

Vol 4 Issue 6 March 2015

ISSN No : 2249-894X

*Monthly Multidisciplinary
Research Journal*

*Review Of
Research Journal*

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RNI MAHMUL/2011/38595

ISSN No.2249-894X

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

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A BRIEF LOOK INTO INDO-KENYA TRADE RELATIONS

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Abstract:-The economic performance of Kenya has recorded significant improvement within the last two decades, as it keeps on recovering from past external and internal shocks. The country's economy is greatly dependent on Agriculture. Until 2013, India was the largest source of imports for Kenya. Imports from India accounted for approximately 14.1 percent of Kenya's total imports. The trade relations between Kenya and India started before Kenya's independence. Recently, investment and trade partnerships between the two countries have culminated in a wave of new investments. Bilateral trade between India and East African countries was worth US\$3,900.67 million during 2009-10 as compared to US\$ 4,863.22 million during 2008-09. Kenya exports are mainly dominated by agricultural commodities, namely tea, coffee and horticultural products. Kenya also exports significant amounts of clothing and apparel to foreign nations. Even though Kenya exports low-value main commodity exports to India, the country imports high-value products. Kenya's exports to India and other countries are vulnerable to both weather conditions and international prices, making it a deficit country with regards to trade balance. Kenya being a major trading partner, India has come out to be the second largest investor in Kenya's economy. Kenya's trade policy has evolved through three distinct policy orientations namely Import Substitution Policies; Trade Liberalization by the Structural Adjustment Policies; and Export Oriented Policies. There is a great possibility that trade ties between the two countries will continuously grow, given the nature and number of investments recorded currently.

Keywords:economic performance , horticultural products , weather conditions .

INTRODUCTION

The economic performance of Kenya has recorded significant improvement within the last two decades, as it keeps on recovering from past external and internal shocks. Beginning 2008 to 2010, the country's trade-to-GDP ratio stood at 65.2 (Kenya: Trade and Economic Partnerships). It is in 2010 that Kenya announced an actual GDP growth rate of 5 percent, which appears sustainable. In this year, the nation imported merchandise worth US\$ 12.1 billion while it exported merchandise worth US\$ 5.2 million. This makes the country a major importer of merchandise. However, statistics show that Kenya is a major exporter of commercial services. In 2010, the country imported commercial services worth US\$ 1.8 while exporting US\$ 2.9 billion (Kenya: Trade and Economic Partnerships).

Kenya's economy is greatly dependent on agriculture. Agriculture directly contributes to a quarter of the country's GDP formation. It also indirectly contributes slightly over a quarter through commercial linkages, such as manufacturing, distribution, and through engaging a majority of its workforce. In 2010, manufacturing and agriculture were the major drivers of Kenya's economy (Kenya Institute for public Policy Research and Analysis, 2013). The agricultural sector benefited greatly from stable weather conditions, global economic recovery, and higher prices in commodity exports. Beginning 2010, Kenya has had a growing infrastructure, which has played a role in boosting growth in trade and other economic sectors (Kenya Institute for public Policy Research and Analysis, 2013). For foreign investors and countries seeking to establish a presence in the East African market, Kenya is a prime choice.

The paper will analyze trade relations between Kenya and India. India is among the major import markets

of Kenya's goods. The paper will analyze both imports and exports between Kenya and India. This will help show the trade balance between the two countries in an attempt to establish the stability of the relations. Analysis of primary trade agreements and policies between the two countries will be essential in showing the future of India and Kenya trade partnerships.

A REVIEW OF INDO-KENYA TRADE RELATIONS

Until 2013, India was the largest source of imports for Kenya. Imports from India accounted for approximately 14.1 percent of Kenya's total imports (Khalid, 2011). The trade relations between Kenya and India started before Kenya's independence. The relations started with the voyage of merchants from early 20th century, and even Indira Gandhi participated in Kenya's celebrations of independence in 1963. Since Kenya's independence, the two countries have developed several policies and trade agreements to ensure stable and healthy trade relations. In 1981, the two nations signed an Indian-Kenya trade agreement that granted each other the Most Favored Nation status (Kenya: Trade and Economic Partnerships).

