire (2001), the developmental state is defined as "one whose underpinnings are developmental and one that seriously attempts to deploy its administrative and political resources to the task of economic development" (p. 290). The developmental state comprises two components – ideological and structural. Ideologically, its logical underpinning is developmental in that it conceives its mission as that of ensuring economic development with the elite establishing an 'ideological hegemony'. Structurally in its capacity, this is determined by institutional, technical, administrative and political factors, to implement economic policies effectively. Development as a process of change results primarily from internal stimuli and is determined by two elements – resources and organisations (Kumssa & Mbeche, 2004). A developmental state is a term that refers to a state with an activist government and often political elite that sees rapid economic development as their primary aim and a bureaucracy with the power and authority to plan and implement policies (UNDP Report, 2013). Other attributes of such a state include consistency in the pursuit of and commitment to developmental objectives; active participation in the developmental process, often serving as an entrepreneur of last resort; and evolving as the needs of society are embedded in change. A developmental state is well staffed, risk taking, socially legitimate and democratic (Dadzie, 2012).

The government seeks to attain this vision through the equitable distribution of resources, capacity building, reformation and creation of new institutions at both national and county levels. The national government further seeks to institute checks and balances of power at all levels of government in efforts to increase levels of good governance, accountability and transparency. In pursuit of development, Kenya needs to emulate the industries of advanced economies in a way that is compatible with its own factor and technological endowments, a phenomenon referred to as the Flying Geese paradigm (Kasahara, 2004). The Flying Geese paradigm entails in the first stage, importing of goods, followed by the actual production of the imported manufactured goods- that is import substitution and finally increasing local production to the extent that excessively produced goods begin to be exported (Kasahara, 2004). While the government has achieved some of its intended goals for sustainable development, major challenges still remain. They mainly include the lack of adequate financing for development activities and biased international trade practices that continue to reverse the gains made (Sustainable Development Report, 2012).

2.8.1 Poverty

Describing poverty as complex and multidimensional, Quesada (2001) states that being poor means not having an income that allows an individual to cover basic necessities. The UNDP (2010 HDR) defines poverty as a human condition characterised by the sustained or chronic deprivation of resources, capabilities, or choices. Poverty also includes deprivation of the power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights (Kibugi, 2011).

According to Iniguez-Montiel (2014), the redistribution of income not only matters for the poor but also to governments, as high inequality tends to reduce the positive, hence decreasing the impact of public expenditure upon absolute poverty. Unfortunately, economic growth alone is not a sufficient condition for successfully achieving the goal of poverty reduction as previously thought. Having one of the lowest growth-poverty elasticity in the world, the high GDP growth rates in East Africa have not had an impact on poverty reduction as the growth failed to create employment and social progress (Morris & Fessehaie, 2014, p.26). Iniguez-Montiel (2014) state that regarding the relationship between inequality and poverty, high levels of inequality inhibit growth and hinder the progress of reducing absolute poverty. High inequality is harmful for the following reasons: it leads to slower economic growth since greater income inequality can limit the growth of mass demand. Great levels of inequality also implies that the poor receive a lesser share of the gains from economic growth, and lastly, income inequality can induce the poor to engage in disruptive activities such as crime and riots, creating social unrest (Perera & Lee, 2013). Overall, the national rate of poverty in Kenya is 45.9%, with the rural areas significantly higher at 49.1% as compared to urban areas at 33.7% (IMF, 2012). European initiatives for ending poverty in Africa include a “big push” comparable to the Marshall Plan, aid conditionality encouraging good governance and piecemeal engineering (Kohnert, 2008). These initiatives have consistently failed due to lack of insight and overlooking the real issues at stake (Kohnert, 2008). Further, these top-down approaches blame the shortcomings of their efforts to combat poverty on “traditional African sociocultural barriers to development such as corruption, fractionalised society trap and the large degree of ethnic division as impediments to economic growth and good government” (Kohnert, 2008, p.6). Often overlooked and deemed to be exotic and irrelevant by Western policy makers, sustainable development policies in Africa will only

succeed if they are based on “common sense, practical knowledge and aspirations of those affected” (Kohnert, 2008, p.7).

Acknowledging the importance of the agricultural sector and vast majority of the poor living in the rural areas, continuous investment in the sector and promoting non-traditional exports is the key to reducing the levels of poverty. The Kenya government has over the years adopted various strategies to reduce poverty such as the Economic Stimulus Programme, which helped provide resources for the purchase of seeds and rehabilitation of irrigation schemes. The Agricultural Development Strategy was another strategy put in place to enhance the resources and development of agriculture in the arid and semi-arid regions of the country (IMF, 2012). Through employment in farms and export packing houses, and purchasing of produce from small-scale farmers in rural areas, the export horticulture sector can greatly contribute to poverty reduction in Kenya (McCulloch & Ota, 2002).

The figure below illustrates the areas and levels of poverty in Kenya.

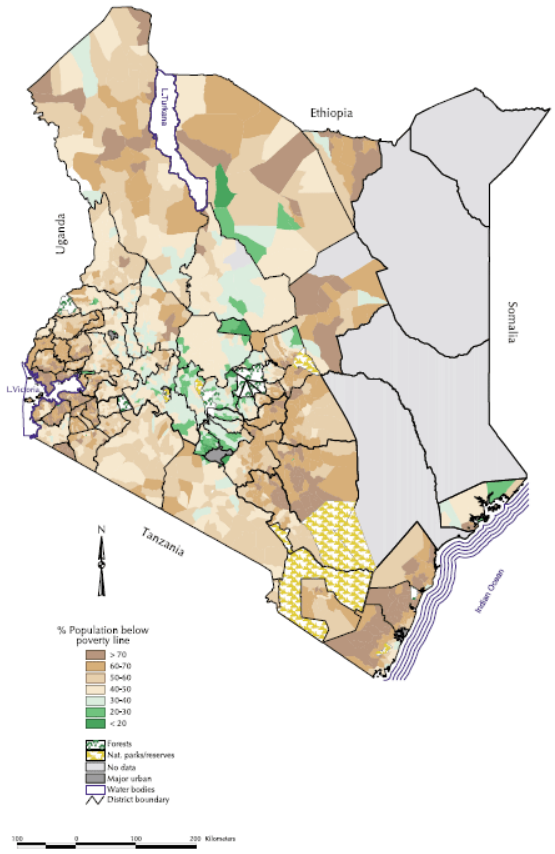


Figure 4 - Poverty in Kenya Map

Diagram Courtesy of World Bank

Source:http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20761992~menuPK:435375~pagePK:148956~piPK:216618~theSitePK:430367,00.html

2.9 Conclusion

This chapter set out to discuss and present issues related to the implications for Kenya of signing the EPAs with the EU. Trade is one of the important factors that help to drive economic growth for any country. A combination of both free trade and protectionist trade policy is necessary in order for the country to achieve its projected economic goals of attaining a GDP growth of at least 10% per year. Economic growth is essential for Kenya if it is to eradicate the high levels of poverty plaguing the country. Creating employment opportunities for the rural poor through investing in agriculture is of paramount importance. At the same time, a concerted and conscious effort to develop manufacturing and industry has to be in place and be part of the public expenditure programmes. For trade to be effective, the factors affecting the inter-relationship between the manufacturing, agriculture and service value chain should be comprehensively addressed.

The export of horticultural products presents a golden opportunity for small-scale farmers to not only participate in international trade but also to increase their farming skills and, most importantly, to earn good incomes that will enable them to break the cycle of poverty.
In spite of the EPAs offering market access for Kenyan products in the EU, there are, however, substantial contentious issues related to the EPAs that limit the policy space that the government should address. More emphasis should be placed on enhancing regional integration ties as a way to increase intra-African trade, negotiate better terms of trade as a bloc and diversify markets. Kenya and other developing nations should continue to push for the eradication of trade- distorting policies and call for the building of fair multilateral trade objectives that incorporate the domestic needs and specifities of developing countries.

3 CHAPTER THREE: THEORETICAL FRAMEWORK

3.1 Introduction

The importance of international trade to a country's economic welfare and development was first pioneered by Adam Smith's inquiry into the nature and causes of wealth of nations (Morgan & Katsikeas, 1997). Trade is important for economic development, generation of revenue and the financing of the import of goods and services that cannot be locally produced (Morgan & Katsikeas, 1997). Theories of international trade address the following issues- trade flows between nations, nature and extent of gains or losses to the economy and finally the effects of trade policies on an economy (Morgan & Katsikeas, 1997). The study adopted the following theories: Adam Smith's Absolute Advantage theory, Ricardo's theory of Comparative Advantage and Heckscher–Ohlin's theory of factor endowments.

3.2 Adam Smith's Absolute Advantage Theory

In Adam Smith's theory of absolute advantage, absolute cost differences govern the movement of goods between nations (Fazeli, 2008). Fazeli (2008) posits that if only one nation has an absolute cost advantage in one good and another nation in another good only then would international trade and specialization be beneficial. Smith's thoughts on division of labour and gains from trade were the basis of his theory. International trade and domestic economic development impact on the pattern of trade. The development path and trade pattern are endogenously determined by a nation's cost production advantage (Schumacher, 2012). Division of labour not only leads to improvement in productive powers but also results in more output produced with the same amount of labour (Schumacher, 2012). This division of labour saves time, increases dexterity and facilitates the invention of machines that make labour easier (Schumacher, 2012).Thus engaging in international trade would be beneficial to a country as the enhanced division of labour would lead to an increase in the wealth of the nation and its population (Schumacher, 2012, p.59). Trade and development are linked through the division of labour in Smith's theory. The drawback to division of labour was the "power of exchanging according to the extent of the market" (Schumacher, 2012, p.58). As a result of increased competition faced by domestic producers, gains from international trade are reinforced as it prevents formation of domestic monopolies and encourages free competition (Schumacher, 2012). Further gains from trade are the transfer of knowledge and technology especially between more advanced countries as they possess a mature economy and more developed and bigger markets (Schumacher, 2012). Absolute advantage and gains

from trade are not fixed. Absolute advantage develops and emerges endogenously as a result of trade (Schumacher, 2012). Today, Smith's theory of absolute advantage has been regarded as the basis to the more sophisticated neo-classical theories of comparative advantage by David Ricardo, the Heckscher-Ohlin's model and the factor price equalisation theorem (Schumacher, 2012).

