Diplomacy and Exports: The Case of Kenya

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Abstract

Diplomatic representation structures aim at achieving several goals, among them, increasing export volumes and foreign direct investment (FDI). These structures within the Kenyan context include embassies, career consulates, honorary consulates and trade offices. Using the gravity model, the study empirically analyses the contribution of these structures in increasing export volumes for the period 1980-2010. The contribution made by diplomatic representation is measured alongside other traditional determinants of trade and trading partners. The Hausman Taylor Method (HTM) is used as it overcomes the weaknesses of the random and fixed effects methods. It allows for the estimation of time invariant variables and addresses the problem of endogeneity by using internal information in the model to eliminate correlation between the error term and the included variables.

Traditional determinants of export volumes such as absorptive capacity of traditional partners and regional and preferential trade agreements are still very important. Further, diplomatic representation does contribute to Kenya's export volumes. The presence of an embassy and trade office in the trading partner significantly contributes positively to increasing export volumes. The problem arises from the non-optimal use of these structures, as the annual export growth is still very low. On the other hand, career and honorary consulates are not significant in contributing to increased volumes.

Kenya needs, therefore, to redefine its diplomatic representation structure to allow for the appropriate and optimal use of economic diplomacy to attain the goals of Vision 2030. The missions should also be evaluated through an appropriate mechanism to allow for effective performance management. Since embassies continue to play an important role in economic diplomacy, there is need to open up more embassies, especially in the African region, in order to encourage intra-African trade.

Abbreviations and Acronyms

AGOA	African Growth and Opportunity Act
CEPII	Center d'Etudes Prosepctives et d'Informations Internationales
COK	Constitution of Kenya
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of Congo
EAC	East African Community
EPC	Export Promotion Council
EU	European Union
FDI	Foreign Direct Investment
FEM	Fixed Effects Method
FSI	Foreign Service Institute
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
HCDA	Horticultural Crops Development Authority
HTM	Hausman Taylor Method
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
MFA	Ministry of Foreign Affairs
MOT	Ministry of Trade
REM	Random Effects Method
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNEP	United Nations Environmental Programme
UNESCO	United Nations Education and Scientific Organization
UNON	United Nations Office in Nairobi
USA	United States of America
VCCR	Vienna Convention on Consular Relations
VCDR	Vienna Convention on Diplomatic Relations
VIF	Variance Inflation Factor
WB	World Bank
WDI	World Development Indicators
WTO	World Trade Organization

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1. Introduction

1.1 Background

Diplomacy is the conduct of relations between sovereign states and a mode in which they articulate, coordinate and secure their national strategic interests in relation to other actors. It is tasked to diplomats. This cadre of government officers appointed by the Presidency can either be assigned to temporary or permanent missions (Berrigde, 2001). The latter relates to the establishment and conduct of diplomatic representation using varying institutional structures, which occur after states agree to have diplomatic relations. Diplomatic representation, thus, is a key facet of diplomacy. Barston (2006) argues that the presence of an ambassador or consul greatly facilitates the management of relations between states, and states and others. Through representation, states negotiate, coordinate and solve problems, gather information that is not otherwise publicly available, convey messages to foreign representatives, protect their own citizens, facilitate scientific and tourist exchange, among others. States, therefore, pursue to be represented in other states where they promote their cultural, political and economic interests.

The nature and role of diplomacy has undergone changes over time as international relations evolve. The promotion of economic interest as well as the protection of one's citizens travelling or living abroad has gained great importance, whereas more traditional functions such as the defusing of security threats and military tensions have been taken over, to some extent, by the more direct involvement of heads of state and foreign ministers (Barston, 2006). The promotion of trade and investments in foreign countries is increasingly seen as an essential task of diplomats, embassies and consulates. This reflects a new trend of diplomacy that is commonly referred to as economic diplomacy (Bergeijk et al., 2011).

More generally, economic diplomacy is defined as the use of international political tools to achieve economic objectives (Saner and Yiu, 2003). It also refers to the diplomatic service activities focused on increasing export, attracting foreign investments and participating in the work of international economic organizations (Bayne and Woolcock, 2007). These activities generally focus on the affirmation of economic interests of a country at the international level. Barriers to international trade and foreign direct investment (FDI) remain large despite the advances made in communication and transportation technology, which have massively lowered transportation costs and reduced formal trade barriers. However, informal trade barriers have continued to exist, coupled with cultural and institutional differences (Haead and Ries, 2006; Disdier and Head, 2008). Thus, economic diplomacy is used to bridge these differences and relies on government relations and influence to stimulate international trade and FDI (Bergeijk and Moons, 2009).

Economic diplomatic work is based on four pillars: trade promotion, with prime but not exclusive focus on exports; investment promotion mainly on inward investments, but not excluding the home country's outbound investments, where appropriate; attracting suitable technologies, plus technology harvesting; and management of economic aid, which is important for most developing countries as a recipient and for donors mainly from developed nations (Rana, 2001). Beyond this, it is important for a country's promotion, which provides support for the activities above and has an effect on image building as well as tourism promotion.

Several models are used to achieve the goals of economic diplomacy, namely unified, part unification, third agency and competition (Rana, 2001). In the unified model, foreign affairs and international trade is combined into one, as seen in Australia, Canada and Sweden. Part unification involves a process where two special units are created in the foreign office, jointly with the Department of Trade and Industry, as happens in the United Kingdom (UK). Third, agency is where the foreign office largely keeps off economic work and the operational tasks are handled by special entities in the embassies and are provided assistance by the diplomats. An example is Singapore. Competition, which is common in many countries, involves the foreign office and other ministries engaged in turf wars over responsibility for export promotion, investment mobilization and the handling of World Trade Organization (WTO) issues and other economic groupings.

A key output of economic diplomacy is increased trade volumes in both exports and imports. However, export facilitation has more importance compared to import facilitation (Berjeijk et al., 2011). Kenya, through various institutions, has sought to increase export volumes for its tradable commodities. Her economic diplomacy utilizes the competition model in trade promotion, thereby creating several institutions charged with the mandate. These are identified in the National Export Strategy (2003-2007) as Ministry of Trade (MoT), Export Promotion Council (EPC), Horticultural Crops Development Authority (HCDA) and commodity marketing bodies, among others (Government of Kenya, 2003).

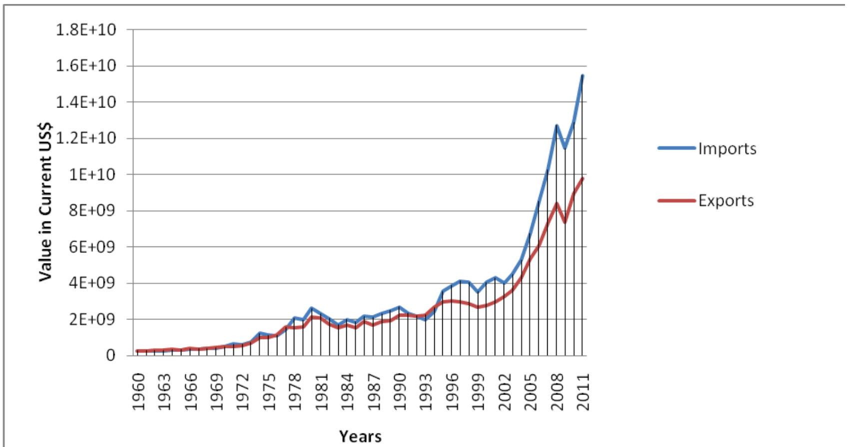
On the other hand, the Foreign Policy Framework (2009) identifies increasing market access as a key component of economic diplomacy through regional economic cooperation, strategic partnerships and agreements (Government of Kenya, 2009). It further identifies the pursuit of this component to fall within the scope of the Ministry of Foreign Affairs (MFA), the institutional framework for economic diplomacy. Other ministries and government agencies also play a critical role, for instance the Ministry of Finance, Ministry of Environment, Kenya Revenue Authority, Kenya Bureau of Standards, and Kenya Plant Health Inspectorate.

Kenya's trade volumes have seen a steady increase over the years (Figure 1.1). In the early years, there was a balance between exports and imports, mainly attributed to the commodity boom. Changes were noted in the 1990s following the advent of globalization and a shift to liberal policies. Prior to the 1980s, the government mainly relied on import substitution strategies, which were later replaced with export led growth strategies. The latter measures included export compensation schemes (which have since been phased out), export processing zones, and manufacturing under bond and duty drawback. Fiscal reforms were also undertaken. These measures are still applied through the National Export Promotion Strategy.

Kenya is also an active participant in the WTO, having joined in 1995. It has membership in the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA), among other regional bodies. Besides bilateral trade agreements, the country has also relied heavily on preferential trade agreements provided by the European Union (EU) and the United States (US), among others (Ministry of Information and Communication, 2010).