Recent investments by Indian firms include Essar (telecom and refining), Tata Africa (pharmaceuticals, cars, information technologies, and so on), Bharti Airtel (telecom), and Reliance (petroleum products) (Kenya: Trade and Economic Partnerships).

Bilateral trade between India and East African countries was worth US\$3,900.67 million during 2009-10 as compared to US\$ 4,863.22 million during 2008-09. This shows a slight decrease in trade volume between India and the East African region in general. Primary and semi-finished Iron & Steel, Machinery & Instruments, Drugs, Pharmaceuticals & Fine Chemicals, Sugar and manufactures of Metals were the major items of export. Cashew nuts, Pulses, Metalifers Ores and metal scrap, Inorganic Chemicals and Spices were the major items of import. Kenya was the major trading partner within this region with a trade volume of US\$1,530.93 million during 2009-10 as compared to US\$ 1,444.27 million during 2008-09. This shows that although trade volumes between India and East Africa in general were dwindling, the trade volume between Kenya and India improved significantly. This is an indication that Kenya values India as an important trade partner.

These are among the main trade activities between the two countries (Kenya: Trade and Economic Partnerships).

In 2008, Kenya and India signed a new bilateral agreement: India-Kenya Trade Committee (JTC). This agreement impacts on various sectors of the economy of both Kenya and India including technical cooperation, investment and trade. The agreement also seeks to enhance competitiveness in the agricultural sector in both countries. The agreement tasks The Indian Research and Development Corporation (NRDC) with the responsibility of assisting Kenya in value addition, and technological and packaging interventions to enhance output in the sector (Ng & Yeats, 2005). Kenya delegations in the committee also expressed interest in Lines of Credit (LOC) for numerous sectors of the economy including investment in Export Processing Zones, trade cooperation, cooperation in coffee and tea sectors, joint venture investment in the textile industry, research and development, and process technology targeting. In addition, the agreement will also oversee future trade ties in business process outsourcing, standard administration, Build Operate Transfer, efficiency and conservation of energy, as well as bilateral promotion of investment and protection agreement (Ng & Yeats, 2005).

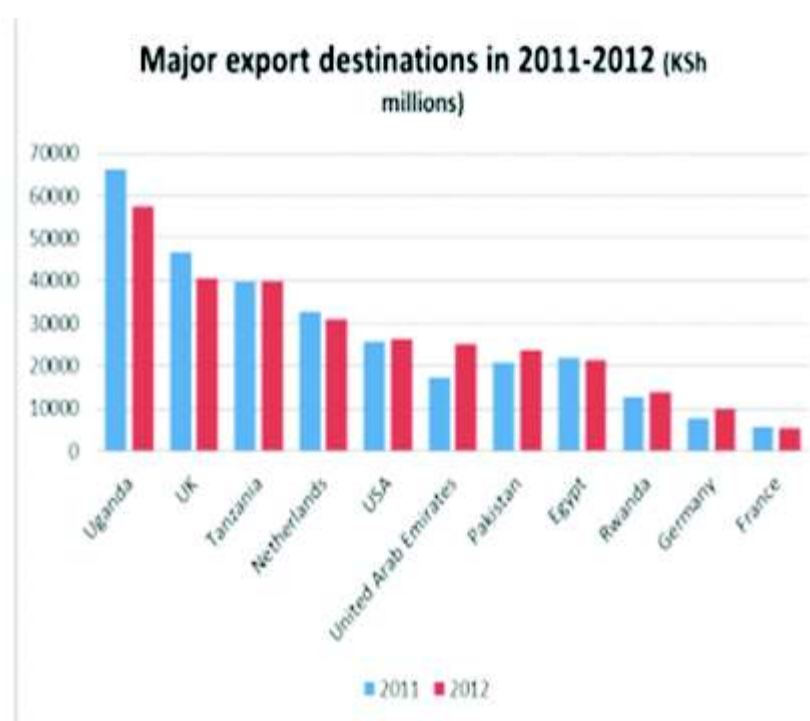
The Nature and Composition of Kenya's Exports to India