3.3 Ricardo's Theory of Comparative Advantage

Used as one of the principal explanations of international trade and gains from trade, the theory of comparative advantage is one of the most important hypotheses of higher incomes and income growth rates of open economies (Kowalski, 2011). A major influence on economic policy making after World War II, the theory of comparative advantage called for the liberalisation of trade under GATT and later under the WTO. Further liberalisation was to be achieved through regional integration initiatives, unilateral trade reforms proposing the removal of trade barriers and the facilitation of trade related structural adjustments (Kowalski, 2011). According to Morrow (2010), the Ricardian theory of comparative advantage of international trade states that "countries should specialize in goods in which they hold the greatest relative advantage in total factor productivity" (p.137). In addition, the country should then trade for another good that it does not produce even if it possesses absolute advantage in the production of both goods (Poon, 2009). With specialisation being a precondition for reaping gains from trade, the theory of comparative advantage prohibits government intervention as it can lead to the reduction of the gains and possibly render them negative (Kowalski, 2011). Fazeli (2008) contends that the comparative advantage theory depends on labour productivity differences due to technological differences between nations. Fazeli (2008) goes on to add that in addition to providing the "possibility of beneficial trade for countries that have absolute cost disadvantage in the production of all goods relative to its more advanced trading partner"(p.105). Countries possessing cost advantage in the production of goods benefit from trade in relation to their more advanced trading partners (Fazeli, 2008). Recently however, the relevance of the theory in explaining trade flows continues to be questioned as it is no longer considered appropriate due to the increased mobility of various factors of production, ideas, technology, goods and services. Also, changes in world trade patterns occur, which contrast heavily with the traditional and static theory of comparative advantage (Kowalski, 2011).

3.3.1. Revealed Comparative Advantage

Liesner pioneered the idea determining a country's strong sectors through analysing actual export flows. The process was later refined by Balassa and is popularly known as the "Balassa Index" or "revealed comparative advantage" (RCA) (Chingarande et al, 2013). RCA provides insight into the competitiveness of a country's export sectors, helps to identify products with export potential and the implications for trade (Chingarande et al, 2013). A country is said to have an RCA if the RCA is equal to or greater than 1 (Chingarande et al, 2013). Based on the index, Kenya has an RCA greater or equal to 1 in 778 products. However, the products with the highest RCA comprise mainly non-value-added products or primary agricultural commodities. In contrast, the EU's RCA comprises mostly high-end, value added products across all sectors, a sign of the extent of diversification and industrialisation of the combined economies. In this regard, Kenya's comparative advantage is small and unless the country is able to sustain high economic growth rates it is unclear how the country will benefit from entering into the EPA with the EU.

3.4. The Heckscher-Ohlin Theory of Factor Endowments

Built on the theory of comparative advantage general formulation, the Heckscher-Ohlin (HO) theory explains why opportunity cost of production differs across countries (Kowalski, 2011). The HO theory of factor endowments, which expands on the above mentioned theory of comparative advantage, addresses two major issues namely the "role of factor intensity (particularly capital intensity or capital-labour ratio) as the basis for relative price differences and consequently comparative advantage and the implication of trade for distribution of factor incomes within each trading country" (Fazeli, 2008, p.106). Hence countries will export goods they have cheaply produced and have in abundance and import goods that are more expensive and require large amounts of the relatively scarce factor input (Fazeli, 2008). The HO theory contends that it is the differences in factor endowments of land, labour, capital and production processes of different goods that determine a nation's comparative advantage (Kowalski, 2011). The interaction between product and country characteristics forms an important basis for comparative advantage (Kowalski, 2011). However, for the theory to be effective there must be a "strong interaction of policies and regulatory frameworks with specific needs of particular sectors of the economy" (Kowalski, 2011, p.9).

Some of the assumptions of the HO theory include: all countries have the same technology; all countries produce all goods and there are no trade costs (factor price equalisation),

"constant returns to scale, factor immobility and the existence of well-behaved production functions" (Dosi et al, 1990, p.23). Whereas the theory fails in providing actual patterns of international trade, it is still relevant in helping to understand the effects of trade, especially its effects on income distribution.

The Leontif paradox, named after Nobel laureate Wassily Leontif is one of the main critiques of the HO theorem. Leontif used data from the US, a capital abundant country to test the HO theorem. Leontif paradox results indicated that the capital labour ratio of imports was higher than the capital labour of exports, effectively contradicting the HO prediction of patterns of trade (Kwok & Yu, 2005). That the US had a special advantage in high technology exports that rely on highly skilled labour and innovative entrepreneurial skills are some of the main reasons given as an explanation of this phenomenon (Onyango, 1999, p.11).

3.4.1 Assumptions and limitations of Ricardo's theory and the Heckscher–Ohlin theory

Both Ricardo's theory of comparative advantage and HO theory determine what factors provide comparative advantage for international trade. Ricardo's theory advocates for the amount of labour spent on a commodity while for the HO theory, it is the differences in the factors of production. In addition both Ricardo's theory and HO theory are strong proponents of the doctrine of free trade. Kucera and Roncolato (2011) state that Ricardo stressed the importance of free trade as it maximised both national income and average income per capita. The HO theory in support of trade liberalisation stated that free trade is the best commercial policy if combined with income redistribution as it creates the possibility for maximum satisfaction of human needs (Kucera & Roncolato, 2011). Further, both theories advocate for the removal of domestic market distortions such as government intervention and the liberalisation of foreign exchange market leading to a free market regime (Onyango, 1999). Other assumptions that both theories make that detract from their potential significance and contribution to international trade are that "factors of production are immobile between countries, perfect information for international trade opportunities exists; and, traditional importing and exporting are the only mechanisms for transferring goods and services across national boundaries" (Lutz, 2008, p.150). As a result of significant technological progress and the rise of multinational firms, both the theories of comparative advantage and HO theory have been found wanting in explaining the modern patterns of international trade (Morgan & Katsikeas, 1997).

Among the limitations of traditional trade theories are the focus on trade between nations and not firms, lack of consideration of capital movements, failure to address trade among similar countries and the long-term impacts of specialisation (Lutz, 2008). Trade theories state that there are gains from trade to be made by small economies if they open up their markets and if in return developed countries open their markets, external economies of scale will then be accessible (Sen, 2010). However, the free trade doctrine has not only failed to address the implications of trade liberalisation for developing countries but also "failed to reckon the awareness shared by Smith and Ricardo on uneven development of nations" (Sen, 2010, p.10). While globalisation according to comparative advantage promotes specialisation, it reduces the incentives for developing economies to diversify and industrialise due to import competition, thus limiting the positive scope of structural change associated with engaging in international markets (Rodrick, 2011).

3.5 New Trade Theories

In the 1980s a new trade theory began to emerge as a result of the inability of the previous theories to explain the presence of imperfect competition even within well-functioning market economies and the volume and composition of trade that consists mostly of intra-industry trade (Wade, 2012). While still retaining the assumptions of the traditional trade theory, new data suggests that "trade is more than the flow of goods between countries but rather the exchange between firms located in different countries" (Wade, 2012, p.58).

The "new economic geography" presents one of the main challenges to the theory of comparative advantage, which posits that the "location of a given industry in one country or another is often not a matter of comparative advantage but of accident and path-dependence" (Wade, 2012, p.59). The new trade theory posits that in a world of increasing returns where the current market equilibrium is sub-optimal, trade liberalisation would not have necessarily placed the economy in a better position, contrary to the Ricardian theory (Wade, 2012). Further the theory suggests "infant industry protection" for newly industrialised nations striving to set up basic industries (Wade, 2012). Following the strategic trade theory that not only has the nature of global trade changed but also that countries can no longer compete on the basis of traditional comparative advantage, state intervention is essential in "nurturing the competitiveness of domestic industries in world markets" through the protection of local firms, thus enabling them "to reap economies of scale and learning-by-doing benefits" (Klomp & Haan, 2009). In the newly industrialised Asian economies, the role of the state was

a crucial factor in the success of the development strategies pursued in such countries as South Korea (1955-1990) and Taiwan (1955-1990) (Klomp & Haan, 2009). The new structural economics approach also supports the state's role in industrial upgrading and diversification process of a country's imports and exports, both of which are crucial in the changing of a country's comparative advantage (Klomp & Haan, 2009).

While technology is not a free, instantaneous and universally available good, it is a major factor that determines specialisation, income levels and the participation of a country in international trade (Dosi et al, 1990, p.30). Given that technology is one of the assumptions of Ricardo's theory and the fact that the EU is technologically more advanced than Kenya, the EU has greater comparative advantage over Kenya based on the technological learning process as opposed to factor endowments (Onyango, 1999).

Developing countries have heeded IMF and WTO calls for free markets and most have implemented mercantilist industrial policies. Developed countries on the other hand continue to control their markets with such instruments as anti-dumping, anti-trust, rules of origin and stringent health standards. In addition developed countries are also invoking "national security to justify support that cannot be concealed", a strategy called "optimal obfuscation" where developed countries disguise their actions to get others to do what they say, "embrace free trade" (Wade, 2012,p.60).