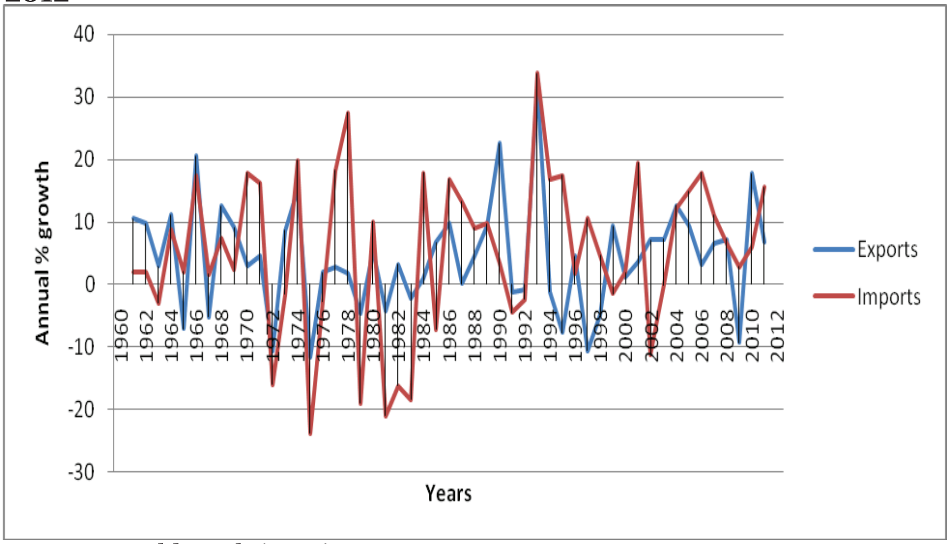
The annual growth rate of exports and imports exhibits a mixed trajectory (Figure 1.2). This can be attributed to external influences having an effect more than internal influences. Therefore, despite government efforts, liberalization policies seem to exert more influence on export trade volumes. As occurs in other African nations, export growth has stagnated over the years, whereas other regions such as Asia have shown tremendous growth of about 7-8 per cent for the period 1993-2008. Sub-Saharan Africa's share of world exports showed little advances over the same period and varied within a range of 1.3 and 1.6 per cent (World Bank, 2011). The region captured the smallest share of world exports of

Figure 1.1: Value of imports and exports, 1960-2011



Source: World Development Indicators, 2012

Figure 1.2: Annual percentage growth of exports and imports, 1960-2012



Source: World Bank (2012)

any region, exporting just about US$ 200 billion worth of goods for international markets.

The success, in especially the Asian region, can be attributed to the directed focus on economic diplomacy (Rana and Chatterjee, 2011). China, Singapore, India, Brazil and Malaysia have effectively used diplomacy to champion their economic interests, and tilt trade balance in their favour across the globe. Closer home, Mauritius in its application of niche diplomacy has succeeded as one of the smallest countries with favourable trade balance.[1] The defining feature for the success in these countries is the political will and resources coupled with the ability to match actions with the domestic expectations and realities (Rana, 2011)

In a globalized world, the success of any country is reliant on how effectively they utilize the opportunities provided by the international system to its advantage. The shift to economic diplomacy by Kenya is thus not a new phenomenon, the difference being the manner in which it is pursued. The process of export expansion and increasing market access has involved many institutions and strategies, with the MFA being a key actor. Kenya trades with over a hundred countries around the world, but has diplomatic representation in various forms in 66 countries. The study thus seeks to isolate and examine the contribution of these forms of diplomatic representation and diplomacy in Kenya.

[1] Niche diplomacy refers to the exploitation of a country's speciality or interest.

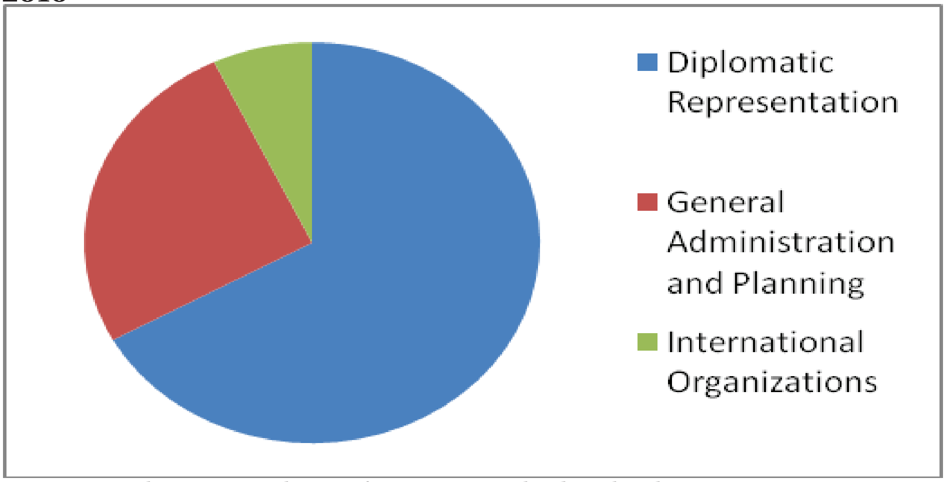
1.2 Statement of the Problem

Kenya has had many strategies aimed at enhancing the volumes of exports. These have been undertaken by various stakeholders such as MoT, EPC, HCDA, Commodity Boards and the MFA, among others, signifying the competitive model of economic diplomacy. Each of the institutions identifies increasing export volumes as one of their key outputs. Therefore, Kenya's export volumes can be attributed to many factors, and there is no institution that can wholly lay claim to the final outcome. This creates a problem where efficiencies/inefficiencies in the system cannot be identified and dealt with appropriately.

The MFA is a key player and uses various forms of diplomatic representation, namely embassies, consulates and trade offices to undertake the mandate of economic diplomacy. These structures take up at least 70 per cent of the total ministry's budget to achieve effective representation (Figure 1.3). This amount is mainly spent on maintaining diplomats and their families abroad, besides other administrative and capital expenditures. The budget has also been gradually increasing over the years to reach Ksh 7 billion in 2012. This has been necessitated by the opening up of new embassies in strategic regions such as the Middle East and South America. The MFA has also upgraded career consulates such as Juba and Gaborone into fully fledged missions.

The returns to these investments by the government are supposed to be realized by the expected output in the form of increased export volumes and inward/outward investments. However, Kenya's export volumes have only been increasing marginally over the years, while the annual growth rate has been on

Figure 1.3: Ministry of foreign affairs recurrent expenditure, 1980-2010



Source: Author's compilation from various budegt books the decline, with few moments of positive and considerably high growth. In 2012, exports grew by a paltry 1 per cent compared to 2011 which saw a 20 per cent increase (Kenya National Bureau of Statistics, 2012). The gap between exports and imports has also been on the increase, creating balance of payments problem to the country (Gichuki and Moyi, 2013).

The expectation as stipulated in Kenya's foreign policy framework is that there is a contribution that diplomacy makes to increasing domestic exports, notwithstanding the fact that there are many factors that lead to the current state. This contribution is, however, not measured effectively in economic terms, making it unclear or unknown over the years. The study therefore aims to analyse the institutional structures for diplomatic representation that Kenya has put in place and the extent to which they have an impact on increasing/enhancing domestic exports.

1.3 Research Questions

The study seeks to answer the following questions:

i) What is the structure and conduct of Kenya's diplomatic representation abroad?

ii) What is the contribution of the different forms of diplomatic representation to Kenya's domestic exports?

iii) What is policy options needed to enhance the effectiveness of Kenya's diplomatic representation?

1.4 Objectives of the Study

The main objective of the study is to analyze the contribution of diplomatic representation to domestic exports in Kenya. Specifically, the study seeks to:

(i) Identify the nature and conduct of Kenya's diplomatic representation abroad;

ii) Analyze the contribution of different forms of diplomatic representation abroad to Kenya's domestic exports; and

iii) Suggest policy recommendations for enhancing diplomatic representation for increased domestic exports

1.5 Justification

Kenya applies the competitive model in its pursuit of economic diplomacy. This implies that there are several institutions whose aim is export expansion and promotion. The Ministry of Foreign Affairs (MFA) is one of the agencies that carries out this task through its various missions abroad. Due to the competitive nature of conducting economic diplomacy, the question as to which institution or model is relevant or is better will always arise. The Constitution of Kenya (2010) sought to place international trade functions under the MFA, signifying preference for the unified model. The outcome of the study will thus provide policy advisors with much needed knowledge of the role of Kenya's diplomatic representation in the attempt to best situate international trade.

Moreover, in order to achieve the goals of Vision 2030, it is paramount to understand what economic diplomacy is in the Kenyan context, and at the same time appreciate what it has achieved in order to determine what it can do in future. Since economic diplomacy as a foreign policy pillar is broad, the challenge of measuring its effectiveness econometrically is a reality. However, by attempting to measure the effectiveness of diplomatic representation on domestic exports, the study aims at providing the much needed knowledge on the overall context of diplomacy, and provides a basis and rationale for the establishment and maintenance of diplomatic representation abroad.

2. Diplomacy and Diplomatic Representation in Kenya

2.1 Diplomatic Representation

Economic diplomacy demands some form of representation abroad. The nature of diplomatic representation is undertaken within the ambit of the rules and norms as stipulated and guided by two United Nations (UN) treaties namely: the Vienna Convention on Diplomatic Relations (VCDR, 1961) and Vienna Conventions on Consular Relations (VCCR, 1963). The VCDR recognizes the role of embassies in state relations and does not provide for any variations. Embassies require representation by sending an ambassador to the receiving state within the rules and guidelines of the VCDR.

