KENYA’S INDUSTRIALIZATION AND DEVELOPMENT AGENDA: AN ASSESSMENT OF THE EFFECTS OF POLICY CHANGES ON OPERATION OF EXPORT PROCESSING ZONES.

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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AFRICA

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DECLARATION

I, undersigned, declare that this is my original work and has not been submitted to any other college, or university other than the United States International University- Africa for academic credit.

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This thesis has been presented for examination with my approval as the appointed supervisor

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Ambassador Prof. Ruthie Rono.
Deputy Vice Chancellor Academic Affairs
DEDICATION

This project is dedicated to family and friends who have been very supportive; emotionally and financially and have also been patient and encouraging as I committed a lot of writing to this project.
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
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<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>EOI</td>
<td>Export Oriented Industrialization</td>
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<td>EPAs</td>
<td>Economic Partnership Agreements</td>
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<td>EPPO</td>
<td>Export Promotion Programme Office</td>
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<td>EPZ</td>
<td>Export Processing Zone</td>
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<td>EPZA</td>
<td>Export Processing Zone Authority</td>
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<td>ERS</td>
<td>Economic Recovery Strategy</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GoK</td>
<td>Government of Kenya</td>
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<td>ISI</td>
<td>Import Substitution Industrialization</td>
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<td>ITA</td>
<td>Income Tax Act</td>
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<td>IPRSP</td>
<td>Interim Poverty Reduction Strategy Paper</td>
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<td>LVAC</td>
<td>Local Value-added Content</td>
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<td>MOTED</td>
<td>Ministry of Trade Enterprise and Development</td>
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<td>MTP</td>
<td>Medium Term Plan</td>
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<td>MUB</td>
<td>Manufacturing Under Bond</td>
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<td>NIP</td>
<td>National Industrialization Policy</td>
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<td>NTP</td>
<td>National Trade Policy</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>SAPs</td>
<td>Structural Adjustment Programmes</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<td>SEZ</td>
<td>Special Economic Zone</td>
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<tr>
<td>SEZA</td>
<td>Special Economic Zone Authority</td>
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<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>TREO</td>
<td>Tax Remission for Export Office</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>VAT</td>
<td>Value-added Tax</td>
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ABSTRACT

Because of the failures of import substitution policy, most developing countries shifted their industrialization policy to export-led industrialization: Manufacturing under the development plan was given high priority and the industrialization agenda was supplemented by the establishment of Export Processing Zones (EPZ). The main objective of this study is to examine Kenya’s current industrialization and development agenda through Export Processing Zones and assess the effects of policy changes on operation of EPZs. The study was guided by the following specific objectives; to examine Kenya’s industrialization and development agenda; to examine the existing policy framework for operation of Export Processing Zones in Kenya and to examine how the changes in existing policy framework affect the operation of EPZs and the industrial and development agenda. The findings guided by the research objectives indicated that; to achieve industrialization Kenya has since the 1990s used export-led growth strategies and schemes like EPZs to attract Foreign Direct Investment; create employment and pursue overall industrialization and economic growth. Secondly, EPZs in Kenya rely on various national, regional and international policies like; EPZs Act, AGOA, Vision 2030, SEZ Act and the EAC Customs Union Protocol for their operation. Thirdly, changes in these policies have affected operation of EPZs both positively and negatively. The study concludes by recommending that the cost of doing business for EPZs investors in Kenya should be reduced, Kenya should explore new export markets and increase export of other products that are not just textile and garments, EPZs should produce for local consumption and the government should focus on implementation of policies that foster industrialization.
CHAPTER ONE

1.0 INTRODUCTION

After Kenya’s independence in 1963, it pursued various development strategies beginning with import substitution and later on export growth through various export oriented policies (Zeleza, 1991). The government provided both direct support and tariff protection for the industrial sector and hoped that import substitution strategy would alleviate the balance of payments constraint, generate a lot of employment and set the basis for full industrialization and technological development (Zeleza, 1991). The strategy succeeded in considerably lowering the country's dependence on imported consumer goods whose percentage share of total imports fell from 27 percent during the 1960s to only 6.4 percent during the 1980s (Zeleza, 1991). Even so, import substitution strategies penalized certain industrial sectors like agriculture which suffered high input costs which led the government to shift the industrial strategy to export promotion (Zeleza, 1991).

The shift from import substitution to export oriented industrialization was accelerated with manufacturing under bond being earmarked as the backbone of this export strategy and was to be supplemented by the establishment of EPZs (Zeleza, 1991). The state encouraged integration of the Kenyan economy into the world capitalist system by ensuring that attracting foreign capital was a key economic objective of the government; particularly for the manufacturing and industrial sector (Zeleza, 1991).

1.1 Background of the study

The building of a sustainable export oriented industrial sector has been part of Kenya’s policy reforms since the year 2000. The main objective of the export oriented development strategies namely; Poverty Reduction Strategy Paper, Economic Recovery for Wealth
Creation and Kenya Vision 2030 have been: to develop a diversified, robust and competitive industrial sector and to foster local production, expansion in regional markets and identification of Kenya’s niche in global markets (Kenya: Poverty Reduction Strategy Paper, 2005). The PRSP was preceded by the Interim Poverty Reduction Strategy Paper (IPRSP) released in 2001 and only involved limited consultations at the national level (Kenya: Poverty Reduction Strategy Paper, 2005).

Further, in the year 2000, the government of United States enacted the African Growth and Opportunities Act which allowed the export of garments and apparel from Kenya and this has had significant implications to the industrial development and trade in Kenya because it gave new momentum to Export Processing Zones (EPZs) (Kenya: Poverty Reduction Strategy Paper, 2005).

In December 2002 the government under the National Rainbow Coalition (NARC) took office and immediately embarked on the process of preparing an Economic Recovery Strategy, focusing on reviving the economy and creating employment (Kenya: Poverty Reduction Strategy Paper, 2005). The ERS presented a road map for economic recovery during the years 2004 to 2007 and took into account existing Government policy documents, particularly the PRSP and NARC’s Manifesto and Post-Election Action Plan (Kenya: Poverty Reduction Strategy Paper, 2005). Based on the ERS, an Interim Investment Programme was developed and it provided a framework for implementing the ERS; which was to be supported by both the government and the private sector (Kenya: Poverty Reduction Strategy Paper, 2005).

Currently, Kenya’s industrialization and development agenda is laid out in the Vision 2030 which was launched in 2008. Vision 2030 aims at: creating a globally competitive and prosperous country with a high quality of life by 2030 (Kenya Vision 2030, 2017). This
entails transforming Kenya into a newly industrialized, middle-income country by providing a high quality of life to all its citizens in a clean and secure environment (Kenya Vision 2030, 2017).

The Vision comprises of three key pillars: Economic; Social and Political which are anchored on the foundations of macroeconomic stability; infrastructural development; Science, Technology and Innovation (STI); Land Reforms; Human Resources Development and security (Kenya Vision 2030, 2017). Although Vision 2030 is a 22-year strategy, the strategy team divided its implementation into five-year medium-term plans for each administration to develop in detail at the beginning of its term (Gainer, 2015).

Through the Medium Term Plans, the country articulates its priority areas, goals and targets and creates the implementation framework through which SDG goals and targets find their way into the nation’s agenda ("Medium Term Plan (MTP)", 2015). The Ministry of Industrialization and Enterprise Development has engaged with the Exports Processing Zones Authority (EPZA) and given a very clear mandate to the Authority to support Kenya’s industrialization effort and to align that support to Kenya’s Vision 2030; particularly the second five year Medium Term Plan (MTPII) ("EPZA 2014-2019 Strategic Plan", 2017). The key drivers of this plan are a desire to contribute largely to building a vibrant, dynamic and high growth economy for Kenya through the promotion of investment and through export trade development ("EPZA 2014-2019 Strategic Plan", 2017).

The Government will focus on an export led growth strategy through the establishment of Special Economic Zones (SEZs), industrial clusters, and SME parks ("Second Medium Term Plan, 2013 – 2017", 2013). In addition, the government will support growth in the mining industry by creating an enabling policy, legal, and institutional framework for investment and maximization of benefits from exploitation of Kenya’s natural resources especially oil,

1.2 Statement of the problem

Since independence Kenya has made several initiatives towards the development and growth of the industrial sector. Even so, the large industrial sector has not been dynamic enough to function as the engine of economic growth; especially in comparison to the newly industrialized emerging economies.

Since 1963, Kenya’s industrialization and development policies have suffered from a strong and systematic tendency of over-optimism in growth of targets, poor implementation and have not been encouraging (Zeleza, 1991). For example there are many useful industrial policies developed in the past which have not yet been implemented; failure to implement has often led to loss of industrial development opportunities.

Industrial policies in Kenya have also been inconsistent over time. Recent studies on industrialization in Kenya have shown that government policy towards foreign investment is poorly articulated and the institutional framework is weak; such that foreign investors have tended to dictate the patterns and content of negotiations over industrial projects and exact excessively generous concessions which undermine the country's industrialization (United Nations Development Programme, Kenya, 2017).

Further, as much as the building of a self-sustaining export oriented industrial sector has been the central focus of the country’s industrial development policy; a close analysis of the manufacturing sector shows that supply responses to the policies have been poor: In
particular, the manufacturing sector has been experiencing poor total factor productivity growth rates (Ngui, Jacob & Kimuyu, 2016).

To quicken industrial development, most developing countries embarked on the formation of Export Processing Zones which have acted as important trade and industrial policy since their formation and revival in the late 1950s. After decades, some countries have made the promotion of such zones central to their economic development strategies while others have questioned their contribution to national development ("Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals", 2015).

The EPZ policies have shown considerable success as development strategies in countries like Taiwan, South Korea and Mexico. The advantages of these policy options are: they introduce foreign capital which is scarce in those countries, they introduce advanced technology in the host country, they stimulate domestic sectors through linkage effects, they mitigate the balance of payment problem by increasing export earnings, and they alleviate the problem of unemployment (Yabuuchi, 2003).

On the other side, groups such as the International Labor Rights Forum have found that in some developing nations the majority of the workers in the EPZ's are female and comprise much of the cheap labor pool. Many economists have also concluded that employment in EPZs means low wages, high work intensity, unsafe working conditions and suppression of labor rights (Murray, Export Processing Zones (EPZ): EPZs are strategies for economic development., 2018). Many governments that have created EPZ's have further acted against labor movement activities within EPZ's. The various restrictions on labor movements that governments have taken include a total or partial ban on trade union activities, restriction of the scope of collective bargaining, and banning trade union organizers (Murray, Export Processing Zones (EPZ): EPZs are strategies for economic development., 2018).
By 2008, the number of EPZs had reached more than 3000 zones in 135 countries, accounting for over 40 million direct jobs and over US$200 billion in global exports (Picarelli, 2016). By the end of 2015, Kenya had 57 designated Export Processing Zones (EPZs) with 89 companies and 50,850 workers contributing KSh 35 billion to the Kenyan economy (Kenya: Bureau of Economic and Business Affairs, 2017 investment climate statements, 2017).

Despite the importance of the EPZs trend, there is surprisingly little empirical evidence for evaluating these programmes in the context of the policies. The focus has remained on cumulative and traditional outcomes including the benefits and disadvantages of EPZs, their roles in developing countries, the working conditions of workers in the zones and the environmental effects of EPZs. In Kenya, most of the literature has focused on; the role of Export Processing Zones Authority, impact of the zones to the Kenyan economy, the various types of incentives offered to the EPZ firms and the benefits of EPZs on employment, labor rights and wages.

Little attention has been paid to the policies that guide the operation of EPZs and how the change in a certain policy affects the operation of zones and overall industrialization. To fill this gap, this research takes advantage of the gradual establishment of EPZs in Kenya as a tool for export-led industrialization: The research paper focuses on the current development plan of Vision 2030 as a guide the country’s industrialization. The paper also looks at policies that foster the operation of EPZs in Kenya; by analyzing the existing policy framework for operation of EPZs. The research then examines how the change in existing EPZs policies affects the operation of EPZs in Kenya and the industrialization and development agenda.
1.3 Objectives of the study

This study aims to achieve the following specific objectives:

1. To examine Kenya’s industrialization and development agenda
2. To examine the existing policy framework for operation of Export Processing Zones in Kenya
3. To examine how the changes in existing policy framework affect the operation of EPZs and the industrial and development agenda.

1.4 Research questions

1. What is Kenya’s industrialization and development agenda?
2. What is the existing policy framework for operation of Export Processing Zones in Kenya?
3. How do the changes in existing policy framework affect the operation of EPZs in Kenya and the industrialization and development agenda?

1.5 Justification of study

The industrial sector has strong linkages with other sectors and its growth will positively affect the other sectors thus contributing to industrialization and sustainable development. Kenya’s industrial sector has been identified as key to addressing incidences of high poverty levels, unemployment, disparities in regional development and insufficient foreign exchange earnings from exports (Ministry of Industrialization and Entreprise Development, Kenya, 2017).

The Kenyan Constitution adopted in 2010 and Vision 2030 are meant to provide a solid institutional and administrative framework in order to guide the country on the path to higher and sustained economic growth and social development ("Report on the Implementation of Investment Policy, Kenya", 2013). Further, the 2014-2019 Strategic Plan provides a blue
print against which the strategic direction of the EPZA is documented: It seeks to coordinate and integrate the activities of the various functional areas of the Authority, in order to achieve long-term organizational objectives ("2014-2019 Strategic Plan", 2016).

This study therefore argues that in as much as EPZs have been used for export-led industrialization, their operation and contribution to industrialization and development relies on key national, regional and international policies and regulations. A change in these policies could affect their operation positively or negatively and thus affecting the overall industrialization and development of Kenya.

1.6 Significance of the study

The findings of this study can in general have vital policy implications for the Government of Kenya, international development organizations and policy makers. The study will provide useful information to policy makers in their pursuit of formulating and modifying investment and trade policies aimed at encouraging more export-led industrialization within the Kenyan EPZ environment.

The study is important to the general public because it involves; industrialization of Kenya which if supported by the full implementation of the current development plan. EPZs also create thousands of jobs and so provide employment which directly affects the citizens, hence sustainable development.