3.6. Development and the commodity sector

Approximately 65 % of Kenyans in employment work in the informal sector or are self-employed, yet their incomes are lower than those in the formal sector (KIPPRA, 2013). Every year more than three quarters of new jobs created are in the informal sector. However, the main concern is that the majority of informal sector activities are in low-productivity areas, produce low-income earning, and employment security is not guaranteed (KIPPRA, 2013). In spite of having a relatively large industrial sector in comparison to its neighbouring countries, Kenya's industrial sector contribution to the country's GDP over the last two decades has been lacklustre in comparison to the other sectors. Mainly agro-based with low value addition, the industrial sector suffers from low capacity utilisation and export volumes as a result of weak linkages to other sectors (Kenya Industrial Policy Draft, 2010). Apart from import substitution and export-led policy orientations, Kenya has never had an industrial policy in place since gaining independence until just recently in 2010. Unlike the economies in Asia such as Japan, Taiwan and Korea, no efforts were made in Kenya to look at industrialisation as a political decision (Kenya Industrial Policy Draft, 2010). In addition to

the various laws, weak legal frameworks, limited funding and overlapping ministerial mandates, the industrial sector in Kenya lacked a cohesive policy to coordinate the strategies and activities of the industrialisation process (Kenya Industrial Policy Draft, 2010).
Kenya needs to embark on an extensive industrialisation program that will not only create job opportunities, eradicate poverty and create sustainable development but also enable technological innovation, the development of skills, knowledge-intensification and capital accumulation (Morris & Fessehaie, 2014). In addition to opening up opportunities for externalities, industrialisation promotes diversification of technological capabilities and skills through the development of "backward linkage supply firms to the commodity sectors and resource-processing industries" (Morris & Fessehaie, 2014, p.26).

There are three levels of policy that" affect the rate and trajectory of industrial growth, namely, macro-level policies; meso-level policies and micro-level policies (UNIDO Report, 2012, p. 61). Macro-level policies include property rights, macro-economic management ensuring stability in upward and downward growth cycles and "efficient financial intermediation between savings and investments" (UNIDO Report, 2012, p.60). Meso-level policies cater for both the promotion of key sectors, particular regions and industrial clusters as way of attaining a comparative advantage under intense competition (UNIDO Report, 2012). Aimed at addressing firm-level failures, the micro-level industrial policies were introduced to "support enterprise efficiency in recognition that market forces alone will not reduce competitiveness" (UNIDO Report, 2012, p.62).

Morris and Fessehaie (2014) refer to Global Value Chains (GVCs) as "the different value-added links, composed of many activities, required to bring a product from conception and design to its delivery to the final consumer and finally to its disposal" (p.26). Characterised by different levels of value addition, skills and technology, the development of backward and forward linkages to the commodity sector will not only help exporting countries like Kenya to move into high rent value chains as long as their "resource processing industries are internationally competitive and effectively integrated into GVCs" but also maximise direct and indirect employment creation effects (Morris & Fessehaie, 2014, p.26).

According to UNIDO Report (2012), the following are three major types of linkages from commodities to the industrial sector: fiscal linkages through resource rents collected by the government; consumption linkages, (that is, "the demand for output of other sectors arising

from incomes earned in the commodities sector") and, third, forward and backward production linkages from the resources sector (p.19). The adoption of trade liberalisation policies by developing countries from the 1990s reduced the incentives for domestic industry to take advantage of consumption linkages in two ways: the reduction of measures supporting industrial development and little to no protection of the domestic industry (UNIDO Report, 2012). A direct consequence of free trade and liberalisation is the major rise of imports for most sectors of the economy. The extent of production linkages into and out of the commodities sector is reflected by several factors. First is the breadth of linkages. This refers to the share of locally acquired inputs and the proportion of locally processed commodity, that is, the output (UNIDO Report, 2012). Next is the depth of linkages, which refers to the level of value added to locally acquired inputs and processed outputs (UNIDO Report, 2012). Finally the horizontal linkages measuring the depth and breadth of value added for inputs and outputs from other related sectors (UNIDO Report, 2012). A structural transformation of the economy to reverse these trends would not only raise incomes but also go a long way to alleviating poverty and inequality. Three policy recommendations on growth and productive employment are: sectoral diversification from commodity based to manufacturing; extensive investments in manufacturing and agriculture to raise productivity, competitiveness; and an increase in private and public investment to reduce the high numbers of working poor and vulnerable (ILO Report, 2014).

3.7 Comparative Advantage and Agriculture

As previously stated comparative advantage, whose factor endowments include land, labour, natural resources and capital, is revealed in economic growth and the share of agriculture in this growth. Given the notion of comparative advantage being essentially static and referring to the optimisation of the given resources at a given time, the theory mainly seeks to identify the configuration of products that a country produces, given existing factor endowments and assuming free trade (Goldin, 1990). According to the Ricardian model, the presence of factor endowments and technological differences are both sources of comparative advantage and have strong implications for the pattern of specialisation and international trade (Costinot, 2009, p.1168). Having abundant land, labour and relatively high technology as compared to other sub-Saharan countries gives Kenya a comparative advantage in the horticultural sub-sector. Since Kenya is heavily endowed with these factors, it will thus, in line with the Ricardian theory, be most efficient at producing and specialising in horticulture, which requires those factors for production. Abundant land and labour mean Kenya has lower

opportunity cost of specialising in labour- and land-intensive activities. These factors of production have implications on the trade patterns as Kenya exports labour-intensive commodities and imports capital-intensive commodities. Investing more in the sector will lead to an increase in the supply of the factors that will lead to an increase in the output of horticultural commodities that use those factors intensively.

In spite of being among the successful producers of horticultural products, Kenya is facing increasing competition both in Africa and elsewhere. Egypt's increasing market share of french beans, Ecuador's and Ethiopia's horticultural exports in cut flowers and roses have significantly increased over the years and pose strong challenges for the sector (USAID, 2012). However, having been active in the sector for a long period, the scale and global nature of the industry in Kenya has meant easier financing for both large and small exporters, as compared to Uganda where high interest rates pose challenges for agribusiness (USAID, 2012). In addition, being a highly labour-intensive industry with high demand for both skilled and unskilled labour, competitiveness is very sensitive to fluctuations in labour costs. Kenya's advantage in the region lies with the higher levels of knowledge and skill of its workforce within the horticultural sub-sector to the extent that exporters in neighbouring countries frequently recruit their staff from Kenya (USAID, 2012). Further, thanks to a developed market for horticulture, high levels of hybrid seed regulation by government agencies and the high demand for seeds in the region, the seed producers in Kenya are not only efficient but also act as the main supplying hub for regional countries (USAID, 2012). As a result of the increasingly stringent standards in the use of chemicals and pesticide use in the sector, a majority of Kenyan farmers have moved away from using type 1 chemicals and are instead using Integrated Pest Management methods including biological control agents, an initiative seen as a comparative advantage by importers (USAID, 2012). Other advantages for Kenya in the region include the production of more advanced packaging for flowers and vegetables that are not only cheaper compared to Ethiopia but also include branded and printed labels, flower foods and sleeves which add value and increase the competitiveness of the products (USAID, 2012). Infrastructural developments have seen Kenya's main airport turned into the main exporting hub in East Africa providing cold storage, continuity and quantity of air cargo space (USAID, 2012).

3.8 Conclusion

The trade theories presented above are focused on absolute and comparative advantage between trading countries. Free trade and product specialisation are essential in order for the theories to work. By specialising in the production of primary agricultural products and taking advantage of the abundant land and labour, Kenya would according to the theories have comparative advantage whilst trading with the EU. With capital accumulation, a predominantly primary producer nation like Kenya can gradually change from being dependent on the agricultural sector to a producer of manufacturers (Goldin, 1990). The theory of comparative advantage further suggests that Kenya will experience economic growth once it opens up to international trade, with large shares of production and employment shifting from the agricultural sector to the manufacturing sector (Goldin, 1990). Participation in international trade will not only lead to a rise in agricultural prices, but also income and savings habits of those working in the sector resulting in a change of production and consumption behaviours (Goldin, 1990). Obstacles in clearly demonstrating comparative advantage of a country, however, do remain, theoretically in terms of analysis of trends in factor costs and in evaluations of revealed comparative advantage. The main obstacles are: the severe distortion of non-market interventions to trade in agriculture and government interventions that" limit the extent to which comparative advantage is allowed to dictate patterns of international agricultural trade" (Goldin, 1990, p.34). In understanding the future of agricultural production and trade, reduction of government subsidies in agriculture and trade liberalisation are expected to increase the significance of factor endowments and comparative advantage (Golding, 1990, p.34). For a developing country like Kenya efficiency, cost and the awareness of the importance of comparative advantage is likely to become increasingly important to the actual participants international trade in agriculture (Goldin, 1990, p.34). Open markets do not necessarily translate to economic growth hence state intervention is essential for the protection of domestic firms, industrialisation and diversification of a country's imports and exports which are crucial to the changing of a country's comparative advantage.

4 CHAPTER FOUR: RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

This chapter provides a guide to the methodology that the study employed in as far as selecting the sample, data collection strategies and analysis. The chapter also elaborates on the secondary data that was used in the study and the limitations that the study faced in data collection and analysis.

4.2 The Qualitative Research Method

According to Harris et al (2009), qualitative research is defined as a naturalistic approach that seeks to understand phenomena in uncontrolled context-specific settings. Garcia and Gluesing (2013) add that not only are qualitative research methods best suited to examine unique characteristics of particular groups but also the constant shifts and dynamics in those contexts. Qualitative research is inductive, labour intensive and the data is collected and analysed with the intention of generating theory and hypotheses (Harris et al, 2009).