The VCCR recognizes the role of consulates and provides career and honorary consulates. The former involves nationals of a sending state serving in a receiving state and are paid for the services they offer. The latter, on the other hand, involves nationals of either the receiving or sending state providing services for honour and may receive a small reimbursement for the duties they undertake. Bergeijk *et al.* (2011) note that honorary consuls do not perform their tasks to earn a living, as career consuls do, but rather fulfill their consular functions alongside their daily work. Other less diplomatic offices have been identified as diplomacy has evolved to include trade offices, embassy branches and other representative forms (Rose, 2007; Bergeijk *et al.*, 2011).

2.2 Role of Economic Diplomacy

The welfare gains of international trade from the perspective of an economist are understood from the basis of comparative advantage as proposed by David Ricardo in 1817. On the other hand, a diplomat considers the political economy as a more important factor. The trade in wine and wool between Portugal and Britain, respectively, is the best example. Following the theory of comparative advantage, it is assumed that naturally, in a free market, countries will trade in commodities they can specialize in as they devote capital and labour to such employment as are most beneficial to them (Ricardo, 1962). However, trade in wine and wool between Portugal and Britain was not an outcome of free trade but rather economic and commercial diplomacy (Felipe and Vernengo, 2002). This was arranged within the Methuen Treaty in 1703 as part of the War of Spanish Succession. From a historical context, comparative advantage is not the only driver of trading patterns, but also economic and commercial diplomacy.

Economic diplomacy, having thus existed since ancient civilizations, is not a new phenomenon. Public officials from overseas missions such as embassies and consulates, foreign affairs and other government departments such as economic affairs, trade and commerce are involved in the promotion of foreign direct investment and international trade. This is by supplying information and advising on the trade and investment opportunities. They also organize and help to act as hosts to trade missions from the home country (Saner and Yiu, 2003).

Rose (2005), who pioneered studies on the role of diplomatic representation, argues that establishment of an embassy alone constitutes an increase in the volume of trade. Thus, at the very practical level, the public sector's involvement becomes necessary for three reasons (Yakop and Bergeijk, 2009). First, the type of product may require intervention on the demand side or on the supply side, for example large infrastructural works as seen in the case of *Kenya's look East Policy* (Government of Kenya, 2009). Second, trading may require public sector involvement at the side of either the exporter or importer. This could be due to cultural reasons or the public sector is dominant and/or (former) state enterprises are involved. Third, high ranking government officials such as ambassadors may be needed to signal the importance that a country attaches to commercial relationships that will be discussed, thus offering an implicit guarantee that these will be free from negative political disturbances (Koteski and Naray, 2007). Yakop and Bergeijk (2009) argue that all these three indicate that public sector involvement is a necessary condition for market access, thus an instrument to reduce or eliminate non-tariff barriers to trade and investment.

One of the key aspects of market failures is the lack of private knowledge, which provides a further argument for economic diplomacy. An exporting firm needs a lot of information about foreign markets before it can successfully attempt to trade with a firm in another country. There are many ways of acquiring this but, as a general rule, it requires substantial investment and will be imperfect in nature (Harris and Li, 2005). Thus, when this information is built within a network of embassies and other government channels, it becomes unique, reliable and impartial to firms, while entering foreign markets. Thus, for any government worth its mention as regards to economic diplomacy, the role would be to actively generate or subsidize the generation of knowledge about foreign markets. As regards the exporters, the government may also intervene to inform on the quality of its exporters (Alexander and Warwick, 2007). For example, the issue of standards and quality are very critical to the EU market and, as such, diplomatic representation would play a key role in providing the relevant information to exporters in the home country.

Thus, economic diplomacy should not just be about intervening where there are market failures, but also a deliberate and strategic move in line with a country's strategic interests. As Hoekman and Smarzynska-Javoricik (2004) note, proactive policies of whatever stripe should be subject to cost-benefit analysis and be informed by answers to the following types of questions: Where is the market failure? What is the objective of a policy? How is the performance and cost effectiveness going to be monitored? They further note that such interventions are frequently associated with the risk of misdiagnozing the problem, and the possibility of capture by rent seekers. This, therefore, implies that government intervention should generate more benefits to society than it costs. While a cost-benefit analysis would go beyond the scope of this paper, given time constraints by empirically testing the role of diplomatic representation on domestic exports, it would provide a pointer of an understanding of its effectiveness.

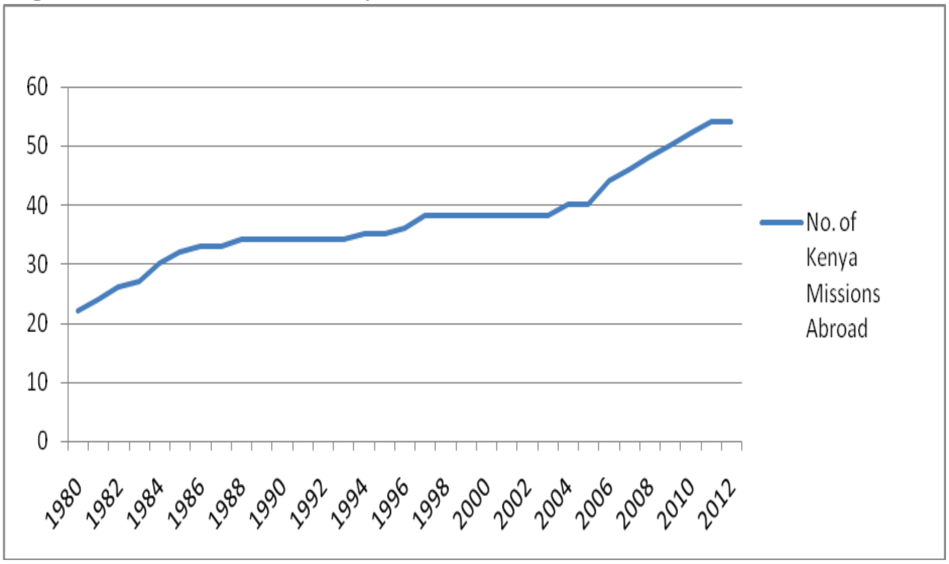
2.3 Nature of Kenya' Diplomatic Representation

Historically, the establishment of Kenya's diplomatic missions has been guided primarily by a pragmatic approach to foreign policy and relations as applied by Kenya. For example, to establish missions in the UK and USA would have been automatic for a small and emerging state following that the former was the colonial master, while the latter provided a framework of engaging the UN as well as many other states represented in New York. Political reasons also had an impact on how embassies were established. In tandem with this is the non-alignment principle, which saw Kenya ensure that it balanced its relations with both the East and the West during the Cold War era.

However, as states become more integrated due to globalization and liberal policies, there has been a shift in how missions are established and maintained. For example, the need to be represented more robustly in Africa and the Middle East is driven by the need to enhance economic development in Kenya, as outlined in Vision 2030. This has brought to fore the need to also rationalize the existing diplomatic structure and the role it plays to economic development.

There are at least 190 countries in the world as recognized under the UN. However, Kenya's current diplomatic representation structure includes 53 embassies, 3 career consulates, 18 honorary consulates and 17 trade offices. The setting up of these missions can be traced all the way back in the early 1960s, with missions such as Bonn and Peking being established. Moreover, this establishment has been gradual since independence (Figure 2.1). One of the main factors contributing to this trend is financial capability, as missions are very expensive to establish and maintain. Very few

Figure 2.1: Number of Kenyan missions abroad (1980-2012)



Source: Author's computation from Budget estimates 1980-2012

countries are able to establish missions around the world, with the exception of the USA.

The MFA has 56 missions abroad under its ambit. They include 48 embassies, 3 career consulates and 5 permanent missions in the relevant UN agencies. Within the framework of multiple accreditations, the missions further cover several more countries depending on the geographical distribution.[2] The African continent has the highest number of missions; 31 per cent followed by Europe 24 per cent (Table 2.1). This is in line with Kenya's foreign policy, which identifies the future of Kenya as being inextricably linked to the future of the African continent and that of her neighbours (Cheluget *et al.*, 2008). The MFA further intends to open 6 more embassies in line with the economic diplomacy drive targeted at the African countries of Senegal, Ghana, Algeria, Morocco and Angola, among others.[3]

Recurrent expenditure to the MFA has also been on the rise over the years, with diplomatic representation taking the highest share of the total budget (Figure 2.2). Foreign policy articulation was also affected by the effects of the post-election violence in 2007-2008, as the funding was substantially reduced.

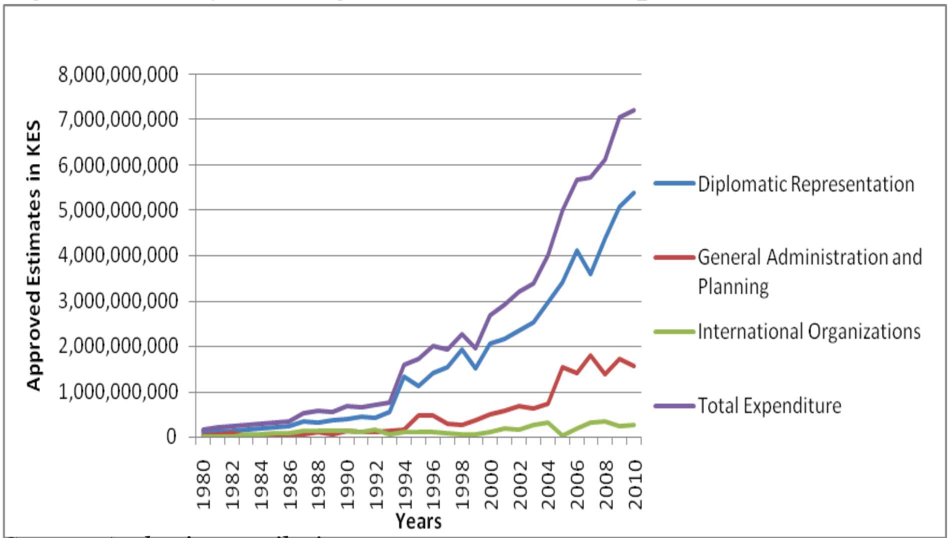
[2] Multiple accreditations refer to an embassy in one location given the mandate to cover more than one country. For example, the Embassy of Kenya in Belgium covers the European Union and Luxembourg.