In addition to being significant features of international trade and economic growth, EPZs’ roles were recognized by UNCTAD in the World Investment Report of 2013 which proposed that EPZs are positioned and structured as centers of excellence and innovation and they respond to the evolving global marketplace ("Enhancing the Contribution of Export Processing Zones to the Sustainable Development Goals", 2015). EPZs support the SDGs through goal 8, 9 and 17 and in the long run, through industrialization and creation of jobs
lead to achieving goal 1 of the UN SDGs. This study is important to international actors because through its findings, it can give global policy formulators an insight on the national industrialization and development context and thus providing solutions for better incorporating global goals with national development goals.

According to authorities, EPZs in Kenya were in the process of being transformed into Special Economic Zones ("Report on the Implementation of Investment Policy, Kenya", 2013). The SEZ programme would cover a wider scope and provide diverse incentives to various eligible schemes which will include EPZs ("Report on the Implementation of Investment Policy, Kenya", 2013). The findings on the shift in policy in EPZ environment can be useful in designing the next EPZA strategic plan and formulating a strategic plan that works towards achieving sustainable development without compromising investment and environment in which EPZs operate.

EPZs also need to be recognized by scholars because they bind politics, economics and justice together which are all important for the International Political Economy. This research contributes to the body of knowledge of international relations and development studies, trade relations and industrial policy. It is hoped that this study will provide insight into key policy issues affecting operation of EPZs in Kenya, will be used as a reference and would stimulate further research in the same field.

1.7 Chapter Summary

This chapter begins with a background on Kenya’s industrialization and development agenda from the 1989 development plan to the Vision 2030. The chapter mentions the statement of the research problem, the objectives of the study, research questions, why the study is important, the national and international benefits of the research and summary of the chapters.
Chapter two is the literature review which seeks to examine; Kenya’s industrialization and development agenda and the existing policies for operation of EPZs in Kenya. The chapter also reviews the theories that have been used to explain industrialization and the formation of Export Processing Zones in developing countries.

Chapter three: methodology of research elaborates on the site of study, the research design to be employed, the study population, data collection techniques, data analysis methods, ethical issues and limitations of study. Chapter four gives the results and findings of stated objectives and research questions. The final chapter of this research paper will summarize the research paper, give recommendations and the conclusion.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This research paper has three main objectives: the first section of this literature review examines the theories that explain the industrialization and development of countries with a focus on export-led industrialization strategy. The second section of the literature review will examine the strategies for industrialization in Kenya with a focus on the current industrialization strategy of Vision 2030 and EPZs. The third section of this literature review examines the existing policy framework for operation of EPZs in Kenya. A chapter summary is then provided.

2.2 Theoretical Framework

On one hand, industrialization is often understood as the principal agent in the making of a modern society (Walton, 1987). On the other hand, industrialization is sometimes construed as simply one element in a set of changes such as, urbanization and rationalization which combine in a broader evolutionary transformation: The industrialization process as an expression of a complex of forces that are really rooted in more general processes, in what are most aptly characterized as the processes of modernization (Walton, 1987).

The spread of industrialization throughout the developing world has also been an important concern for scholars. Many scholars, ranging from early social theorists, convergence and modernization theorists of the 1950s and 1960s, and contemporary economists, perceived industrialization as a process associated with economic development and productivity within a country (Kaya, 2010). Theorists of the 1950s and 1960s viewed the process of development
as a series of successive stages of economic growth through which all countries must pass (Todaro & Smith, 2012).

In the 1970s, two competing schools of thought replaced the linear-stages approach: The first, which focused on theories and patterns of structural change; used modern economic theory and statistical analysis in an attempt to portray the internal process of structural change that a “typical” developing country must undergo if it is to succeed in generating and sustaining rapid economic growth (Todaro & Smith, 2012). The second is the international-dependence revolution which viewed underdevelopment in terms of international and domestic power relationships, institutional and structural economic rigidities, and the resulting proliferation of dual economies and dual societies both within and among the nations of the world (Todaro & Smith, 2012).

Dependence theories tended to emphasize external and internal institutional and political constraints on economic development (Todaro & Smith, 2012). Emphasis was placed on the need for major new policies to eradicate poverty, to provide more diversified employment opportunities and to reduce income inequalities (Todaro & Smith, 2012). These and other egalitarian objectives were to be achieved within the context of a growing economy, but economic growth per se was not given the exalted status accorded to it by the linear stages and structural-change models (Todaro & Smith, 2012).

Throughout much of the 1980s and 1990s the neoclassical theory emphasized the beneficial role of free markets, open economies, and the privatization of inefficient public enterprises (Todaro & Smith, 2012). Failure to develop, according to this theory, is not due to exploitive external and internal forces as expounded by dependence theorists: Rather, it is primarily the result of too much government intervention and regulation of the economy (Todaro & Smith, 2012).
This study uses structural change theory and patterns of development to show how Kenya has gone through different stages of development. The study also uses comparative advantage to explain why Kenya has focuses on manufacturing and invested in EPZs as a tool of industrialization and economic development.

2.2 Structural-Change Theory

Structural-change theory focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modern, more urbanized, and more industrially diverse manufacturing and service economy (Todaro & Smith, 2012). It employs the tools of neoclassical price and resource allocation theory and modern econometrics to describe how this transformation process takes place (Todaro & Smith, 2012). The two well-known representative examples of the structural-change approach are the “two-sector surplus labor” theoretical model of W. Arthur Lewis and the “patterns of development” empirical analysis of Hollis B. Chenery and his coauthors (Todaro & Smith, 2012).

2.2.1 Structural Change and Patterns of Development

Like the earlier Lewis model, the patterns-of-development analysis of structural change focuses on the sequential process through which the economic, industrial, and institutional structure of an underdeveloped economy is transformed over time to permit new industries to replace traditional agriculture as the engine of economic growth (Todaro & Smith, 2012). However, in contrast to the Lewis model and the original stages view of development, increased savings and investment are perceived by patterns-of-development analysts as necessary but not sufficient conditions for economic growth (Todaro & Smith, 2012). In addition to the accumulation of capital, both physical and human changes in the economic structure of a country are required for the transition from a traditional economic system to a modern one (Todaro & Smith, 2012).
Empirical structural-change analysts emphasize both domestic and international constraints on development. The domestic ones include economic constraints such as a country’s resource endowment and its physical and population size as well as institutional constraints such as government policies and objectives (Todaro & Smith, 2012). International constraints on development include access to external capital, technology, and international trade (Todaro & Smith, 2012). Because developing countries have access to the opportunities presented by the industrial countries as sources of capital, technology, and manufactured imports as well as markets for exports, the structural-change model recognizes the fact that developing countries are part of an integrated international system that can promote as well as hinder their development (Todaro & Smith, 2012).

The best-known model of structural change is the one based largely on the empirical work of Harvard economist Hollis B. Chenery and his colleagues; who examined patterns of development for numerous developing countries during the postwar period (Todaro & Smith, 2012). Their empirical studies of countries at different levels of per capita income led to the identification of several characteristic features of the development process: These included the shift from agricultural to industrial production, the steady accumulation of physical and human capital, the change in consumer demands from emphasis on food and basic necessities to desires for diverse manufactured goods and services, the growth of cities and urban industries as people migrate from farms and small towns, and the decline in family size and overall population growth as children lose their economic value and parents substitute what is traditionally labeled child quality for quantity with population growth first increasing and then decreasing in the process of development (Todaro & Smith, 2012).

Empirical studies on the process of structural change lead to the conclusion that the pace and pattern of development can vary according to both domestic and international factors; many of which lie beyond the control of an individual developing nation (Todaro & Smith, 2012).
Yet despite this variation, structural-change economists argue that one can identify certain patterns occurring in almost all countries during the development process: And these patterns, they argue, may be affected by the choice of development policies pursued by governments in developing countries as well as the international trade and foreign-assistance policies of developed nations (Todaro & Smith, 2012).

2.2.2 Comparative advantage

The concept of the export processing zone is derived from the recognition that; often the demands of the local market adjust the forces of comparative advantage so that resource flows into the exports sector are restricted (Leinbach, 1982). The reaction to this adverse condition has been the creation of industrial estates in which special regulations favoring export development apply. The EPZ approach embodies the creation of a spatial enclave with potentially both policy and production implications so that a government may provide special incentives, admit particular firms or permit the production of certain goods which are forbidden or restricted on the domestic market (Leinbach, 1982). The essential characteristic of these zones is that imported raw materials and components may be processed within the enclave and exported elsewhere free from payment of duties and customs regulations (Leinbach, 1982).

Essentially, the EPZ ought to be used to diminish or obliterate those obstacles thought to be preventing private investors from orienting production to an export focus (Leinbach, 1982). From the host view, linkage creation, employment generation, balance of payments effects, the transfer of technology, and regional development considerations are also objectives that come with creation of EPZs (Leinbach, 1982). This means that an EPZ does not create the comparative advantage to attract investors, but it may be able to remove obstacles which will encourage investors to take advantage of a potential comparative advantage (Leinbach, 1982).
Trade theorists have responded to the proliferation of export zones with a large literature. This work begins with neo-classical school based on Hamada (1974) with his two-sector Heckscher Ohlin model: the zone generates an inflow of foreign capital thereby attracting labor from the domestic economy (Ciccone, 2002). In the Hamada model, the welfare effects of a zone depend on the factor intensity of the protected sector in the domestic economy (Ciccone, 2002). The model argues that; when the protected sector is capital intensive, the removal of labor from the domestic economy increases production of the protected sector through the Rybczynski effect, thereby reducing welfare (Ciccone, 2002). On the other hand, if this sector is labor intensive the output of the protected sector falls while welfare increases (Ciccone, 2002).

In the field of resource allocation, controversy centers on the implications of the classical principle of comparative advantage, according to which growth is promoted by specialization (Chenery, 1961). The defenders of this principle draw their inspiration from David Ricardo, J. S. Mill and Alfred Marshall, while the lines of attack stem from Friedrich List, J. A. Schumpeter, A. A. Young and J. H. Williams (Chenery, 1961)

Much of the attack on the use of comparative advantage is based on its omission of various nonmarket elements. It is assumed that the inclusion of the latter favors the development of industry, and special benefits are often attributed to capital goods and heavy industry (Chenery, 1961). The intangible benefits stemming from trade in the form of new products, improved technology, and technical assistance tend to be overlooked in this discussion.

The other main theoretical attack on comparative advantage is aimed at its supposed support for continued specialization in primary exports (Chenery, 1961). Granting the low elasticity of demand for many primary products, it is wrong to conclude that comparative advantage is thereby superseded by principles of balanced growth (Chenery, 1961). The increasing
shortage of foreign exchange makes it even more important to economize on its use and to seek efficient ways for increasing its supply (Chenery, 1961). The comparison of domestic to foreign sources of supply that is implied by comparative advantage is no less relevant to this situation than to the case in which investment is more evenly divided between exports and import substitutes (Chenery, 1961).

The Heckscher-Ohlin version of the comparative cost doctrine has been widely recommended as a basis for development policy because it provides a measure of comparative advantage that does not depend on the existence of perfect competition and initial equilibrium (Chenery, 1961). This version states that a country will benefit from trade by producing commodities that use more of its relatively abundant factors of production (Chenery, 1961). It will export these commodities and import commodities using more of its relatively scarce factors unless its pattern of domestic demand happens to be biased toward commodities using domestic factors (Chenery, 1961). The critical assumptions in this analysis are that factors of production are comparable among countries and that production functions are the same (Chenery, 1961).

Devereux and Chen (1995) expand on Hamada’s analysis by adding volume of trade and factor terms of trade effects. They conclude that the EPZ are likely to be welfare improving under a much wider variety of circumstances than previously realized (Madani, 1999). Also, they argue an EPZ will increase or decrease the likelihood of liberalization in a tariff (quota) regime (Madani, 1999).

The applicability of the comparative cost doctrine to present-day conditions in underdeveloped countries has been re-examined by Viner and its validity has been reaffirmed with some modifications. Viner criticizes the Heckscher-Ohlin version because its
assumption of comparable factors does not allow for observable differences in their quality (Chenery, 1961)

Further, the model is based on the assumption of full employment while most developing countries have to deal with sometimes severe unemployment and underemployment (Madani, 1999). Secondly, the approach does not take into account the spill-over from FDI in the economy (Madani, 1999). Third, the Hecksher-Ohlin based analysis is based on final goods while most of the EPZ issues are related to intermediate inputs (Madani, 1999).

2.3 Strategies of industrialization in developing countries

The two basic strategies that have been used to encourage industrialization in developing countries are: inward-oriented and outward oriented strategies. The most common strategy for industrialization in most developing countries has been that of import substitution. The basic objective of this strategy is to begin to produce locally more of those goods which are now imported with technologies which may be easily replicated (Leinbach, 1982). The essential policy approach is protection behind high tariffs or quotas on competing imports and low tariffs on imported raw material and other inputs (Leinbach, 1982).

The IS strategy seeks to promote industrialization by structuring economic incentives to favor production for the domestic market over the export market (Clark, 1995). Tariffs and direct import controls, along with exchange controls, insulate the domestic market from foreign competition in an attempt to artificially induce industrialization without regard to the pattern of comparative advantage (Clark, 1995)

The second strategy seeks to foster industrial activity by achieving a rational allocation of productive resources in line with the pattern of comparative advantage (Clark, 1995). Outward-oriented trade and industrial policies do not favor production for the domestic market over exports or the purchase of domestic goods over foreign goods (Clark, 1995).
Measures that might result in the distortion of economic incentives are avoided and policies that encourage specialization in production along lines dictated by comparative advantage are often referred to as export-promotion strategies (Clark, 1995). Previous studies have evaluated the impact of both strategies on growth, and have concluded that outward-oriented economies tend to grow more rapidly than inward-oriented ones (Clark, 1995).

