TRADE

Definition

- Trade is the exchange/buying and selling of goods and services

Types of trade

- Historically trade has been classified into barter (exchange of goods for goods) and monetary trade
- Monetary trade operates at three levels.

(a) Domestic/internal trade
  - Involves buying and selling of goods and services within a country
  - The goods are either imported or locally produced
  - In Kenya, internal trade involve the following forms: -
    (i) Wholesalers/wholesale trade
      - Purchase goods in bulk from producers and sell them to retailers
      - Specialise in sale of particular goods
      - Mainly found in the urban centres

    (ii) Retail trade
      - Involve buying goods from wholesalers and selling to individual consumers
      - Stock a variety of goods
      - Small scale/sale goods in small quantities
      - Include shopkeepers, hawkers, open air markets, departmental stores, multiple stores and supermarkets

(b) Regional trade
  - Between countries that are found in the same geographical region.
  - Such countries may form economic/trading blocs such as EAC COMESA, ECOWAS, EU, SADC etc

(c) International/external/foreign trade
  - Involves trade between two or more countries
  - Can be bilateral or multilateral
  - Involves exports (goods sold to other countries) and imports (goods bought from other countries)
  - Can also be classified as visible and invisible
    - ✓ **Visible trade** refers to import and export of tangible goods
  - **Invisible trade** involves the exchange of services, which can earn foreign exchange without the transfer of goods from one country to another. Such services include tourism, insurance, revenue from foreign investments, government transactions, medical and educational services, loan interest, banking services, transport services, consultancy services,
  - International trade also involves balance of trade and balance of payment
  - **Balance of Trade-** refers to the difference in value between a country's visible exports and imports. This could be favourable or adverse depending on the value of exports relative to imports.
  - **Balance of payment** – in the balance of all transactions involving both visible and invisible trade of a country with foreign countries.

Factors influencing Trade

1. Differences in resource endowment such that no country is self-sufficient. This creates the need for external sourcing of goods and services that a country doesn't produce.
2. Presence of capital for stocking various goods needed by consumers by traders and to enable buyers purchase
3. Demand for goods and services that push the buyers to purchase the same
4. Security: - places with relative peace enjoy greater trading opportunities since traders are sure of their security and of their goods, they thence invest more
5. Stage of economic development – There are differences in technological capabilities among countries which result in regional differences based on industrial productivity. Level of industrialization dictates the type of goods to be imported and those to be exported.
6. Transport and communication links – efficient links are essential for successful trade.
7. Government policies determine the trading partners and also the trading blocs to join. Political hostilities limit trade. Protectionist policies substantially influence volume of trade.
8. International market agreements such as quotas also affect trade
9. Use of different currencies and language
10. Extent of foreign investment especially in developing countries can significantly affect the volume, type and pattern of world trade.

Major Exports and Imports of Kenya

Exports

- Exports are goods and services sold to other countries
- Most exports from Kenya are agricultural products
- Some are exported while raw e.g. coffee/tobacco while others such as pyrethrum undergo some processing before exportation
- Includes the following tea, horticultural produce, soda ash, cigarettes/tobacco, fish, livestock products, tourism, sisal products, footwear, pyrethrum extract, textiles, petroleum products, scrap metal, fluorspar, insecticides, timber/timber products, etc

Imports

- Are goods and services that are bought/brought into a country from other countries
- The major imports include petroleum, machinery, electronics, motor vehicle, pharmaceuticals, skilled labour and foodstuffs

Significance of Trade

1. Trade encourages specialization based on a country's comparative advantage which in turn leads to higher production.
2. Development of settlement centres/urbanization as major trading towns attract settlements
3. Trade stimulates industrial growth through a high demand for goods locally and abroad. Availability of imported raw materials also stimulates the establishment of import substitution industries for local market.
4. Expansion of agriculture as most of the trade items are agro based
5. Earning of foreign exchange – exports earn foreign currency which is used to buy imports.
6. Creation of employment opportunities as wholesale/retail traders, customs official etc
7. Leads to development of infrastructure in abide to create transport and communication links for more trade.

8. Trading blocs create a competitive environment for business. This helps in eliminating wasteful monopolies as well as leads to production of high quality products at reasonable prices.
9. Source of revenue through licence fees and taxation of goods and services rendered.
10. Regional cooperation enhances international peace and understanding

Problems facing Trade in Kenya

(a) Nature of imports and exports

- Kenya mainly exports agricultural and mineral commodities of low value. It also imports machinery and finished products of higher values resulting to an adverse balance of trade hence trade deficit

(b) Scarcity of goods

- Some goods required by consumers in given places may be lacking may be due to adverse weather conditions e.g. prolonged drought or exhaustion of mines. This makes them to be expensive and unavailable

(c) Poor infrastructure

- Most parts of the country have poor transport network making it difficult to transport goods to various markets.
- This makes the transport expensive leading to marginal profits