[3] htpp://www.nation.co.ke/business/news/Kenya-to-open-six-more-embassies, accessed on 6th September 2012.

Kenya has 17 trade offices whose role among others is to promote Kenyan exports, attract investments, source appropriate technology and take care of Kenya's trade and investment interests.[4] However, the offices are part and parcel of the existing embassies, the difference being that officers manning them are sent by the Ministry of Trade (MoT) as commercial attachés. This may have had an impact on how the offices are run as the officers are expected to report to the head of mission and their superior in the parent ministry. This also illustrates the competitive model of Kenya's economic diplomacy, notwithstanding those other independent bodies with similar mandate, such as the EPC and HCDA. However, the Constitution under Schedule Four has placed the function of international trade in the Ministry of Foreign Affairs, implying that this conflict is likely to be a thing of the past (Kenya Law Report, 2010).

Honorary consulates are 18 (Table 2.1). From this number, Austria, Pakistan, India, Canada, Germany, Iran, Australia and Italy also benefit from having an embassy. This is due, in part, to the size and a large Kenyan Diaspora in specific parts of these countries. Business interests also play a crucial role in establishing the consulates as happens with the case of Germany (Hamburg) and India (Mumbai). The consulates are not reimbursed for the services offered, but they enjoy to an extent some rights extended to career consulates. These include privileges such as flying the Kenyan flag, as well as national day's receptions. Plans are underway to develop a mechanism of reimbursing them a percentage of the visa fees as a

Figure 2.2: Kenya's foreign affairs recurrent expenditure (1980-2010)



Source: Author's compilation

[4] http://www.trade.go.ke accessed 21st February 2013

Table 2.1: Kenya's diplomatic representation

Embassies	Embassies	Career consulates	Honorary consulates	Trade offices
Africa	Ethiopia, DRC, Zambia, Nigeria, Egypt, Sudan, Somalia, South Africa, Namibia, Burundi, Tanzania, Botswana, Zimbabwe, Uganda, Rwanda, Libya, South Sudan, UNON/UNEP/ HABITAT	None*	Morocco	Zimbabwe, Tanzania, Ethiopia, DRC, Zambia, Egypt, Uganda, South Africa
Europe	United Kingdom, Germany, France, Russia, Sweden, Belgium, Italy, Netherlands, Austria, Ireland, Switzerland, Spain, UNESCO, Turkey	None	Germany, Austria, Bulgaria, Greece, Turkey, Italy, Cyprus	United Kingdom, Germany, Russia, Belgium, Switzerland
Americas	USA – New York/ Washington, Canada, Brazil	USA – Los Angeles, New York	Canada	USA, Canada
Asia & Australasia	India, Japan, China, Pakistan, South Korea, Thailand, Malaysia, Australia	None	India, Pakistan, Hong Kong, Bangladesh, Australia, Singapore	Pakistan, China,
Middle East	Saudi Arabia, Kuwait, Iran, UAE, Qatar, Israel, Oman,	UAE	Lebanon, Jordan, Iran	
Total	**53**	**3**	**18**	**17**

Source: Author's compilation

measure of providing incentive. The practice is in line with other countries such as Uganda and South Africa, which do the same with a measure of success. However, flying the flag is enough incentive to them as it raises their stature in society, which in itself propels the main work that the honorary consulates play.

There has been growth in the number of missions established, especially after 2006, informed by the Ministry's rationalization process which began in the year 2005. In the process, key regions were identified in which intense economic diplomatic activities would be applied to deepen economic ties with Kenya. From these, more than twenty markets were earmarked for use, as hubs to deepen Kenya's pursuit of economic diplomacy.[5] The list includes the UK, USA, Spain, Saudi Arabia (Dubai), Zambia, China, Brazil and South Africa, among others. The hubs are expected to act as outposts from where Kenya is to pursue its commercial goals in Africa, Asia and Australasia, Western Europe, North and South America and the Middle East.

[5]www.businessdailyafrica.com/Foreigners-to-drive-Kenya--new-trade-centered-diplomacy

The rationalization process also involved the staff engaged in Foreign Service, in which the Ministry settled for a lean number of staff who are well trained to multitask, hence multi-skilled (Figure 2.3). This led to the formation of the Foreign Service Institute (FSI), aimed at improving staff capacity and research in 2007. The need to use its local staff in the promotion of export commodities was also experimented upon, mainly in Japan and China.[6] The use of local support staff in jobs such as catering and cleaning was also given consideration.[7] The highest number of staff posted to missions in 1980-2002 was in Job Group D to H. This cadre consists mainly of subordinates, drivers, cleaning and clerical officers. The rationalization staff saw the reduction of these numbers, while at the same time encouraging missions to use local staff for some of the jobs.

The process also led to the drafting of Kenya's Foreign Policy Framework, which factored foreign policy to be centred around four areas namely: peace, economic, environmental, cultural and Diaspora diplomacy. This does not imply that Kenya did not have a guiding foreign policy, but rather it was unwritten. The foundation of Kenya's foreign policy still remains relevant today, as then. With a written foreign policy, the framework provides for consistency in implementation across the board and ultimately allows for an evaluation mechanism.

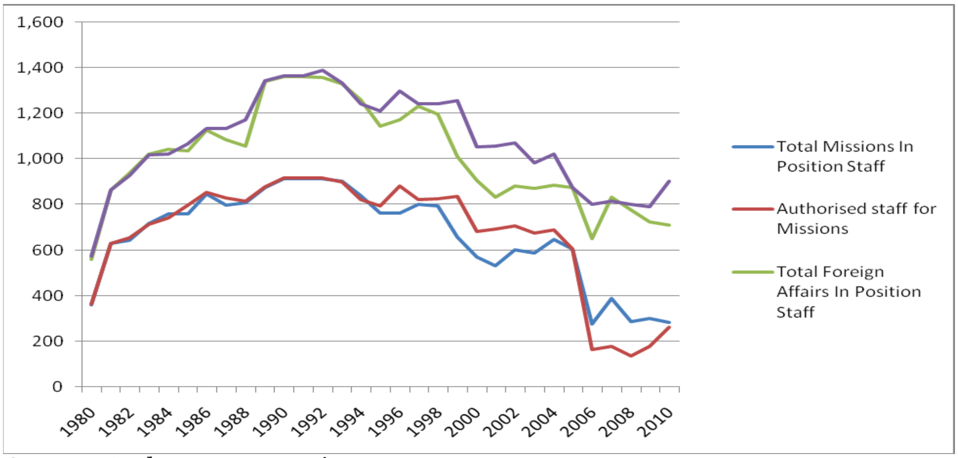
The MFA, however, has found it difficult to submit to the overall ministries performance evaluation, faulting the tools used. The current tools emphasize on customer satisfaction for which the ministry argues that they do not directly handle. The framework provides a good basis or starting point for the process of establishing an evaluation mechanism. While attempting to meet the demands of the performance contract, there will be tendency to concentrate on the hardware component such as infrastructure. Diplomacy tends to be more of the software nature, implying that the missions are not effectively evaluated despite having the hardware component. Evaluation, thus, needs to be aligned to meet this aspect.

For example, the report by the Parliamentary Committee on Administration and Foreign Relations in 2011 provides achievements such as number of new embassies opened, but is silent on what this means in terms of increasing exports (Government of Kenya, 2011). Thus, a performance evaluation criterion is required, which should also consider aspects such as staff appraisals and evaluation for purposes of maintaining professionalism in the Foreign Service.

[6] www.businessdailyafrica.com/Corporate-News/Kenya-turns-to-foreiners-in-shift-to-economic-diplomacy

[7] Local staff in foreign service refers to citizens or residents of the host country where the mission is located. This is a necessary cost reduction and efficiency measure as the sending state does not have to cater for the needs of the family.

Figure 2.3: Numbers of Kenyan foreign service staff (1980-2010)



Source: Authors computation

The rationalization has also seen the shift of the Ministry from the Parliamentary Committee on Administration to the one on Defense and Foreign Relations. This will greatly enhance the capacity of the ministry, as there is a relationship between security, foreign policy and intelligence. While Kenya actively pursues economic development, this triad is important as economic diplomacy forms the basis of ensuring security in the country. Moreover, many of the issues facing communities today have ceased being domestic and become global in nature. Likewise, the status of domestic security influences Kenya's relationship with other countries.