Evidence suggests that the developing countries should specialize according to the tenets of the law of comparative advantage especially with respect to labor intensive products where there is a cost advantage (Leinbach, 1982). According to economists, because of the principle of comparative advantage; export-led growth generates a win-win outcome for developing and industrialized economies. Moreover, industrialized economies supposedly benefit even if developing countries subsidize their exports so as to win additional exports. That is because countries which subsidize their exports are giving a gift to countries receiving those exports (Palley, 2012). Generally, the impact of export orientation is an increased trade ratio but a diversified export base and reduced dependence on primary exports (Leinbach, 1982).

Among economists like Bhagwati and Krueger (1978); the balance has swung in favor of acknowledging the superior growth performance of nations that have opted for outward-oriented development (OOD), particularly in recent years with the discrediting of import-substituting industrialization (ISI) (Moon, 1998). Political economists like Senghass (1985) have been more reluctant to endorse a strategy supported by such limited historical precedent (Moon, 1998). Frank (1966) notes that; such advice is also at variance with the experience of LatinAmerica, which grew most rapidly during periods of delinking from the global economy (Moon, 1998). Both however caution against the potential dangers of trade dependence.

Meanwhile, policymakers have juggled competing theoretical ideas: Harrison (1991), Leamer (1988) and Milner (1988) argue that principally it has not been possible to devise a reliable
measure of adherence to export-oriented policies (EOP) (Moon, 1998). Choi (1983) suggests that; In place of a direct measure of policy orientation, many prior analyses have relied upon the actual volume of trade to deduce the presence of policies designed either to expand trade or to restrict it: this approach makes the assumption that state policy is entirely responsible for the differences in propensities of nations to engage in trade (Moon, 1998).

Kenya

Industrial policies in Kenya have evolved through three distinct policy orientations, namely; import substitution, Structural Adjustment Programmes (SAPs), and export-led policy orientation.

2.3.1 Import Substitution (IS) Strategy

During the period between 1963 and 1989, the manufacturing sector in Kenya grew at an average rate of 8% per year and the country experienced high growth of industries producing consumer products such as textiles and garments; food; beverages and tobacco as leading sub-sectors (Sessional Paper NO. 9 of 2012 on the National Industrialization Policy framework for Kenya 2012 - 2030: “Transforming Kenya into a globally competitive regional industrial hub”, 2012). This strategy was characterized by high levels of protection which led into inefficiencies in the domestic industries; inward looking approach and bias against exports gradually resulting into a general decline of the overall economic performance (Sessional Paper NO. 9 of 2012 on the National Industrialization Policy framework for Kenya 2012 - 2030: “Transforming Kenya into a globally competitive regional industrial hub”, 2012).

The reason for failure in the IS strategy is that; too often this strategy has resulted in the growth of non-essential consumer goods, producers providing for a limited segment of the urban sector market while ignoring the basic needs of the lowest income in rural population
(Leinbach, 1982). Hence, the general conclusion is that import substitution contributes little to a diversified and significant export structure since investments are absorbed by inefficient production units (Leinbach, 1982). To remedy the situation, Kenya embarked on major macro-economic policy re-orientation under the Structural Adjustment Programmes (SAPs).

2.3.2 Structural Adjustment Policies (SAPs)

Structural Adjustment Policies (SAPs) were introduced in the late 1980s. The main focus of SAPs included: elimination of administrative controls, decontrol of prices, rationalization of import tariffs, restructuring of state corporations, liberalization of exchange rate. Whereas the SAPs reduced tariffs and decontrolled prices, it did not achieve the desired outcome. As a result, the GDP growth rate recorded a negative rate of 0.4% between 1991 and 1992, while the GDP annual growth rate of the manufacturing sector fell from 3.8% to 1.8% and so a major policy shift towards export orientation (Sessional Paper NO. 9 of 2012 on the National Industrialization Policy framework for Kenya 2012 - 2030: “Transforming Kenya into a globally competitive regional industrial hub”, 2012).

2.3.3 Export-Oriented Growth Strategy

Kenya adopted the outward-oriented strategy after the failure of import substitution with the main objectives of improving efficiency in the entire economy, stimulate private investment and increase the sector's foreign exchange earnings. The trade liberalization measures were deepened and new export promotion schemes such as: Green channels, Manufacture Under Bond (MUB), Export Processing Zones (EPZ), Export Promotion Programme Office (EPPO) and Tax Remission for Exports Office (TREO) amongst others were introduced (Sessional Paper NO. 9 of 2012 on the National Industrialization Policy framework for Kenya 2012 - 2030: “Transforming Kenya into a globally competitive regional industrial hub”, 2012). The most prominent of the export-oriented strategies in Kenya has been the Export Processing Zones, which was initiated in 1990.
2.3.3.1 Export Processing Zones

EPZs are special enclaves, outside a nation's normal customs barriers. The firms inside them are mostly foreign and enjoy favored treatment with respect to imports of intermediate goods, taxation and infrastructure (Warr, 1989). These privileges are subject to the conditions that almost all of the output is exported and that all imported intermediate goods are used within the zones or else re-exported (Warr, 1989).

The EPZ strategy has enjoyed much favor in international development policy due to the success of this policy in Newly Industrialized Countries (NICs) of East Asia. It is argued that the Asian success proves that the developmental gains possible from EOI are superior to the previously favored strategy of import-substitution industrialization (ISI) (Nurse, 1995). Not only has the number of zones increased lately but so has their variety: Most countries have expanded the functions of their EPZs and transformed them to Special Economic Zones. Nonetheless, the policy has not been an unequivocal success because developing countries have had varied results.

India established its first zone in 1965, Taiwan and Korea in 1966 and 1970, respectively and they all adopted SEZ policies almost at the same time. While Korea and Taiwan adopted a dedicated strategic approach toward SEZ development and steered the economy toward higher growth, India initially used zones simply as an export incentive scheme to generate foreign exchange via import substitution: No concerted efforts were made to insulate the Indian zones from the investment climate prevailing in the domestic economy, nor to forge linkages with the domestic economy to strengthen spillover effects (Aggarwal, 2012). Thus, while both Korea and Taiwan achieved phenomenal success in terms of their zones’ impact on early industrial growth, India failed to exploit the potential of its SEZs (Aggarwal, 2012).
The first formal export processing zones were established in sub-Saharan Africa in 1971; in Mauritius and were widely regarded as a success. By 2009, about two dozen African countries had hosted various forms of special economic zone (SEZs), including export processing zones (EPZ), Free Trade Zones (FTZ) and industrial parks. However, the general outcome of SEZs in Africa, especially in sub-Saharan Africa, has been lackluster. Namibia which enacted its first Export Processing Zones Act in April 1995 has been successful in attracting foreign investment and providing employment, in spite of the short period of time since the inception of the export processing zones programme. In Mauritius, the Export Processing Zones Act came into operation in 1970. Since then, Mauritius has developed into one of the world's most successful export processing zones (Schulze, 1999).

In May 2014, the South African government passed a Special Economic Zone (SEZ) Act (RSA, 2014) which potentially heralds a new era of intervention in the economy. Given the mixed experience of SEZs globally, the faith being accorded to SEZs in South Africa is important to reflect on with respect to their potential for contributing to the potential future wellbeing of South Africa’s lagging regions. Arguably, in line with the revival of spatial planning, the introduction of SEZs in South Africa is an attempt to help address the country’s challenge of persistent ‘uneven’ economic development and to revive the established (Nel & Rogerson, 2014)

The EPZ scheme in Kenya which is managed by the EPZ Authority was enacted under the Export Processing Zones Act (CAP 517, Laws of Kenya) and promotes export oriented industrial investment within designated zones ("EPZA 2014-2019 Strategic Plan", 2017). EPZ investors enjoy attractive fiscal incentives coupled with simplified operating procedures and superior infrastructure ("Information for Perspective Investors in Kenya's EPZs", 2009).

The tax benefits for investors include: A 10 year corporate income tax holiday and a 25% tax rate for a further 10 years thereafter, 10 year withholding tax holiday on dividends and other remittances to non-resident parties, perpetual exemption from VAT and customs import duty on inputs, perpetual exemption from payment of stamp duty on legal instruments, 100% investment deduction on new investment in EPZ buildings and machinery applicable over 20 years ("EPZA 2014-2019 Strategic Plan", 2017).

Further, EPZA offers easier Procedures and Smoother Operations which include: Operation under essentially one license issued by EPZA: EPZA seeks to minimize bureaucracy and administrative procedures and facilitate licensing, set up and operations of EPZ projects ("EPZA 2014-2019 Strategic Plan", 2017). This includes; exemption from compliance with various laws such as the Import, Export and Essential Supplies Act, the Standards Act, the Industrial Registration Act, the Factories Act, and the Statistics Act ("EPZA 2014-2019 Strategic Plan", 2017).

The EPZ Authority acts as the primary licensing and regulatory agency on behalf of the government, and collects the necessary information and data from the companies. Also rapid project approval and licensing within 30 days, no exchange controls; liberalized foreign exchange regime and easy repatriation of capital and profits, access to foreign currency accounts, domestic and offshore borrowing, onsite customs documentation and inspection by
Customs Staff. There is further unrestricted investment by foreigners and One Stop Shop service for facilitation and aftercare: EPZA Investor Support Division assists new companies and provides help and advice in the areas of staff recruitment, labour regulations, work permits, import-export logistics, and application for utility connections, and registration with tax authorities ("EPZA 2014-2019 Strategic Plan", 2017).

The benefits associated with Physical Infrastructure include: All zones are built to exacting international standards and provide facilities suited to export production, serviced land and ready factory buildings are available for sale or lease to licensed EPZ companies: Water, sewerage, electricity, all weather roads and an illuminated perimeter fence or wall are standard requirement for zones, zone developers provide 24 hour security, street lighting, landscaping and street cleaning services in the zones ("EPZA 2014-2019 Strategic Plan", 2017).

Kenya has through the Special Economic Zones Act, 2015 moved to transform its Export Processing Zones to Special Economic Zones. An SEZ is a designated geographical area where business-enabling policies are implemented and sector-appropriate on-site and off-site infrastructure and utilities are provided for by the Kenyan Government. According to the Ministry of Industrialization Trade and Cooperatives, it is the Government’s intention to freeze new investment in Export Processing Zones (EPZs) in favor of the more beneficial SEZ regime, with the option to convert from an EPZ to an SEZ (Special Economic Zones; what you need to know, 2016). In comparison; while SEZs apply to both manufacturers and service providers, EPZs only apply to manufacturers making SEZs a much wider incentive regime.
2.4 Existing policy framework for operation of EPZs in Kenya

A number of key local, regional and international policies and laws have an impact on Kenya’s EPZA and the EPZ program. These include:

2.4.1 The EPZ Act

In the revised 2015 EPZ Act, an EPZ means a designated part of Kenya where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the customs territory but are duly restricted by controlled access and wherein the benefits provided under this Act apply (Export Processing Zones Act: Chapter 517, 2015).

The Export Processing Zones Authority (EPZA) is a state corporation established by the Government of Kenya through an Act of Parliament: For the promotion and facilitation of export-oriented investment and for the development of an enabling environment for such investments ("EPZA 2014-2019 Strategic Plan", 2017). Without prejudice to the generality of the powers conferred under this Act, the Authority shall formulate rules as may be required for the purpose of ensuring orderly and fair development, and operation of export processing zones and export processing enterprises including; rules on application procedures, benefits of accruing EPZs, form of license to be issued and determine entry of personnel to EPZ (Export Processing Zones Act: Chapter 517, 2015).

The act also states the laws guiding the EPZs finances, facilities within EPZ, activities permitted within the zones, licenses required, qualification of an EPZ operator and developer, the powers the developers and operators have within the zones, goods deemed to be exported and imported into Kenya, goods within an EPZ, prohibited activities within a zone and rules regarding removal of good from a zone.
2.4.2 Special Economic Zone Bill

The Special Economic Zone policy was developed by the government to promote desirable economic activities in areas demarcated as Special Economic Zones. The policy proposed a wider range of activities than those provided in the EPZ Act, and provided for different SEZ schemes with a commensurate policy framework to support those schemes and greater access to local and regional markets ("EPZA 2014-2019 Strategic Plan", 2017). The policy also proposed to repeal the Export Processing Zones Act and replace it with the Special Economic Zones Act with the transformation of EPZ program into Special Economic Zones program ("EPZA 2014-2019 Strategic Plan", 2017).

In exercise of the powers conferred by section 39, 27 (7) (b) and 28 (c) of the Special Economic Zones Act, 2015 the Cabinet Secretary for Industry, Trade and Cooperatives makes regulations regarding; administration matters in SEZs, designation and gazetting of SEZs, licensing of developers and operators, licensing of SEZs enterprises, information requirement from SEZs end users, one-stop-shop, investment rules for SEZs, land use rules and building and utility controls, authority fund, sanctions and fees and implementation of regulations (The Special Economic Zones Act (NO.16 of 2015), 2016)

2.4.3 Regional Industrialization policy & legislation

Local and regional policies and laws such as the Kenya Industrialization policy and the EAC Industrialization Policy focus on addressing the challenges by industries in the region. Regional policy also focuses on opening the region’s markets to partner states ("EPZA 2014-2019 Strategic Plan", 2017).

The guiding principles and core values of Kenya’s national industrialization policy include: productivity and competitiveness, market development, high value addition and diversification, regional dispersion; technology and innovation, fair trade practices, growth
and graduation of MSMEs; employment creation, environmental sustainability, compliance with the new constitution, education and manpower development ("EPZA 2014-2019 Strategic Plan", 2017).

The policy’s goals include: Strengthening local production capacity; Raising the share of Kenyan products in the regional market; Developing niche products; Increasing the share of Foreign Direct Investment in the industrial sector; Increasing the share of locally produced industrial components; Establishing an Industrial Development Fund and Increase the local content of locally manufactured goods for export ("EPZA 2014-2019 Strategic Plan", 2017).

