

Chapter 2

Market Liberalization in Emerging Economies: Changing Business Practices

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This chapter demonstrates how economic reform in Kenya has been shaped by the influence of politically powerful vested interests. The reform can, therefore, be largely explained in a political sense. In the wisdom of urban bias that underlines Structural Adjustment Programs (SAP), it was observed that the poor performance of Kenya's economy was due to political motivations, yet politics was a neglected dimension in the reform process right from the beginning of SAPs. Politics should have been better understood and better managed in reform in order to improve reform outcomes. Using the urban bias theory, the chapter provides a useful explanation as to why African governments had formulated and implemented policies that were antirural, thereby undermining agriculture—the most important sector in their economies. The specific objectives of the chapter are to (1) understand the key features of a state-controlled economy; (2) appreciate how liberalization of Kenya's economy changed business practices; (3) appreciate the value of politics and political interest groups in the economy; (4) understand the emerging economy of Kenya; and (5) appreciate the critical factors affecting the emerging markets of Kenya.

Introduction

Kenya is a large country situated in Eastern Africa. Its total land area is estimated at over 580,000 square kilometers (Downing et al., 1989). Its land mass stretches from the Indian ocean in the east to Lake Victoria in the west and from the Serengeti plains in the south

bordering Tanzania to Ethiopia in the north. Sudan and Uganda border Kenya to the west, while Somalia is to the east. The country straddles the equator with the natural environment ranging from the coastal monsoon belt through arid and semiarid lands to temperate highland zones suited to farming pattern to that of Europe (Hunt, 1984). These zones provide the bulk of the crops for home consumption and export. In between are the large areas of semiarid agricultural land where pastoralism and subsistence farming are carried on simultaneously. The western part of the country consists of well-watered tropical uplands.

Kenya is divided by administrative boundaries mostly laid down during the colonial time for ease of administration. There are eight provinces including the metropolitan city of Nairobi. A province comprises several districts. Within each district there are divisions, and each division has several locations that in turn have several sublocations. A sublocation is made up of several villages. In many ways, Kenya is a microcosm of Africa. Most of the important African ethnic groups are found in Kenya (Anker and Knowles, 1983). They include Bantu, Nilotic, Nilo-Hamitic, Arab, Asian, and European peoples. The indigenous people have consumption habits and lifestyles that are found elsewhere in Africa. Many of them consume local as well as foreign-produced goods and services. Due to increased urbanization, foreign-produced goods and services have gained prominence even among people who have traditionally depended on locally produced goods and services.

Several years of colonial rule in Kenya that ended in 1963 have had immense influence on the development of the country's economy, politics, and people in general. Mosley et al. (1991) summarize the central features of Kenya's political economy before liberalization as the domination of the economy by large agrarian interests that also dominated policymaking, a patchy and politically weak industrial sector, and the dominance of racial issues in economic policymaking. These political factors are important to understand Kenya's experience with reform measures implemented in the early 1980s. The first factor explains why so much was expected of Kenya when she embarked on SAPs, and the last two factors why she delivered so little initially from the World Bank's viewpoint.

A crucial legacy of the colonial period was the use of key sectors of the economy for patronage purposes. The basic features of the paternalistic, bureaucratic, colonial state became the model for the independent state of Kenya. At independence in 1963, the state was left as the dominant source of power and used the hitherto generally