The MFA has had many achievements and challenges. The focus today is how to achieve Vision 2030, and economic diplomacy forms an integral part of the process (Ministry of Planning and National Development, 2007). Realigning missions to understand and play this role effectively should be a primary focus for the MFA. This should be done in a strategic manner to allow Kenya to benefit from opportunities presented by globalization, while at the same time mitigating the negative effects.

3. Literature Review

3.1 Theoretical Literature

In the analysis of economic diplomacy, two theoretical strands are given consideration. The first is those that relate to economic diplomacy within the realm of diplomacy and foreign policy, while the second deals with the basis for estimating bilateral trade flows. Economic diplomacy is not known to have a single theory that can be used to provide answers as to how a state will conduct its foreign policy under given circumstances (Bayne and Woolcock, 2011). However, the use of theoretical concepts drawn from international relations and international political economy are applied.

The first group of theories is the systemic theories of international relations. Realism is the most dominant. According to realists, emphasis is placed on the relative economic power of individual states as key stakeholders in international economic relations (Morgenthau, 1948; Smith, 1986). For realists, the state is considered a rational actor and acts in defense of its national interests, whatever they are perceived to be. This notion thus could mean that economic diplomacy is shaped by mercantilist objectives, which view economic wealth and the power and influence of nation states as being closely related (Bayne and Woolcock, 2011).

Other theories include the hegemonic stability theory and the regime theory. The former is premised on the argument that cooperation in the economic sphere will only occur when there is a dominant state, which ensures that this happens (Kindeleberger, 1973). Furthermore, hegemony's superior position is considered the logical consequence of superior geography, technological innovation, ideology, superior resources and other factors (Goldstein, 2005). The latter pays particular attention to looking at how states cooperate, whether in formal or informal processes (Krasner, 1983; Keohane and Martin, 1995).

The second group lays emphasis on the domestic aspect of economic diplomacy. This is an attempt to explain how domestic decision making processes affect international behaviour of states (Bayne and Woolcock, 2011). The first is societal theory in which economic diplomacy is seen as an outcome of the interaction between different interests groups, where government officials play the role as negotiators (Berberoglu, 2005). These can further obtain on the international as well as cross-border dimensions. Second, the state centered theory emphasizes the role of institutional structures and relations, particularly between different branches of government (Oatley, 2012). Equally important is the relationship between the government and parliament. Finally, the theory of individuals, which deals with the importance of an individual on the final form of politics and action (Young, 1998). This hinges upon ideational factors where the ideas of an individual can impact on the nature and conduct of economic diplomacy. Again, this can be translated in the domestic and international realm to represent the view of the various groups in international economic relations.

The second strand attempts to understand international bilateral trade flows in which the gravity model is the most widely used (Rose, 2007). The model has its origin from Newton's Law of Gravity, where gravitational force increases with a raise in the mass of two objects and reduces with distance between them. The first application of this analogy in economics can be attributed to the works of Tinbergen (1962) and Pöyhönen (1963). They postulated that trade flows between two countries is similar to the behaviour of gravitational force, where trade volumes are determined by two opposite forces – the economic size of countries and trade impediments/costs between them. The gravity model hypothesizes that the larger, the richer (in terms of Gross Domestic Product-GDP per capita), and the closer two countries are, the more they trade (Githuku, 2010). National incomes and geographical distance are used as proxies for the economic size and trade costs, respectively. Moreover, the model allows for the inclusion of country-specific factors that influence trade flows (Segura-Caynela and Vilarrubia, 2008). Standard gravity factors are seen to explain about two-thirds of global trade, leaving only one third to be explained by other trade factors (Anderson and van Wincoop, 2003).

Summary (1989) notes that the commonly used gravity model is expressed as:

$$X_{ij}=\beta_o Y_i^{\beta 1} Y_j^{\beta 2} D_{ij} \beta^3 fA_{ijuij}$$

Where X_{ij} is the value of trade flows from country i to j, $Y_i(Y_j)$ is the nominal value of GDP in country $i(j)$, D_{ij} is the distance between the two countries, fA_{ij} is a function containing a vector of additional variables aiding or resisting the flow between i and j, and $fA_{ij}\mu_{ij}$ is the error term.

The gravity model as applied initially was criticized for lacking theoretical underpinnings, but now it rests on a solid theoretical foundation. The first attempt was by Anderson (1979), with the so-called Armington assumption. This structure implies that whatever the price, a country will consume at least some of every good from every country. All goods are traded, all countries trade and in equilibrium, national income is the sum of home and foreign demand for the unique good that each country produces (World Bank, 2011). In this context, larger countries trade more.

Bergstrand (1985) later showed that the gravity model is a direct implication of a model of trade based on monopolistic competition. In this model, identical countries trade differentiated goods because consumers have preference for variety. Later in 1989, he derived the gravity equation in the augmented form to include per capita incomes to give a demand-side to the model. Deardoff (1995; 1998) later showed that the gravity model can arise from a traditional factor-proportions explanation of trade. Here, the equation was derived without referring to product differentiation and monopolistic competition, if each good is produced in only one country and tastes are identical and homothetic. Eaton and Kortum (2002) also derive the equation from the Ricardian model. Helpman *et al*. (2008) and Chaney (2008) further obtained the equation from a theoretical model of international trade in differentiated goods with firm heterogeneity.

Anderson and van Wincoop (2003) underscored the importance of controlling for trade costs in a well-specified gravity model, the argument being that bilateral trade is determined by relative trade costs; that is the propensity of country *j* to import from *i* is determined by country *j*'s trade costs towards *i* relative to its overall resistance to imports and to the average resistance facing exporters in country *i* and not simply by the absolute trade costs between country *i* and *j*. This implies that there are other trade enhancing/resisting factors that should be given consideration when estimating bilateral trade flows.

Resistance/enhancement factors are normally economic, quasi-economic or non-economic in nature (Summary, 1989). Non- economic factors include culture, politics and conflict as parameters that are likely to have an impact on trade. Tinbergen (1962) acknowledged the need to take political factors into account by including a dummy for colonial relationships. Interest in the gravity equation and its ability to track non-economic factors was also stimulated by the works of Anderson and van Wincoop (2003).

The strength of the model lies in its simplicity because it uses a limited number of variables and this facilitates computation, keeps data problems manageable and the results better to trace (Yakop and Bergeijk, 2009; 2011). This makes it particularly useful in addressing concerns beyond traditional determinants of trade flows by allowing the inclusion of certain instruments of economic diplomacy.

3.2 Empirical Literature

The analysis of the effect of economic diplomacy on bilateral trade has mainly used the gravity model, which has gained prominence since it was first used by Tinbergen in 1962. This has followed the basic specification discussed above, coupled with the use of dummy variables that capture other factors influencing the costs of international transactions such as economic diplomacy.

The earliest works done on the effect of economic diplomacy on trade volumes were by Pollins (1989a; b) and van Bergeijk (1992, 1994). This involved the use of coarse counts of relevant data called event data, in which they found significant results for the influence of political management of international relations. However, the studies had differences in terms of time frame used, with some relying on a single year to predict next years performance, and others on a longer time period. The studies were set back by limited computing power and data availability as the process of compilation is long and tedious.

The study has been developed to more detailed empirical work, which uses the tools of economic diplomacy as explanatory variables. Morriset (2003) and Lederman *et al.* (2006) studied the effectiveness of investment and export promotion agencies, respectively. Investment and export promotion agencies were found to have strong and statistical significant effect. However, these were cross country studies tending to generalize results.

Rose (2007) was the first to study the macro level effects of the network of embassies and consulates-general. Following this concept, Kenyoru (2009) also studied the effect of the Foreign Service on export promotion. Afman and Mauriel (2010) further analyzed the effect on the changes in this network. Moreover, Bergeijk *et al.* (2011) has developed this work to deal with the heterogeneity effects due to different forms of representation. All these studies have reported positive and significant results ranging from 6 to 10 per cent higher exports, associated to opening of each additional consulate (Rose, 2007; Kenyoru, 2009; Afman and Mauriel, 2010). Bergeijk *et al.* (2011) notes that depending on the type of representation trade flows would be seen to increase. For example, embassies had a higher chance of increasing trade flows as compared to consulates, which in some countries were found to have no effect at all.

However, all these studies depend on a large set of data for cross-country perspectives. Data availability also limits the inclusion of many countries, especially from the developing world. However, Kenya is included in most of the studies, but the studies have relied upon cross-sectional data, meaning that it is difficult to provide an analysis of the trend. The studies also tend to generalize the situation, thus there is need to actually determine how Kenya performs in the different countries it is represented. Kenyoru (2009) attempts to conduct a country specific study but limits his variables to export promotion.

All these studies have not been able to include other aspects of effectiveness such as number and quality of staff engaged in economic diplomacy and the resources used due to data unavailability. However, the Dutch study has attempted to find the effectiveness of economic and commercial diplomacy (Ruel and Zuidema, 2012). The study finds that having a network of embassies is not the only important factor, but the manner in which they are managed; the competencies of those managing as well as the amount of resources provided to determine the exact performance of the different forms of representation. Such a study is quite extensive and requires the collection of primary data.