2.4.4 Protocol on the establishment of the East African Community Customs Union

The establishment of the EAC Customs Union and later on the Common Market are governed by the Protocol on the establishment of the East African Community Customs Union. In Article 25 of the protocol, the Partner States agree to support export promotion schemes in the Community for the purposes of accelerating development, promoting and facilitating export oriented investments, producing export competitive goods, developing an enabling environment for export promotion schemes and attracting foreign direct investment (Protocol on the Establishment of the East African Community Customs Union, 1994). Also, the implementation of the provisions of this Article 29 shall be in accordance with the East African Community Customs Union (Export Processing Zones) Regulations, specified in Annex VII to this Protocol and the customs law of the Community. The protocol also discusses regulations on SEZs and free ports, administration issues, drawbacks and tariffs, dispute settlements and exemption regimes (Protocol on the Establishment of the East African Community Customs Union, 1994).

The Protocol placed a 20% limit on sales by EPZ and other export promotion schemes through Article 25 of the Protocol. This means that when the Single Customs Territory
provisions are fully implemented, EPZ firms may sell only 20% of annual production to the new local market consisting of 5 partner states ("EPZA 2014-2019 Strategic Plan", 2017).

2.4.5 African Growth and Opportunity Act

The EPZ program is highly dependent on AGOA which opened up the US market to goods from eligible Sub-Saharan African countries eligible to participate under an enhanced Generalised Systems of Preference (GSP) program ("EPZA 2014-2019 Strategic Plan", 2017). About 54 percent of EPZ products are exported to the United States under AGOA (Kenya: Bureau of Economic and Business Affairs, 2017 investment climate statements, 2017). Approximately 50 percent of all firms in the zones are fully owned by foreigners; mainly from India, while the rest are locally owned or joint ventures with foreigners (Kenya: Bureau of Economic and Business Affairs, 2017 investment climate statements, 2017).

Majority of the exports are textiles; Kenya’s third largest export behind tea and horticulture; and more recently handicrafts. 80 percent of Kenya’s textiles and apparel originate from EPZ-based firms. The proposed Textile City, to be set up at the Athi River EPZ, is expected to attract more than 100 textile investments, but progress on the project has been slow (Kenya: Bureau of Economic and Business Affairs, 2017 investment climate statements, 2017).

2.5 Chapter Summary

The general objective of this research paper was to examine Kenya’s industrialization and development agenda through Export Processing Zones. The first section of the literature review looked at the theories that have tried to explain the process industrialization in developing countries and models that can be used to explain the establishment of EPZs. The second section of the literature review examined the strategies for industrialization in developing countries with a focus on the current industrialization strategy in Kenya. The third
section examined the establishment of EPZs in Kenya as a means of industrialization and development. The section then looks at the existing policy framework for operation of EPZs in Kenya. The next chapter is on research methodology.
CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

This chapter will explain the method adopted by this research. The chapter will mention every component used in conducting this research including; a description of the site of study, the research design, the study population and sampling procedures, data collection methods, ethical considerations and the limitations of the study. Buckley and Chiang define research methodology as “a strategy or architectural design by which the researcher maps out an approach to problem finding or problem-solving (Jamshed, 2014).

3.2 The Site of Study and Units of Analysis

This research was conducted from various organizations and institutions responsible for formulation and implementation of Kenya’s industrialization, trade and development policies. Such include and not limited to; The Ministry of Industry, Trade and Cooperatives, Kenya Association of Manufacturers and Export Processing Zone Authority in Athi River. The organizations chosen have been given the mandate by the Kenya government to promote, attract and facilitate investment and industrialization in Kenya through attracting FDI, creating employment and export promotion for the purpose of industrialization and development.

The unit of analysis is the major entity that the researcher analyzed in the study including; who or what. For this research paper, the key personnel and informants who the researcher gathered information from through interviews were classified as the units of analysis.
3.3 Research Design

The research design refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring you will effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data (De Vaus, 2001).

The research paper employed a qualitative approach: The word qualitative implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured (Denzin & Lincoln, 2005). This design stresses the socially constructed nature of reality, the relationship between the researcher and what is being studied and the situational constraints that shape inquiry.

The advantage of using qualitative methods is that they generate rich, detailed data that leave the participants' perspectives intact and provide multiple contexts for understanding the phenomenon under study (Anderson, 2010). In this way, qualitative research can be used to vividly demonstrate phenomena or to conduct cross-case comparisons and analysis of individuals or groups (Anderson, 2010).

Most of the limitations you find in using qualitative research techniques also reflect their inherent strengths. For example, small sample sizes help you investigate research problems in a comprehensive and in-depth manner (Anderson, 2010). However, small sample sizes undermine opportunities to draw useful generalizations from, or to make broad policy recommendations based upon, the finding (Anderson, 2010). Additionally, as the primary instrument of investigation, qualitative researchers are often imbedded in the cultures and experiences of others. Even so, being culturally embedded increases the opportunity for bias to enter into the way data is gathered, interpreted, and reported.
3.4 Study Population, Sample Size and Sample Selection Procedures

The research critically aimed to gather data from various organizations that are responsible for the formulation of industrialization policies and implementation of Kenya’s current industrialization and development agenda. The target population for the study entailed the top management of the organizations including; the key officials who come up with policies on industrialization, export promotion and trade, coordination or regional trade matters, enforcement of international trade laws and regulations, former key officials in various government ministries that have the knowledge and experience in industrialization and development. At the EPZA the research target population were members of the Board especially those who are directly linked to industrialization and trade and the policies that guide the operation of EPZs in Kenya and some workers who are the lowest on the EPZs employment chain.

With qualitative research, it is essential to obtain a sample size that will generate sufficient data. One of the aspects of interviews is that the sample size depends on the research question. This means that a broader research scope will require far more data and thus require more data collection which requires more interviews (Thompson, 2011). Thus, Strauss and Corbin recommend narrowing the focus of the research question after three or four interviews; so that the researcher can narrow the focus and thus reduce the number of interviews (Thompson, 2011). There is no specific way of coming up with a sample size because the sample size of grounded theory relies on the point of theoretical saturation (Thompson, 2011).

Grounded theory can use a number of data gathering techniques; Morse (1994) suggests approximately 30-50 participants, Creswell (1998) suggests between 20-30 interviews for grounded theory. Other studies recommend 5 to 25 and some suggest at least 6 interviews (Thompson, 2011). A sample size of 25 was therefore well reasoned and drawn from the
population size of 50 individuals from the ministries, departments and agencies; EPZ and former trade and industrialization policy leaders and EPZs workers.

The research used non-probability sampling procedures through the purposive sampling procedure; the organizations were selected because they have been responsible for Kenya’s industrialization and development. The individuals were selected because they are information rich, have experience in the field of trade, industrialization and development and both offer useful manifestations of the phenomenon of interest. The sampling is aimed at giving insight about Kenya’s industrialization and development agenda; focusing on the effects of change in policy on operation of EPZs.

The major disadvantage of the purposive sampling procedure is that; it is subjective in its selection mechanism and a different researcher can come up with a different sample size when identifying important characteristics when picking elements to be in the sample hence a different synopsis.

3.5 Data collection methods

The researcher applied two methods of data collection techniques: The first method was collecting data through secondary sources and existing data and the second method was Key informant interviews.

Documents and existing records on the subject matter including; books, journal articles, websites, annual reports and previously recorded interviews were used for data collection. This method is useful because it helps the researcher with an in-depth understanding of the topic of research and also gives the researcher enough literature to support the study from a theoretical perspective. This study was done by going through secondary sources that had; the history of Kenya’s industrialization and development through the various industrialization strategies; EPZs and their significance in export-led industrialization.
The purpose of the research interview is to explore the views, experiences, beliefs and motivations of individuals on specific matters; Interviews are, therefore, most appropriate where little is already known about the study phenomenon or where detailed insights are required from individual participants (Gill, Stewart, Treasure & Chadwick, 2008).

The researcher chose to conduct in-depth interviews through semi-structured interviews because they not only help to define the areas to be explored, but also allow the interviewer or interviewee to diverge in order to pursue an idea or response in more detail (Gill, Stewart, Treasure & Chadwick, 2008). Semi-structured interviews are based on semi-structured interview guide; which is a schematic presentation of questions or topics and need to be explored by the interviewer (Jamshed, 2014).

To achieve optimum use of interview time, standard interview guides were used to serve the useful purpose of exploring many respondents more systematically and comprehensively as well as to keep the interview focused on the desired line of action. The questions in the interview guide comprised of three core questions and two associated questions related to the central question. The questions asked were open-ended and were organized according to the research objectives. The researcher employed face-to-face and telephone one-off interviews for the key respondents which lasted for about 20-60 minutes and the respondents were given the liberty to draw from their own understanding and experiences.

All interviews were recorded by noting down the responses of the respondents. The advantage of recording the interview is that it makes it easier for the researcher to focus on the interview content and the verbal prompts and thus enables the researcher to transcribe the interview without bias and without leaving any information out (Gill, Stewart, Treasure & Chadwick, 2008). The major disadvantage of this method of data collection is that; it is time
consuming: in terms of setting up, reviewing the sample population, choosing the key informants from the sample population, interviewing, transcribing, analyzing and reporting.

3.6 Data Analysis and Presentation
The researcher employed narrative and thematic analysis which involves; the reformulation of stories presented by respondents; taking into account context of each case and different experiences of each respondent. To categorize the data, the researcher used selective coding which involves formulating the story through connecting the categories; common themes, patterns and relationships. The researcher also used data from secondary sources to support the findings of the study.

Data interpretation was done by comparing the primary and secondary data; findings of interview with the findings of the literature review and discussing differences between them. To summarize, the research findings were matched with the objectives in order to examine if the research questions of the study were answered. A chapter summary was then provided.

3.7 Ethical considerations
Ethical standards prevent against the fabrication of data and therefore, promote the pursuit of knowledge and truth which is the primary goal of research. Ethical behavior is also critical for collaborative work because it encourages an environment of trust, accountability, and mutual respect among researchers.

The first step that the researcher took was to ensure the study did not harm its respondents. This was by formulating a topic that is not provocative in any way, but rather, is educative and adds on to the knowledge of industrialization and development of Kenya and in general to the field of international relations and development studies. The researcher also applied for research permits from relevant institutions which gave the researcher accreditation to carry out research on the subject matter.
Before collecting data through interviews, the researcher asked for informed consent form key informants selected. The researcher also informed the subjects the methods that will be used to protect anonymity and confidentiality while conducting the research. The researcher in addition; adhered to the ethical rules of respect for privacy and will only mention the interviewee where consent has been given. The researcher was also open minded and objective while conducting the research and analyzing the data collected without being biased in thought and analysis.

The researcher acknowledges every source and gives credit to other authors and contributors of the study.

3.8 Limitations of the Study

This research paper used qualitative research design for data collection, analysis, findings and to arrive at conclusions. First, the major limitation of this study is that; in collecting primary data through interviews, the target population is a specified sample size; comprised of key informants and in a sample size of 25, researcher was only able to conduct 13 interviews. This was sufficient in answering the research objectives but more interviews would have given the researcher more information on the phenomenon.

In addition, the response rate of scheduling an interview in the Kenya government offices with key informants was very slow. Most of the emails on the websites were not functional and the institutions had to give other emails so that the researcher would request for an interview. Even so, most of the informants preferred telephone interviews which did not give the researcher the liberty to probe the interviewees more on the subject matter.

Secondly, the method chosen for data analysis was coding through thematic analysis. There was a limitation of looking for themes and words that the researcher was derive the findings
from: this is because the responses were ambiguous with repetition of words and phrases which could have different meanings for the respondents.

Lastly, conducting the face-to-face interviews was time consuming because each interview could take up to 1 hour depending on the response of the interviewee. The telephone interviews were also short and the researcher was unable report based on the experience of the informants who preferred telephone interviews.

### 3.9 Chapter Summary

This chapter presents, explains and justifies the different research approaches, techniques and processes that the researcher adopted in the course of the study. These included the site of study, research design, target population and sample size, data collection methods and data analysis. The next chapter is on the results and findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings from data analysis. The study sought to examine Kenya’s industrialization and development agenda through an assessment of the effects of policy changes on operation of EPZs in Kenya. The findings are outlined according to specific objectives of the study. The findings are based on the responses from interviews with key informants and information gathered on the research objectives. The first objective was to examine Kenya’s industrialization and development agenda. The second research objective examined the existing policy framework for operation of Export Processing Zones in Kenya. The third objective examined the effects of changes in policy on operation of EPZs and Kenya’s industrialization and development.

Out of targeted 25 respondents, the researcher was able to interview 13 respondents 10 through telephone interviews and 3 through face-to-face interviews. This represented an effective response rate of 52% that was sufficient enough to answer the research objectives. The response rate is represented in Table 4.1.

Table 4.1 Response rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Respondents</th>
<th>Response</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>25</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>13</td>
<td>52</td>
</tr>
</tbody>
</table>
4.2 General Information

The general information was organized in the following areas: professional background, years of experience in the specified field and experience working in industrialization and development. The findings on the general information will however be grouped according to professional background and years of experience because the experiences given by the respondents was for the purpose of obtaining perceptions and experiences of the respondents.

4.2.1 Professional background

The findings on the pie chart below illustrate the different professional background of the interviewees who are comprised of: key officials from the ministry of industry, trade and cooperatives, the EPZA, legal practitioners, investment organizations and others who included an EPZ worker and former government official. Thus the findings indicate that the key personnel of who were used as respondents had various professional backgrounds.

Figure 4.1
4.2.2 Years of Experience

The findings represented in the pie chart below shows that the 31% of the respondents who had a background in industrialization and development were currently working with the government to achieve the industrialization and development agenda and have worked with the various industrialization organizations for 5-10 years. Those who had a background in finance and banking were 23% and had experience for at least 10-24 years and are currently involved with industrialization and development through different government institutions. The legal practitioners 15% and had experience of between 8-10 years, economic policy and management was one respondent who represented 8% of the respondents and had a professional experience of 12 years, 8% of leadership and management had one respondent who had professional experience of 7 years in his field. The 15% of others category comprised of 2 EPZ workers who had each worked in EPZs industry for 13 years.

Therefore, the findings indicate that most of the respondents had an average of 10 years of professional experience in their various fields.