Kenya exports are mainly dominated by agricultural commodities, namely tea, coffee and horticultural products. Kenya also exports significant amounts of clothing and apparel to foreign nations. In the recent past, especially between 2010 and 2013, the country has recorded tremendous growth in coffee and tea due to improved management and governance in the bodies managing these sectors (Mwaniki, 2013). According to Mwaniki, (2013), improved prices in the international markets also played a major role in increasing Kenya's tea export earnings. The horticultural sector has recorded considerable growth in the recent past, with the leading exports being vegetables, fruits, and flowers. However, Kenya's export base has considerably remained the same since 1963. The primary

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exports from the country have basically remained commodity exports, implying that Kenya has performed poorly in diversifying its export base.

The primary export destination for Kenyan goods is within the East African Community and the European Union. The main export destinations include Uganda, Tanzania, the UK, the United States, and Netherlands. Therefore, India is not a major consumer of Kenyan goods as indicated in Fig. 1



Source: Kenya National Bureau of Statistics

Fig.1 and Fig. 2 show major products that India import from Kenya

Year	HS Code	Actual Product Description	Assessable Value in INR(RS)	Assessable Value in USD
2000	2836	Carbonates; peroxocarbonates (percarbonat -es); commercial ammonium carbonate containing ammonium ca	51449579.86	
2000	3201	Tanning extracts of vegetable origin; tannins and their salts, ethers, esters and other	37531926.03	
2000	4101	Raw hides and skins of bovine (including buffalo) or equine animals (fresh or salted, dried, limed,	16365260.71	
2000	4819	Cartons, boxes, cases, bags and other packing containers, of paper, paperboard, cellulose wadding or	6529530.00	
2000	5201	Cotton, not carded or combed	5511813.00	
2000	1211	Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in p	5203482.00	
2000	4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on whe	3927848.77	
2000	5101	Wool, not carded or combed : greasy, including fle	3793212.00	
2000	5607	Twine, cordage, ropes and cables, whether or not plaited or braided and whether or not impregnated,	3315082.00	
2000	1301	Lac; natural gums, resins, gum - resins and oleoresins (for example, balsams)	3176879.45	
2000	4102	Raw skins of sheep or lambs (fresh, or salted dried, limed, pickled or otherwise preserved, but not	1829328.44	

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2000	4103	Other raw hides and skins (fresh, or salted dried, limed, pickled or otherwise preserved, but not tanned)	1656445.70	
2000	4105	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared	1516216.00	
2000	8459	Machine-tools (including way-type unit head machines)	1476713.06	
2000	4106	Tanned or crust hides and skins of other animals, without wool or hair on, whether or not split but	1060017.36	
2000	4403	Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared	609139.00	
2000	0501	Human hair, unworked, whether or not washed or scoured; waste of human hair	342231.00	
2000	0510	Ambergris, castoreum, civet and musk; cantharides; bile, whether or not dried; glands and other animal products	315242.94	
2000	2833	Sulphates; alums; peroxosulphates (persulphates)	217728.00	
2000	0508	Coral and similar materials, unworked or simply prepared but not otherwise worked; shells of molluscs	163626.68	

