

Economic growth experience of kenya essay example

[Economics](#), [Trade](#)



Kenya is located in Eastern Africa and is considered as the economic hub of the region. One of the most distinctive aspects of the nation is that it has a market-based economy that is accompanied by a very liberalized foreign trade policy. Kenya gained independence from the British in 1963 and since that time, the nation has experienced inconsistent economic growth (Bradshaw, 1988). In fact, during the early years after independence, the rate of economic growth for the nation was very high (6%). However, this rate decreased to about 4% for the following decades. Things particularly got bad for the country during the 1990's when its economic growth fluctuated between negative values and the standard rate of 4% (Mwega & Ndung'u, 2002). However, with the arrival of the new millennium and particularly in 2003 when the country gained new leadership, economic growth started picking up. The rate of economic growth has remained fairly consistent since that time, and it got to an all-time high in 2007 when it reached 7%.

However, the following year, the country experienced a crisis in the form of post-election violence after a hotly contested presidential election.

Therefore, the economic growth rate of nation slumped in 2008 slumped to a mere 1.7%. The rate was not only affected by the post-election violence, but it also suffered greatly from the global economic recession which commenced that year (Jerven, 2014). However, from 2010, the nation's economic growth rate started to rise once again. In fact, the nation has seen economic growth rates of over 5% and the economic future of the country looks very favorable (Jerven, 2014). In fact, the projection is that if Kenya continues with the trend of stable economic growth, it could in actual sense be the first nation in East Africa to move from the rank of low-income status

to the more prestigious category of middle-income status nations. Although the country has witnessed high inflation in past years, tight monetary policies and fiscal consolidation have managed to secure a declining inflation although there are fears that inflation could reach double figures in coming years.

Data from the World Data Bank shows that Kenya's GDP has only returned to the level that it was in 1990. In 1990, the country's GDP per capital was \$450 while in 2008, this GDP per capital was \$453 (Jerven, 2014).

When it comes to analyzing the economic growth rate or the growth experience of a developing country, there are many approaches or models that can be used. However, growth accounting framework is a recommendable tool for analyzing the economy growth rate or growth experience of a developing country. Growth accounting is an important analysis because through it, it is possible to present a clear picture on the role played by each part when it comes to explaining output (Pearce et al., 2013). This, therefore, gives policy makers a basis on which they can make economic prescriptions. It is, therefore, a key tool for economic management.

The Solow's model can be used to analyze the growth experience of Kenya since its independence. This model implies that the long-run growth rate of an economy is dependent on the rate of technical progress or total factor productivity (TFP) (Solow, 1956). The model about half of the long-run growth rate in many developing countries can in actual sense be attributed to the TFP (Solow, 1956). Kenya is no different, and a significant part of its growth experience can be attributed to its total productivity factor. This is

particularly in regards to the country's economic growth before the 1990's which can be significantly attributed to factor accumulation in accordance with Solow's model of growth (Kumar & Pacheco, 2012). There are several factors that determine the total productivity factor in Kenya. These factors include money and quasi money (M2) to GDP ratio, consumption to GDP ratio, foreign direct investment to GDP ratio among others.

Financial reforms also play a significant in the growth experience of Kenya, A study conducted by Maura, Karingi and Oduor (2011) which sought to investigate the determinants of the Kenyan financial market efficiency found that the Kenyan economy usually experiences wide margins of interest which is a clear indication of an inefficient and repressed finance sector in Kenya. The other key variable to total factor production that can be used to analyze the growth experience of Kenya is trade openness. There have been relatively few studies examining the country's trade openness. The few studies that have however been conducted seems to indicate that when it comes to the Kenyan economy, there is a big link between its trade policy and the total productivity factor in the country (Kumar & Pacheco, 2012). In Kenya, trade openness or liberalization policy in the post-structural adjustment is usually driven by bilateral and multilateral agreements. These include the nation's obligations under global bodies such as the World Trade Organization and other economic partnership agreements with bodies such as the ACP-EU. In addition, regional trading blocs such as COMESA AND EAC which also involve bilateral trade agreements as well as tariff reductions also play an important role in driving the nation's trade liberalization (Kumar & Pacheco, 2012).

In a nutshell, it appears that drives such as overseas development aid, financial sector progress and trade liberalization positively influences total factor productivity which inadvertently stimulates economic growth in Kenya. This is why the country's economic growth has spurred so much in recent years as a result of improvements being experienced in these variables or factors (Kumar & Pacheco, 2012). On the other hand, there are other elements that ultimately have a negative effect on the total productivity factor in Kenya. One of these is government spending. Government spending in Kenya has increased by huge margins especially from the year 2010 (Jerven, 2014). This has ultimately has an adverse effect on the total productivity factor. An adverse effect on the total productivity factors translates to a negative effect on the economic growth rate of the country (Baier et al., 2006).

In addition, an increasing rate of inflation has also had a negative effect on the country's total productivity factors. As it was mentioned earlier, Kenya has for a long time succumbed to high rates of inflation and even in the near future, the rate of inflation is expected to hit double digits. This will inadvertently have an effect on the nations' economic growth rate. In the past, a high rate of inflation has negatively affected the nation's total productivity factor and perhaps this is one of the reasons why the economic growth rate has been so inconsistent (Musila, 2002). Of all these factors, however, trade openness seems to have the largest influence on the total productivity factor (TFP).

A regression analysis performed by Kumar & Pacheco, (2012) on the elements that affect the nation's total productivity factor found that when

trade openness was omitted from the regression analysis, the trend variable become very significant. The trend variable however became weakly significant when trade openness was included. This suggests that that trade openness is one of the key determinants of the total productivity factor in Kenya. This is a suggestion that in the future, the direction of future policy decision should focus on this aspect of trade openness (Kumar & Pacheco, 2012). This can, for instance, be done by increasing the country's participation in bilateral and multilateral agreements with bodies such as COMESA, WTO, EAC and ACP-EU (Kumar & Pacheco, 2012).

In a nutshell, although Kenya government as well as the country's central bank have initiated several efforts to stabilize the country's economy, Kenya still remains in a pattern of domestic deficits and external debt (Dunne & Asaly, n. d). The country is also characterized by a sluggish GDP growth. The country's sluggish growth pattern when coupled with world market factors as well as low domestic savings due to high government spending has essentially prevented Kenya from being able to repay all of its external debts as well as expanding its domestic infrastructure (Dunne & Asaly, n. d).. The Solow's growth model when used to analyze the economic growth experience of the country shows that the economy of the nation is essentially operating at a capital stock that is relatively very far below the steady state capital stock. This means that there is a huge room for growing its capital stock (Kalio, 2012). There are several strategies in doing this, some of which have already been mentioned with the standouts being increase in domestic savings, reduction of domestic consumption and more trade openness or liberalization. In addition to increasing participation in

multilateral and bilateral trade agreements as a way of boosting total productivity factor and hence economic growth, the country can also increase domestic savings by decreasing taxes (Kalio, 2012). These strategies can also be followed by other developing countries that aim to boost their economic growth rates.

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