Figure 4.2
4.2.3 Experiences working within Industrialization and development

The respondents discussed their professional backgrounds including educational background, their careers and transition to working how their current professions is related to industrialization, development and economic growth. The experiences mainly reflected the different aspects of a country’s industrialization including: Kenya’s current industrialization plan of Vision 2030 and current industrialization policies, Small and Medium sized Enterprises (SMEs), Jubilee government Big Four Agenda, Buy Kenya, Build Kenya initiative, Kenya’s regional and international trade relationship including; EAC, AGOA, EPAs, COMESA and AfCTA agreement, creation of SEZs and learning from SEZ policies from China, revival of cotton industry and producing for the local market; challenges on industrialization, export growth and EPZs and recommendations on how to industrialize Kenya.

Most of the respondents had years of experience working in different sectors that contribute towards Kenya’s industrialization and development; therefore the respondents were able to give comprehensive answers on the subject matter. While most of the respondents were able to answer the interview questions based on the questions asked, the workers at the EPZ were more knowledgeable on issues of labor, wages and employment creation and the benefits of selling the EPZs products internationally and locally.

4.3 Kenya’s industrialization and development agenda

The study aimed to examine Kenya’s industrialization and development agenda from the key informants involved in the study. When asked about Kenya’s industrialization and development agenda, most key informants directly linked their understanding to the current development plan of Vision 2030 with a focus on the economic pillar. Some informants discussed the current government; Big Four Agenda and others; supporting SMEs as a means of industrialization.
4.3.1 What is Kenya’s industrialization and development agenda?

The respondents had diverse views of what Kenya’s industrialization and development entailed but the conclusions were somewhat similar: Most key informants discussed Vision 2030 in line with its aim of industrializing and transforming Kenya into a middle-income country by focusing on job creation, investing in the manufacturing sector and increasing regional and international trade. Other key informants discussed the Jubilee government Big Four Agenda of tapping into opportunities for employment creation in the manufacturing sector and creating SMEs within the manufacturing sector. All of these responses were grounded in industrialization through manufacturing and employment creation.

Some respondents added that the formation of the National Industrialization Policy has also aided in the implementation of Vision 2030 goals: the policy has boosted the industrial sector by giving the country a coherent industrial policy. The Industrial Policy action plans targets various sectors which most are manufacturing sectors which will in turn address economic development by dealing with challenges of unemployment, inequality and poverty. Also, in line with the Vision 2030 MTPII, the policy will develop industrial clusters like leather industries as part of policy development work within the East African Community.

“For us to achieve industrialization, we as a country should take advantage of our strong industries; government should invest in these industries and build clusters, which will help to restructure the economy to make it more self-supporting”

4.3.2 What caused a shift of the country’s development strategies from import substitution to export-led industrialization strategies?

A number of the respondents discussed the policies of Import Substitution strategy first before giving the viable reasons of why Kenya shifted its industrialization strategy to export promotion. Kenya in its early years of independence pursued an industrialization strategy that relied on IS strategy in which the government provided both direct support and tariff
protection for the industry with the objective of; rapid growth of industry, easing balance of payment pressures, encouraging indigenous participation in the industrial sector, increasing productivity and high-income employment.

On the positive side, the country enjoyed a significantly high rate of industrial growth during the first decade of independence. The manufacturing sector grew at an average rate of 8 percent and was second only to agriculture in terms of employment creation during the same period. Some industries expanded from a few establishments into industries with a wide range of products and a large number of employees. These included; paper, textiles and garment manufacturing, food processing, leather tanning and footwear which are still industries to date.

Even though the IS strategy was implemented in an environment of optimism that created a climate supportive of widespread economic performance, the policy failed to create much-needed employment because of its capital-intensive nature and high import content which caused major balance of payment problems. The explanation by the vast respondents was that: the creation of employment has been a major focus for most of the regimes in Kenya since independence. Therefore, the IS policies were unable to create employment for the growing population. The world was also becoming more interconnected, with developing countries moving towards exporting more than importing.

Further, there had been a growing awareness that generic policy approaches such as liberalization, stabilization and privatization were inadequate for the encouragement of widespread economic growth and development of Kenya and so after the failures of IS strategy, 1970s external shocks and liberalization through SAPs, the government re-embarked on institutional and market oriented initiatives that would re-orient the economy.
The 15% of the respondents who were made up of key informants ranked as ‘others’ did not have immeasurable knowledge on the different industrialization policies of Kenya and therefore discussed more of the benefits of the EPZs schemes in terms of employment opportunities. They however knew that; building of a self-sustaining export-oriented industrial sector has been the central focus of the country’s industrial development policy, and EPZ scheme is part of export-oriented strategies.

**Reasons for shift from IS to export-led industrialization strategy**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Success of EPZs in NICs</td>
<td>23%</td>
</tr>
<tr>
<td>Failure to create employment</td>
<td>39%</td>
</tr>
<tr>
<td>No Clue</td>
<td>15%</td>
</tr>
<tr>
<td>Balance of payment problems</td>
<td>15%</td>
</tr>
<tr>
<td>Failure of macro-economic policies of liberalization</td>
<td>8%</td>
</tr>
</tbody>
</table>

4.3.3 Has export-led industrialization strategy helped in achieving Kenya’s current development plan?

All the respondents said that export-led industrialization strategy in comparison to the previous industrialization strategies has been the most efficient strategy in achieving Kenya’s industrialization and development plan. The reason for most of the respondents was that export-led industrialization has helped the country to earn revenue through exports and Foreign Direct Investment (FDI) and created employment through export promotion schemes.
Most respondents were keen to discuss the AGOA act as part of export-led industrialization. With the change in industrialization strategy from import substitution to export-led industrialization, the US government enacted AGOA that allowed African countries to export textiles and garments duty-free and without import quota restrictions; this gave the EPZs a fresh push and Kenya has since the enactment of AGOA taken advantage of exporting garments and textiles worth millions of dollars to the United States.

One key informant reported that the extension of the AGOA Act from 2015 to 2025 would allow for the development of a mature trade relationship between Kenya and the United States. The extension would see an expansion of exports to USA; apparels and garments of up to 1 billion USD. Kenyan government also plans to make industrial zones and industrial land area available on long leases and make them also affordable so that more investors are able to purchase the lands and build businesses in Kenya for long term gains.

Another key informant reported that the textile industry in Kenya has created employment and under AGOA, the textile industry under enterprises like New Wide Garment Kenya, EPZ Ltd sells approximately 2 million garment pieces to USA under AGOA. The informant added that the enterprises under EPZs are growing. Example, in 2015, there were 89 enterprises dealing with textile and by 2017, they had grown to 110; which approximately export 1.5 million USD worth of Calvin Klein and Victoria Secrets underwear to the US.

Other key informants reported that Vision 2030 as the latest development plan is preoccupied with external markets and export-oriented strategies and pays more attention to the manufacturing sector. For this reason, there have been fresh efforts to promote special economic zones and industrial parks, as well as industrial clusters. The key informants reported that the government of Kenya has since the enactment of the Special Economic Zones Act urged its legislators and policy makers to learn how China has structured its SEZ
policies and how these policies can help Kenya improve its ways of doing business. This is by reviewing China’s SEZs; operation, infrastructure, facilities and institutions.

One key respondent reported that the first SEZ launched in Eldoret, Uasin Gishu in July 2017 is expected to attract about 2 billion USD foreign investments. It was in partnership with Africa Economic Zone and China New South Group; Kenyan industrialists would be able to benefit from the vast manufacturing experience that China has accumulated over the years specializing in EPZs and SEZs. The setting up of the SEZ in the region will also lead to uptake of readily available raw material from the region and the project will benefit from readily available human resource and expertise from institutions of higher learning hence provide job opportunities in the region. The respondent was optimistic that setting up the parks next to the raw material would lower the cost of production; which has been a challenge for Kenya’s industrialization.

4.4 Existing Policy Framework for Operation of EPZs

4.4.1 What prompted Kenya to invest in EPZ?

Some key respondents reported the history of Kenya’s industrialization starting with the IS strategy and its failure as stated on the previous question on a shift to export-led growth. They stated that the IS policies had distorted the evolution of industry by encouraging excess capacity and there was general inefficiency that undermined the ability of Kenyan products to penetrate the external markets. Since then, there was an opportunity to liberalize and open up the markets for trade with other nations. There was growth of the informal sector and dismantling of foreign exchange allocations and price controls leading to a more export oriented structure which later led to the creation of EPZs.

Other informants attributed the formation of EPZs to the shift towards liberalization in terms of political governance. The 2002 general elections saw Kenya move from an authoritarian
state to a more democratic state thus reduction of restrictions on international trade and capital. This means that Kenya was looking to trade not just regionally but internationally; through exports. Since then, there has been more focus on improving the performance of the industrialization and manufacturing sector through: tax reforms and tax incentives, more dynamic export promotion and liberal trade incentives that helped firms take advantage of the expanded market outlets.

Other respondents reported that there was a focus on improving the overall business climate including the rationalization of business licenses. The enactment of AGOA, revival of the EAC and deeper participation in COMESA opened up new opportunities for Kenyan capital and exports.

Most key informants reported that EPZs help create jobs for thousands of Kenyans while providing a viable transfer of technology to local workers. Therefore, like other developing countries, Kenya invested in the EPZs for the benefits that they bring to the host nation including: FDI, employment, backward linkages and technology transfer.

4.4.2 How effective has EPZs been towards achieving the export-led industrialization strategy over the years?

All key respondents were of the view that EPZs have helped towards achieving export-led industrialization. The reasons were that: First, the objective of EPZs during their formation was to create industries that would enhance export promotion, attract FDI and create productive employment. According to the respondents, despite some shortfalls, the programme has over the years, since 1990, managed to achieve all the above objectives.

4.4.2.1 Export promotion

Kenya has also managed to produce goods for exports to the United States, European Union and is working towards Intra-African trade and producing goods for the local market.
consumption. The respondent reported that collectively, in the year 2016, Kenya had revenue of USD 340 million from just exports to USA under AGOA Act. Other respondents also reported that USA is the biggest market for exports accounting for about 58% of the exports which were mostly garment products. Other destinations were Europe, EAC, Asia, COMESA, rest of Africa and about 1% of the exports going to the rest of world and Far East.

**Figure 4.3: Source: Export Processing Zones Program Annual Performance Report, 2016**

### Market destination for all Exports

![Market destination for all Exports](chart)

<table>
<thead>
<tr>
<th>Destination</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>58%</td>
</tr>
<tr>
<td>Europe</td>
<td>18%</td>
</tr>
<tr>
<td>Asia</td>
<td>13%</td>
</tr>
<tr>
<td>EAC</td>
<td>4%</td>
</tr>
<tr>
<td>COMESA</td>
<td>2%</td>
</tr>
<tr>
<td>Rest of Africa</td>
<td>1%</td>
</tr>
<tr>
<td>Far East</td>
<td>4%</td>
</tr>
<tr>
<td>rest of the world</td>
<td>0%</td>
</tr>
</tbody>
</table>

#### 4.4.2.2 Attract FDI

Other respondents reported that Kenya has over the years been able to attract FDI through the EPZs and SEZs schemes. They reported that FDI is not only a source of capital but also helps in transfer of technology, transfer of new management skills and job creation. The respondents noted that Kenya has a viable political, social and economic environment for investors and investment. The export schemes have attracted investors from; Sri Lanka, India, Taiwan, Dubai, China, Qatar, Singapore, USA, UK, Belgium, Netherlands, Denmark, Australia, Mauritius, and Tanzania amounting to approximately 45%. Kenyans have also
invested in such enterprises and there are also joint ventures owned by both Kenyans and foreign investors.

One respondent reported that over the years, Kenya has been able to attract foreign and local investors with the EPZ scheme; the latest being China who in 2017 invested a total sum of about 200 million USD on an industrial park in Kenya. In terms of capital investments, one key respondent noted that the number of both local and foreign investors has been increasing over the years to about 70% from foreign capital and 30% from local capital invested in the export schemes.

Figure 4.4 Source: Export Processing Zones Program Annual Performance Report, 2016

Some key informants reported that the SEZs were being created and are supposed to replace EPZs. Their main aim is to attract FDI in the country’s key urban sectors. The respondent noted that:

“We came up with SEZs as an instrument to attract FDI; we will allow tax exemptions at SEZ but under controlled conditions.”
Another key informant reported that tax incentives are integral in ensuring competitiveness of the export scheme investors and that more importantly; there is a need to address systematic issues in the investment environment that have hindered the attraction, facilitation and retention of investments in Kenya. The respondent noted that in comparison to the year 2015, Kenya has recently seen a decline in capital investments.

4.4.2.3 Employment creation and technology transfer

All the key respondents reported that EPZs have been able to achieve industrialization and development through employment creation. They reported that the scheme employs thousands of Kenyans each year and with formation of new zones and industrial parks, the enterprises are able to create more job opportunities for the youth and women. One key informant noted that the EPZ facilities have helped Kenya sustain about 45,000 jobs and this has helped the government to realize the goal of having a skilled working population.

The table below shows the increasing number of employees in the EPZs:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local employees (number)</td>
<td>35,501</td>
<td>39,961</td>
<td>46,221</td>
<td>50,302</td>
<td>52,475</td>
</tr>
<tr>
<td>Expatriates (number)</td>
<td>428</td>
<td>472</td>
<td>517</td>
<td>597</td>
<td>604</td>
</tr>
<tr>
<td><strong>Total employment</strong></td>
<td><strong>35,929</strong></td>
<td><strong>40,433</strong></td>
<td><strong>46,738</strong></td>
<td><strong>50,899</strong></td>
<td><strong>53,079</strong></td>
</tr>
</tbody>
</table>

*Source: Export Processing Zones Program Annual Performance Report, 2016*

Another key informant noted that while creating employment, the schemes also provide viable technology transfer for local workers. There is also training of local workers on various industrial disciplines. The skills learned are expected to eventually diffuse into the local market and have positive impact in new techniques geared towards increase in
production and efficiency. The respondent later noted that there is a plan to train 50,000 women and youth who will later be absorbed in the EPZ industries.

Overall, most respondents concluded that EPZs have contributed to the export-led industrialization strategy thereby contributing to the national economy. All respondents reported that EPZs have led to industrialization of Kenya through export promotion and job creation. A majority of the respondents agreed that the export schemes have led to training of workers and technology transfer; and a number of the respondents thought that EPZs have led to attraction of FDIs as represented in the table below.