Fig 2: Products from Kenya to India in 2000

Year	HS Code	Actual Product Description	Assessable Value in INR(RS)	Assessable Value in USD
2010	0713	Dried leguminous vegetables, shelled, whether or not skinned or split	1410370910.56	30225812.99
2010	2836	Carbonates; peroxocarbonates (percarbonates); commercial ammonium carbonate containing ammonium carbonate	868308850.34	18795517.39
2010	0902	Tea, whether or not flavoured	571599081.97	12328021.63
2010	2529	Felspar; leucite; nepheline and nepheline syenite;	304507422.85	6493412.92
2010	4105	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared	285888580.41	6172332.23
2010	7204	Ferrous waste and scrap; remelting scrap ingots of iron or steel	271472214.50	5859222.46
2010	4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on whether or not split	108552544.33	2339400.14
2010	5101	Wool, not carded or combed: greasy, including fleeces	85513364.78	1843795.80
2010	7801	Unwrought lead	80821170.49	1746249.67
2010	7404	Copper waste and scrap	74397976.23	1617859.06
2010	5305	Coconut, abaca (manila hemp or musa textilis nee), ramie and other vegetable textile fibres, not elsewhere specified or included	57233462.96	1226765.21
2010	4101	Raw hides and skins of bovine (including buffalo) or equine animals (fresh or salted, dried, limed, pickled or otherwise preserved, but not tanned)	56682042.45	1217963.03
2010	2530	Mineral substances not elsewhere specified or included	50566908.13	1094030.67
2010	4106	Tanned or crust hides and skins of other animals, without wool or hair on, whether or not split but	44323496.67	950819.20
2010	7602	Aluminium waste and scrap	40813548.81	887382.65
2010	4707	Recovered (waste and scrap) paper or paperboard	38358053.18	831502.02
2010	2620	Containing mainly zinc	36457903.79	789628.49
2010	0901	Coffee, whether or not roasted or decaffeinated; coffee husks and skins; coffee substitutes containing coffee	33911033.25	712520.04
2010	2602	Manganese ores and concentrates, including ferruginous manganese ores and concentrates with a manganese content of more than 10%	27681743.88	593533.16
2010	4102	Raw skins of sheep or lambs (fresh, or salted dried, limed, pickled or otherwise preserved, but not tanned)	27340142.10	589861.28

Fig. 3: Products from Kenya to India in 2010.

The Nature and Composition of Kenya's Imports from India

Even though Kenya exports low-value main commodity exports to India, the country imports high-value products. As indicated in Fig. 4, the leading commodities that Kenya imports from India are non-food industrial supplies namely chemicals, clothing and fibers, lubricants, and machinery. In 2012 and 2013, India outpaced China to become the largest exporter of goods to Kenya (Kenya National Bureau of Statistics 2013). There are very strong links in the automobiles sector from India. Among the companies that export a significant number of products to Kenya in this sector include Tata buses, Maruti cars and motorbikes from Bajaj. In addition, various pharmaceutical

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companies from India export extensively to Kenya. Other main imports from India include textiles, petroleum products obtained from bituminous minerals (other than crude), medical equipment, flat-rolled iron and non-alloy steel products, electrical goods, food-processing machinery, special purpose motor vehicles and trucks among others.

There are quite a number of factors why Kenya is importing more from India. For instance, many products on sale in Kenyan retail stores – such as textiles – come from India. They are cheaper and given the fact that Kenyan consumers are sensitive to price, they become a top choice. The quality of India products also stands out, making them more sustainable. The proximity of Kenya to the ports in the west coast part of India also play a role in making India a favorable import source for Kenya.

Year	HS Code	Actual Product Description	Assessable Value in INR(RS)	Assessable Value in USD
2010	3004	Medicaments (excluding goods of heading 3002, 3005 or 3006) consisting of mixed or unmixed products	5660110007.60	124081393.71
2010	7210	Plated or coated with tin:	2744264389.75	60,329,735.91
2010	8504	Electrical transformers, static converters (for example, rectifiers) and inductors	1689795245.26	36870587.21
2010	7208	Flat-rolled products of iron or non-alloy steel, of width of 600 mm or more, hot-rolled, not clad, a	1610153660.63	34714505.25
2010	8711	Motorcycles (including mopeds) and cycles fitted with an auxiliary motor, with or without sidecars;	1147963215.35	25234945.84
2010	5515	Other woven fabrics of synthetic staple fibres	1033925854.89	22852106.65
2010	5407	Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading	996838267.00	21873256.06
2010	4011	New pneumatic tyres, of rubber	775355739.11	17025153.76
2010	6204	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib	749135691.87	16433704.55
2010	7308	Structures (excluding prefabricated buildings of heading 9406) and parts of structures (for example,	690407092.33	15213816.97
2010	4802	Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and	636773850.50	13981905.59
2010	7901	Zinc, not alloyed:	610833077.28	13257728.60
2010	3003	Medicaments (excluding goods of heading 3002, 3005 or 3006) consisting of two or more constituents w	572463618.67	12677581.86
2010	8410	Hydraulic turbines, water wheels, and regulators therefor	568667063.68	12495661.68
2010	2710	Petroleum oils and oils obtained from bituminous m	535213683.60	11763101.88
2010	8438	Machinery, not specified or included elsewhere in this chapter, for the industrial preparation or ma	526837025.53	11583014.21
2010	2106	Food preparations not elsewhere specified or included	515115379.89	11311607.43
2010	8704	Motor vehicles for the transport of goods	497442565.06	10905979.55
2010	2304	Oil-cake and other solid residues whether or not ground or in the form of pellets, resulting from th	492213836.28	10744282.26
2010	3920	Other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated,	482986206.52	10,618,392.60

Balance of Trade: Good or Bad for Kenya?