"Methodology" refers to the "theoretical, political and philosophical backgrounds to social research and their implications for research practice and for the use of particular research methods" (Petty, Thomson & Stew, 2012, p.378). Epistemology, the philosophy of knowledge, assumes a separation between knowing and being that qualitative research methods should be congruent with, hence the need for researchers to align their perspectives with a philosophy that will underpin their assumptions of a study (Bryne, 2001). The four main components of qualitative research methodology are: qualitative research strategies, methods of sampling, data sources and collection, and data analysis (Harris et al, 2009). Qualitative research strategies cover the researcher's approach to addressing the research questions being studied, with the most common strategies being ethnography, grounded theory, phenomenology, symbolic interaction, narrative, participatory action research, and case studies (Harris et al, 2009).

4.3 Paradigms and philosophical underpinnings

According to Chilisa and Kawulich (2012), "a paradigm is informed by philosophical assumptions about three things: the nature of reality; ways of knowing; and ethics and value systems" (p.51). These three assumptions are: ontology (belief about the nature of reality);

epistemology (how we know what we know) and axiology (what we believe is true). First coined by Thomas Kuhn, the notion of a paradigm refers to the set of practices that define a scientific discipline during a particular period of time (Lukka, 2010). Lukka (2010) contends that paradigms are about what is to be studied, the kind of research questions to be formulated in relation to these subjects, what methods these studies should be conducted, and how their results should be interpreted. The qualitative paradigm seeks not only to describe a context or situation but also generate hypotheses and/or provide a beginning to an empirical foundation for new research questions (Schwartz & Revicki, 2012).

Positivism paradigm researchers have a common belief in the existence of a universal generalisation that can be applied across contexts. Different researchers observing the same factual problem generate similar results when applying similar research processes (Wahyuni, 2012). Post-positivists on the other hand not only challenge this belief of absolute truth but acknowledge that knowledge is a result of social conditioning and hence the need for it to be framed in a certain context of relevant and dynamic structures that have created the observable phenomena (Wahyuni, 2012).

The interpretive paradigm, also known as constructivism, takes seriously the subjective meanings that people attach to things and recognises that the world can be viewed as socially constructed (Lukka, 2010), and that individuals with varied backgrounds, experiences and assumptions contribute to "the on-going construction of reality existing in their broader social context through social interaction" (Wahyuni, 2012, p.71).

The critical paradigm, associated with a school of thought know an as the "Frankfurt School", "aims to produce a particular form of knowledge that seeks to realize an emancipatory interest, specifically through a critique of consciousness and ideology" (Carr, 2005, p.2). Its philosophy rejects the self-evident nature of reality, while acknowledging the various ways in which reality is socially constructed and distorted (Carr, 2005). The critical theory is normative, explanatory and practical as it explains not only what is wrong with the current social reality, but also identifies actors to change it while providing clear norm criticisms and practical goals for the future (Carr, 2005). The study applied the critical paradigm as it was important to critically look at all the reasons why Kenya signed the EPAs, and also identify what other viable trade agreements should have been considered to ensure maximum benefits and gains.

4.4 Sampling

The goal of sampling is to intentionally select a representative sample based on a characteristic that represents a whole population. The most common sampling methods are maximum variation, extreme case, homogeneous, criterion, theoretical, and snowball (Harris et al, 2009). Trotter (2012) states that qualitative sampling is not only designed to confirm consensus but it also provides the systematic variation from consensus. According to Curtis et al (2000), the following are six attributes of qualitative sampling: the strategy should be relevant to the conceptual framework and research questions; the sample should generate extensive information on the study; enhance 'generalisability' of the findings; sample and ethical, valid and feasible.

Marie (2004) defines purposive sampling as "judgemental sampling that involves the conscious selection by the researcher of certain subjects or elements to include in the study" (p.2). Purposive sampling is used when random sampling is not feasible and when the goal is to intentionally identify and recruit sample sub-groups (Pettus-davis et al, 2011). Considered a type of non-probability sampling, one of the main disadvantages of purposive sampling is determining whether or not everyone in the population has an equal chance of being selected thus making it difficult for the researcher to draw inferences from a sample population (Pettus-davis et al, 2011). The study adopted purposive sampling. Purposive sampling was adopted largely because the study targeted specific informants with specific information relevant to the study. A total of eight interviews were conducted for the study. The candidates interviewed were a senior advisor from Kenya's Ministry of Foreign Affairs and International Trade, the EU trade representative in Nairobi from the EU delegation in Kenya, an advisor with the Kenya Chamber of Commerce, an employee from Solidaridad which is a local NGO that assists small-scale farmers in the horticultural sub-sector and two small-scale farmers in Nyeri. Others were the chairman of the Majuni self-help group that brings together small-scale farmers who are contracted to grow snow peas for export and the cold storage manager from East African Growers. In addition the study reviewed the relevant literature on agriculture, regional integration, trade and EPAs. These included academic journals, economic reports, other research reports and publications. The original sample size of 30 respondents was reduced to a sample size of 8 respondents by utilising simple random sampling. Simple random sampling was adopted to give an equal and unbiased chance for respondents to be part of the study.

4.5 Data collection and analysis

Some of the most frequently used methods of collecting qualitative data are interviews, focus groups, document analysis, questionnaires and observation. For the research topic, the data collection methods for both primary and secondary data that I used were semi-structured interviews and documentary analysis. According to Gill et al (2008), the purpose of a research interview is to explore the views, experiences, beliefs and/or motivations of individuals on specific matters using mostly open-ended questions that are neutral, sensitive and understandable (Gill et al, 2008). Semi-structured interviews are most suitable as they not only consist of several key questions that help to define the areas to be explored, but are also flexible and allow the interviewer or interviewee to diverge in order to pursue an idea or response or elaborate on information that is important but may not have previously been thought of as pertinent (Gill et al, 2008).

With regard to this study semi-structured informant interviews was adopted. The interviews were all conducted physically with the respondents between February 2015 and August 2015. The majority of the respondents were based in Nairobi, while the rest were in Naivasha and Chaka (Nyeri County).The length of the interviews ranged from 40 minutes to one-and-a half hours. A mix of both open-ended and closed questions was used. The questionnaires were developed in such a way that they provided new information in addition to answering issues not covered in documentary analysis. In addition to informant interviews, secondary data was collected from documentary sources including academic journals, economic reports and research reports.

Data analysis is the process of organising, classifying, and summarising data. It involves "writing a cohesive description of the setting, context, and people; discovering patterns and themes; determining the meaning of phenomena to participants; summarising tentative answers to the research questions; conceptualising hypotheses and theories; and deciding what to report to others" (Harris et al, 2009, p.86). Methods of analysis include: thematic analysis, content analysis, constant comparison method of data analysis, discourse analysis, critical discourse analysis, conversation analysis and analysis of narratives. The data collected was subjected to content analysis guided by the research objectives. This was done by grouping the data into thematic areas. The study then classified the data into groups, each corresponding with the research objective. The methodology was analysed in order to

establish patterns, similarities and differences before conclusions were drawn from the data. The outcomes of content analysis were used to produce a descriptive analysis of the study.

4.6 Conclusion

The study used primary and secondary data. Primary data was collected from informant interviews. Secondary data was collected from already existing research reports, academic journals, government and civil society reports. The study adopted purposive sampling in selecting respondents. It was a challenge accessing government officials for interviews and as such the data collection was instead obtained from already existing government and other reports on the issue of trade and agriculture in Kenya. The data collected was analysed by grouping them in thematic areas and drawing conclusions from the same.

5 CHAPTER FIVE: RESEARCH FINDINGS AND INTERPRETATION

5.1 Introduction

Generated mainly from the themes raised in the literature review and linked to the research questions and objectives, this chapter introduces and discusses the findings according to the identified themes. The research findings are from both documentary analysis and conducted interviews used to gather the data.

Being predominantly an agricultural-based country and with the majority of the rural population dependent on agriculture, there exists strong linkages between agriculture, poverty and the environment. According to Oluoko-Odingo (2009), causes of poverty in Kenya include among other factors low agricultural production, insecure land ownership, poor marketing structures and inadequate infrastructure. Further Kim and Ncube (2014) add that the people and the economies in sub-Saharan Africa suffer from Malthusian stagnation and poverty as a result of underutilisation of land and other agricultural resources, hindering the onset of industrialisation, a factor that had always been linked with agricultural development.

Making the right to development an inalienable human right, the Declaration on the Right to Development holds the human person as not only the "central subject of development but also an active participant and beneficiary of the right to development both individually and collectively" (Gathii, 2013, p.260). Highlighting the importance of the declaration around the world, it has been reaffirmed and reiterated in several General Assembly resolutions, the African Charter on Human and People's Rights as well as the EU. Having adopted the MDGs that include the elimination of poverty, the Kenyan government accepted the responsibilities set out in the declaration to "have the primary responsibility for the creation of national and international conditions favourable for the realisation of the right to development" (art. 3 (1)); to take steps "individually or collectively to formulate international development policies with a view to facilitating the full realisation of the right to development" (art. 4 (1))13 as well as to formulate, adopt and implement "policy, legislative and other measures at the national and international levels" to realise the "progressive enhancement of the right to development" (Gathii, 2013 p.261). It is therefore the responsibility of the government to enter into trade agreements that seek to further the sustainable development of the country, protect its citizens, pursue policies of national interest and safeguard the natural resources from undue exploitation.