Table 4.3 Contribution of EPZs to export-led industrialization strategy

<table>
<thead>
<tr>
<th>Industrialization strategy</th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export promotion</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Attraction of FDI</td>
<td>9</td>
<td>69.2</td>
</tr>
<tr>
<td>Employment creation</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Training and transfer of technology to local employees</td>
<td>11</td>
<td>84.6</td>
</tr>
</tbody>
</table>

4.5 What is the existing policy framework for operation of EPZs in Kenya?

Most key informants reported on the EPZ Act of 1990, the SEZs Act of 2015, AGOA Act of 2000 with USA, duty free access market under COMESA, Article 25 of the EAC Customs Union Protocol, EU trading policies under the 2015 EPAs and the National Industrialization Policy. Other informants mentioned; the Trans-Atlantic Trade and Investment Agreement, Africa Continental Free Trade Agreement and the Tripartite Free Trade Agreement, National Trade Policy and Kenya’s Industrial Transformation Program. A few informants did not know any existing policies for the operation of EPZs. Even though a number of policies were mentioned by the various informants, most reported on AGOA Act, SEZs Act and Kenya’s
industrial transformation through the National Industrialization Policy and Vision 2030. Most of the informants who had knowledge on the existing policy framework mentioned the policies and suggested that the researcher would go and do further research on the policies. The table below represents the existing policy framework for operation of EPZs in Kenya which were reported by the key informants.

Table 4.4 Existing policy framework for operation of EPZs in Kenya

<table>
<thead>
<tr>
<th>Year</th>
<th>Policy/act</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>EPZ Act CAP 517, Laws of Kenya</td>
<td>Establishment of the Export Processing Zones Authority (EPZA) to promote and facilitate export oriented investments and to develop an enabling environment for such investments</td>
</tr>
<tr>
<td>2000</td>
<td>AGOA Act</td>
<td>Accord duty-free treatment to products exported by beneficiary sub-Saharan countries to the USA. In Kenya, to promote the export of textile and garments from Kenya to USA</td>
</tr>
<tr>
<td>2000</td>
<td>COMESA Free Trade Area</td>
<td>To provide duty free and quota free market access to member states on COMESA originating products. In 2008, COMESA agreed to expand its FTA to include the EAC and SADC</td>
</tr>
<tr>
<td>2005</td>
<td>EAC customs Union Protocol</td>
<td>Establish zero duty on goods and services amongst themselves and a common tariff among partner states</td>
</tr>
<tr>
<td>2008</td>
<td>Vision 2030 (2008-2030)</td>
<td>Current development plan that aims to transform Kenya into a newly industrializing, middle-income country by 2030. The development plan aims to establish; industrial clusters, SME and industrial Parks and SEZs. The purpose</td>
</tr>
</tbody>
</table>
The establishment of SEZs is to attract both local and foreign investments, enhance technology development and promote rural and regional industrialization by exploiting the comparative advantages of local resources.

<table>
<thead>
<tr>
<th>Year</th>
<th>Policy/Programme</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>National Industrialization Policy</td>
<td>Aims to revitalize the industrial sector for effective contribution to national growth, employment and wealth creation under Vision 2030. Focuses on value addition for both primary and high-valued goods; linkages between industrial sub-sectors and aims to provide strategic direction for the industrial sector growth</td>
</tr>
<tr>
<td>2015</td>
<td>Africa Continental Free Trade Area (AfCTA)</td>
<td>The agreement was signed by COMESA, EAC and SADC member states with the purpose of having a free trade area among member states. The objective of the Tripartite Free Trade Agreement include; promotion of economic and social development of the region, create a large single market with free movement of goods and services to promote intra-regional trade and enhance regional and continental integration process.</td>
</tr>
<tr>
<td>2015</td>
<td>Kenya’s Industrial and Transformation Programme (2015-2025)</td>
<td>It was developed by the Ministry of Industrialization and Enterprise Development (MOIED) to guide Kenya on its journey to industrialization. The programme is guided by Vision 2030’s economic pillar which aims to create a robust, diversified and competitive manufacturing sector by boosting local production, expanding to the regional market and taking advantage of global market niches.</td>
</tr>
<tr>
<td>Year</td>
<td>Act/Agreement</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>---------------</td>
<td>-------------</td>
</tr>
<tr>
<td>2015</td>
<td>SEZ Act</td>
<td>The purpose of the Act is to promote and facilitate investment by global and local investors by promoting an enabling environment for such investments.</td>
</tr>
<tr>
<td>2016</td>
<td>EU Economic Partnership Agreements (EPAs) and Kenya</td>
<td>Trade and development arrangements between the EU and the African, Caribbean and Pacific (ACP) countries - designed to facilitate the ACPs’ integration into the world economy through gradual trade liberalization and improved trade-related cooperation. The EPAs are tailored to suit specific regional circumstances and promote sustainable growth and poverty reduction through trade.</td>
</tr>
<tr>
<td>2017</td>
<td>National Trade Policy</td>
<td>The Trade Policy adds momentum to the robust trade policy reforms that the country has pursued under regional and multilateral trade arrangements. It translates to Kenya’s commitments at regional and multilateral level to solidify policy measures and create opportunity for their domestication through the various instruments that are proposed. It spells out complementarities with other sectors and provides a framework for these sectors to adopt policies that complement rather than compete with each other; the trade policy introduces a trade agenda in several sectors such as agriculture, industry, infrastructure and ICT.</td>
</tr>
</tbody>
</table>
4.6 Effects of the changes in existing policy on operation of EPZs, industrialization and development

4.6.1 Are there any changes in the existing policy framework that guides the operation of EPZs in Kenya?

Some of the key informants said that there were changes in the existing policy framework for operation of EPZs. Other key informants said that there were no changes and the EPZs still operated within the same policies. And a few key informants were not knowledgeable about any existing policies or changes in policies for operation of EPZs. This is represented in the figure below.

Figure 4.5

Are there changes in existing policy framework for operation of EPZs

The major changes that were noted by the key informants who were aware of the policy changes included; the setting up of Special Economic Zones in 2015. The SEZs are meant to replace EPZs and will be used to attract more FDI. According to the informants, the
operations in the SEZs will have more industries including SMEs which will focus on more industries than manufacturing industries. According to the informants, the government of Kenya was keen on attracting FDI and fast tracking implementation of the economic pillar under the Vision 2030 and one of the key initiatives is the promotion of Special Economic Zones; recognizing that Export Processing Zones have not had the expected impact on the economy. The SEZs will be governed by the Special Economic Zones Authority.

Another key informant reported on the EAC Customs Union Protocol which has many restrictions and currently allows EPZ producers to sell only 20 percent of their total annual production within the EAC; which has led to investors withdrawing their investments because of market access challenge. The informant added that there were other incentives being offered in the EAC region to industries in the Customs territory that are similar to incentives offered to the existing EPZs, yet their products are accessing the Customs Territory without being subjected to Common External Tariff and other charges which has created a conflict in the policies. In addition, when it comes to regional trade, Kenya’s decision depends on what other EAC states agree to. Even so, Kenya could not wait to sign the EPAs as a bloc because it would have been looked out of duty-free access of its products to the EU. The informant reported that;

“Kenya has in no way gone against the interests of the larger EAC community and that the country’s self-interest comes first.”

4.6.2 What are the effects of changes in existing policy for operation of EPZs?

Key informants who were conversant with the changes in policies on operation of EPZs reported that the changes had both positive and negative effects on operation of EPZs. Most key informants reported that SEZs will be more beneficial to Kenya because they will not just be for manufacturing good for exports, but will be diverse containing; industrial parks, industrial clusters, free ports, ICT Parks, Agricultural Zones and Tourist and Recreational
Zones. These zones will also produce goods and provide services for both local and international market. The informants noted that shift from EPZs to SEZs will be more beneficial for attracting FDI because there is a diverse range of industries to invest in. they will also in addition to the EPZs, create more employment for the local population because they will be set up in different counties next to the raw materials and ready workforce.

However, one key informant warned against conflicting laws that guide operation of EPZs and SEZs. The informant reported that as much as SEZ exempts the developers and enterprises from income tax, under the Income Tax Act, the developers and enterprises are subject to tax at the rate of 10% for the first 10 years and 15% for the subsequent years. When asked about the fate of EPZs, the informant reported that the EPZA is working with industrialization ministries to achieve harmonization between the different regimes that promote export industrialization.

Another key informant reported that the EAC member states sometimes differ on decisions concerning promotion of exports within the region. Example, Kenya proposes that domestic market threshold for EPZs firms raised from the current 20% to 100% of annual production; subject to payment of all taxes and duties as per the Common External Tariff rate. However, the other EAC member states are opposed to the proposal saying that EPZs should serve the export drive as provided for in the EAC Customs Union Protocol. According to the protocol, EPZs are separated from SEZs therefore enterprises targeting the EAC market should operate under the SEZ with appropriate incentives. Such restrictions have according to the informant created a challenge of market access within the EAC region and have led to loss of investments because some of the investors have withdrawn their investments.
4.7 Recommendations on how to improve the effectiveness of EPZs and boost export-led industrialization

When asked how the effectiveness of EPZs can be achieved moving forward, most of the key informants reported on the challenges facing the EPZs and export-industrialization first. One key challenge reported by some key informants was the challenges associated with accessing the EAC markets as reported in the effects of changes in policies on operation of EPZs.

Most key informants reported on the cost of doing business in Kenya: The Informants reported that the cost of doing business in Kenya has been very high in recent years; hindering Kenya from attracting FDI. The informants discussed bureaucracy; where there were so many chains of command and many procedures that one needed to go through before investing in Kenya, the property registration procedures for foreign investors are also ambiguous and the cost of electricity for production and manufacturing in Kenya has been very high.

Other key informants reported that there is lack of cohesiveness when it comes to achieving industrialization and vision 2030. The informant reported that Kenya has gone through various development plans and is currently signed under various national, regional and international development blueprints. Even so, there is no harmonization of all these plans and sometimes the agendas of the industrialization and development plans don’t favor Kenya’s economic growth. Also, devolution has separated development plans into counties and most legislators, policy makers and the local government have had a hard time incorporating the national development plan to the local development plans.

A few key informants reported on the shortfall of raw materials like cotton and so manufacturers at EPZs were forced to import fabrics; which was expensive and time consuming. Example, Hela EPZs in Nairobi imports 100% cotton fabrics from other countries
like China, Turkey AND Dubai. In addition, the cotton industry in Kenya has about 52 textile mills but only 15 are functioning; and they operate at less than 45% on total capacity.

A few informants also reported that as much as Kenya has been doing great and exporting garments worth billions under the AGOA Act, Kenya has also been trying to promote duty-free export of other products like tea, coffee, cut flowers and food ingredients in order to boost trade volumes to the USA. Even so, Kenya has failed at product diversification to the US market and the export scene; 18 years later is still dominated by textiles and garments. This challenge can be attributed to lack of market knowledge, failure to comply with required international standards quantity constraints and the high cost of doing business.

One of the solutions reported by most informants was centered on the current government’s Big Four agenda. The informants reported that the government was focusing on SMEs and SEZs to boost industries and manufacturing in the country. This would be complimented by creating an enabling policy environment that would foster innovation. The policies would diversify investment centers and create processing industries at the local levels. The government in the agenda is also planning to do policy research on SEZs and learn the operations, infrastructure facilities and institutions needed to make the SEZs more successful than the EPZs.

Other key informants reported that to boost industrialization, the government and EPZs should not only strive to export more to the USA but should also strive to produce for the local market. The respondents reported that the government through the ministry of industrialization has started the initiative of Buy Kenya, Build Kenya which involves selling of EPZs clothes to Kenyans at affordable prices of a low as 200 KSh.

One key informant reported that industrialization belongs to all business actors and therefore it was inevitable to build Kenyan industries. The informant reported that: First, the
government should come up with policies that empower the growth of local industries. These policies should focus on minimizing imports and boost local production of goods to support industrialization. The informant discussed the textile industry and the chain impact of Kenya’s cotton industry. Most of the cotton industries in Kenya had died and many farmers had abandoned the growing of cotton. The informant suggested that the government should revive these industries and invest in the production of cotton which will in turn reduce the cost of production in the EPZs because the enterprises there wouldn’t have to import fabric for garments.

Secondly, the informant reported that the country could not sufficiently produce for export if it could not conquer the local market. The informant recommended that to industrialize, Kenyans needed to design their own clothes using raw materials that are found in the local market and support locally manufactured goods like bags and shoes instead of buying mitumba. Also, the manufacturing enterprises like leather industries needed to start processing finished leather in order to earn more revenue.

Other recommendations reported by other informants included; developing the infrastructure needed to support industrialization, government should give long and affordable leases to dedicated industrial zones and industrial areas that operate for 24 hours, lower the cost of production including cost of electricity, transportation and setting up parks next to the raw materials. Also, a few informants suggested putting labor disputes at bay, better pay for EPZs workers and adhering to safe and healthy work conditions in the industries.

4.8 Chapter Summary

On Kenya’s industrialization and development agenda, the findings established that Kenya has in the recent past till today focused more on export-led industrialization through strategies like EPZs and SEZs. Kenya’s main purpose for shifting to export promotion for
industrialization has been for the purpose of attracting FDI, building the manufacturing sector and creating employment; which all the informants interviewed had knowledge of. On existing policy framework for operation of EPZs, the findings indicated that a few key informants knew of the policies that EPZs in Kenya operated on. Most notable policy among the informants was the AGOA Act which involves export of textiles and garments from Kenya to USA. On the changes in policy on operation of EPZs, the informants who knew about the policy framework reported mostly on the shift from EPZs to SEZs, operation of EPZs within the EAC region and the implications of Kenya exporting more of textiles and garments than other products like tea and coffee under the duty-free AGOA Act. The main challenge to export promotion and industrialization in Kenya, as reported by a number of informants was the cost of doing business in Kenya. A number of recommendations were given by the key informants. The next chapter is the discussions, conclusion and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter provides a summary of the study, a discussion on the findings of the research as compared to the findings in the literature review, and recommendations on Kenya’s industrialization and development agenda; the effects of changes in policies on operation of EPZs. The research is concluded on the basis of the discussion of the research objectives.