Trade balance is the difference between an economy's monetary exports value and imports value within a given period of time (Osoro, 2013). Kenya is, generally, a deficit country with regards to trade balance. This is primarily due to the volume and nature of goods that the country produces (Osoro, 2013). Kenya's exports to India and other countries are vulnerable to both weather conditions and international prices. From the data provided in previous sections, the primary foreign exchange earners for Kenya to India were mainly horticultural and petroleum products and tea. In 2010, horticultural products, namely dried leguminous vegetables were the highest foreign earner for Kenya from India at slightly above US\$ 30.2 million. On the contrary, India exports high-value goods to Kenya. These are goods that withstand global pressures, such as price fluctuations (Ng & Yeats, 2005).

Since 2001, India has continually increased its export to Kenya. Statistics from the National Bureau of Statistics in Kenya indicate that in 2012, Kenya's imports from India were 4.1 million tons while exports from Kenya

to India stood at 304,000 tones. The bilateral trade volume amounted to \$2.4 billion with Indian export to Kenya accounting for US\$2.3 billion (Kenya: Trade and Economic Partnerships, 2012). This is a clear indication that the balance of trade profoundly favors India. There are two primary factors that contribute to this great trade imbalance between the two countries. Firstly India exports high-value goods, such as automobiles, steel, machinery, and pharmaceuticals to Kenya. Secondly, Indian companies have a significant presence in the Kenyan market, such as Essar, Bharti Airtel, Reliance Industries, and Tata Group.

Irrespective of this great trade imbalance, Kenya still benefits from the trade and economic ties between it and India. Kenya being a major trading partner, India has come out to be the second largest investor in Kenya's economy. According to Khalid (2011), about 93 percent of Kenya's total capital investment comes from abroad. India accounts for 17 percent of this foreign investment. In November 2008, India's Essar Global resolved to invest US\$500 million within two years, in Kenya's mobile phone service operator Econet Wireless Kenya Limited (Khalid, 2011). Additionally, the company purchased a 50 percent stake in Kenya Petroleum Refineries Limited at a cost of \$ 11 million. Bharat Petroleum Corporation has invested \$70 million in a joint venture with Kenya Pipeline Company Ltd for the construction of an LPG plant in Nairobi. India's Sanghi Group is investing over \$80 million in a cement plant in Pokot, Kenya (Khalid, 2011). These great investments are made possible through the growing volumes of trade between the two nations. The continued growth in trade, though more advantageous to India, will facilitate development in Kenya.

Policy Issues Affecting Indo-Kenya Trade Relations

Kenya's trade policy has evolved through three distinct policy orientations namely Import Substitution Policies (1960s-80s); Trade Liberalization by the Structural Adjustment Policies; and Export Oriented Policies of 1990s (Republic of Kenya: Kenya National Trade Policy, 2009). Today, Kenya's trade regime is guided towards a positive trajectory by market-driven principles stipulated by the World Trade Organization (WTO). Kenya has also made effort to join regional economic integration programs of the East African Community, Inter-governmental Authority on Development (IGAD) and Common Market for Eastern and Southern Africa (COMESA) (Republic of Kenya: Kenya National Trade Policy, 2009) These are programs with policies driven with market liberalization principles. According to Osoro (2013), progressive liberalization in the Kenyan market has played an important role in Indo-Kenya trade relations. Liberalization has significantly eliminated price controls, licensing requirements, and reduced tariff levels leading to modest growth and development in export markets. The liberalization trade policies in Kenya has enabled Indian firms to comfortably invest in the Kenyan market. The need for financial services in the growing Kenyan economy has also played an important role in seeing the penetration of Indian firms to Kenya. A research by London-based Overseas Development Institute (ODI) earlier this year also showed the strengthening trade ties had translated into Kenyan businesses being recipients of most funding from Indian banks among low income African countries in the past five years (Mwaniki, 2013).