5.2 Agriculture in Kenya

The current agricultural policy proposes to increase productivity, income growth, enhance food security and intensification of production, especially among small-scale farmers. The main goals of the agricultural policy are to reduce the levels of poverty, reduce over-reliance on rain-fed agriculture, promote environmental sustainability and encourage diversification and value addition of the sector. Market price volatility of primary commodities in the world market is also of concern as these price fluctuations have implications for government revenue and producer welfare. Developing countries like Kenya are highly susceptible to export price instability of agricultural commodities, including horticultural products. Such volatility can negatively impact on the macroeconomic level on growth and poverty and in some cases may lead to an economic crisis (Huchet-Bourdon, 2011). Although studies have shown a decline in the market share of traditional agricultural exports for developing countries, the horticultural sub-sector has seen remarkable growth. The horticultural sub-sector has been noted to grow much faster in developing countries as opposed to developed countries (Shah, 2003).

Discarding the fears of whether or not entering into a trade agreement with the EU through the EPA will have abysmal effects on the strategic yet vulnerable agricultural sector, a senior advisor at the Ministry of Foreign Affairs and International Trade stated that in addition to the agricultural sector being excluded from liberalisation, there is an extensive list of sensitive goods that cannot be imported from the EU into Kenya. The exclusion of the agricultural sector from liberalisation and the existence of the list of sensitive goods were also confirmed at an interview with the EU Trade Counsellor in Nairobi who stated that all agricultural goods were excluded as special goods. The EU Trade Counsellor further added that all export subsidies for goods coming into the EAC had been dropped. The exclusion of agricultural goods as special goods is expressly stated in Article 13 of EU-EAC EPA agreement “the EU Party shall exclude EAC countries as destinations for all agricultural products with effect from the entry into force of this Agreement” (EU-EAC EPA, 2014, p.37). Chapter 4 of the EPA agreement deals exclusively with the agricultural sector. The chapter recognises the importance of the sector as a prime source of income and wellbeing for the majority of the rural poor and the multifunctional role it plays in the economy (EU-EAC EPA, 2014). Included within chapter 4 of the EPA agreement are specific articles and clauses pertaining to address the major concerns and constraints being faced by Kenya in the

sector in efforts to promote sustainable development. Highlighting the importance of promoting development through the transformation of the agricultural sector, Chapter 5 of the EU-EAC EPA agreement acknowledges how vital the role of agricultural sector is to EAC economies. In light of this fact, the EU and EAC jointly agreed to transform the sector in order to increase competition, ensure food security and shield small-scale farmers from the implementation effects the agreement (EU-EAC EPA, 2014).

5.2.1 Declining performance and over reliance on rain-fed agriculture

In spite of the recent recorded growth, the agricultural sector has yet to reach its full potential. This fact is reflected in the low yields per acre of land, caused by things like continued use of traditional farming tools and methods, sub-division of the land into smaller units, land degradation and high cost of production especially for the small-scale farmers. The dwindling agricultural and food productivity in relation to the rising population growth is an increasing cause of concern as it has led to increased food prices in the country (Kanayo, 2012). The majority of farmers still depend on rain-fed agriculture, leaving them vulnerable to increasingly variable weather patterns, resulting in fluctuating production and income. With large sections of the country lying in arid and semi-arid areas, there is an urgent need to increase the acreage of land under irrigation. Poor environmental practices have compounded the situation with the destruction of catchment areas, deforestation, pollution and degradation of water sources. As a result of climate change, irregular weather patterns have led to increasing droughts and floods, exposing large segments of the rural population to famine, heightening the food insecurity in the country and increasing the cost of living.

In efforts to mitigate the effects of climate change on the sector and to ensure food security, the government has embarked on several large-scale irrigation projects around the country. One such project is the Galana irrigation scheme, which covers a total area of 1.2 million acres. Work has already begun on 10.000 acres of land. These developmental goals have also been incorporated in the EU-EAC EPA agreement which expressly states that the EU will support EAC countries with the building of agricultural infrastructure, irrigation systems, water harvesting techniques and construction of storage facilities (EU-EAC EPA, 2014).

5.2.2 International certification, cost barriers and limited value addition

Despite the impressive year-on-year growth of the horticultural sub-sector, the bulk of the exports in this sector are a limited variety of fresh produce with little or no value addition. The sub-sector employs approximately 4 million low to semi-skilled workers and still uses outdated technology severely constricting the potential to add value. The sub-sector suffers from poor quality assurance methods leading to high rejection levels of produce in international markets. These high levels of rejection are due to the highly stringent phytosanitary levels and poor chemical/fertiliser administration resulting in high MRL levels that exceed the allowed levels for human consumption in the EU market. The cost of complying with these international standards are prohibitive and out of reach for most small-scale farmers. At an interview conducted with Majuni Snow Snappers Self-Help Group, the annual cost of obtaining the Global GAP certificate that allows for export to the EU and obtaining an export license was approximately USD 2000. Prior to getting international certification, internal audits and surveillance have to be performed every 6 months at a cost of approximately USD 600. In addition, tests have to be carried out for the soil, water and manure at a cost of USD 20 per sample. These tests are valid for one year. MRLs must be measured every week and the self-help group farmers have to always be prepared for unannounced inspections from AfriCert, the company that issues the international certificate. Other additional requirements are certification of the seeds, certification on the methods of disposal of the chemical containers, training of all farmers on hygiene, health and safety, first aid training and integrated post management training that costs approximately USD 200 per hour. Since the members are unable to afford these costs, the self-help group has entered into an out grower contract with locally based Dutch export firm. The contracting export firm pays for these costs and later recovers its costs by deducting the money from the produce the farmers sell to them. Failure to comply with these measures leads to revoking of the export license and certification, loss of out grower contract and banned produce at the expense of the farmers. The EAC-EU EPA agreement supports the promotion of value addition through the use of technologies and the supply of necessary farm inputs. The EU proposes to assist Kenya achieve value addition throughout the entire supply chain by promoting agro-based industries and help to raise the standards of agricultural exports to meet the requirements of international markets (EU-EAC EPA, 2014).

5.2.3 Poor and inadequate infrastructure

The current state of infrastructure especially in the rural areas where the bulk of the farming is done is highly inadequate and detrimental to the efforts put in by the farmers to increase productivity. The poor state of the roads affects transport and access to markets, resulting in the high cost of produce, which are usually passed on to consumers. In some cases farmers are forced to sell their produce at throw away prices to brokers or risk losing their produce to rot due to the lack of proper storage facilities. Poor access to water, poor distribution and processing times increase the cost of products and doing trade. In addition poor domestic and international marketing of horticultural products results in marginal integration and little market penetration international markets. Infrastructure development is crucial for the growth of this sector as it can lead to increased use of local content in production and supply, creating opportunities for both forward and backward linkage development. The signed bilateral trade agreement supports rural development through the "capacity building of farmer groups along the entire agricultural value chain; improving transport, communication and market facilities for agricultural inputs and outputs marketing and the development of research and training infrastructure, storage facilities, feeder and community access roads" (EU-EAC EPA, 2014, p.45).

5.2.4 Inadequate financing of the sector and related activities

Kanayo (2012) states that there is a direct correlation between declining public investments in agriculture to poor economic growth. Being the mainstay of the Kenyan economy and accounting for more than 40% of export earnings, the lack of increased and consistent investment in this sector has condemned the rural majority to a never ending cycle of unemployment, underproduction, stagnant incomes and chronic poverty (Kanayo, 2012). Extending cheap credit facilities to farmers with less restrictive conditions will greatly increase their yields and production per acre. The lack of access to innovative and beneficial financial products in the banking and lending sector has created a restrictive environment that hampers the development and growth of farming in the country. The lack of flexibility in the financial sector is problematic to many as was confirmed by the Chairman of the Majuni Self-Help Group. The Chairman mentioned that as a result of their group being registered as a 'self-help' and not a 'co-operative' they cannot get access to loans from the banks that are necessary for them to buy farm inputs, improve their collection centre, build grading sheds and storage facilities. In addition, the cost of fertilisers as a self-help group is also higher for them. They now have to go through the process of re-registering as a cooperative, which may

affect the status of their Global GAP certification as it was issued under the 'self-help' group and not a cooperative. The government needs to expand its extension services to farmers, increase its funding on research and development and provide incentives to the banks to give loans to the rural farmers. The EU-EAC EPA seeks to improve access for farmers to not only credit services but also natural resources. The agreement also calls on the government to develop relevant policies that support the timely provision of sufficient agricultural inputs to small-scale farmers (EU-EAC EPA, 2014).

5.3 Politics of the EPAs

As the precursor to the EPA, the Cotonou Agreement enshrined the principle of participatory development. In efforts to foster a stronger partnership, the Cotonou Agreement called for a comprehensive and integrated approach based on political dialogue, development cooperation and economic and trade relations (Udombana, 2004). The Cotonou Agreement extended the non-reciprocal preferential access for ACP countries to EU for an interim period of 8 years after which both parties were to begin a reciprocal trade arrangement conforming to the WTO. The Cotonou Agreement was deemed unfair by other non-ACP countries and was challenged several times at the WTO by Australia and Thailand under the so-called sugar cases and Latin American countries under the banana case, as was revealed during the interview at the Ministry of Foreign Affairs and International Trade. The EPAs were developed to replace the previous agreement with more comprehensive free trade arrangements that would be legal under Article XXIV of the GATT (Ntasano, 2010).

Highly criticised because of the reciprocal nature of the agreement between countries with very asymmetrical levels of development, the EPAs have caused great debate on whether they are truly beneficial to developing countries such as Kenya. Other controversial issues that were raised are whether entering into such an agreement would lead to sustainable development and the loss of much needed revenue due to the removal of tariffs. In addition the inclusion of contentious clauses are said to restrict the policy space for nations that ratify the agreement.