5.2 Summary of Findings

The main objective of this study was to investigate Kenya’s industrialization and development agenda and the effects of changes in policy on operation of EPZs. The study was guided by the following specific objectives; to examine Kenya’s industrialization and development agenda, to examine the existing policy framework for operation of Export Processing Zones in Kenya, to examine how the changes in existing policy framework for operation of EPZs Kenya affect the EPZs environment and development agenda.

Narrative and thematic analysis was used to analyze the collected data. The study adopted a key informant interview research design using the qualitative approach. The target population of this study was 50 key informants from various organizations, institutions and individuals who have knowledge and have had experience in Kenya’s industrialization and development and export promotion. Twenty five (25) key informants were selected as sample size for this study from which the researcher was able to interview 13 of them. An interview guide was used to gather information from the key informants.

In regards to Kenya’s industrialization and development agenda, the findings indicated that Kenya has since the failure of import substitution policies relied on export-led strategies for
industrialization. This has been through the creation of export promotion schemes like EPZs which have in turn helped in attracting FDI, promoted exports and created employment for the vast population. Kenya has also since 2015 focused on attracting more FDI through the creation of SEZs and industrial parks and industrial clusters. In addition, the government has incorporated the current development plan of Vision 2030 with the Big Four Agenda which aims to promote SMEs and production for the local market through Buy Kenya, Build Kenya initiative. Further, there is the formation of a uniform trade policy; the National Industrialization Policy (NIP) which will help guide Kenya’s current development plan.

In regards to existing policy framework for operation of EPZs in Kenya, the findings indicated that there are a number of policies that EPZs in Kenya operate on including; the EPZs Act, AGOA Act, SEZs Act, EAC Customs Union Protocol, COMESA, NIP, Trans Atlantic Trade and Investment Agreement, National Trade Policy and Kenya Industrialization and Transformation Agenda. The policy that was familiar to most respondents was the AGOA Act of 2000 which has been extended to the year 2025. This is because since the signing of the act, Kenya has been able to take advantage of duty-free export of goods worth billions; especially textiles and garments to the USA. The export of textile and garments through EPZs has been the biggest source of revenue for Kenya exports.

In regards to the effects of changes in policies on operation of EPZs and Kenya’s industrialization and development, the findings indicated that the major changes have been on the creation of SEZs; which makes it not clear if the SEZs will replace the EPZs or if investors will continue to invest in EPZs knowing that SEZs cover a wider range of industries that are not just for manufacture and export as of those found in EPZs schemes. Further, the SEZs like EPZs provided for tax incentives however, there is legislation conflict with the new Income Tax Act. The SEZ exempts the developers and enterprises from income tax but under the ITA, the developers and enterprises are subject to tax. The findings also indicated that
EPZs investors in Kenya are having a hard time accessing the EAC regional market because; first, the member states have to make collective decisions regarding trade in the region and secondly, the EAC customs union protocol restricts EPZs investors from trading more than 20 percent annually which has led to loss of FDI for Kenya.

Other findings included were centered on the challenges affecting EPZs and industrialization which included; loss of investors due to the high cost of doing business in Kenya, failure to export more of other products like coffee and tea to the USA under AGOA, failure to produce for the local market consumption and lack of coherence and implementation of legislation and policies that are supposed to foster industrialization.

5.3 Discussion

5.3.1 Kenya’s industrialization and development agenda

Kenya adopted various industrialization strategies including Import Substitution, Structural Adjustment Programmes and Export-oriented strategies. Since the failure of IS strategy, Kenya moved towards export promotion with the formation of various export promotion schemes; EPZs among them. The findings revealed that most of the key informants claimed that the export-led industrialization has by far been the best industrialization strategy that has pushed Kenya’s economic growth and development through; export promotion, attraction of FDI and employment creation. In respect to industrialization, the rationale of the infant industry argument is that it is necessary to protect the late-comer industry in the short run from the large, efficient, established industries in other countries (YOUN-SUK, 1997). Therefore, the infant industry argument may be used for designing strategies at the start of the process of restructuring the economy (YOUN-SUK, 1997).

The government of Kenya after independence through the import substitution (IS) strategy provided both direct support and tariff protection for the industry and its objectives were
rapid growth of industry, easing balance of payment pressures, encouraging indigenous participation in the sector, increasing productivity and high-income employment (Chege, Ngui & Kimuyu, 2014). However, the IS policy failed to create much-needed employment because of its capital-intensive nature and its high import content also caused major balance of payment problems (Chege, Ngui & Kimuyu, 2014).

During the 1980s, the government introduced structural adjustment programmes (SAP) in order to strengthen competitiveness and reduce excess capacity in the industrial sector to address concerns raised about distortions caused by the IS strategy (Chege, Ngui & Kimuyu, 2014). These included virtual removal of price controls and liberalization of imports through the removal of import and foreign exchange licensing and rationalized tariff regimes (Chege, Ngui & Kimuyu, 2014). The government was not only slow in implementing liberalization but also did little to put in place effective export promotion policies (Chege, Ngui & Kimuyu, 2014).

The institutional and market-oriented initiatives taken to re-orient the economy away from the import substitution strategy to export promotion included creation of a series of export platforms. Among these was the Export Promotion Council established in 1993, the Export Compensation Scheme, Manufacturing Under Bond (MUB), Export Processing Zones (EPZ), import duty and value added tax remission schemes that were intended to improve export producers’ access to imported inputs at world prices (Chege, Ngui & Kimuyu, 2014). These export platforms aimed to promote export-oriented manufacturing through a systematic process of tariff reductions and through a variety of market incentives, namely export promotion programmes (Chege, Ngui & Kimuyu, 2014). To attract foreign investors into the export sector, an Export Processing Act was passed in 1996 providing for the development of the Export Processing Zones Authority.
Further, Kenya signed into AGOA as soon as it was enacted; giving the EPZs a fresh push. The rise in export of garments and apparel from Kenya from US$30 million to US$249 million between 2000 and 2005 has been attributed to export opportunities in the US fabric market (Chege, Ngui & Kimuyu, 2014). Kenya’s export performance was further boosted by the revival of the EAC and greater participation by the country in the COMESA.

Policy reforms since 2000 have been spelt out in three blueprints, namely; the Poverty Reduction Strategy Paper, the Economic Recovery for Wealth Creation, and the current development blueprint of Vision 2030. Vision 2030 is preoccupied with external markets, and there is significant preoccupation with export-oriented strategies, and anticipation of a greater role for the manufacturing sector (Chege, Ngui & Kimuyu, 2014). For this reason, there have been fresh efforts to promote SEZs, industrial parks and industrial clusters.

Even so, industrial policies in Kenya have been less than consistent; as such policies have often been characterized by pendulum swings that are not helpful for steady industrial development (Chege, Ngui & Kimuyu, 2014). Failure to implement has often led to loss of industrial development opportunities. While other countries have used the less technologically complicated textile sector to kick off rapid industrialization, Kenya allowed marketing boards to destroy the cotton value chain, beginning with the destruction of cotton growing and ginning (Chege, Ngui & Kimuyu, 2014). Major joint venture investments in cotton mills were unable to survive the lack of cotton and opportunistic management which has led to manufacturing industries importing fabrics thus increasing cost of production.

Bhagwati (1978) proposes that the benefits of FDI are higher in those countries that follow export promotion strategy (Ahmad & Hamdan, 2003). FDI has been an important aspect in Kenya’s industrialization and development agenda. The Government has put emphasis on attracting Foreign Direct Investment (FDI) and fast tracking implementation of the economic
pillar under the Vision 2030 through the overhaul of legislation which impact the ease of doing business (KPMG, 2015).

One of the key initiatives of the Kenyan government is the promotion of Special Economic Zones having recognized that Export Processing Zones have not had the expected impact on the economy. In an incentive-based system FDI is part of a planned and state-controlled development process. Fiscal and other incentives are used to direct the entry and operation of foreign businesses to certain areas of the economy (Schulze H. C., 2002). Export processing zones (EPZs) stand as the most significant examples because they often provide for lower import duties, income tax holidays and are one of several administrative instruments for providing free trade status to manufactured exports (Schulze H. C., 2002).

The use of SEZs is one element in growth policies that could potentially have a net positive impact on employment as well as foster structural transformation (Kingombe & Willem te Velde, 2013). When SEZs are able to attract investment that would otherwise not have been able to come, they create additional jobs (Kingombe& Willem te Velde, 2013). The available data on the employment impact suggests that there are approximately 3,000 zones in 135 countries, accounting for over 68 million direct jobs and over $500 billion of direct trade-related value added within zones (Kingombe & Willem te Velde, 2013). The SEZs are expected to promote value addition and boost use of local raw materials. This will in turn help in creating jobs for thousands of Kenyans and provide technology transfer for the local workers.

Even so, a key challenge is to design and implement appropriate growth facilitation policies that can both create employment and promote structural transformation. Some policies may promote innovation and transformation but not significant employment, whilst in other cases they may create jobs of low quality (Kingombe & Willem te Velde, 2013). According to
economists, around 800,000 jobs were created in 2017, while the economy expanded by 5.8 percent, well outperforming the global and regional averages (Miriri, 2017). Nonetheless, 90 percent of the new jobs are in the poorly-paid informal sector.

5.3.2 Existing policy framework for operation of EPZs in Kenya

As much as EPZs in Kenya is part of a wider export-led policy structure, the findings indicated that there are various policies that guide the operation of EPZs in Kenya including; EPZ Act, EAC Customs Union Protocol, AGOA, COMESA, Vision 2030, SEZ Act and NIP. Other policies that were indicated were ITA, NTP and Kenya Industrial Transformation Programme. Amongst these, the most discussed policies were the SEZ Act, AGOA and Vision 2030. Under vision 2030, there are a number of industrialization and development policies that affect the operation of EPZs in Kenya like; the National Industrialization Policy, National Trade Policy and the Big Four Agenda by the Jubilee government.

At the institutional level, implementation of EPZ programs is guided by the EPZ Act, SEZ Act and the program is continued in line with the Strategic Plan 2014 – 2019. EPZA, being a state corporation, is governed by The State Corporations Act (Cap 446) in addition to the EPZ Act. It thus adheres to the rules and regulations stated in both acts in addition to other relevant laws ("EPZA 2014-2019 Strategic Plan", 2017). The EPZ Act, CAP 517 specifies the powers, duties and functions that the Authority may exercise.

At the national level, EPZs program is guided by Vision 2030 through the Medium Term Plan II 2013-17 (MTPII) which is the second in a series of successive 5 year medium term plans through which Vision 2030 is being implemented. For the manufacturing sector, the Vision and MTPII focus on the establishment of special economic zones, industrial parks, industrial clusters and SMEs that will not only focus on manufacturing for export but also
manufacturing a variety of goods and providing various services for both the international and local market (Export Processing Zones Program Annual Performance Report 2016, 2017).

There is also the National Industrialization Policy (NIP) which is aligned to Kenya’s Vision 2030 and will provide a necessary guide on investment promotion and facilitation. The NIP is guided by six core principles including; openness and transparency, community and county engagement, sustainable development, diversified economic activities and export-led growth, empowering domestic SMEs and regional integration (Export Processing Zones Program Annual Performance Report 2016, 2017). Further, there was the implementation of Kenya Industrial Transformation Programme (KITP), guided by Vision 2030 launched by the Ministry of Industry, Trade & Cooperatives. KITP is aimed at improving overall business environment and supporting selected sectors which Kenya has competitive advantage (Export Processing Zones Program Annual Performance Report 2016, 2017).

Regionally, there is Article 29 of the EAC Customs Union Protocol, the Partner States agree to support the establishment of Export Processing Zones (East African Community Model Export Processing Operational Manual, 2010). The objectives and purposes for which an Export Processing Zone may be established include; promote export-led industrialization, expand foreign exchange earnings, create employment, foster linkages of local economy to international market and promote processing of local raw materials for export (East African Community Model Export Processing Operational Manual, 2010).

This EACEPZ Model Operational Manual is premised on the mandate provided under Regulation 17 of the East African Community Customs Union (Export Processing Zones) Regulations (East African Community Model Export Processing Operational Manual, 2010). The manual has been formulated to guide the competent authorities in the development of
national operational manuals in order to promote the uniform application of EPZ regulations (East African Community Model Export Processing Operational Manual, 2010).

Internationally, AGOA gives most Sub-Saharan Africa (SSA) firms duty free, quota free access to the United States, offering a substantial competitive advantage over other textile-apparel exporting countries (World Bank Group, 2017). Kenya was the first AGOA-eligible country to fulfill the additional requirements for the apparel provision in January 2001, and could thus gain access to the US market, quota and duty-free with single transformation rules of origin; allowing Kenyan manufacturers to import fabric from outside the region (World Bank Group, 2017). This, along with the quotas that existed on Chinese and other Asian exporters as part of the Multi-fiber Arrangement (MFA), made Kenya an attractive location for producing mass market clothing for the US market (World Bank Group, 2017).

With AGOA, Kenya’s apparel exports to the US increased from US$8.5 million1 in 20002 to US$332 million in 2014. Almost thirty-eight thousand (37,750) workers were employed in the Export Processing Zones (EPZ) to produce this export figure (World Bank Group, 2017). Approximately 70 percent of Kenyan apparel firms have a US-dominant market orientation, meaning that at least 80 percent of their output is sold to US markets (World Bank Group, 2017). The renewal of AGOA until 2025 is likely to accentuate current growth trends. This renewal is expected to be a game-changer: it provides both investors and companies in the EPZs with a significant window to capitalize on the existing market opportunity, the confidence to invest in innovation, and the scope to differentiate themselves from regional competitors, even with a higher comparative cost structure (World Bank Group, 2017). Even so, whilst Kenya has made some headway in the global apparel market, it is lagging behind many competitor countries.
5.3.3 Effects of changes in policy on operation of EPZs

Operation of EPZs in Kenya has undergone several policy changes as indicated by the findings. The changes that were indicated were on the EPZs Act and formation of SEZ Act, the Income Tax Act and on the EAC customs Union Protocol.