4. Methodology

4.1 Theoretical Framework

International trade models rely on the gravity model, which was first developed by Tinbergen (1962) and later improved by Linnemann (1966). The gravity model has its origins from Newton's Law for Gravitational Force, which states that attractive force between two objects is accelerated by the masses of the two objects, while the distances between the two objects act against the attraction as shown in equation 1.1.

$$F_{ij} = \frac{GM_iM_j}{D_{ij}^2} \qquad (1)$$

Where F_{ij} is the gravitational force between i and j, M_i M_j are the masses, D_{ij} is the distance between i and j, and G is the gravitational constant.

Following Newton's law, gravity model of trade replaces gravitational force with trade flows from country i to j, mass with economic mass for country i and j and distance with trade costs between country i and j. The economic mass or size is proxied by national incomes (GDP, GDP per capita) and population, while trade costs is proxied mainly by distance between i and j, but other parameters can used.

The gravity model, thus, in its simplest form is represented as:

$$X_{ij} = \frac{KY_i^{\alpha i}Y_j^{\beta j}}{T_{ij}^{\theta}} \qquad (2)$$

Where X_{ij} is the value of exports flows from country i to j, K is the gravitational constant, Y_iY_j is the economic size (GDP or population) for country i and j, T_{ij} is the trade costs (geographical distance) between countries i and j.

This equation can further be written as:

$$X_{ij} = KY_i^{\alpha i}Y_j^{\beta j}T_{ij}^{-\theta ij}e^{\varepsilon} \qquad (3)$$

The model allows for the inclusion of country-specific factors that influence trade flows (Summary, 1989; Segura-Cayera and Vilarrubia, 2007). It is therefore expanded as:

$$X_{ij} = KY_i^{\alpha i}Y_j^{\beta j}T_{ij}^{-\theta ij}\alpha F_{ij}e^{\varepsilon} \qquad (4)$$

Where X_{ij} is the value of export flows from country i and j, $Y_i(Y_j)$ is the nominal Gross Domestic product (GDP) for country i to j, T_{ij} is the trade costs (geographical distance) between countries i and j and αF_{ij} is a vector of factors enhancing or resisting trade. In this case $\alpha>0$, $\beta>0$ and $\theta<0$.

These factors are those typically relevant in bilateral exchanges. They comprise common borders, a common language, a common currency, or an (ex) colonial relationship, but also individual country characteristics such as area and whether a country is landlocked or not. This model has been used to integrate the role of political factors that impede or enhance trade. It is suitable because it can capture dynamic aspects of trade and foreign policy impacts (Mokoena *et al*., 2008).This is the basis from which economic diplomacy aspects can be included in the equation to allow for the estimation of their effects on trade.

The final equation thus, for estimation, is logged and summarized as:

$$L_n X_{ij} = L_n K + \alpha_i L_n Y_i + \beta_j L_n Y_j - \theta_{ij} T_{ij} + \alpha F_{ij} + \varepsilon \qquad (5)$$

4.2 Model Specification

The study uses a model applied in other relevant stcudies such as Bergeijk, 2009; Bikkor, 2010; and Bergeijk *et al*., 2011). The model is basically used to determine whether diplomatic representation is trade creating. The model is modified to consider the structures of diplomatic representation as relevant to the Kenyan context. In this case, only four structures are considered, namely: embassies, consulates, honorary consulates and trade offices. Further, since Kenya in many countries has either one or none of the missions, the variables were estimated as dummies in the overall gravity equation.

Kenya is represented through missions in 66 countries around the world. Out of these, 25 are chosen using purposive sampling following a geographical pattern of trade, which is centred on regional considerations. The choice is primarily based on the MFA internal reports, which note that the country needs to focus on areas where it is more strategic in terms of economic relationships (Foreign Policy Framework, 2009). The study period is from 1980 to 2010 to allow for determination of the trends.

The equation is estimated as follows:

$$L_n X_{ij} = \alpha_{ij} + \beta_o + \beta_1 LnGDP_{jt} + \beta_2 LnD_{ijt} + \beta_3 LnPop_{jt} + \beta_5 Compta_{ijt} + \beta_6 Comfta_{ijt} + \beta_4 ComLang_{ijt} + \beta_7 Colr_{ijt} + Y_1 Emb_{ijt} + Y_2 CarCon_{ijt} + Y_3 HonCon_{ijt} + Y_4 TradeOf_{ijt} + e^{\varepsilon}_{ijt} \qquad (4.6)$$

Where i denotes the exporter and j the importer. The relevant variables are as follows:

X_{ijt} is the domestic exports in Kenya Shillings from country i to j at time t, Emb_{ijt} is the presence of embassy of country i in j at time t, $CarCon_{ijt}$ is the presence of career consulate of country i in j at time t, $HonCon_{ijt}$ is the presence of honorary consulate of country i in j at time t, $TradeOf_{ijt}$ is the presence of trade office of country i in j at time t.

For the different structures, Kenya has only one mission or none at all in any one of the countries. Thus, these were estimated as dummy variables, where the structures are 1, if *country i* has presence in *country j* and 0 otherwise.

Standard gravity variables included D_{ijt} , which is the geographical distance in kilometers between *i* and *j*, $LnGDP_{jt}$ is the Gross Domestic Product per capita in US dollars for *country j*, and Pop_{jt} is the population size for *country j*.

Other country specific characteristics are specified as dummy variables: $ComLang_{ijt}$ is 1 if *i* and *j* have a common language at time *t*, *0* otherwise, $Colr_{ijt}$ is 1 if *i* and *j* are colonies or ever shared a colonial relationship at time *t*, *0* otherwise $Comfta_{ijt}$ is 1 if *i* and *j* belong to the same regional trade agreement at time *t*, *0* otherwise, $Compta_{ijt}$ is 1 if *i* and *j* have a preferential trade agreement at time *t*, *0* otherwise and ε_{ij} is the error term with the standard properties.

The expected sign for the variables of interest *Emb*, *CarCon*, *HonCon* and *TradeOf* are uncertain. This is due to the fact that they have a cost implication, with the argument being that the returns to diplomacy (increase in trade volumes) should offset such costs.

4.3 Data Type and Sources

The dataset is prepared for 25 countries, namely: UK, Spain, Netherlands, Turkey, Ireland, Germany, Belgium, Zambia, Ethiopia, Uganda, Tanzania, South Africa, Mauritius, Egypt, Russia, China, Hong Kong, Pakistan, Malaysia, India, Japan, Australia, Saudi Arabia, Iran, USA and Brazil. This choice was more purposive in that Kenya needs some form of representation, and the trade volumes are high. The number of missions in the different regions (see Table 2.1) also provided a basis for selection and was consistent with the MFA's identification of market hubs around the world.

Data on volumes of exports from Kenya to the 25 countries is constructed from the Kenya National Bureau of Statistics (KNBS) statistical abstracts and the World Bank's World Development Indicators (WDI). Various publications are used to develop datasets for the period 1980 to 2010. GDP per capita data is obtained from the International Monetary Fund's (IMF) World Economic Outlook Database for the period 1980 to 2010. Data on distance, common language and colonial relationship is accessed from GeoDist data base of the Center d'Etudes Prosepctives et d'Infromations Internationales (CEPII). Information on the regional trade agreements and preferential trade agreements is sourced from the WTO website as well as the specific sites of the relevant bodies.

The dataset on the number and nature of Kenya missions abroad requires a triangulation of the various sources. The MFA's website provides a starting point for reference. The websites of the individual missions also provided relevant information. MFA internal reports also prove quite informative in constructing the dataset of the various missions. The MoT website provides information on the trade offices of Kenya around the world. This data set is more robust compared to previous studies as it relates to the presence of Kenya's foreign missions as far back as 1980 as opposed to cross sectional data.

4.4 Estimation Procedure

The gravity model is estimated using panel data econometrics techniques. It allows for the inclusion of more information than pure cross country approach and captures the time dimension Green, 2002). This has several advantages such as increasing the degrees of freedom, modelling flexibility of behaviour within and between countries, as well as decreasing the collinearity of regressors (Helmers and Pasteels, 2005).

The first stage involves determining whether to use fixed effects model (FEM) or random effects model (REM). The Hausman specification test is conducted to specify the model, which is efficient for the study (Appendix 1). In this case, the null hypothesis is rejected and for estimation, the FEM is used. However, the FEM has a weakness in that it drops all the time invariant variables from the regression, hence their effects on the dependent variable (exports) cannot be determined (Gardner, 1998).

The Hausman Taylor Method (HTM) is used to overcome the weaknesses of both the REM and FEM (McPherson and Trumbull, 2008). The REM, while allowing for the estimation of time invariant parameters, is not possible to interpret the coefficients for the unobserved heterogeneity (Cheng and Wall, 2005). This introduces an element of bias in the results, hence the FEM is recommended for use. FEM, on the other hand, has two weaknesses; first, that the method eliminates the individual effects of the observed and unobserved fixed effects (McPherson and Trumbull, 2008). Secondly, the FEM, besides dropping the time invariant variables, may also suffer from endogeneity issues, giving biased results.

The HTM developed by Hausman and Taylor (1981) provides a better estimation between time invariant variables and it can address the problem of endogeneity (Hausman & Taylor, 1981). The method is a random-effect, instrumental-variable technique that uses only the information contained in the model to eliminate correlation between the error term and the included variables. This makes the estimation of time-invariant variables possible, without compromising the estimates of time-varying variables. The method combines three elements, namely: consistent estimates of time-varying variables (fixed effect characteristic), inclusion of time invariant variables and the feasibility of out-of sample projections without making ad hoc assumptions (random effects characteristics). The method has been applied to estimate the gravity model by Egger (2000; 2002), Babetskaia-Kukharchuk and Maurel (2004) and Githuku (2010).