5.3.1 Economic development and cooperation

Developed under the framework of the Cotonou Agreement, which is still binding to both parties, the EPAs negotiations are obliged to take into account the current levels of

development of ACP countries (Article 34), in order for the countries to progressively adapt to the new conditions of international trade. As the new commitments will be gradually adapted over time, the provisions in the agreement prevent the sudden loss of revenue and are sensitive to the levels of development (Gathii, 2013). The provisions also take into consideration the social and human rights impact of the new trading relationship with the EU (Gathii, 2013). The current EPA has an extensive and comprehensive chapter on economic development and cooperation. This is stated on the preamble of chapter 5 of the agreement where both parties reaffirmed development cooperation as a core element and essential factor for the realisation of the objectives of the EPAs (EU-EAC EPA, 2014). The EU committed to address the developmental needs of the EAC countries by assisting them to structurally transform and diversify their economies, increase supply and production capacities, promote value addition and support regional integration (EU-EAC EPA, 2014). At an interview with the Ministry of Foreign Affairs and International Trade, the International Trade Advisor further added that the chapter contained strategic developmental projects that have been identified and which will be funded by the EU.

The table below indicates the degree of liberalisation the various ACP bloc countries will have to open up their economies and the time frames given after signing the EPAs with the EU.

Table 3: Timeframe for the liberalisation and implementation of EPAs by ACP countries

	Central Africa	EAC	ECOWAS	ESA	SADC	CARIFORUM	Pacific
No. of EPA countries	1 out of 8	5	16	4 out of 11	6	15	2 out of 14
Degree of liberalisation	Cameroon: 80%	82.6%	75%	Madagascar: 81% Mauritius: 96% Seychelles: 98% Zimbabwe: 80%	SACU: 80% Mozambique: 81%	86.9%	Fiji: 87% PNG: 88%
Time frame	15 years	25 years	20 years	10 years	12 years	25 years	15 years

Source: ECDPM

5.3.2 Most Favoured Nation

Considered to be one of the deal breakers during the EPA negotiations, the EU through the MFN clause demanded that it be accorded the same favourable treatment that Kenya grants to third party states that are not party to the EPAs. An agreement was eventually reached by both parties and the issue resolved. In the event that the EU claims that another party has been granted better treatment, the EU has to prove beyond a reasonable doubt that this is the case as is stated in Article 16 of the agreement: "Where the EU Party can demonstrate that it has been given less favourable treatment than that offered by the EAC Party to any other major trading economy, the Parties shall to the extent possible, consult and jointly decide on how best to implement the provisions of paragraph 2 on a case by case basis" (EAC-EU EPA, 2014, p.11-12).

5.3.3 Standstill Clause

With regard to another of the contentious issues, the standstill clause prohibited the introduction of new customs duties and those already in existence should not be increased. However in efforts to strengthen the regional integration processes, the EAC EU EPA Council was given the mandate to modify the level of customs duties that may be applied to products originating from EU into the EAC, as long as any such adjustment is not incompatible with the agreement and the requirements of Article XXIV of GATT 1994 (EAC-EU EPA, 2014). This clause does not apply to goods excluded from liberalisation, thus the whole agricultural sector is not affected by it.

5.3.4 Non-execution Clause

This clause gave the EU in essence the unilateral power to withdraw trade preferences against a country if that country violated human rights, democracy and good governance principles. The clause was subsequently rejected and not included in the agreement, as it was not considered to be a trade issue. More important the EPAs are bilateral and binding agreements that make it difficult for one party to withdraw without due consultation amongst the parties.

5.3.5 Export taxes

Also considered in the deal-breaking category, the EU demand for the abolition of export taxes was rejected and was not included in the signed agreement. Not only was this demand viewed as a restriction on policy space but also the loss in revenue would have hampered

development efforts to promote certain sectors of the economy. For example, in order to encourage the growth of the leather industry and value addition, the Kenya government has introduced taxes for the export of raw hides as was revealed during an interview with International Trade advisor. At another interview conducted with the EU representative, the trade counsellor stated that the EAC was allowed to introduce new taxes; however these new taxes would then be reviewed every 4 years by the EU to determine whether or not they should remain.

5.3.6 Supply-side constraints

Hampered by the issue of supply-side constraints and failing to meet the market demands and granted quotas due to lack of productive and technological capacity, the EU has agreed to assist Kenya to develop the necessary policies, legislation, regulatory and institutional frameworks. These measures are intended to enhance the Kenya's participation in the Codex Alimentarius Commission, World Animal Health Organisation and International Plant Protection Convention (EAC-EU EPA, 2014). The agreement further commits to promote consultation and exchanges between EAC and EU institutions and laboratories, which will facilitate the development of capacity and implementation within the region and harmonise national standards in accordance with international requirements (EAC-EU EPA, 2014).

The promised assistance has already started as the EU agreed to build a new laboratory and train personnel for the Kenya Plant Health Inspectorate Services (KEPHIS) at a cost of Euros 12 million as was disclosed at an interview with EU Trade Counsellor to Kenya. KEPHIS is a government parastatal charged with quality assurance of the agricultural products, especially those designated for export. Part of their mandate is to ensure that the MRLs are at the acceptable standards through testing of all produce prior to issuing an export certificate at all points of exit. In the same interview with the EU trade counsellor, it was mentioned that a previous lapse in the standards for french beans led to the confiscation of an entire consignment, and an increase from 2% to 10% sampling of all french beans classified for export at the cost of all exporting firms.

5.3.7 Rules of Origin

Rules of origin are a detailed set of criteria that must be met for goods to qualify for preferential treatment and are used to prevent producers and exporters from taking advantage of preferences and to determine the nationality of a product (Kim & Kim, 2009). According

to the senior advisor at the Ministry of Foreign Affairs and International Trade, the current agreement has not only simplified previously stringent criteria but also cumulation has been allowed amongst EAC countries. Further, the EU has extended cumulation to all other countries in the ACP who have signed the EPA with the EU.

5.3.8 Alternative trade schemes

Other trade schemes available for Kenya to facilitate trade with the EU are the GSP and GSP Plus. These schemes offer varying preferential treatment for eligible countries and high import restrictions through quotas and ceilings. The agreements are unilateral, purely about market access and limit the negotiating capacity for nations entering into such schemes. Issues such as Rules of Origin are not negotiable and the Non-Execution clause is applicable for non-trade issues such as human rights and good governance. Further, countries have to ratify and implement 16 international conventions for GSP and 27 international conventions for GSP Plus which, as was stated in the interview with a senior advisor at the Ministry of Foreign Affairs and International Trade, are not only restrictive to policy creation and formulation, but also infringe on the nation's sovereignty and would not be ratified by the current Parliament.

As a result of these outstanding issues and contentious clauses, Kenya failed to meet the previously set 30th September 2014 deadline and, as a result, all exports to the EU had tariffs imposed on them starting on the 1st of October. As revealed by the EU Trade counsellor, Kenya holds 35% of the EU market for flowers and exports 400 million in live plants and floriculture to the EU per year. According to the senior advisor at the Ministry of Foreign Affairs and International Trade, the imposition of tariffs on all exports to the EU had immediate negative effects on the sub-sector, with reported losses of Kshs 600 million per month and high levels of jobs losses for those employed in the sector. Other implications on the economy were the loss of foreign earnings, market loss due to increased competition from neighbouring countries exporting under the EBA scheme and the eventual instability of the Kenya shilling.

5.4 Conclusion

The research findings and interpretations presented above confirm that agriculture is the backbone of Kenya's economy and the government needs to substantially increase its

investments in this sector. Farmers should be encouraged to not only diversify their products but also add value to them as this will greatly increase their incomes. Incentives and the offering of cheap credit facilities will also encourage more farmers to engage in export horticulture. Having in place the proper infrastructure from roads, water, and electricity and storage facilities will reduce post-production losses and address the supply-side constraints. Unlike other ACP blocs, Kenya together with its EAC partners was able to negotiate better terms of trade with the EU. The liberalisation of the agricultural sector was excluded, a comprehensive development and cooperation chapter was included in the EPA agreement and the controversial clauses which would have limited policy space and development in the EAC were effectively addressed. Kenya needs to explore other international markets for its products in order to reduce her dependency on traditional markets such as the EU.

6 CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The study conducted was exploratory qualitative research aimed at finding out the implications of Kenya's trade policy with the EU with a focus on the horticulture sub-sector after the signing of the EPAs. The choice of the sub-sector was influenced by the fact that Kenya is largely an agricultural-based economy and a primary commodity producer and exporter. Horticulture is the second largest earner of foreign exchange after tea, with the bulk of its exports destined for the EU. Kenya also has a comparative advantage in this sub-sector over other countries in the region, such as Ethiopia, which has not signed the EPAs but still has duty-free quota free access to the EU markets as a result of their LDC status that allows them to export goods under the EBA scheme.

The study was by no means comprehensive in terms of the whole trade policy as it focused only on one sector. For this reason, the recommendations made should be understood in this context. Further it should be understood that Kenya signed the EPAs as part of the EAC and stands most to gain from the agreement as it is the only country in the region that is not considered to be an LDC and thus cannot export under the EBA scheme. The agreement which is between two regional groupings, is currently at the legal scrubbing stage and has yet to be ratified by all five Parliaments in the EAC and EU Parliament before coming into force. Failure for the agreement to be ratified by all members of the EAC community will render it null and void, with all countries falling back on other preferential schemes- GSP for Kenya and EBA for the rest.

This chapter concludes the dissertation by reviewing the main themes dealt with in the previous literature review chapter, the theoretical framework chapter and the chapter on findings and interpretations. Each theme is concluded with a recommendation that authorities may want to consider, especially for the horticultural sub-sector.