(d) High charges/tariffs

- The charges levied by the government in terms of taxes and councils inform of levies to conduct businesses are very high making the traders to earn little profits and discourages importation

(e) Inadequate Capital

- Most traders operate in small scale and have to rely on banks and micro-finance institutions to expand their trading activities.
- The interests charged by the banks are very high limiting the profits

(f) Insecurity

- In some areas traders may be attacked by thugs and lose their goods/proceeds. They therefore have to invest in heavy and expensive security system that eats into their profits

(g) Trade restrictions/barriers

- The government may impose restrictions on goods to be imported or exported. Other countries/trading blocs may also impose bans on importation of some commodities from Kenya

(h) Smuggling

- Some unscrupulous traders may import goods into the country without following the correct procedures. Such goods evade taxes thus denying the country revenue and also impose unfair competition from traders who have imported correctly

(i) Dumping of goods

- This refers to the selling of goods in an external market at a price cheaper than that charged in the exporting country. It may lead to a decline in market for local goods due to the cheap imports.

Future of International Trade in Kenya

- International trade in Kenya is likely to improve because of the following reasons
  - ✓ Improvement of balance of trade through the following
    - Establishment of import substitution industries to reduce importation of commodities.
    - Development of alternative sources of energy (H.E.P, solar, biogas) to reduce expenditure on oil importation.
    - Encouraging local assembling of machines since importation of parts is cheaper.
    - Finding new markets for exports to avoid dependence on a few trading partners.
    - Diversification of exports.
    - Encouraging use of appropriate/local technology that does not require heavy machinery.
    - Encouraging exportation of locally manufacturing goods.
    - Increasing invisible trade e.g. shipping, tourism, insurance.
    - Restricting the importation of luxury items through higher taxation.
    - Encouraging the production of high quality/manufactured goods for export in order to earn higher income.

  - ✓ Setting up industries in the neighbouring countries/within COMESA/EAC regions
  - ✓ Improvement of infrastructure connecting/linking neighbouring countries to facilitate easy movement of goods and people along the borders
  - ✓ Expansion of other markets e.g. in Europe and Middle East
  - ✓ Holding trade exhibitions/fares in partner countries to enlighten Kenya's trade potential thus increasing trade
  - ✓ Use of conditions of AGOA e.g. various countries are allocated quotas to export textile to overseas especially USA
  - ✓ Reduction of import duties through EAC agreeing on a common customs unions

Regional trading blocs

- These are trade and economic organisations formed by countries in different continents
- The regional trading blocs in Africa include COMESA, SADC, ECOWAS and EAC

(a) COMESA

- Common market for Eastern and Southern Africa
- Has headquarters in Lusaka, Zambia
- Membership include Kenya, Burundi, Uganda, Ethiopia, Eritrea, Sudan, Djibouti, Angola, Namibia, Zimbabwe, Lesotho, DRC, Madagascar, Mauritius, Swaziland, Zambia, Comoros, Seychelles, Egypt, Malawi, and Rwanda.

Objectives of COMESA

- ✓ To eliminate taxes on goods produced within the member states
- ✓ To create a common market for goods produced in the member countries
- ✓ To enable member states to increase the use of their raw materials
- ✓ To promote transport and communication between the member countries
- ✓ To promote joint development in all fields of economic activity through establishment of a common bank to aid in economic and social development.
- ✓ To raise the standards of living of its people
- ✓ To foster closer relations among its members states
- ✓ To cooperate in the promotion of peace, security and stability among the member states.
- ✓ To strengthen the relationship between member states and the rest of the world.

- COMESA has established a bank, COMESA bank in Bujumbura, Burundi to promote trade among the member states
- This enables the traders to pay for the goods and services from member countries
- Other established institutions other than COMESA bank include Reinsurance Company, Clearing House and Court of Justice

(b) ECOWAS

- Economic Community of West African States
- Found in west Africa
- Member countries include Benin, Burkina Faso, Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo and Cape Verde
- It has its headquarters at Lagos, Nigeria

Objectives of ECOWAS

- ✓ To encourage trade among the member states
- ✓ To eliminate trade barriers on locally produced goods in the region
- ✓ To encourage industrial and agricultural development among the member states
- ✓ To promote free movement of goods and people in the region
- ✓ To encourage the improvement of transport and communication in member states so as to facilitate trade

(c) SADC

- Southern African Development Cooperation – Established in 1992
- Members – Angola, Botswana, Dr. Congo, Lesotho, Malawi, Mozambique, Namibia, Mauritius, Tanzania, Swaziland, South Africa, Zambia, Zimbabwe.
- Has its headquarters at Gaborone - Botswana

Aims of SADC

- To promote and co-ordinate regional integration
- To foster international cooperation
- To facilitate trade and economic liberalization.

Benefits of regional trading blocs

- Create a large market for goods and services to be bought and/or sold
- They have helped to create harmony and cooperation among the member states
- Reduction of tariffs making the goods cheaper in the region
- Expanded markets