Therefore, equation 7 is estimated as follows:

$$L_nX_{ijt} = \alpha_o + \beta_1^{'}LnX1_{ijt} + \beta_2^{'}X2_{ijt} + \delta_1^{'}LnZ1_{ij} + \delta_2^{'}Z2_{ij} + \varepsilon_{ijt} + \mu_{ij} \qquad 7$$

Where $X1_{1ijt}$ are the variables that are time-varying and uncorrelated with μ_{ij}; $X2_{ijt}$ are time-varying and correlated with μ_{ij}; $Z2_{ij}$ are time-invariant and uncorrelated with μ_{ij}; and $Z2_{ij}$ are time-invariant and correlated with μ_{ij}.

The HTM method, thus being superior, will consider the different forms of variables. However, it is worth noting that endogenous variables have to be specified. This is done by intuition and scrutiny of other studies that reveal that the main variables of concern to the study are likely to be endogenous. Bergeijk *et al.* (2011) notes that diplomatic missions are likely to be set up where a country is already trading or are likely to be the cause of trade. Thus, HTM solves this problem of reverse causality. Time invariant variables also need to be specified, and these are identified from the FEM estimation as it drops them automatically.

For the study, therefore, the variables are specified as: $X1_{ijt}$ variables include Gross Domestic Product (GDP per capita) and population size; $X2_{ijt}$ variables include Embassy, Career Consulate, Honorary Consulate, Trade Offices, Common Regional Trade Agreement and Common Preferential Trade Agreement; $Z1_{ij}$ variables include geographical distance, and $Z1_{ij}$ variables include common language and colonial relationship.

4.5 Diagnostic Tests

There is need to carry out these tests as it was noted that, for example, trade offices are set up where there are embassies, hence they are likely to be collinear. Further, following that the estimation procedure follows panel data of 30 years, there is a likelihood of heteroskedasticity. These have to be tested and corrected to allow for appropriate analysis.

4.5.1 Test for multicollinearity

Multicollinearity was tested using the Variance Inflation Factor (VIF) or Tolerance (1/VIF). The results indicate that the highest VIF has exhibited the variables GDP per capita and population at 3.64 and 3.51, respectively, indicating elements of multicollinearity (Appendix 2). The other variables have VIF ranging between 1 and 2.5, thus there is no serious case of multicollinearity. VIF that exceeds 10 is considered to be serious, which may give results that are unrealistic. Tolerance (1/VIF) close to 1, on the other hand, means that there is little multicollinearity.

4.5.2 Testing for heteroskedasticity

Using the Breusch-Pagan/Cook-Weisberg test, heteroskedasticity was tested. The null hypothesis is that residuals are homoskedastic. The results attained were Chi Square= 117.35 and a Prob>chi^2=0.00 (Appendix 3). The null hypothesis is thus rejected, implying that the data has a problem of heteroskedasticity. This was corrected by the use of robust standard errors.

5. Results and Discussions

5.1 Descriptive Statistics

The dataset displayed the following descriptive statistics as illustrated in Table 5.1. The means for exports, GDP per capita, population size and distance per country is Ksh 3,212,749 million, US$ 11,019, 82.3 million and 5,987 km, respectively. The average number of Kenyan embassies is 0.73, career consulates 0.24, honorary consulates 0.19 and trade offices 0.48, indicating that embassies are the main form of representation. Trade offices are located in embassies but are in less than half the countries where the latter is present. Whereas there are more honorary consulates than career consulates, a majority have been in existence for about five years. On the other hand, career consulates are few today, since a majority have been converted to full fledged embassies over the years.

5.2 Panel Regression Results

A comparison of the results from the REM, FEM and HTM are presented in Table 5.2. The HTM, however, is used for the analysis and interpretation of the results due to its superiority in addressing problems of endogeneity and inclusion of time-invariant variables.

Table 5.1: Summary statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
Exports (Ksh millions)	720	3212749	6300551	380	4.49e+07
GDP per capita (in US$)	763	11019.44	13178.13	99.92	59997.45
Population size (in millions)	724	82.30	142.60	3.401	987.5
Distance (in Kms)	775	5987.05	3260.61	506.05	12152.02
Embassy	841	0.73	0.44	0	1
Career consulate	841	0.24	0.15	0	1
Honorary consulate	841	0.19	0.39	0	1
Trade offices	841	0.48	0.49	0	1
Common preferential trade agreement	841	0.40	0.49	0	1
Common regional trade agreement	841	0.18	0.39	0	1
Common language	841	0.48	0.49	0	1
Colonial relationship	841	0.07	0.26	0	1

Source: Author's computation from stata results

The variables of importance to this study were presence of embassy, career consulate, honorary consulate and trade offices and gave mixed results. Since they are estimated as dummy variables, the coefficients are not elastic and are transformed using the formula, elasticity = exp (a)-1 where (a) is the estimated dummy variable coefficients in Table 5.2.

The presence of Kenyan embassies in a country is significant and positive. Thus, the presence of an embassy contributes to an increase in the volumes of exports by exp (0.93)-1 = 153.4 per cent. This implies that having embassies in the countries studied plays a significant role in contributing to the volumes of exports. Kenya's approach to foreign relations and trade has been pragmatic, meaning therefore that embassies are established where higher export gains can be accrued.

Table 5.2: Determinants of Kenya's exports, dependent variable: log value of exports

Estimator	Pooled OLS	REM	FEM	HTM
GDP per capita for country *j*	0.71*** (8.73)	1.41*** (12.46)	1.69*** (9.76)	1.25*** (10.67)
Population for country j	0.53)*** (6.62)	1.70*** (7.43)	5.28*** (10.61)	4.29*** (9.78)
Distance between country *i* & *j*	-1.18*** (-7.05)	-2.30*** (-4.84)		-2.83* (1.70)
Embassy (1=presence; 0 otherwise)	1.87*** (8.36)	1.37*** (5.34)	0.76** (2.90)	0.93*** (3.58)
Career consulate (1=presence; 0 otherwise)	-0.47** (-1.71)	-0.35 (-0.83)	-0.18 (-0.45)	-0.22 (-0.52)
Honorary consulate (1=presence; 0 otherwise)	1.15*** (4.74)	0.34 (1.34)	-0.01 (-0.07)	0.05 (0.21)
Trade offices (1=presence; 0 otherwise)	0.17 (0.80)	1.76*** (5.09)	2.10*** (5.92)	2.09*** (5.91)
Common Regional Trade Agreement (1=belong to same; 0 otherwise)	1.58*** (6.17)	0.89*** (3.72)	0.66** (2.85)	0.70** (3.04)
Common Preferential Trade Agreement (1=have agreement; 0 otherwise)	1.13*** (5.22)	2.12*** (7.82)	1.21*** (4.04)	1.51*** (5.20)
Common language (1= have same; 0 otherwise)	0.42** (2.43)	0.72 (0.98)		1.50 (0.53)
Colonial relationship (1= shared relationship; 0 otherwise)	0.95** (2.19)	-1.46 (- 0.83)		-1.68 (-0.25)
Constant	4.88*** (3.63)	-12.88** (-2.59)	-92.54*** (-10.92)	-52.92*** (-3.32)
R^2	0.49	0.42	0.07	

Source: Author's computation from stata results

***, **,* denotes significant at 1, 5 and 10 per cent, respectively. The figures in brackets are t-statistics for the Pooled OLS and FEM, and z-statistics for the REM and HTM

The presence of trade offices is also significant and has a positive effect in contributing to increased export volumes. The presence of a trade office results in exp (2.09)-1 = 700 per cent increase in export volumes. However, the 17 trade offices owe their existence to the presence of embassies. In Kenya, trade offices are located in countries where the country already has an embassy. Moreover, the offices are located within the embassy structure, thus having the benefit of privileges and services of the same (Table 2.1). Trade offices are also found in countries where Kenya benefits from the highest volumes of exports. This implies that they are meant to be specialized offices to handle export trade issues. This also signals the relative importance Kenya places on its economic relationship with these countries.

The presence of a career consulate in the country is insignificant and negative. Therefore, this form of diplomatic representation does not contribute to increasing Kenya's export volumes. However, career consulates are only three, namely in New York, Los Angeles and Dubai as the government has converted the others into fully fledged embassies in places such as Juba and Gaborone. Los Angeles and New York (a recent addition) have been established to cater for the large Kenyan diaspora and can only justify their existence from this perspective. The Dubai consulate also serves a large diaspora number and is beneficial from import facilitation perspective as Kenya tends to acquire many of the consumer goods through this hub.

The presence of honorary consuls is insignificant and positive. They, therefore, do not have a significant trade creating effect as is expected. Honorary consuls have increased Kenya's diplomatic presence worldwide by providing the required visibility. However, the relationship between the consuls and the headquarters is not clear. The first ever conference for the consuls was held in 2010 as a way of enhancing the relationship (Ministry of Foreign Affairs, 2010). Many of the consuls are yet to receive their official letters of commission despite being appointed. Information asymmetry also seems to be a problem that impedes their efforts in marketing Kenya or in providing information to those in need. The fact that they are not reimbursed for the services could also be attribute to their low impact on export volumes. It would be more likely that they are active in the import facilitation arena where they are likely to have more gains, as it is much easier for them. As such, their presence so far is yet to be seen to contribute to increasing Kenya's export volumes.