6.2. Promotion of sustainable growth in the horticultural sub-sector

That the government needs to increase public funding and investments in this sector is of no doubt if it is to achieve the goals of Kenya Vision 2030 economic pillar on agriculture, its obligations as mandated by the Constitution to ensure food security for all and as signatory to

various international obligations such as the Maputo Declaration and the UN MDGs. In order to ensure a lasting national food system, environmental conservation and enhancement plans are essential (Kanayo, 2012). While growth for the sector is increasingly determined by the global markets, government intervention in the mostly private sector controlled horticulture sub-sector should be enhanced in order to protect and increase farm incomes of the small-scale farmers and workers employed in the sector, guarantee food security and increase agricultural output. Farmers participating in export horticulture and those employed in the export pack houses are generally well off compared to non-horticultural households, thus linking poverty reduction to the sub-sector. Further, small-scale farmers in this sector also benefit from credit and extension services provided by the export firms. In spite of increased public expenditure year on year in the sector, the government is currently spending only 6% of the GDP. These amounts are still insufficient if the government is to fulfil the Maputo Declaration of spending 10% of GDP, increase agricultural productivity by 6%, with the goal of reducing poverty, unemployment and food insecurity (KIPPRA, 2013).

Signing of the EPAs aggravates the existing agricultural sector development difficulties as the balance of payments in Kenya continues to worsen while at the same time the signing reinforces the reliance and dependence of local producers on the EU as an export market (Jones & Marti, 2009). Increasing the productivity of small-scale farmers and enabling their connection to functioning markets would not only aid in poverty alleviation but also increase growth in the agricultural sector (Kuhlmann, 2009). Further, while international trade can lead to some development, it, however, does not necessarily lead to poverty reduction, increased exports and economic growth (Jones & Marti, 2009).

6.2.1 Recommendation

In its efforts to transform the agricultural sector, the government should emulate the Green Revolution that took place in Asia and Latin America from the mid-1970s. Driven by technology revolution, irrigation, improved seeds, fertilisers and pesticides, the Green Revolution dramatically increased food production, led to higher levels of food per capita and huge reductions of the price of food staples (Hazell, 2009). The rise in agricultural productivity growth also led to high rates of poverty reduction (Hazell, 2009). The estimates given were that for every 1% increase in crop production, the rate of poverty declined by 0.48% in Asia (Hazell, 2009). This rise in agricultural productivity translated to an absolute number of poor going down by 28%, from 1,150 million in 1975 to 825 million in 1995

(Hazell, 2009). In addition, agricultural employment activities and wages went up, as well as the growth linkages to the non-farm economy for both the rural and urban poor (Hazell, 2009). For the implementation of the programme to succeed, the Green Revolution required continued process of change, strong public support, developing technologies, building infrastructure, access to credit and markets and ensuring adequate knowledge and economic incentives to farmers (Hazell, 2009). With the EPAs set to bind Kenya for a long period, essentially all aspects of the agreement have to be re-assessed and aligned with the nation's goals of economic growth and poverty reduction. Failure to re-assess and align its goals with the agreement puts Kenya at risks of falling to prey to designing her policies "according to ideology rather than a pragmatic and flexible approach that responds to inevitable complexities and dynamics" (Jones & Marti, 2011, p.9). The government needs to learn from previously signed FTAs that failed to harness trade, growth and poverty reduction and also in order to avoid repeating the shortcomings that the 30 years of Lomé-Cotonou preferences faced (Jones & Marti, 2011). Engaging in EPAs and their far-reaching consequences to Kenya for the sole purpose of maintaining market access is "absurd and incredibly short-sighted" (Haberli, 2009, p.40).

6.3 Institutional infrastructure and capacity building

There is a need to build new institutions while simultaneously restructuring and revamping existing ones in order for Kenya to fully benefit from the signed EPA with the EU. The existing institutions are inadequate and lack the capacity to comply with and implement international standards and requirements. This lack of capacity also hampers the domestication of international obligations. Ineffective coordination amongst the various institutions impedes among other things the capacity to negotiate and the administration of duty, and taxes. One such area where Kenya needs to be vigilant is the anti-dumping and countervailing of goods imported into the country at less than their normal value and price, thus causing harm to domestically produced goods. According to an IEA (2013) report, no anti-dumping investigations have ever been carried out by the ministry of trade, the institution tasked with the steering of anti-dumping cases. The reasons given for these failures are financial constraints as the costs associated to oversee the investigations are quite large. In addition, there is inadequate expertise and weak technical know-how and a failure to undertake investigations because of lack of data (IEA, 2013). Kenya is unlikely to fully benefit from EPAs if the government does not have in place adequate policies and resources that are necessary to transform the economy (Bilal & Rampa, 2007). Past failures in

development initiatives and policies are increasingly being linked to the lack of solid institutions that are necessary to ensure the effective functioning of the economy, and help to foster economic growth and development (Rodriguez-Pose, 2013).

6.3.1 Recommendation

The government needs to put in place urgently the necessary mechanisms needed to establish good and effective institutions. This can be done through capacity building and training of government officials, establishing training schools for government employees and actively engaging the private sector to become partners in the provision of some services. Other measures that the government can take include enhanced policy making, resource management capacities, and adequate salaries for local staff to in order to mitigate corruption and rent seeking activities. The government should also consider setting up a monitoring and evaluation department overseeing all implemented policies with the express aim of measuring the effectiveness of policies and where necessary make recommendations to improve, reform or discontinue the policies. Good institutions encourage investments; create an opportunity for the accumulation of human capital, which in turn generates economic growth. The institutions help to achieve better policies and play an important role in mitigating the effects of economic vulnerability (Zaouali, 2014). Further, effective institutions reduce transaction and production costs and provide market preserving and market enhancing incentives to both public and private sectors (Amin, 2013). Effective institutions play an important role in promoting economic development, ensuring property rights and the rule of law. Institutions have the ability to create the proper incentives for desirable economic behaviour (Zaouali, 2014).

6.4 Diversification of the economy

Owing to the economic relationship between trade and development, Kenya's heavy reliance on the export of primary commodities has not led to economic growth. The high volatility of primary commodity prices and their long-term effects on the economy, coupled with unfavourable terms of trade lead to sluggish growth and slowing of the GDP (Kiiza & Pedersen, 2012). Given the current structure of the economy, trade with industrial countries will only push Kenya further into agriculture, benefitting the sector but impeding other sectors. By providing exemptions, the EPAs reduce the incentive for farmers to improve their production and reduce prices. Diversification of the economy and exports creates more stability of the export income, fewer fluctuations and an increase in Kenya's purchasing

power. Further, diversification will not only increase foreign exchange gains but also Kenya's advantage in international trade, especially since the removal of tariffs would have adverse implications for government revenue. Implementation of the EPAs will come at considerable cost to the government, and while the EU states its readiness to provide compensation it has no binding obligation to do so (Messerlin, 2009).

6.4.1 Recommendation

The government needs to invest more money into the development of manufacturing and industry to prevent the over reliance on the agricultural sector. One way to do this is by increasing taxes on raw materials exports in order to encourage value addition. Collaboration with the private sector through targeted incentives, taking advantage of technology transfer and more funding of research and development should also be considered. With the EU not providing additional finance for EPA support beyond the 10th European Development Fund, Kenya should insist on a binding commitment in order to assist with the increasing needs that the implementation of the EPAs would generate, especially if Kenya were to develop its productive capacity and infrastructure (Haberli, 2009).

6.5 Enhance regional cohesion

One of the main objectives of the EPA is to enhance regional integration through the fostering of structural transformation of the EAC economies, improving their capacity to trade, increasing their diversification and competitiveness their and gradual integration into the world economy by enhancing production, supply, and trading capacity of the member states (EAC-EU EPA, 2104). In spite of the high ideals and since its inception in 1967, regional integration in EAC has failed to provide the momentum for new exports to the global economy, cross border trade remains mostly informal and the cost of doing trade across the borders remains very high (World Bank, 2012). Fear of loss of national sovereignty, divergent economic policies, problems of dominance and equity, slow ratification of protocols and implementation of agreed plans are some of the challenges facing the EAC. The problems are compounded by a lack of financial resources and capacity for the effective planning, coordination and implementation of programmes (Maruping, 2005). Rather than facilitate regional integration, the EPAs would not only cause trade

diversion but also limit regional trade by locking the EAC countries into trade patterns with little or no value addition (Kuhlmann, 2009). This would stall agricultural development in the region as it limits opportunities for farmers to trade and achieve economies of scale (Kuhlmann, 2009). Exclusion of the agricultural sector from liberalisation does little to protect the rest of the economy, which will face increasing competition from goods imported from the EU with heavily reduced tariffs (Kuhlmann, 2009). In addition, since the exemption of "sensitive products" is different within the countries in the region, "increasing and diversifying regional trade would be much more difficult" (Kuhlmann, 2009, p.16). Further, the EPA freeze of 20 % tariff lines greatly undermines regional integration, as it forces the individual countries to protect their own sensitive sectors, resulting in difficulties to reach regional agreements (Messerlin, 2009). Finally, Kenya is the only non-LDC country in the EAC and is perceived as the only country set to 'benefit' from the EPAs. Meanwhile the stakes are higher for the other LDC countries in the bloc as they will have to forfeit the non-reciprocal trade preferences with the EU under EBA, creating a serious incentive issue on whether to sign the EPAs or not.