The EPZ Act has undergone a number of changes over the years that have watered down the incentives for EPZ firms and increased the administrative burden of compliance ("EPZA 2014-2019 Strategic Plan", 2017). Changes in EPZ legislation through various Finance Bills introduced the following amendments: Exclusion of commercial activities from the income tax holidays and disallowing parallel commercial and manufacturing activities by a single enterprise; disallowing any local sales by EPZ commercial enterprises; commercial EPZ activities being licensed only after consultation with the Commissioner General, Kenya Revenue Authority; imposition of mandatory 2.5% duty surcharge on EPZ goods sold to the domestic market as well as the requirement that these sales be subject to approval by the minister responsible for Industry; and introduction of a claim system for previously duty exempt petroleum fuels for EPZ firms ("2014-2019 Strategic Plan", 2016).

A number of EPZ enterprises that planned to expand operations and transform into SEZs; mainly apparel or garment firms were unable to expand because available space is 100% occupied and those being built have not been constructed fast enough to meet this need ("EPZA 2014-2019 Strategic Plan", 2017). Further, work permits charged on expatriates that assist in running some EPZ firms especially in garments tend to be on the higher side compared to Kenya’s competitors in the region. For instance it cost KSh 400,000 for a two year work permit which the investors/industry view as prohibitive, hence discourages investment within the program (Export Processing Zones Program Annual Performance Report, 2014, 2016).
Some public institutions and County Governments have also introduced levies and fees that have increased the cost of doing business. The National Construction Authority Act No.41 of 2011 makes provision on the payment of construction levy among others. Regulation No. 25 indicated that 0.5% construction levy is payable to the Authority by the owner of any construction works whose construction value exceeds five million shillings (Export Processing Zones Program Annual Performance Report, 2014, 2016). These changes have resulted in a gradual erosion of the incentives that were offered under the EPZ program making them not attract FDI.

The Special Economic Zone policy was developed by the government to promote desirable economic activities in areas demarcated as Special Economic Zones. The policy proposed a wider range of activities than those provided in the EPZ Act, and provided for different SEZ schemes with a commensurate policy framework to support those schemes; and greater access to local and regional markets ("2014-2019 Strategic Plan", 2016). The policy also proposed to repeal the Export Processing Zones Act and replace it with the Special Economic Zones Act with the transformation of EPZ program into Special Economic Zones program ("EPZA 2014-2019 Strategic Plan", 2017).

While EPZs are focused on encouraging production for export, the not yet fully established special economic zones (SEZs) are designed to boost local economies by offering benefits for goods that are consumed both internally and externally ( Kenya: Bureau of Economic and Business Affairs, 2017 investment climate statements, 2017). The SEZs will allow for a wider range of commercial ventures, including primary activities such as farming, fishing, and forestry. The 2016 Special Economic Zones Regulations that came into effect in August 2016 states that: Special Economic Zone Authority (SEZA) must maintain an open investment environment to facilitate and encourage business by the establishment of simple,
flexible, and transparent procedures for investor registration (Kenya: Bureau of Economic and Business Affairs, 2017 investment climate statements, 2017).

Companies operating in the SEZ’s will receive the following benefits: all SEZ supplies of goods and services to companies and developers will be exempted from value-added tax (VAT); the corporate tax rate for enterprises, developers, and operators will be reduced from 30 percent to 10 percent for the first 10 years and 15 percent for the next 10 years; exemption from taxes and duties payable under the Customs and Excise Act (2014), the Income Tax Act (1974), the EAC Customs Management Act (2004), and stamp duty; and exemption from advertisement and license fees levied by county governments (Kenya: Bureau of Economic and Business Affairs, 2017 investment climate statements, 2017). Even so, regulations like the IAT where SEZ developers are expected to pay tax rate of 10% conflicts with the SEZ laws which exempts the developers from income tax.

The Protocol on the establishment of the Customs Union placed a 20% limit on sales by of EPZ and other export promotion schemes vide Article 25 of the Protocol (“2014-2019 Strategic Plan”, 2016). This means that after the Single Customs Territory provisions were fully implemented, EPZ firms sell only 20% of annual production to the new local market consisting of 5 partner states (“2014-2019 Strategic Plan”, 2016).

Some EPZ enterprises have been making their investment decisions based on the East Africa market where Tanzania, Uganda, Rwanda and Burundi are external markets (“EPZA 2014-2019 Strategic Plan”, 2017). During the course; from 2014, some EPZ enterprises were adversely affected by the restrictive nature of EAC market which has effectively shrunk the local or regional market for EPZ firms, making establishment in Kenya for regional sales unattractive (“2014-2019 Strategic Plan”, 2016).
The apparel sector contributes more than 50% of exports and generates close to 80% of employment within the zone. The bulk of these exports are of textile and apparels and the U. S. is the main destination. The EPZ program is highly dependent on AGOA which opened up the US market to goods from eligible Sub-Saharan African countries eligible to participate under an enhanced Generalised Systems of Preference (GSP) program ("2014-2019 Strategic Plan", 2016).

Even so, there has been slow implementation of reforms to restructure and revive the cotton industry to take full advantage of the opportunities and benefits provided for by the AGOA initiative. With the extension of AGOA, Kenya like other SSA countries is required to either utilize fabric from AGOA eligible country or import from USA in order to continue benefiting from AGOA program ("EPZA 2014-2019 Strategic Plan", 2017). That means that in order to meet the raw material requirements of textile manufacturers and to ensure sustainability of the apparel export program, the country will need to fast track the adequate supply of fabric from within the regional market.

5.4 Conclusion
Kenya has since gaining independence focused on industrialization as a means of achieving economic growth and employment. The country has used several industrialization policies in a bid to achieve industrialization and development including; Import Substitution, Structural Adjustment Programmes and Export-led industrialization policies. The major industrialization policies have focused on export-led industrialization strategies. This has been done through the promotion of export schemes like EPZs and SEZs. EPZs since their formation in the 1990s have helped Kenya export volumes; attract FDI, created employment, transfer of technology and backward linkages for the local workers and thus industrialization and development.
There are a number of policies that have fostered the operation of EPZs in Kenya. These policies include those during EPZs formation including; the EPZs Act, SEZ Act, AGOA, Vision 2030 EAC Customs Union Protocol and COMESA. The dominant policies are the current development blueprint of Vision 2030 which has other policies like National Industrialization Policy, National Trade Policy and Kenya Industrial Transformation Program. All these policies support the EPZs schemes and export-led growth for the purpose of making Kenya a middle income country and creating employment. Over the years, Kenya has used the EPZs for exports under and under AGOA the country has managed to export billions of garments and textiles to the US market.

Even so, since the enactment of EPZs, there have been a number of changes in policy that guide the operation of EPZs. These changes have been on the formation of SEZs which unlike EPZs are supposed to have a wide range of industries and activities including; industrial parks, industrial clusters and Free zones. SEZs are also supposed to have industries that produce for both the local and international market which is the opposite of the functions of EPZs. Through the Vision 2030, there is also the formation of other trade and industrialization policies like NIPZ and ITA which have their own regulations that coincide with the regulations of SEZs.

Regionally, Kenya is party to the EAC and every trade decision that affects regional trade has to be decided on by all the EAC member states which make it difficult for Kenya to assent to certain decisions. Example amongst the EAC five countries, only Kenya has signed the EU EPAs and the other countries have been sluggish to do so. Also, the EAC Customs Union Protocol allows EPZ investors only to trade only 20% of the EPZs good annually. Kenya has been pushing for 100% trade of good in the regional market but the other EAC member states insist that the 20% is under the customs union and the EPZs should transform to SEZs in order to get more incentives. This has led to loss of investment for Kenya from EPZs.
Internationally, Kenya has focused more on the export of textile and garments and has lagged behind and failed to achieve viable revenue from export of other goods like tea, coffee and horticulture. Kenya has to also adhere to international regulations like EPAs and international health standards to be able to continue exporting to the EU and USA.

Some of the major challenges facing export-led industrialization and development of Kenya include; high cost of doing business, lack of implementation of trade, industrialization and development policies, exporting more of one commodity than others, shortage of raw materials like cotton, challenge of accessing the regional market and not being able to produce for the local market consumption.

5.5 Recommendations

5.5.1 Lower the cost of doing business

The study recommends that the government of Kenya through the various policy regulations should lower the cost of doing business in Kenya. this can be done by; investing in infrastructure and technology needed to support industrialization in order to reduce transportation costs, creating processing industries at the local level in order to get ready labor, making dedicated industrial zones and areas affordable and available for long leases in order to get long-term investors, lower the power costs for industries working 24 hours and provide additional incentives for EPZs and SEZs. The government should also revive the local cotton industry by encouraging farmers to grow cotton and invest in cotton ginning industries. This will minimize imports and boost local production of goods to support industrialization.

5.5.2 Identify new export markets

Kenya should identify new export markets that are not just the USA and EU. This will curb the problem of Kenya gathering more of its revenue from export of textiles and garments but
will also start earning revenue from the export of other products. This is because new markets may require different products which in turn can lead to diversification of exports. Developing access to new markets will also allow Kenyan industries to compete despite their high cost of doing business because the competition will be based on other factors other than cost alone. Further, industries should produce for the local and regional market as much as it produces for the international market.

5.5.3 Create industries to meet the needs of Kenyans

A country cannot sufficiently produce for export if it cannot produce for the consumption of the local market. The industries under EPZs and SEZs should produce quality goods that are affordable and can be consumed locally too. Example, the EPZs should sell the clothes that they produce for export to the local market too. Further, SMEs who deal with manufacturing should be able to produce goods using locally available raw materials. The local consumers should also support locally manufactured goods in order to boost economic growth and development.

5.5.4 Policy implementation

The trade and industrial policies formulated by the government should empower the growth of industries. Locally, the government and key institutions should implement the industrialization policies that are meant to foster industrialization and development. These policies should also favor not only the investors but also the recipients. Regionally and internationally, the government should develop a coordination mechanism that will harmonize the various industrialization policies. This will help to streamline interventions in industrial development and harmonize the various regional and international policies that guide operation of EPZs in Kenya.
5.5.5 Recommendation for further research

The study was on an assessment of the effects of policy changes on operation of export processing zones in regards to Kenya’s Industrialization and Development Agenda. The researcher recommends that future research can be carried out in other areas of export led industrialization and development of Kenya. Similar studies ought to be done to evaluate the importance of Kenya shifting from the use of Export Processing Zone to the use of Special Economic Zones for industrialization process. There could also be other variables that could be added to the ones looked upon; studies could be conducted on the importance of industrial clusters and parts; china’s investment in Kenya’s Special Economic Zones and the effects of borrowing Chinese industrial policies and strategies for Kenya’s industrialization.
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APPENDICES

APPENDIX A: INTRODUCTORY LETTER

Dear Sir/Madam,

RE: REQUEST TO PARTICIPATE IN A RESEARCH STUDY

I am a student at the United States International University Africa undertaking a degree of Masters in International Relations (MIR). I am carrying out a research as part of the program degree requirements by investigating Kenya’s industrialization and development agenda: an assessment of the effects of policy change on operation of Export Processing Zones.

Given your unique position and experience of industrialization and export-led growth through EPZs, you have been selected as one of the respondents. Your role in this study will only involve answering the questions in the interview guide; which will be directly asked by the interviewer or through phone call interview. The questions to be asked will relate to your experience and opinions in your area of specialization. This research is aimed at allowing you to provide details about the subject area as openly and comprehensively as you can.

Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this research project. Your assistance will be highly appreciated.

Thank you for your indulgence.

Ingrid Donnet (Researcher)
APPENDIX B: INTERVIEW GUIDE

The purpose of this research is to examine how the changes in existing policy framework for operation of EPZs Kenya affect the EPZs environment and the industrialization and development agenda.

I would like to ask you some questions about your professional background and some experiences you have had while working within the industrialization or development fields.

Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this research project. I hope to use this information to contribute to vast knowledge of industrialization and development and the national industrialization policy of Kenya.

The interview should take about 10-30 minutes. Your time is highly appreciated.

Section 1: General Information

1. What is your professional background? ____________

2. How many years have you had in the specified professional background field? ____________

3. What are some of the experiences that you have had working within industrialization and development field?
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_________________________________________________________________________
_________________________________________________________________________
Section 2: Kenya’s Industrialization and development agenda

4. What is Kenya’s industrialization and development agenda?

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5. The import substitution policy led to an increase in growth of manufacturing sectors in the country but over a period of time, it failed hence a shift in the country’s industrialization and development strategies: how would you explain this failure?

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___________________________________________________________________________

6. In comparison to the previous industrialization strategies, has export-led industrialization strategy helped in achieving Kenya’s current development plan?

___________________________________________________________________________

How?

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___________________________________________________________________________
Section 3: Existing policy framework for operation of EPZs in Kenya

7. What prompted Kenya to invest in EPZs

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___________________________________________________________________________
___________________________________________________________________________

8. How effective has EPZs been towards achieving the export-led industrialization strategy over the years?

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___________________________________________________________________________
___________________________________________________________________________

9. What is the existing policy framework for operation of EPZs in Kenya?

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___________________________________________________________________________
___________________________________________________________________________

Section 4: Effects of the changes in existing policy on operation of EPZs, industrialization and development

10. Are there any changes in the existing policy framework that guides the operation of EPZs in Kenya?

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___________________________________________________________________________
___________________________________________________________________________
If yes, what changes?

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11. What are the effects of the change in existing policy for operation of EPZs?

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How has the change in policy affected Kenya’s industrialization and development agenda?

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Section 5: Conclusion

12. Would you have any recommendations on how to improve the effectiveness of EPZs towards achieving the current industrialization and development plan?

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___________________________________________________________________________

13. Are there any policy recommendations you would like to make to ensure effective and successful implementation of export-led industrialization through EPZs?

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___________________________________________________________________________

I appreciate the time you took for this interview; I should have all the information I need.

Thank you again.