The coefficient for the log of GDP per capita for the importing country is significant and positive. GDP per capita denotes the ability of the country to buy products from Kenya. A 10 per cent increase in GDP per capita in the country would result in 11 per cent increase in exports from Kenya.

The coefficient for the log of population of the importing country was also significant and positive. Population denotes the availability of a market as well as demand for products. An increase in population by 10 per cent in country *j* would significantly increase Kenya's domestic exports by 42 per cent. However, since population is used to proxy for economic mass alongside GDP per capita, the assumption would be that the purchasing power of this population would also be high. Thus, in diplomacy, there is need to understand the dynamics of the population of a country, while trying to consider market access.

The coefficient for log of distance between Kenya and the partner countries was also significant but negative. As expected and postulated under the gravity model, distance exerts a negative influence as a proxy for trade costs. As such, a 10 per cent increase in distance between two countries exerts a -28.3 per cent influence on the amount of export volumes. This implies that infrastructure plays an important role as a determinant of export trade.

The dummies for common regional trade agreements (COMFTA) and common preferential trade agreement (COMPTA) are both significant and positive. They have an effect on bilateral trade by increasing the volumes Kenya can export by exp(0.7)-1= 101 per cent and exp(1.51)-1=350 per cent, respectively. COMPTA has a higher effect on trade volumes compared to a COMFTA because they are mainly targeted at provision of preferential market access through reduced or zero tariffs. Moreover, most of the COMFTA have a preferential trade agreement component as seen in the COMESA and EAC regional blocs.

The dummy for common language is positive but insignificant, while colonial relationships are negative and insignificant. This could be attributed to the increased interaction among states resulting in the need to use more common languages such as English, French, German and Portuguese as identified by the UN. English as a language also continues to become more universal and, as such, its effect to trade diminishes as a convergence is attained by the trading partners. Notably, Kiswahili has also become recognized internationally. Kenya has had only one country with a colonial relationship, namely the UK. The preferences for trade partners along colonial or historical ties are on a decline as countries continue to become self-reliant. The increased interdependence and globalization can also be attributed to this shift, as more economies become open to trading, thereby increasing the number of players.

6. Conclusion and Policy Recommendations

6.1 Conclusion

The study analyzes the contribution of the various diplomatic representation structures to Kenya's exports to 25 countries around the world. The study period is 1980-2010 in order to allow for better assessment by providing the temporal dimension. The gravity model is estimated using panel data analysis method. The FEM/REM method is used for estimation and, following the Hausman specification test, the FEM is found to be more efficient. However, the FEM drops the time invariant variables and, at the same time, suffers from biases due to the problem of endogeneity. The Hausman-Taylor method (1981) is adopted for analysis as it allows for the inclusion of time invariant variables and controls for endogeneity.

The traditional determinants of exports are still important and significant. These include factors such as GDP, population and distance. The variables are also important in contributing to Kenya's exports. Kenyan diplomatic representation is classified into four categories, namely: embassies, career consulates, honorary consulates and trade offices. The results show that presence of trade offices and embassies are significant in creating and increasing export volumes. However, trade offices are more significant in contributing to Kenya's export volumes. Career and honorary consulates are not significant in contributing to Kenya's domestic exports.

Trade offices are located in the embassy structure and are in countries in which Kenya exports the most. Therefore, strategically placed trade offices are an important structure in enhancing domestic exports. This is because, being specialized, they may tend to be more dedicated in improving trade as it is their core mandate, while at the same time have domestic networks with regards to production aspect. Since Kenya applies the competitive model of economic diplomacy, there must be some form of conflict between the trade offices and embassies. The officers manning the offices are sent by the Ministry of Trade for whom they have to report and, at the same time, be answerable to the Head of Mission on a day to day basis. It is also not clear on the kind of credentials these officers hold, especially when it comes to diplomatic skills and training. The Foreign Service Institute (FSI) attempted in bridging this gap by ensuring all officers sent to missions undergo a three week induction course.

Embassies in the Kenyan context tend to be a one-stop-shop conducting all the functions ranging from information gathering, export and FDI promotion, visa issuance and the like. As such, their capacity to conduct economic diplomacy will be reduced. The human resource capacity in terms of numbers and capabilities would also have a bearing on the activities the embassy chooses to engage in. The role of the ambassador in economic diplomacy is also very crucial in directing the process.

Kenya's annual export volumes and growth rate is still below par. The findings reveal that embassies and trade offices and, by extension, diplomacy contribute to domestic exports. This implies that these structures are not operating to their fullest. The Vision 2030 identifies trade as a critical driver for economic development and, as such, economic diplomacy is expected to play a critical role. This potential for economic diplomacy should thus be utilized to Kenya's advantage.

6.2 Policy Recommendations

Embassies and trade offices have the potential to enhance export trade. To tap into this potential, Kenya needs to carefully consider the economic diplomacy model to use. The Constitution under Schedule Four identifies the unified model where Foreign Affairs and International Trade are placed under one unit. The workings of such a structure need to be reviewed and appropriately understood in order to provide a consistent and harmonized manner of handling international trade. While in the face of it this demands the dismantling and creation of a new structure, this has more meaning as it implies the redefinition and restructuring of Kenya's export promotion strategy. This requires all the relevant stakeholders utilizing the different synergies working together for a directed focus aimed at achieving increased export volumes. The MFA, in this case, becomes the pivot point of directing and coordinating this effort.

The presence of an embassy in another country results to an increase in the amount of Kenyan exports. Thus, Kenya should consider opening up more embassies in the strategic and emerging markets. Efforts have been made to establish presence in South America as well as the Middle East. However, more embassies should be opened up in the African cities in order to encourage intra-African trade. As such, plans to open up embassies in countries such as Senegal are in the right direction. This would go hand in hand with the provision of the requisite resources, especially financial resources.

There is need to enhance monitoring and evaluation process in the MFA. Since it is clear that embassies and trade offices contribute to domestic exports, there is need for further analysis of the performance of the different missions. This will provide for a proper mechanism of evaluating performance and relevance of each mission. It will further identify the strategic missions, efficiency levels as well as the challenges and opportunities therein. This should also relate to foreign policy research and analysis, which requires that this function within the Foreign Service Institute (FSI) is strengthened.

Finally, the Ministry of Foreign Affairs needs to consider the use of change and change management techniques. Diplomacy and diplomatic tact is a very fluid field and, as such, there is need to put in place measures that will allow for the identification of opportunities and threats to Kenya's economic diplomacy. The Foreign Service Institute as conceptualized was expected to play this role. The institute needs to re-configure itself to respond to the provision of appropriate policy advice in the area of international trade. Emphasis should be placed on training programmes that are geared towards achieving the desired change. The focus now is on economic diplomacy, thus all foreign officers should be well versed on what it means, the objectives therein and how they will be met. In this regard, there is need to inculcate a culture in which the ambassador works with the notion that they are the chief executive officer, with the specific task of increasing returns to shareholders of a company and, in this case, the Kenyan people.

6.3 Areas for Further Research

Further analysis would be necessary to establish the effectiveness of missions in economic diplomacy by considering factors such as resources utilized in economic diplomacy, diplomats' capabilities and the ability of firms to export. Such a study would be more beneficial as it would consider variables of number of staff and budgetary allocations to missions over the years. Further research would also determine the different trade sectors' performance in order to establish a list of products Kenya is competitive and is able to export, thus provide a pointer to diplomats on what they can specialize in and the countries or regions that would accrue the highest.

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Appendix

Appendix 1: Hausman specification test

```
              ---- Coefficients ----
             |    (b)        (B)         (b-B)     sqrt(diag(V_b-V_B))
             |    fe          re        Difference        S.E.
-------------+----------------------------------------------------------------
       lngdp |  1.169516    1.41331     -.2437939       .0385344
       lnpop |  5.282013    1.701454     3.580559       .4420031
         emb |  .7600458    1.371811    -.6117654       .0508363
      carcon | -.1874896   -.3458304     .1583408        .032634
      honcon | -.0177627    .3444563    -.3622189           .
      traoff |  2.102486    1.766237     .3362492       .0746882
      comfta |  .6617507    .8883087    -.226558            .
      compta |  1.218918    2.117807    -.8988887       .1290148
------------------------------------------------------------------------------
```

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
$chi^2(8) = (b-B)'[(V\_b-V\_B)^{\wedge}(-1)](b-B)= 1200.27$
$Prob>chi^2 = 0.0000$
(V_b-V_B is not positive definite)

Appendix 2: Test for multicollinearity

Variable	VIF	1/VIF
Ln gdp	3.64	0.27
Lndis	3.51	0.29
Lnpop	2.16	0.46
Compta	2.07	0.48
Traoff	2.02	0.49
Comfta	1.69	0.59
Emba	1.67	0.60
Comlang	1.36	0.73
Colr	1.29	0.77
Honcon	1.19	0.83
Carcon	1.12	0.89
Mean VIF	1.97	

Appendix 3: Test for heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of lnexp

$chi^2(1) = 117.35$

$Prob > chi^2 = 0.0000$