6.5.1 Recommendation

The Kenya government should continue to enhance its ties with other members of the EAC while simultaneously seek to address the challenges and conflicts posed as a result of multiple memberships in other regional blocs. Harmonisation of custom procedures in EAC, construction and improvement of infrastructure across the region and the adoption of common sanitary and phytosanitary measures have increased the facilitation of trade. However, more needs to be done in terms of planning, coordination and implementation of projects. Together with the other EAC partners, Kenya should call for the removal of the controversial clauses that not only hamper signing trade agreements with other partners especially from the South but also infringe on sovereignty, limit policy space and are challengeable in the WTO (Messerlin, 2009). Under the Cotonou framework, new trade agreements should not only be compatible with the WTO rules but also ensure that the countries in question are no worse off than they are in the existing situation (Bilal & Rampa, 2007). Thus the EAC member states should ensure that entering into an EPA with the EU will actually be of significant benefit to them, economically, politically and socially, than the previous trade agreements.

6.6 Final conclusion

This study, while hardly exhaustive on the broad topic of the EPAs, sought to explore the implications for Kenya's horticultural sub-sector after the signing of the EPA with the EU. The chapter concludes by summarising the main themes brought out in the study and the findings of the study.

Because Kenya is predominantly a primary producing commodity country, agriculture plays an important role in the Kenyan economy, a factor reflected in the various policies that have been implemented since the colonial period. Starting with the Swynnerton plan under the colonial government, numerous sessional papers and policies promoting rapid economic growth by encouraging both small- and large-scale farmers have been implemented. The current policies and strategies being put in place are the ASDA (Agriculture Sector Development Strategy) and Kenya CAADP (Comprehensive Africa Agriculture Development Program) which both define the challenges, opportunities and interventions necessary to accelerate growth and development in the sector.

Food insecurity due to poverty and climate change are still of major concern not only in Kenya but across the world. With the population set to increase, longer periods of drought being experienced, unpredictable rain patterns, environmental degradation and poorly formulated national policies, the food insecurity situation is set to worsen if the government fails to contribute to and promote sustainable agricultural practises that will expedite the efforts to reduce poverty. A food-secure nation leads to a developed and prosperous nation especially for an agricultural economy like Kenya, where reform and investments in the sector are inevitably linked to food security and poverty reduction.

The horticultural sub-sector, which dates back to 1901, is today the fastest growing sector in Kenya and the second major source of foreign exchange revenues. The sector consists of large farms and exporters who are supported by an ever increasing number of small-scale farmers. Employing over 4 million people directly, the sector has increased rural incomes and considerably reduced the poverty levels of those participating in horticulture farming. The EU is the main destination for the bulk of exports from Kenya and due to the increasing competition from other countries in the region it is essential for Kenya to not only keep but also expand its market access in the EU. While said traditional markets are important to keep, it is imperative for the government to pursue other markets in the Middle East and Asia in order to avoid being overly dependent on the markets in the EU.

Sessional Paper number 10 of 1965 on African Socialism and its Application to Planning in Kenya was the first post-independence trade policy to be implemented in Kenya with the aim of ensuring rapid economic development and progress through the promotion and protection of domestic industries. Under pressure from the Bretton Woods institutions the government changed its import substitution policy and instead introduced the SAPs in the mid-1980s. The SAPs emphasised that Kenya should change its trade patterns to manufacture for export, stressed the need and importance of trade liberalisation and the removal of state intervention in key public sector institutions. In what is commonly referred to as the "lost decade" in Kenya, which is the period between 1980 and 1990, the implementation of the SAP programmes led to economic decline and stagnation, de-industrialisation, increased levels of poverty and unemployment while simultaneously encouraging corruption and individualism. It is often argued that trade liberalisation will provide economic growth and development. The lack of functioning institutions enforcing regulatory frameworks, insufficient capital and capacity have led to developing countries like Kenya being unable to take part in and effectively compete in international trade. In spite of increased exports and a more diversified export structure, Kenya's comparative advantage has not considerably changed to effect the kind of growth that was predicted and the balance of trade has worsened. Kenya needs to have an efficient domestic trade policy linked to its international trade policy in order to enable the country to fully exploit the available trade opportunities, and enhance capacity and investments in infrastructure. With the current trade policy fully committed to further reductions of tariffs, non-tariff barriers and continuing liberalisation of trade, it begs the question as to how the country will be able to move from being a primary commodity producer to a developmental and industrialised nation as entailed in Kenya's Vision 2030.

In terms of the theoretical framework, Ricardo's theory of comparative advantage has strong implications for the patterns of specialisation and international trade. The comparative advantage theory was applied based on the factor endowments that Kenya possesses in the horticultural sub-sector. The theory showed that Kenya does have comparative advantage over other sub-Saharan countries in the horticultural sub-sector due to the abundant land, better infrastructure, human capital and technological know-how. These factors of production have implications on trade patterns, as Kenya exports labour-intensive commodities and imports capital-intensive commodities. Investing more in the sector will address the supply-side constraints, lead to an increase in the factors of production, thus increasing the output of horticultural commodities that use those factors intensively. In addition, with increased trade in this sub-sector leading to capital accumulation, a predominantly primary producer nation

like Kenya can gradually change from being dependent on the agricultural sector to being a producer of manufacturers (Goldin, 1990).

Citing the lack of tangible results after 25 years under Lomé, the discriminatory nature of the preferential policy against WTO rules and the need to replace the unilateral trade preferences with modern free trade agreements that would be legal under GATT, the Cotonou agreement established the framework for a new trade and development relationship called the EPAs (Ntasano, 2010). EPAs have given rise to much discussion as to whether they are truly beneficial to developing countries as they advocate for minimal state intervention, limited policy space, reduction of tariffs (thus drastically reducing government revenue) and the inclusion of controversial clauses that are deemed to "sustain neo-colonialism and bring in new dimensions of imperialism" (Nkomo, 2014, p.241). Kenya and the other ACP countries should call for the removal of the controversial clauses such as the MFN clause, Standstill clause, Non-Execution clause and Rules of origin, which restrain levels of cumulation from other countries in the region. The inclusion of said clauses in the EPA contravene WTO rules providing for South-South cooperation and goes against the Enabling Clause, which provides for the possibility of preferential agreements amongst developing countries.

Further, the non-execution clause, which has no bearing whatsoever on trade, is politically motivated and infringes on national sovereignty. The inclusion of the non-execution clause is a highly contentious as it grants the EU the powers to withdraw trade preferences if Kenya and other ACP countries violate human rights, democracy and good governance. While guaranteeing market access and increase in trade flows, the EPAs will have negative consequences on overall economic growth due to trade diversion and de-industrialisation as a result of increased imports from the EU. Other challenges posed following the implementation of the EPAs include loss of fiscal revenues, adjustment costs and the deterioration in terms of trade. The study found that in order for Kenya to continue engaging in trade with the EU and still have preferential access to its markets, the government had no option but to sign the EPAs. In this regard, EPAs are hardly an opportunity but a Hobson's choice scenario if Kenya is to continue exporting to the EU under duty free quota free arrangement. The relatively small size of the economy and market, limited primary product base and insufficient diversification and industrialisation have greatly hampered Kenya's ability to negotiate better terms of trade. Constraints on intra-African trade need to be urgently addressed in order to strengthen regional markets.

As the only non-LDC country in the EAC bloc, Kenya's situation is even more precarious if the other member states fail to ratify the EPAs. In the event of such a situation, Kenya will be forced to trade under less preferential schemes like the GSP, which would severely affect its horticultural sub-sector as a result of the high tariffs and caps on quotas. The other EAC member states would still have duty-free and quota-free access under the EBA scheme. While the government has maintained that the agricultural sector has not been liberalised and, therefore, will not be in direct competition with EU farmers, the consequences of not entering into the EPAs would lead to preferential market loss, increased competition from other LDC countries, a substantial drop in foreign currency earnings, increased unemployment and the instability of the Kenya shilling. The EPAs as they are today fail to facilitate economic diversification and are obstacles to regional integration. However, with proper and continued negotiations, EPAs can and should be tailored according to the needs of the developing countries as they have the potential to deliver both positive and negative outcomes (Haberli, 2009). In addition to accepting ACP demands on the contentious issues, it is necessary for the EPAs to be flexible and constantly monitored if they are to remain relevant and as instruments of development (Haberli, 2009). Ultimately, the decision to conclude and sign the EPAs was driven by politics through lobbying and pressure by the EU, not because of the merits of the provisions in the agreement but as part of a "broader political and geostrategic consideration", which would explain the outcomes of the negotiations – however unfavourable they are to Kenya (Haberli, 2009, p.40).

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Appendices

Appendix I: Interview questions

1. What were the aims of the GOK when entering the EPA and were they achieved?
2. Why did Kenya sign the agreement as part of the EAC and not individually? (what options are available in the event that the other states fail to ratify the agreement)
3. How does Kenya stand to gain from the EPAs especially in light of the asymmetrical levels of development between Kenya and the EU?
4. Has there been any significant impact in the agricultural sector since the signing of the interim EPAs in 2007? Was it reciprocal? How much revenue was lost during that period and how was it recovered?
5. What were the challenges when negotiating the EPAs? Contentious clauses and how were they resolved?
6. Since all EAC members are primary commodity exporters, how does GOK seek to address the eventual decline of commodity prices?
7. How will trade with the EU contribute to sustainable development?
8. What were the key challenges for Kenya in world trade and were they on the Doha Agenda?
9. How can international partners assist in addressing the challenges?
10. Is the current trade policy sufficient in itself to promote growth in Kenya?
11. Are the current economic and industrial policies complementary to the trade policy?
12. Has there been a multiplier effect of the EPAs to other sectors of the economy?
13. What other trade options should Kenya have considered with the EU?
14. In your opinion, do the EPAs hinder or encourage integration in EAC?
15. What were the challenges of negotiating EPAs as a bloc?
16. What role can the AU play to ensure better trade agreements for its member states?
17. Has the EAC attracted investments in the export sectors?
18. What challenges does the EAC face in complying with the requirements for the EPAs?