Another policy that has benefited both countries, especially India as permitted in Kenya's trade policy is Duty Remission Scheme. According to the policy, Duty Remission Scheme has been operational since 1990 (Republic of Kenya: Kenya National Trade Policy, 2009). Through the scheme the government grants remission of duties and VAT on goods imported for use in the production of manufactured goods for export or for the production of raw materials for use in manufactured products for export, or for the production of "duty-free items" for sale domestically. This specific policy, according to Osoro (2013), has seen the increased import of India machinery to facilitate mechanization and increase the manufacturing base of Kenya. Machinery imports from India enjoy tax exemptions to allow more and easy importation. India's foreign trade policy also provides a friendly trading environment for both countries. According to the policy, all exports and imports in India shall be 'Free' unless when regulated by other regulations (Government of India: Foreign Trade Policy, 2012).

The Future of Indo-Kenya Trade Relations

In 2010-13, bilateral trade between Kenya and India grew by almost 57%. India's exports to Kenya constituted nearly US\$ 2.3 billion within this period (India-Kenya Relations-Ministry of External Affairs, 2014). The transformation of Kenya's trade environment has encouraged more development and participation of India companies in the Kenya. Investment of Indian companies in Kenya is continually growing, and is likely to continue to grow with the new developments seen in Kenya today. A report by London-based Overseas Development Institute (ODI) on international private capital flows shows Indian banks increased lending to Kenyan businesses significantly between 2005 and 2012, a period when the emerging Asian economic giant has become the leading source of Kenyan imports (Mwaniki, 2013). According to Mwaniki (2013), Indian banks have also moved to cash in on the increasing Indian volume of trade by opening representative offices in Nairobi. The Central Bank of India got approval to open a representative office in Nairobi from the Central Bank of Kenya in February, while Bank of India is also planning expansion within Kenya by opening more branches. This shows the commitment of the Indian government to continue growing trade ties between the two nations.

RECOMMENDATIONS

In the modern economy, countries are often advised to avoid concentration of exports in a narrow range of similar products. Such goods can be affected negatively by development of substitutes, new efficient competitors, and other factors that adversely affect demand. Like a majority of other African countries, Kenya's export-goods are highly concentrated on agricultural produce, mainly tea, coffee and horticultural products. This is making Kenya's export prospects unfavorable. The country needs to diversify its exports from the traditional products in order to grow its trade balance with India and other international markets.

Kenya needs to learn from the progress that India, its main trading partner, has made achieved in the recent past. There is a great opportunity for Kenya in international production sharing with India. International production sharing, which often involves the importation and further assembly of parts and components, can significantly broaden the range of new products a country, like Kenya, can successfully export. Production sharing provided a major stimulus to trade and growth in East Asia, the Caribbean, and even between industrial countries themselves. In the absence of production sharing, Kenya would have to master entire production processes for a good in order to become a viable exporter. Therefore, the country needs to forge further trade ties in such areas for it to gain more prospects from the growing partnership.

CONCLUSION

India has had historical relationship with Kenya. The Presence of large ethnic Indian population in Kenya helps strengthen the relations between the two countries. With India emerging as a regional power house in the Indian Ocean region, its economy and the corporate sector has the potential to forge relations with the countries of the region individually, and at collective level. Building a long standing relationship with Kenya is all the more beneficial as it further opens the doors to Rwanda, Burundi, and Congo among others. Kenya has an agrarian economy and India can help the country in many sectors such as agriculture, industry and IT.

Kenya is seeking to diversify its export products to foreign countries for economic growth. This is one important area that India should focus on as it seeks to retain its position as the largest exporter to the Kenyan market. Its bilateral trade partnerships should focus on helping Kenya develop its manufacturing capability through shared International production. By developing greater cooperation with Kenya, India can better serve its economic and strategic interests in East and Central Africa and around the Indian Ocean region.

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